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RISK-BASED AUDIT IMPLEMENTATION AND PROFESSIONAL SKEPTICISM ON FRAUD DETECTION FOR LOCAL GOVERNMENT FINANCIAL REPORTS

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ABSTRACT

This analysis aims to investigate the effect of Risk-Based Audit Implementation and Professional Skepticism on Fraud Detection. The object of this research is 40 out of 88 examiners at the Audit Board of Republic Indonesia (BPK) Representative of Lampung Province who have been certified as examiners. The sample used in this study was a purposive sampling method, namely data collection from predetermined respondents. The research approach utilized in this research is a quantitative approach using multiple linear regression analysis with IBM SPSS Version 28.0 software as the analysis tool. The findings revealed that the Risk-Based Audit Implementation variable had a substantial positive effect on the Fraud Detection variable, Professional Skepticism had a significant positive effect on Fraud Detection, Risk-Based Audit Implementation, and Professional Skepticism had a significant positive effect simultaneously on Fraud Detection.

Keywords: *Implementation of Risk-Based Audit, National Financial Audit Standards (SPKN), Professional Skepticism, Fraud Detection.*

Introduction

The phenomenon of fraud is often mentioned in the financial management of an organization. Every organization, both private and government, is inseparable from the potential for fraud. The term fraud is also often used in auditing (Vol *et al.*, 2020). Based on the 2019 Indonesian Fraud Survey report produced by the Indonesia Chapter of the Association of Certified Fraud Examiners (ACFE), one of the media that contributes to revealing fraud other than based on employee/community complaint reports is through the results of the examination of financial statements or auditing, both audits conducted by internal management (internal audit) and external audits.

Otalor (2021), defined the examination of financial statements or what is known as auditing, as a systematic procedure of acquiring and assessing evidence as objectively as possible regarding assertions of actions, and economic events as well as checking the conformity of evidence with specified criteria, which then, the results of this process are then shared to interested parties or stakeholders of financial statements. Financial reports are a form of data that is made as comprehensive information from the financial data of an organization or company in an accounting period or range that is useful for measuring financial positions and imaging the capacity of a company. Although the structure of financial reports in this country is complete, there is still a crack from the management or unscrupulous people committing fraud in a financial report in order to obtain the desired decision (Haninun, 2022). One form of financial report examination is the examination of the Central Government Financial Report (LKPP) and Local Government Financial Report (LKPD) conducted by the National Audit of Republic Indonesia (BPK). This examination aims to provide an opinion statement on the level of fairness of the information presented in the LKPP/LKPD. The audit of LKPP/LKPD by BPK is in line with the mandate of UU No. 15/2004 on Examination of State Financial Management and Responsibility and UU No. 15/2006 on Audit Board of the Republic of Indonesia (Fitri and Khotimah, 2022). In the development of auditing science, the application of risk-based auditing is one of the greatest considerations. Risk Based Audit (RBA) emerged in line with the adoption of the International Standards on Auditing (ISA) based Auditing Standards in Indonesia, which took effect on January 1, 2013. This audit standard is one part of the Public Accountant Professional Standards (SPAP). SPAP is a codification of various technical standard statements that are guidelines for public accountants in Indonesia. An auditor's professional skills to assess the risks to the entity to be examined and minimize or suppress these risks to the lowest acceptable level are needed. In this case, professional skepticsm must be possessed by an auditor to

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assess the audit risk that exists in the entity to be examined and respond to the yield of the audit risk assessment (Abidin, 2017).

The purpose of this analysis was to determine whether there is a significant positive impact of risk-based audit implementation on fraud detection; whether there is a significant positive effect of professional skepticsm on fraud detection; and whether there is a simultaneous positive effect on risk-based audit implementation and professional skepticism on fraud detection.

