

AUDITOR INDEPENDENCE AND EXPERIENCE IN FRAUD DETECTION: THE CRUCIAL ROLE OF PROFESSIONAL SKEPTICISM

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Abstract:

This study examines the effect of auditor independence and experience on fraud detection, with professional skepticism as a moderating variable. In today's business world, many companies strive to achieve maximum profits. In pursuit of this goal, some companies engage in fraudulent practices, which have become common among businesspeople and are well-known to the general public. These fraudulent practices occur not only in the private sector but are also frequently found in the government sector, harming many parties due to inaccurate and irrelevant information. Investors are the most affected, often making incorrect investment decisions based on misleading information. Agency theory suggests that more independent auditors tend to be more effective in detecting fraud because they are more likely to act in the interest of the capital owners than less independent auditors. This study involves 108 auditors from 19 audit firms in Bali. The structural equation modeling analysis method was employed to measure the strength of the relationship between the dependent and independent variables using Smart PLS. The results show that auditor independence and experience positively impact fraud detection, and professional skepticism strengthens the effect of independence and auditor experience on fraud detection.

Keywords: auditor, independence, experience, professional skepticism, fraud detection

INTRODUCTION

Audited financial statements have better information quality and are free from misstatements caused by errors or fraud. A competent auditor is an auditor who can find violations (Arum Ardianingsih, 2018). However, in some cases of company audits, an auditor is sometimes unable to detect fraud in the financial statements. This inability causes losses for various parties using the financial statements and audit reports. In carrying out an audit, an auditor gains the trust of clients and users of financial statements to prove the financial statements' fairness (Putri et al., 2020). The phenomenon of the auditor's inability to detect fraud is seen in the case of the Public Accounting Firm (KAP) Tanubrata, Susanto, Fahmi, Bambang & Rekan, a member of BDO International, which was considered negligent when auditing the financial statements of PT. Garuda Indonesia for 2018. Garuda Indonesia was reported to have posted a net profit that was not by the Financial Accounting Standards Statement (PSAK), and the auditor was considered to have violated Auditing Standards (SA) 500 and 560 due to the lack of sufficient audit evidence and not considering post-date facts of the financial statements (<https://www.cnbcindonesia.com/>). A similar case occurred in PT. Kimia Farma Tbk (PT KF) reported an overstated net profit in 2001. After a re-audit, the actual profit was only 24.7% of the initial report, indicating fraud through double recording and inventory manipulation. KAP Hans Tuanakotta & Mustofa, which audited the report, was declared to have followed audit standards but failed to detect the fraud. As a result,



PT KF was subject to administrative sanctions by Bapepam, including fines against the directors and related KAP (<https://www.kompasiana.com/>).

The phenomenon can illustrate that there are poor-quality financial reports and provide evidence of the auditor's failure to detect fraud, which has severe consequences for the business community. Auditors tasked with auditing the company's financial statements carry out audits properly, including detecting fraud so as not to cause detrimental cases. Many factors affect the auditor's success in finding fraud in financial statements, including independence and experience. Agency theory is a concept that explains the relationship between principals (those who own or manage an organization) and their agents (employees or individuals who work for the organization) (Jensen & Meckling, 1976). Agency theory, also known as principal-agent theory, is a concept used to explain the relationship between principals and their relative agents in various contexts, such as business, finance, and public procurement (Eisenhardt, 1989). Agency theory can be used to analyze how auditor independence and experience affect their ability to find fraud. For example, agency theory can be used to predict that more independent auditors are more likely to be effective in detecting fraud because they are more likely to act in the interests of the owners of capital than less independent agents.

An auditor must have an independent attitude, which means that the auditor will not be affected by anything because the work is implemented for the public. Independence significantly affects fraud detection. Auditor independence affects the ability to detect fraud because independent auditors can provide objective and unbiased opinions. Auditors with high independence will gain public trust and prevent fraud. Aspects of independence, such as honesty and the ability to reveal facts according to findings, increase integrity and efficiency in reporting audit results. Research by Salim et al. (2023) and Fuad (2015) shows that external auditor independence significantly affects the ability to detect fraud. However, different studies show that independence does not affect fraud detection. The results of Agustina et al. (2021) showed that auditor independence cannot directly affect internal auditor fraud detection. Other researchers, Prasetyo et al. (2019), also showed that independence results did not affect fraud detection.

Auditor experience is essential in uncovering fraud. More experienced auditors have a deeper understanding of the client's transactions and business processes, allowing them to identify anomalies that may indicate fraud quickly. This experience also helps them evaluate risks more accurately and design a more focused audit approach. Experienced auditors can more carefully assess the materiality of fraud in the financial statements and develop appropriate audit strategies. Research by Wahidahwati and Nur (2022) and Sembiring & R. Widuri (2023) shows that external auditor experience positively affects the ability to detect fraud. However, different studies show that auditor experience does not affect fraud detection. Research by Sari and Andrian (2023) shows that auditor experience does not affect fraud detection.

