The Role of Auditor Experience, Whistleblowing, and Red Flags on Auditor Fraud Detection

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Abstract

Auditors have a big responsibility for fraud detection. Although auditors often find it difficult to detect fraud, the auditor has a big responsibility in detecting fraud in every audit assignment. The purpose of this study is to provide an understanding of the role of auditor experience, whistleblowing, and red flags on auditor fraud detection. The method used in this study uses the literature review method. The results of the study show that there is an effect of experience, whistleblowing, and red flags on auditor fraud detection. Suggestions from this study can be seen that there are many other variables that can effect on auditor fraud detection. In addition, in previous studies, it can be seen that there are several conflicting research results so that it becomes a challenge for further research to obtain the results of hypothesis testing.

I. Introduction

Auditors have a big responsibility for fraud detection. Although auditors often find it difficult to detect fraud, the auditor has a big responsibility in detecting fraud in every audit assignment. Auditors need to exercise professional skepticism in providing considerations regarding the fraud triangle and red flags when conducting an audit. Auditors are also required to be able to apply forensic procedures to detect fraud (Kismawati, 2021).

Agency theory emphasizes the granting of authority to a designated agent to act on behalf of and for the benefit of the owner. In agency theory, it is explained about the conflicting interests between the owner and the agent (Sudaryo et al., 2021). To understand corporate governance, the basic agency relationship perspective is used. Agency theory is a relationship or contract between principal and agent. The main principle of this theory states that there is a working relationship between the party giving the authority (principal), namely the investor and the party receiving the authority (agency), namely the manager, in the form of a cooperation contract of interest between principal and agent. This is due to the separation of ownership and control of the company.

Auditor experience is believed to have an influence on the auditor's ability to make audit decisions. This is because the experience of the auditor is a determining factor for professionalism, commitment to the organization, and quality in conducting audits. More auditor experience will result in greater experience so that it can assist in carrying out audit assignments (Siregar, 2020).

Whistleblowing is related to complaints made by whistle-blowers regarding alleged fraud. Whistleblowing generally involves a fraud that is detrimental to the company or other

parties (Aripin and Negara, 2021). Red flags are related to early warning to identify certain characteristics in the occurrence of fraud (Ardianingsih, 2021).

In this literature review, auditor experience is proxied by the frequency of audit work and training followed; whistleblowing is proxied by structural aspects, operational aspects and maintenance aspects; red flags are proxied by pressure, opportunity, and rationalization; and the ability of the auditor to be proxied by knowledge of fraud and the ability to detect it.

The purpose of this study is to provide an understanding of the role of auditor experience, whistleblowing, and red flags on auditor fraud detection.

II. Review of Literature

2.1 Agency Theory

Agency theory emphasizes the granting of authority to a designated agent to act on behalf of and for the benefit of the owner. In agency theory, it is explained about the conflicting interests between the owner and the agent (Sudaryo et al., 2021).

To understand corporate governance, the basic agency relationship perspective is used. Agency theory is a relationship or contract between principal and agent. The main principle of this theory states that there is a working relationship between the party giving the authority (principal), namely the investor and the party receiving the authority (agency), namely the manager, in the form of a cooperation contract of interest between principal and agent. This is due to the separation of ownership and control of the company.

Agency theory in its development is divided into two streams including: (1)positive theory of agency, this theory focuses on identifying situations when shareholders and managers as agents experience conflict and government mechanisms that limit self-saving in agents. (2)Principal agent literature, focuses on the optimal contract between behavior and results which broadly emphasizes the relationship between shareholders and agents (Kuntadi, 2017).

Agency theory is based on 3 assumptions, namely: (1)assumptions about human nature, (2)assumptions about organization, and (3)assumptions about information. Assumptions about human nature emphasize that humans have a nature to be selfish (self-interest), have limited rationality (bounded rationality), and do not like risk (risk aversion). Organizational assumptions are the existence of conflicts between members of the organization, efficiency as a productivity criterion, and the existence of asymmetric information (AI) between principals and agents. While the assumption about information is that information is seen as a commodity that can be traded (Fujianti, 2019).

There are two types of asymmetric information, namely: adverse selection and moral hazard. Adverse selection, which is a situation where the principal cannot know whether a decision taken by the agent is really based on the information he has obtained, or occurs as an omission in his duties. Moral hazard, which is a problem that arises if the agent does not carry out the things that have been mutually agreed upon in the employment contract.

Management can take actions that do not benefit the company as a whole which in the long run can harm the interests of the company. Even to achieve its own interests, management can act using accounting as a tool for engineering, therefore, agency problems arise when there is a difference in interests between the company's shareholders and the investment manager as an agent. shareholders as providers of funds and facilities, have an interest in securing these funds and facilities for the company's operations because shareholders have an interest in the safety of the funds that have been invested in the company. The manager himself as the manager of the company gets a salary from the company, so that the decisions taken by the manager are expected to prosper the shareholders

and increase the value of the company. Corporate governance refers to a framework of rules and regulations that allow stakeholders to make the company maximize value and to obtain returns (Sari and Indrasti, 2019).

2.2 Auditor Fraud Detection

Fraud is an action that was previously designed to trick/deceive/manipulate other parties so as to cause the other party to suffer losses and the fraud perpetrators to gain financial benefits either directly or indirectly (Kuntadi, 2017).

Fraud detection is the quality of the auditor in identifying and proving the occurrence of fraud (Sari and Indrasti, 2019). The indicator of fraud detection ability is knowledge of fraud and ability in the detection stage (Sari and Indrasti, 2019).