Literature Review

a. Audit Risk

Audit risk is the risk that an auditor will give an incorrect opinion on the financial statements of a company. In other words, it is the risk that the auditor will miss a material misstatement in the financial statements, or that the auditor will conclude that the financial statements are materially correct when they are not (Allen *et al.,* 2006). According to Pertiwi and Herawati (2017), There are three components of audit risk:

a) Inherent Risk: This is the risk that exists in the company's financial statements due to the nature of its business, the complexity of its transactions, and the risk of fraud or error.
b) Control Risk: This is the risk that the company's internal controls are not effective in preventing or detecting material misstatements in the financial statements.
c) Detection Risk: This is the risk that the auditor's procedures will not detect a material misstatement that exists in the financial statements.

In auditing, there is audit risk, which is the risk that the opinion on the financial statements given by the auditor is not correct because it has material misstatement. Thus, the purpose of implementing risk-based auditing is to minimize or reduce this audit risk to the lowest acceptable level for auditors (Harahap *et al.,* 2017). Risk Based Audit (RBA) is an audit focused on areas where business process risk, account risk, and control risk are very likely to occur. The higher the risk of an account/area/transaction/business process, the higher the attention in the audit of the account/area/transaction/business process. To identify a business risk, the auditor must understand the control aspects of the business process concerned, and comprehending the business procedure includes comprehending the risks and controls of the system in achieving the purpose for which the organization was established (Noviani and Sambharakreshna, 2014).

To reduce audit risk, auditors perform various audit procedures, such as reviewing financial statements, assessing internal controls, performing substantive testing, and analyzing financial ratios. The auditor must use professional judgment and remain independent throughout the audit process to ensure that the audit is performed with due care and attention (Hogan and Wilkins, 2008).

b. Risk Assignment

Risk assignment refers to the process of identifying, analyzing, evaluating and assigning risks to individuals, teams, or departments within an organization. The goal of risk assignment is to proactively manage and mitigate risks that could impact the success of a project, program, or the overall organization (Cosgel and Miceli ,2005).

The use of the RBA approach is crucial in BPK, given the limited audit time, audit budget and the number of auditors owned by BPK. By using RBA, BPK representatives of each province can maximize the resources available in the LKPD audit, both the number of auditors, time, budget, and other supporting facilities and infrastructure (Pearson *et al.,* 2010). In practice within the BPK, the application of risk-based auditing begins at the audit planning stage, the audit team understands the entity of the audit object during the audit planning. The study of the audit object is carried out after the audit team gets the Letter of Assignment (LOA) to conduct the audit as well as determine the place/object of the audit. One form of risk-based audit implementation at this planning stage is the examination team will conduct a risk assessment of the types of risks that exist based on the examination team's understanding which is based on an initial analysis of the entity's environment, as well as the results of communication with the previous examination team (Castanheira, 2010). The output obtained from the risk assessment at this planning stage is in the form of the determination of the initial materiality level and risk

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assessment of existing accounts, which is then continued with the determination of the sample to be taken, as well as detailed examination steps outlined in the examination program (P2). The assessment and implementation of the results of the risk assessment and the results of the examination evidence taken are then outlined in the Inspection Worksheet (KKP) (Abdel *et al.*, 2019).

With the application of risk-based auditing, auditors are expected to determine the audit strategy by focusing on more complete and detailed audit procedures on an area/account/cycle/transaction that has a high-risk assessment, while for areas/accounts/cycle/transactions with a low-risk assessment, they can use less in-depth audit procedures such as checking the validity of asset additions and subtractions mutation (Aditya, 2021). An adequate risk assessment at the audit planning stage is expected to help auditors to design audit procedures that can detect the risk of material misstatement in the financial statements. Examination procedures with an RBA approach that focuses the examination on high-risk areas will further improve the efficiency and efficacy of the examination as well as the problem of limited resources will be resolved (Aribowo *et al.*, 2023).