The inconsistency in previous studies indicates that other variables affect auditor independence and experience in detecting fraud. Professional skepticism is an attitude and thinking that is always critical in evaluating the audit evidence found (Indonesian Institute of Public Accountants, 2021). The auditor's professional skepticism needs to be put forward to produce reliable financial statement audit results, a critical attitude towards the audit evidence found, a neutral attitude towards statements given by the client, and not immediately believing the statement. Auditing Standard (PSA) No. 70 concerning consideration of fraud in financial statement audits states that professional skepticism is a critical attitude and always asks questions about audit evidence findings. Research on Professional Skepticism was conducted by Arwinda (2018), who stated that professional skepticism positively affects the auditor's ability to detect





fraud. The higher the skepticism of an auditor, the better the ability to detect fraud. In addition, research conducted by Suciwati et al. (2022) also stated that auditors who are not skeptical will not be able to detect fraud because the data or evidence received is not traced to its truth. Based on the background of the problem described above, the researcher wants to test "Professional Skepticism Moderates the Effect of Auditor Independence and Experience on Fraud Detection at Public Accounting Firms in Bali."

METHODS

This research is a quantitative research with a survey method. The research was conducted at 19 audit firms in Bali with a total of 126 auditors. The sample was determined using the purposive sampling method, with the criteria of auditors who serve as senior or junior auditors and have at least 1 year of experience. Based on these criteria, the number of samples became 108 auditors. This study uses 2 independent variables, namely independence and experience, 1 dependent variable, namely fraud detection, and 1 moderating variable, namely professional skepticism.

Validity testing is used to measure the validity of the questionnaire. A questionnaire is valid if the questions or statements express what will be measured (Ghozali, 2018). This test is carried out by calculating the correlation between the score of each question or statement and the total score to obtain the Pearson correlation value. The instrument is considered valid if the correlation value is more than 0.3. The validity test was carried out using SPSS version 25.

The reliability test shows the extent to which a questionnaire is considered reliable or consistent if the measurement results show consistency when repeated under the same conditions (Ghozali, 2018). The reliability test used is the Cronbach Alpha technique, where the instrument is considered reliable if the alpha coefficient value is more than 0.7. The use of SEM-PLS (Structural et al.) was chosen because this analysis does not require certain distribution assumptions (such as normal distribution), can be used for complex models, and aims to test theoretical models that focus on predictive studies, exploration, or development of structural model theory (Hair et al., 2019). According to Yamin (2022), evaluation in SEM-PLS includes three things: evaluation of the measurement model, evaluation of the structural model, and evaluation of the model's goodness of fit. The analysis used inferential statistical methods through SEM-PLS with SmartPLS4 software.

RESULT AND DISCUSSION

The analysis method used is inferential statistics, using Structural Equivalence Model (SEM) analysis with Partial Least Square (SEM-PLS) to analyze the effect between variables.

Table 1 Quality Criteria and Factor Loading

Item	Variable/ indicator	LF (>0,5)	AVE (>0,7)	CR (>0,7)	α (>0,7)
X1	Independent		0,710	0,943	0,919
X1.1		0,769			
X1.2		0,921			
X1.3		0,798			
X1.4		0,699			
X1.5		0,921			
X1.6	0,920				
X2	Experience		0,747	0,833	0,833
X2.1		0,711			



Item	Variable/ indicator	LF (>0,5)	AVE (>0,7)	CR (>0,7)	α (>0,7)
X2.2		0,754			
X2.3		0,801			
X2.4		0,735			
X2.5		0,762			
X2.6		0,668			
M	Professional Skepticism		0,793	0,946	0,943
M1.1		0,717			
M1.2		0,920			
M1.3		0,773			
M1.4		0,750			
M1.5		0,917			
M1.6		0,883			
M1.7		0,914			
M1.8		0,826			
M1.9		0,920			
M1.10		0,761			
Y	Fraud detection		0,894	0,786	0,775
Y1.1		0,748			
Y1.2		0,745			
Y1.3		0,789			
Y1.5		0,800			

Evaluation of the measurement model: Outer loading factor. The results of the PLS test in Table 1 show that all indicators have an outer loading factor value above 0.6. This means that this measurement has met the requirements of convergent validity.

Composite reliability. The results of the PLS test in Table 1 show that the composite reliability value (Rho_a) is more than 0.7, so it can be concluded that all constructs are reliable.

