



## **Influence of Professional Skepticism and Adherence to Code of Ethics on Fraud Disclosure**

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### **Abstract**

This research was conducted to analyze the influence of the variables of professional skepticism and adherence to the code of ethics on the quality of audit results. The subjects of this study were 65 auditors working at the Representative Office of the BPK in Papua Province. The research method used in this study is the causality research method. The data collected in this study is primary data obtained through questionnaires distributed to each auditor. The data analysis method used is multiple regression analysis. The results of this study can be concluded as follows: (1) Based on partial test results, professional skepticism has a positive and significant effect on fraud disclosure. (2) Based on partial test results, adherence to the code of ethics does not affect fraud disclosure. (3) Professional skepticism and adherence to the code of ethics have a simultaneous effect on fraud disclosure.

**Keywords:** Professional skepticism, Compliance with the Code of Ethics, Fraud Disclosure

### **Introduction**

Indonesia has been a focal point in the Corruption Perception Index (CPI) since its inception in 1995. In 2023, Indonesia scored 34 on the CPI, which ranges from 0 (highly corrupt) to 100 (very clean), placing it at 115th out of 180 surveyed countries. This score is the same as in 2022. The highest score Indonesia has achieved in the past 25 years was in 2019. The CPI measures corruption perception through 32 questions categorized into five main areas: corruption prevalence, public accountability, corruption motivation, impacted sectors, and the effectiveness of anti-corruption efforts.

Corruption in Indonesia is driven by fraudulent behavior by individuals or groups for personal gain. Fraud and corruption remain pressing issues with significant financial repercussions for the country. One primary cause of corruption is the weak governance and

oversight in both corporations and government institutions. Poor oversight leads to a lower stock price in corporations and greater susceptibility to violations and misconduct in government agencies. Data from Indonesian Corruption Watch (ICW) shows a significant increase in potential state losses from 2018 to 2022, indicating deteriorating budget management and oversight at both central and regional levels.

ICW reports several corruption methods to understand the tendencies of perpetrators. Recognizing these methods is crucial for closing gaps and preventing future corrupt practices. The types of corruption and their respective state losses include budget misuse, fictitious activities/projects, mark-ups, fictitious reports, illegal levies, influence trading, and unauthorized deductions. These methods result in billions of rupiah in losses, highlighting the need for stringent oversight and accountability.

One of the institutions responsible for calculating state losses is the Audit Board of the Republic of Indonesia (BPK). According to BPK Regulation No. 1 of 2020, the calculation of state/regional losses involves investigative audits to determine and quantify losses due to financial mismanagement. Auditors play a critical role in this process, requiring both skepticism and adherence to ethical standards. Professional skepticism ensures that auditors do not accept client explanations at face value but seek evidence and confirmation. Adhering to a code of ethics is essential for auditors to perform systematic evaluations and report their findings accurately. This study emphasizes the importance of professional skepticism and ethical compliance in fraud detection, proposing the research title "The Influence of Professional Skepticism and Ethical Compliance on Fraud Disclosure."

## **Literature Review**

### **Fraud Tree Theory**

The Association of Certified Fraud Examiners (ACFE) depicts occupational fraud using the Fraud Tree Theory, which illustrates the branches of fraud in a workplace context. According to Tuanakotta (2010:196), the Occupational Fraud Tree has three main branches: Corruption, Asset Misappropriation, and Financial Statement Fraud. Corruption involves actions typically benefiting one or more persons and includes conflicts of interest, bribery, illegal gratuities, and economic extortion. Asset misappropriation involves internal theft or manipulation of company assets, such as inflating debts or collusion between departments. Financial statement fraud, familiar to auditors, involves misstating financial information to present a misleading picture of a company's financial health, either through overstatements or understatements, and can also include falsifying non-financial reports for internal or external use.

### **Agency Theory**

The agency theory perspective is the basis used to understand corporate governance and earnings management issues. Agency theory results in an asymmetrical relationship between owners and managers. To avoid this asymmetrical relationship, a concept is needed, namely the concept of Good Corporate Governance which aims to make the company healthier. The

application of corporate governance is based on agency theory, namely agency theory can be explained by the relationship between management and owners, management as an agent is morally responsible for optimizing the profits of the owners (principal) and in return will receive compensation in accordance with the contract.