c. SPKN General Standards

SPKN General Standards require that the professional attitude of the examiner be realized by always being a professional skeptic during the examination process and prioritizing the principle of professional judgment. According to Mande *et al.*, (2020), there are characteristics of professional skepticism of auditors that were later adopted by previous researchers namely examining, and testing evidence, understanding the provision of information and audit evidence, and taking action on evidence. Furthermore, in SPKN PSP 100 Standar Umum Para. 23, it states that the Examiner must disclose non-compliance with the provisions of laws and regulations that indicate fraud, impropriety, and/or national/regional losses, as well as non-compliance which has a direct and material effect on the main subject/information of the main subject matter examined in accordance with the provisions. Wicaksono and Haryadi (2022), claims that it is indeed difficult for auditors to uncover fraud. Fraud detection can fail to be detected by auditors due to six factors, namely: a) Auditors do not understand SPI, b) Auditors do not understand the characteristics of fraud, c) The audit work environment weakens audit quality, d) Audit methods and procedures are not sufficient for detecting fraud, e) Auditors do not identify forms of fraud, and f) Auditors do not test documents and key personnel.

Methodology

This research uses a quantitative approach and primary data sources (Sugiyono, 2017). Primary data was obtained through distributing questionnaires and the distribution of questionnaires was carried out by sending them to the selected sample using the Google Form application. The research was conducted throughout July 2022. The population of this investigation was auditors/examiners who worked at the Audit Board of Republic Indonesia (BPK) Representative of Lampung Province, totaling 88 people. By using the purposive sampling technique, the sample obtained was 40 respondents with a margin of error of 5%. Multiple linear regression analysis was employed as a data analysis approach.

The variables in this study consist of Risk-Based Audit Implementation (X1) and professional skepticism (X2) which are independent variables. The implementation of a Risk-Based Audit is measured using the risk assessment, response to risk assessment, and reporting stages (SPKN BPK 2017). Professional skepticism (X2) is gauged by the auditor's professional attitude in examining and testing evidence, understanding the provision of information, and audit evidence and taking action on evidence. The dependent variable (Y) is fraud detection as measured by the existence of a) understanding SPI by the Auditor, b) understanding the characteristics of fraud by the Auditor, c) effective audit work environment, d) effective audit methods and procedures, e) understanding of the identification of forms of fraud by the Auditor, and f) testing of documents and key personnel by the Auditor. Data processing in this study includes descriptive statistical testing and research hypothesis testing on validity and reliability, as well as regression analysis testing.

Result and Discussion

a. Validity Test

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To find out that the questionnaire is said to be valid, the $r_{hitung} > r_{tabel}$ value. In this study, the amount of data that can be used is 40 questionnaires, with a trust level of 95% (α = 5%). The determining r_{tabel} value is using the formula df = (n-k) or (40-2) = 38, hence the r_{tabel} value of the amount of data of 40 and the Sig. Two-tailed 0.025 is 0.3120. Below are the outcomes of the validity test using the IBM SPSS Version 28.0.1.1 software analysis tool.

Table 1. Validity Test Result of X1

Item	Pearson Correlation	rtable	Result
RBA01	.770**	0,3120	Valid
RBA02	.546**	0,3120	Valid
RBA03	.684**	0,3120	Valid
RBA04	.654**	0,3120	Valid
RBA05	.663**	0,3120	Valid
RBA06	.707**	0,3120	Valid
RBA07	.689**	0,3120	Valid
RBA08	.863**	0,3120	Valid
RBA09	.454**	0,3120	Valid
RBA10	.800**	0,3120	Valid
RBA11	.775**	0,3120	Valid
RBA12	.624**	0,3120	Valid
RBA13	.607**	0,3120	Valid
RBA14	.738**	0,3120	Valid
RBA15	.698**	0,3120	Valid
RBA16	.672**	0,3120	Valid
RBA17	.671**	0,3120	Valid
RBA18	.441**	0,3120	Valid
RBA19	.654**	0,3120	Valid
RBA20	.712**	0,3120	Valid

Source: Processed primary data, 2022

By looking at Table 1, the magnitude of the correlation coefficient of variable X1, namely the Application of Risk-Based Audit, has a *Pearson correlation* significance value greater than r_{tabel}, where r_{tabel} is 0.3120 ($r_{hitung} > r_{tabel}$). Therefore, it is concluded that the question items in variable X1 Implementation of Risk-Based Audit are proper and can be utilized further as research instruments.