The average variance was extracted. Table 1 presents the AVE values, showing that all AVE values are > 0.5 so that the latent variables meet the requirements of convergent validity. The highest AVE value is in the latent variable of fraud detection, 0.894, meaning that more than 89.4% of the variability of the indicators that form the latent variable of fraud detection can be explained by the latent variable of fraud detection itself.

Table 2. Heterotrait Monotrait Ratio (HTMT)

	Experience	Fraud Detection	Independence
Experience			
Fraud Detection	0,629		
Independence	0,138	0,359	
Skepticism Profesional	0,352	0,651	0,119

Overall, the results of this HTMT show that variables such as experience, independence, and professional skepticism have varying effects on the auditor's ability to detect fraud.

Evaluation of the structural model evaluation; Collinearity between variables.





Table 3. Variance Inflated Factor

	VIF
Experience	1,159
Independence	1,018
Skepticism Profesional	1,120

Based on the VIF values presented in Table 3, there is no indication of severe multicollinearity problems among the model's independent variables. The VIF values for all variables are below the threshold of 5. This indicates that the model used is stable and unaffected by high multicollinearity.

Table 4. F Square

	f-square
Experience -> Fraud Detection	0,207
Independence -> Fraud Detection	0,142
Skepticism Profesional -> Fraud Detection	0,434

Based on Table 4, among the three variables tested, professional skepticism has the most significant effect on the dependent variable, followed by experience and independence. Thus, efforts to improve audit quality or auditor performance can be more focused on improving the attitude of professional skepticism, followed by developing experience. Independence remains essential, but its effect is smaller than the other variables.

Table 5. Hypothesis Test

Construct	Original sample (O)	P values	Information
X ₁ -> Y	0,260	0,000	H ₁ accept
X ₂ -> Y	0,335	0,000	H ₂ accept
M x X ₁ -> Y	0,303	0,017	H ₃ accept
M x X ₂ -> Y	0,396	0,030	H ₄ accept

Description. X₁ (Independence), X₂ (Experience), M (Professional Skepticism), Y (Fraud Detection). Based on the results of the hypothesis test in Table 5, the results of the hypothesis test can be determined as described in the following description:

- Hypothesis testing on the effect of independence on fraud detection produces a correlation coefficient value (Original Sample) of 0.260 with a p-value of 0.000 < 0.05, so the effect of independence on fraud detection is positive and significant. Thus, hypothesis 1 (H₁), which states that independence positively affects fraud detection, is accepted.
- Hypothesis testing on the effect of experience on fraud detection produces a correlation coefficient value (Original Sample) of 0.335 with a p-value of 0.000 < 0.05, so the effect of experience on fraud detection is positive and significant. Thus, hypothesis 2 (H₂), which states that experience positively affects fraud detection, is accepted.
- Hypothesis testing on professional skepticism moderating the effect of independence on fraud detection produces a correlation coefficient value (Original Sample) of 0.303 with a p-value of 0.017 < 0.05. The effect of the interaction variable of independence with professional skepticism experience on fraud detection is positive and significant. Thus, hypothesis 3 (H₃),





which states that professional skepticism moderates the effect of independence on fraud detection, is accepted.

- d) Hypothesis testing on professional skepticism moderating the effect of experience on fraud detection produces a correlation coefficient value (Original Sample) of 0.396 with a p-value of 0.030 < 0.05. The effect of the interaction variable of experience with professional skepticism on fraud detection is positive and significant. Thus, hypothesis 4 (H4) states that professional skepticism moderates the effect of experience on fraud detection is accepted.

Model fit. The R square (R^2) value measures how well the independent variables explain the variability in the dependent variable in the model. In general, R^2 indicates the variation in the dependent variable that the independent variables can explain.

Table 6. R Square

	R Square
Fraud detection	0,510

The results of the PLS analysis in Table 6 show an R square value of 0.510, or 51%. This value indicates that the diversity of data can explain a moderate model of 51%. In other words, 51% of the information contained in the data can be explained by the model, while the remaining 49% is explained by other latent variables (not yet contained in this model) and error.

The effect of independence on fraud detection. Research shows that auditor independence has a positive effect on fraud detection. Independent auditors tend to be more effective in detecting fraud because they work without pressure or effect from interested parties (Alleyne et al., 2006). Gendron et al. (2004) support this finding, finding that auditor independence improves audit quality and the ability to identify financial irregularities. Bazerman et al. (1997) add that independent auditors are less likely to engage in unethical practices, increasing trust in the audit process. In agency theory, auditor independence is necessary to reduce conflicts of interest between management and owners (Watts & Zimmerman, 1983). Independent auditors can reduce information asymmetry, ensure financial statements reflect actual conditions, and reduce agency costs (DeAngelo, 1981). Eisenhardt (1989) states that effective monitoring by independent auditors can suppress opportunistic management behavior, such as financial statement manipulation. Overall, this study supports the view that independence is a critical element of audit effectiveness, especially in detecting fraud, thereby enhancing the integrity and credibility of financial statements.