Fraud detection is related to efforts to prevent fraud (Fujianti, 2019). The indicators of fraud detection ability are the characteristics of fraud and audit methods (Fujianti, 2019).

Fraud detection is the capacity of the auditor to detect fraud at the time of assignment (Muzdalifah and Syamsu, 2020). Indicators of fraud detection ability are training, review of the financial department, review of internal control, factors causing fraud, and audit procedures (Muzdalifah and Syamsu, 2020).

Many factors can increase the auditor's ability to detect fraud. Auditors must also have competence, because with competence, the auditor will have high sensitivity to detect fraud (Prohantoro and Kuntadi, 2022).

2.3 Auditor Experience

Auditor experience is the experience the auditor has both in working hours and the number of assignments (Sari and Indrasti, 2019). The indicator used is the frequency of inspection and training work followed (Sari and Indrasti, 2019).

Auditor experience is the learning that auditors get from education and assignments that have been carried out (Afiani et al., 2019). An indicator of auditor experience is the number of audit work (Afiani et al., 2019).

Auditor experience is what distinguishes the auditor's ability to perceive information received during the audit process (Fujianti, 2019). Indicators of auditor experience are work ability and length of work (Fujianti, 2019).

2.4 Whistleblowing

Whistleblowing is the act of reporting fraud by someone to another party (Sari and Indrasti, 2019). Whistleblowing indicators are structural aspects, operational aspects and maintenance aspects (Sari and Indrasti, 2019).

Whistleblowing is the disclosure of alleged fraud by employees (Asiah and Setyorini, 2017). Whistleblowing indicators are structural aspects, operational aspects and maintenance aspects (Asiah and Setyorini, 2017).

Whistleblowing is the delivery of information on allegations of fraud (Bernardin and Solihat, 2019). Whistleblowing indicators are structural aspects, operational aspects and maintenance aspects (Bernardin and Solihat, 2019).

2.5 Red Flags

Red flags are a sign that something is wrong and needs to be investigated (Sari and Indrasti, 2019). The red flags indicators are pressure, opportunity and rationalization (Sari and Indrasti, 2019).

Red flags are signs of fraud that must be prevented by the auditor performing the assignment (Muzdalifah and Syamsu, 2020). The red flags indicators are pressure, audit

information, management supervision, unusual transactions and information and accounting systems (Muzdalifah and Syamsu, 2020).

Red flags are signs of fraud that the auditor must be aware of when performing assignments (Gizta et al., 2019). The red flag indicators are fraud training, fraud detection training, and investigative audit training (Gizta et al., 2019).

III. Research Method

The research method is defined as a scientific way to obtain data with specific purposes and uses (Asyraini et al., 2022; Octiva, 2018; Pandiangan, 2015). The scientific way means that research activities are based on scientific characteristics, namely rational, empirical, and systematic (Jibril et al., 2022; Pandiangan et al., 2018; Pandiangan, 2022).

The method used in this study uses the literature review method. The literature review method is writing that looks for written literature sources so as to get theories and relationships between research variables (Octiva et al., 2018; Pandiangan, 2018). The literature review method has its own structure, namely introduction, discussion, and conclusion (Octiva et al., 2021; Pandiangan et al., 2021; Pandia et al., 2018). In the introduction, it is explained how the organization of the literature review is. Furthermore, a discussion or content of the literature review is given regarding the relationship of the literature to one another (Pandiangan et al., 2022; Tobing et al., 2018).

IV. Discussion

The results of the study show that there is an effect of experience, whistleblowing, and red flags on auditor fraud detection.

4.1 Effect of Auditor Experience on Auditor Fraud Detection

Auditor experience has an effect on auditor fraud detection where the audit frequency and assignment indicators affect the dimensions or indicators of knowledge about fraud (Fujianti, 2019).

To improve auditor fraud detection, it is necessary to consider the experience of the auditor (Arasyani et al, 2016).

Auditor experience affects auditor fraud detection, meaning that the experience of the auditor can assist the auditor in detecting fraud (Iftinan and Sukarmanto, 2022).

Auditor experience has an effect on auditor fraud detection in line with research conducted by Novianingsih and Kunarto (2020) and contradicts research by Sabatina and Wahyudin (2021).

4.2 Effect of Whistleblowing on Auditor Fraud Detection

Whistleblowing has an effect on auditor fraud detection where indicators of structural aspects, operational aspects, and maintenance aspects affect the dimensions or indicators of knowledge about fraud (Utami, 2018).

To improve auditor fraud detection, whistleblowing assistance can be utilized because whistleblowing affects auditor fraud detection (Permana and Eftarina, 2020).

Whistleblowing has an effect on the detection of financial statement fraud in line with research conducted by Piserah et al. (2022).

4.3 Effect of Red Flags on Auditor Fraud Detection

Red flags affect auditor fraud detection where indicators of pressure, opportunity, and rationalization affect the dimensions or indicators of knowledge about fraud (Muzdalifah and Syamsu, 2020).

To improve auditor fraud detection, red flags can be used because red flags affect fraud detection by auditors (Gizta et al., 2019).

Red flags affect auditor fraud detection in line with research conducted by Muzdalifah and Syamsu (2020).

V. Conclusion

The results of the study show that there is an effect of experience, whistleblowing, and red flags on auditor fraud detection.

Suggestions from this study can be seen that there are many other variables that can effect on auditor fraud detection. In addition, in previous studies, it can be seen that there are several conflicting research results so that it becomes a challenge for further research to obtain the results of hypothesis testing. Several variables that influence the detection of fraud by auditors include the fraud triangle, professional skepticism, and independence.

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