

UNIVERSITI TEKNOLOGI MARA

**ELEVATING PROFESSIONAL
SKEPTICISM ON FRAUD RISK
JUDGMENT OF INDONESIAN
INTERNAL AUDITORS THROUGH
IMPROVING PERSONAL AND
ENVIRONMENT FACTORS**

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ABSTRACT

Financial scandals that were leaked and published in the mass media have ruined the public trust in the internal audit profession. The scandals made the performance of internal auditors in making fraud risk judgments questioned by the public. The internal auditors, as the third line of defense, were considered responsible for the fraud because of their daily presence in the institution compared to external auditors who were the next line of defence. In an audit process, the fraud risk judgment is not a simple process since it should be done at every stage of the audit process. It involves particular personalities and specific competencies. Auditors also often have to deal with management. Sometimes, unsuitable factors lead to an impairment of the fraud risk judgment. Therefore, there is an urgent need to study the effect of certain determinant factors on improving the fraud risk judgment to detect and prevent fraud. This study aims to examine the effects of locus of control (internal and external), information technology competency, professional skepticism, and tone at the top on Indonesian internal auditors' fraud risk judgment. This study used the Social Cognitive as the underpinning theory. The theory argued that personal and environment factors affect behavior. The auditor's behavior (in terms of the fraud risk judgment) is influenced by the personal (locus of control, IT competency, and professional skepticism) and the environment (tone at the top) factors. This study also examines the mediating effect of professional skepticism on the relationship between the determinant factors and the fraud risk judgment. The conclusions of this study are drawn based on 202 internal auditors respondents obtained from an online survey questionnaire. The data was analyzed using SmartPLS, which consisted of the assessment of the measurement model, the structural model, and the robustness of the model. This study confirms that the fraud risk judgment is significantly influenced by professional skepticism and IT competency. It also confirms that the internal locus of control and tone at the top significantly affects professional scepticism. Moreover, the study results also suggest that professional skepticism mediates the relationship between internal locus of control and fraud risk judgment and mediates the relationship between tone at the top and fraud risk judgment. This study used a holistic framework by testing the effect of the determinants on the new measurement of the state professional skepticism and its' effect on fraud risk judgment simultanously. This study used a self assessment questionnaire survey that lead to a inflated performance bias and it should be considered as a limitation in interpreting the result. This study can contribute to defining the profile of an internal auditor who has high fraud risk judgment performance; therefore, it can be used as a reference for the Human Resources Department to recruit a suitable person to handle fraud-related assignments. Furthermore, it also can be used by the profession regulation body to update the attribution and performance standard related to personal and environment factors that affect the fraud risk judgment.

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TABLE OF CONTENTS

	Page
CONFIRMATION BY PANEL OF EXAMINERS	ii
AUTHOR'S DECLARATION	iii
ACKNOWLEDGEMENT	v
TABLE OF CONTENTS	vi
LIST OF TABLES	xiii
LIST OF FIGURES	xvi
LIST OF ABBREVIATIONS	xviii
CHAPTER ONE: INTRODUCTION	1
1.1 Chapter Overview	1
1.2 Background of the Study	1
1.3 Motivation for the Study	8
1.4 Problem Statement	9
1.5 Research Question	13
1.6 Research Objectives	13
1.7 The Significance of the Study	14
1.7.1 Theoretical Significance	14
1.7.2 Framework Significance	15
1.7.3 Methodological Significance	15
1.7.4 Sample Significance	16
1.7.5 Practical Significance	16
1.8 Scope and Limitation of the Study	17
1.9 Definitions of the Terms Used	17
1.10 The Organization of the Study	19

CHAPTER TWO: LITERATURE REVIEW	20
2.1 Chapter Overview	20
2.2 Social Cognitive Theory	21
2.2.1 Overview of Social Cognitive Theory	21
2.2.2 Personal and Environment Factors Based on the Social Cognitive Theory	24
2.2.3 Limitation of Social Cognitive Theory	28
2.3 Internal Auditor as a Profession	29
2.3.1 Professional Bodies and Standard Setter in Indonesia	29
2.3.2 The Role of Internal Auditor in Fraud	30
2.3.3 Standards Relevance to Fraud	31
2.4 Fraud	33
2.4.1 Definition of Fraud	33
2.4.2 Fraud Theory	34
2.4.3 Fraud Indicators or Red Flags	37
2.4.4 The Use of Fraud Triangle and Fraud Diamond Based Red Flags	38
2.5 Fraud Risk Judgment	39
2.5.1 Definition of Judgment	39
2.5.2 Measurement of Judgment	43
2.5.3 Definition of Fraud Risk Judgment	47
2.5.4 Previous Studies on Fraud Risk Judgment	47
2.6 Professional Skepticism	51
2.6.1 Definition of Professional Skepticism	52
2.6.2 Traits vs. State Personality	55
2.6.3 The Antecedents of the Professional Skepticism	58
2.6.4 Professional Skepticism Related Standards	59
2.6.5 Previous Studies on Professional Skepticism as Mediator	61
2.6.6 Relevance of Professional Skepticism on Fraud Risk Judgment	62
2.7 Locus of Control	63