The effect of experience on fraud detection This study shows that auditor experience positively affects the ability to detect fraud. This aligns with previous studies that emphasize the importance of experience in improving auditor expertise. Experienced auditors have more profound knowledge and skills to identify signs of fraud and perform effective audit procedures (Carcello & Nagy, 2004). They are more critical in evaluating audit evidence and are alert to indications of fraud (Wright & Wright, 2014). Experience also helps auditors develop sharp intuition and expertise using professional judgment in various situations (Asare et al., 2015). Research by Hammersley, Johnstone, and Kadous (2011) found that experienced auditors are better at identifying fraud risks and designing appropriate audit procedures. According to Gul, Fung, and Jaggi (2009), experience allows auditors to reduce information asymmetry between principals and agents. Chen, Lin, and Lin (2008) emphasize that experience reduces the risk of fraud detection errors and improves audit quality. This study also supports the view of Krishnan and Visvanathan



(2008) that auditor experience is correlated with improved risk assessment and fraud prevention. Thus, auditor experience is an essential factor in improving fraud detection capabilities.

Professional skepticism moderates the effect of independence on fraud detection. The results of this study indicate that professional skepticism strengthens the effect of auditor independence on fraud detection in Public Accounting Firms (KAP) in Bali. The combination of independence and professional skepticism significantly increases the auditor's ability to detect fraud. Independence allows auditors to work without pressure, while professional skepticism encourages auditors to critically evaluate every piece of evidence and information provided (Glover & Prawitt, 2014; Kim et al., 2018). In the context of agency theory, auditors act as agents who supervise management on behalf of the owner. Professional skepticism helps auditors identify potential fraud risks and detect manipulations that management may carry, thereby increasing audit effectiveness (Toba & Svanberg, 2017; Skaife & Veenman, 2020). Skepticism makes auditors continue to seek and critically evaluate evidence, further enhancing their ability to detect fraud (Toba & Svanberg, 2017). These findings support the view that professional skepticism strengthens the effect of independence on auditors' ability to detect fraud, as stated by Hurtt et al. (2013) and Popova (2013). This combination improves the quality of the audit process by focusing on potential fraud risks.

Professional skepticism moderates the effect of experience on fraud detection. This study shows that professional skepticism strengthens the effect of auditor experience on fraud detection in Public Accounting Firms (KAP) in Bali. Skeptical auditors rely on experience and apply a critical approach in evaluating evidence and information, avoiding the trap of excessive assumptions based on experience (Popova, 2013). A study by Kim, Song, and Zhang (2018) found that skepticism enhances experienced auditors' ability to detect fraud by helping them stay alert to hidden signs of fraud. Experienced and skeptical auditors are more likely to conduct in-depth examinations of suspicious transactions (Quadackers et al., 2014). In agency theory, professional skepticism and auditor experience reduce potential problems between management and owners by ensuring that auditors act as guardians of owners' interests (Skaife & Veenman, 2020). These findings confirm that professional skepticism strengthens the effect of experience in fraud detection, improving audit quality and the reliability of financial reports (Hurtt et al., 2013; Kim et al., 2018; Popova, 2013).

CONCLUSION

Based on the results of the discussion, the following conclusions can be drawn:

1. Independence has a positive effect on fraud detection. This means that the more independent an auditor is, the greater the ability to detect fraud.
2. Experience has a positive effect on fraud detection. This means that the more experienced an auditor is, the greater the ability to detect fraud.
3. Professional skepticism strengthens the positive effect of independence on fraud detection. This means that a solid skeptical attitude in conducting an audit can increase the effect of auditor independence in detecting fraud.
4. Professional skepticism strengthens the positive effect of experience on fraud detection. This means that a solid skeptical attitude in conducting an audit can increase the effect of auditor experience in detecting fraud.

The author suggests future policies after studying, analyzing, discussing, and drawing conclusions.



1. Further research can investigate how professional training and education affect auditor skepticism, and experience can provide insight into ways to improve auditors' ability to detect fraud. Research can focus on the effectiveness of training programs in improving professional skepticism and how this contributes to auditors' ability to identify fraud.
2. External auditors are expected to increase independence by having strong confidence in their decision-making abilities and knowledge. They can also increase experience by taking the initiative to handle complex or challenging audit cases. Additional training focusing on detecting fraud risks and handling time pressure during an audit can improve professional skepticism.

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