### **Professional Skepticism**

Skepticism, derived from the word skeptic, in the Big Indonesian Dictionary (Pusat Bahasa, 2008) and the Oxford Dictionary (Hornby, 1980) means an attitude of doubting, suspecting, and not believing in the truth of a thing, theory, or statement. In the book of accounting and auditing terms, skepticism means being doubtful about statements that do not have a strong evidentiary basis (Islahuzzaman, 2012). Meanwhile, professional, according to the Big Indonesian Dictionary (Pusat Bahasa, 2008) is something related to a profession, which requires special skills to apply it. The word professional in professional skepticism refers to the fact that auditors have been, and continue to be, educated and trained to apply their expertise in making decisions according to their professional standards (Quadackers, 2009). Professional skepticism itself does not yet have a definite definition (Hurtt, 2003, and Quadackers, 2009), but from the definition of the words skepticism and professionalism, it can be concluded that an auditor's professional skepticism is the attitude of an auditor who always doubts and questions everything, and critically assesses evidence audit and make audit decisions based on their auditing expertise. Skepticism does not mean not believing, but looking for proof before being able to believe a statement (Center for Audit Quality, 2010).

### **Compliance with the Code of Ethics**

The Big Indonesian Dictionary, Ministry of Education and Culture (1998) defines ethics as (1) a collection of principles or values relating to morals; (2) values regarding right or wrong held by a group or society, while ethics is the science of what is good and what is bad and about moral rights and obligations (morals). So a code of ethics is in principle a system of moral principles that are applied within a professional group that is determined collectively.

### **Research Method**

The research method that will be used to analyze this research is a quantitative research type, which aims to explain, summarize various conditions, various situations, or various variables that arise in society which is the object of the research based on what happened. This research was carried out by collecting written data by making direct observations and distributing questionnaires at the research location, namely at the Financial Audit Agency (BPK) Representative of Papua Province.

Based on the calculations above, the population required in this research is 65. The variables in this research are Professional Skepticism, Compliance with the Code of Ethics, Fraud Disclosure, Data Analysis Methods. In testing the research hypothesis, the analysis model used is Moderated Regression Analysis (MRAs). This test aims to determine the effect of the independent (free) variable on the dependent (bound) variable and its effect after moderation. The first stage is multiple regression which is carried out without any moderating

variables. The second stage is carried out by interacting between the moderating variable and the independent variable.

## **Result and Discussion**

Present the results of your work. Use graphs and tables if appropriate, but also summarize your main findings in the text. Do NOT discuss the results or speculate as to why something happened; that goes in the Discussion.

## **Data Analysis Results**

### **Validity test**

The validity test is used to measure whether a questionnaire is valid or not. Validity testing was carried out using SPSS. The validity value can be seen in the Corrected Item-Total Correlation column. A statement item is declared valid if it has  $r_{\text{count}} > r_{\text{table}}$ , the  $r_{\text{table}}$  value in this study is 0.317 because this study has a sample ( $n=65$ ). Based on the following table, it is known that all question items or statements have a calculated  $r > r_{\text{table}}$  0.317 so that the statement items that measure variables are declared valid. The results of the validity test can be seen in the following table.

Table 1 Validity Test

Variabel	Item	Corrected Item-Total Correlation ( $r_{\text{hitung}}$ )	$r_{\text{tabel}}$	Keterangan
(X <sub>1</sub> )	P1	0,685	0,317	Valid
	P2	0,418	0,317	Valid
	P3	0,625	0,317	Valid
	P4	0,521	0,317	Valid
	P5	0,538	0,317	Valid
	P6	0,531	0,317	Valid
(X <sub>2</sub> )	P1	0,637	0,317	Valid
	P2	0,582	0,317	Valid
	P3	0,532	0,317	Valid
	P4	0,638	0,317	Valid
	P5	0,666	0,317	Valid
(Y)	P1	0,698	0,317	Valid
	P2	0,341	0,317	Valid
	P3	0,595	0,317	Valid
	P4	0,535	0,317	Valid
	P5	0,555	0,317	Valid

The validity testing table in table 4.4 shows that all statement items in the questionnaire for each variable in this study have been declared valid. This can be seen from the obtained  $r_{\text{count}} > r_{\text{table}}$  in the statement items for each variable in this research.

**Reliability Test**

This test is carried out to test the consistency of answers to all question items or statements used. This test was carried out using SPSS where if the Cronbach's Alpha coefficient is greater than 0.317, it shows the reliability of the instrument. Apart from that, the closer it is to 1, the higher the internal consistency of reliability. The reliability test of the research instruments is shown in table 4.9 below.

Table 2 Reliability Test

<i>Cronbach's Alpha</i>	<i>r<sub>tabel</sub></i>	<b>Keterangan</b>
0,844	0,317	Reliabel

The reliability test results in table 2 show that the variables used in this research are reliable. This happens when the Cronbach's Alpha value is greater than *r<sub>tabel</sub>* 0.317 so that these variables are suitable for use as measuring tools in questionnaire instruments in

**Hypothesis Test Results**

The hypothesis proposed in this research will be tested by looking at the average value of the variables used. The questionnaire is directed for positive or negative answers. The answer interval consists of 1 to 5, where points 4 and 5 are positive answers, points 1 and 2 are negative answers and point 3 is a neutral answer. Hypothesis testing uses the *t* and *F* statistical tests. To test the hypothesis regarding the influence of professional skepticism, compliance with the code of ethics, and fraud disclosure simultaneously and partially on audit quality, hypothesis testing is used simultaneously with the *F* test and partially with the *t* test.

**Partial Test (t Test)**

The *t* test is used to determine the relationship of each independent variable individually to the dependent variable to determine whether there is an influence of each independent variable individually on the dependent variable with a significance level of 0.05. If the significance value is smaller than 0.05 then the proposed hypothesis is accepted or said to be significant. If the significance value is greater than 0.05 then the proposed hypothesis is rejected or said to be insignificant. The method for determining the *t* table uses a significance level of 0.05 with  $df = n - k - 1$  (in this study  $df = 65 - 2 - 1 = 62$ ), so that the *t* table value is 2.002. The results of the *t* test in this study can be seen in table 3 below.

Table 3 Partial Test (t Test)

<b>Coefficients<sup>a</sup></b>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.480	2.681		2.417	.019
	X1	.554	.128	.579	4.344	.001
	X2	.011	.139	.011	.080	.937

a. Dependent Variable: Total\_Y

The t statistical test in table 3 shows several conclusions regarding the influence of each variable of professional skepticism and compliance with the code of ethics on fraud disclosure, seen from the direction of sign and significance, namely as follows.

a. The Influence of Professional Skepticism on Fraud Disclosure

The influence of professional skepticism on fraud disclosure shows significant results and has a positive sign. This is proven by the calculated t value of the professional skepticism variable (X1) of 4.344 which is greater than the t table, namely 1.997 or  $t_{\text{calculated}} 4.344 > 1.997 t_{\text{table}}$ . Meanwhile, the significance value of this regression coefficient can be stated as 0.001 which is smaller than  $\alpha = 0.05$  ( $0.001 < 0.05$ ) where 0.05 is the maximum significant level so that these results indicate that professional skepticism (X1) has a positive and significant effect on disclosure of fraud.

b. The Effect of Compliance with the Code of Ethics on Fraud Disclosure

The effect of compliance with the code of ethics on fraud disclosure shows that the results are not significant and have a positive sign. This is proven by the calculated t value of the variable compliance with the code of ethics (X2) of 0.080 which is smaller than the t table, namely 1.997 or  $t_{\text{calculated}} 0.080 < 1.997 t_{\text{table}}$ . Meanwhile, for the regression coefficient value, it can be stated that the significance is 0.937 which is greater than  $\alpha = 0.05$  ( $0.937 > 0.05$ ) where 0.05 is the maximum significant level so that this result explains that the second hypothesis (H2) which states that compliance with code of ethics (X2) has no effect on fraud disclosure.

### Simultaneous Test

The F test shows whether all the independent or independent variables included in the model have a joint influence on the dependent or dependent variable. The F statistical test is used to determine the effect of all independent variables included in the regression model together on the dependent variable which is tested at a significance level of 0.05. The following are the results of the F statistical test which can be seen in table 4 as follows.

Table 4 Simultaneous Test (F Test)

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	111.836	2	55.918	16.230	.001 <sup>b</sup>
	Residual	213.610	62	3.445		
	Total	325.446	64			
a. Dependent Variable: Total_Y						
b. Predictors: (Constant), Total_X2, Total_X1						

Based on table 4, the F test results show the calculated F value is 16,230 with a significance of 0.001. The significance value is smaller than 0.05, indicating that the independent variable has a simultaneous effect on the dependent variable and the calculated F value is  $16.230 > F_{\text{table}} 3.140$ , so the third hypothesis (H3) states that professional skepticism

and compliance with the code of ethics simultaneously have an effect. positive towards fraud disclosure.

## **Conclusion**

The conclusions of this study are as follows: Professional skepticism has a significant impact on fraud disclosure, while adherence to the code of ethics does not have a significant effect on fraud disclosure. However, when combined, professional skepticism and adherence to the code of ethics jointly influence fraud disclosure.

## **Declaration of conflicting interest**

The authors declare that there is no conflict of interest in this work.

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