Table 2. Validity Test Result of X2

Item Variable	Pearson Correlation	rtable	Result
S1	.775**	0,3120	Valid
S2	.806**	0,3120	Valid
S3	.756**	0,3120	Valid
S4	.703**	0,3120	Valid
S5	.740**	0,3120	Valid
S6	.782**	0,3120	Valid
S7	.853**	0,3120	Valid
S8	.853**	0,3120	Valid
S9	.685**	0,3120	Valid
S10	.844**	0,3120	Valid
S11	.722**	0,3120	Valid
S12	.754**	0,3120	Valid
S13	.844**	0,3120	Valid
S14	.722**	0,3120	Valid

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S15	.754**	0,3120	Valid
S16	.844**	0,3120	Valid
S17	.722**	0,3120	Valid
S18	.754**	0,3120	Valid

Source: Processed primary data, 2022

By looking at table 2, the magnitude of the correlation coefficient of variable X2, namely Professional Skepticism, has a significant *Pearson correlation* greater than r_{table}, where r_{table} is 0.3120 ($r_{hitung} > r_{tabel}$). Therefore, it is concluded that the question items in variable X2 Professional Skepticism are proper to be used further as research instruments.

Table 3. Validity Test Result of Y

Item Variable	Pearson Correlation	rtabel	Result
DK1	.640**	0,3120	Valid
DK2	.678**	0,3120	Valid
DK3	.691**	0,3120	Valid
DK4	.838**	0,3120	Valid
DK5	.601**	0,3120	Valid
DK6	.646**	0,3120	Valid
DK7	.731**	0,3120	Valid
DK8	.871**	0,3120	Valid
DK9	.805**	0,3120	Valid
DK10	.825**	0,3120	Valid
DK11	.858**	0,3120	Valid
DK12	.631**	0,3120	Valid
DK13	.829**	0,3120	Valid

Source: Processed primary data, 2022

Based on table 3 above, the correlation coefficient of variable Y, namely Fraud Detection, has a *Pearson correlation* significance greater than r_{table}, where r_{table} is 0.3120 ($r_{hitung} > r_{tabel}$). Therefore, it is concluded that the question items in variable X2 Professional Skepticism are valid and can be used as further research instruments

b. Reliability Test

An assessment of a measuring device's reliability is conducted through a reliability test. In this study, the reliability test was carried out to determine whether the questionnaires distributed to respondents met the reliable requirements. A questionnaire can be noted as reliable if *Cronbach's Alpha* value is more than 0.6 or 60%. The following are the results of the reliability test using the IBM SPSS Version 28.0.1.1 software analysis tool.

Table 4. Reliability Test Result

Reliability Statistics			**Result**
Item Variable	Cronbach's Alpha	N of Items	
Implementation of Risk Based Audit	.931	20	Reliable
Professional Skepticism	.959	18	Reliable
Fraud Detection	.929	13	Reliable

Source: Processed primary data, 2022

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Based on table 4, the *Cronbach's Alpha* value for a total of three variables X1, X2, and Y is 0.931, 0.959, and 0.929 which are greater than the *Cronbach's Alpha* coefficient of 0.6. Therefore, it can be concluded that the question items are reliable and can be used as instruments for further research.

c. Hypothesis Test X1 on Y

a) T-statistic test result

Table 5. T-statistic test result

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	3.298	4.299		.767	.448
	Risk Based Audit	.372	.102	.560	3.636	<,001
	Skepticism	.260	.110	.363	2.355	.024

a. Dependent Variable: Fraud Detection

Source: Processed primary data, 2022

The t-test is used to test the effect of the independent variable partially on the dependent variable. In this test, hypothesis acceptance uses the criteria t_{hitung} and Sig. < α 0.05 and determine the t_{tabel} value using the formula df = (n-k-1) or (40-2-1) = 37, thus the t_{tabel} value of the total data of 37 is 2.026192. Based on the results of this analysis, the hypothesis test results obtained are as follows:

1. The results of testing the first hypothesis show a t_{hitung} value of 3.636 > 2.026192 with a Significance probability of 0.001 < 0.05. This means that Ha1 is accepted or the first hypothesis is accepted, namely the application of risk-based auditing has a significant positive effect on fraud detection.
2. The results of testing the second hypothesis show a t_{hitung} value of 2.355 > 2.026192 with a Significance probability of 0.024 < 0.05. This means that Ha2 is accepted, or the second hypothesis is accepted, namely professional skepticism has a significant effect on fraud detection.

b) F-statistic Test Result

Table 6. F-statistic Test Result

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	893.070	2	446.535	75.821	<,001[b]
	Residual	217.905	37	5.889		
	Total	1110.975	39			

a. Dependent Variable: Fraud Detection

b. Predictors: (Constant), Skepticism, Risk Based Audit

Source: Processed primary data, 2022

The F-test is used to test the effect of the independent variable partially on the dependent variable. In this test, hypothesis acceptance uses the criteria f_{tabel} and sig < α 0.05 and ft f_{tabel}. Determining the f_{tabel} value using the formula df2 = 40 - 2 = 38, then the f_{tabel} value of the total data of 38 is 3.24. Based on the results of these calculations, the results of testing the third hypothesis show 75.821 > 3.24 with a significant probability of 0.001 < 0.05. This means that the third hypothesis (H3) is accepted, namely the application of risk-based auditing and professional skepticism simultaneously affects fraud detection.

d. Coefficient of Multiple Correlation Test (R) and Coefficient of Determination Test (R^2) Results

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The followings are the results of the multiple correlation coefficient test and the results of the coefficient of determination test utilizing the IBM SPSS Version 28.0.1.1 software analysis tool:

Table 7. Multiple Correlation

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.897[a]	.804	.793	2.427

a. Predictors: (Constant), Skepticism, Risk Based Audit

Source: Processed primary data, 2022

The R value, which is 0.897, shows the level of relationship between the Risk-Based Audit Implementation and Professional Skepticism Variables on Fraud Detection by looking at the coefficient interpretation table, this value is in the range of 0.800 - 1.000 = very strong. This means that the relationship between the variables of Risk-Based Audit Implementation and Professional Skepticism on Fraud Detection is very strong.

The R-square value, which is 0.804, means that the independent variables, namely the application of Risk-Based Auditing and Professional Skepticism, can simultaneously affect changes in the dependent variable, namely fraud detection by 0.804 (80.40%). Whereas, the remaining 19.60% is influenced by other variables outside the study.

Discussion

Based on the results of hypothesis testing, the discussion of the problem formulation and research objectives is as follows:

1. The Effect of Risk-Based Audit Implementation on Fraud Detection
   The first hypothesis (H1), according to which the implementation of risk-based audits has a favorable and substantial effect on fraud detection, is supported by the study's findings. This is proven by the results of multiple regression analysis, the t_{hitung} value of 3.636 > the t_{tabel} value of 2.026192 and obtained the Significant value of 0.001 which is smaller than the *level of Significant*, namely 0.050 (0.001 < 0.050), thus H1 is accepted. Therefore, the better the risk-based audit implementation owned by the auditor, the more the ability of the auditor to spot fraud will increase.
   The more acceptable the implementation of a Risk-Based Audit applied by the BPK Auditor of Lampung Province Representative during the LKPD Audit, the better the resulting fraud detection or fraud detection found by the auditor will be higher.
   The implementation of a Risk-Based Audit is related to risk assessment, responding to audit risks, and reporting audit results. By conducting a risk assessment and responding to the risk assessment results properly, the audit team will focus on a more complete and detailed examination of an area/account/cycle/transaction that has a high-risk assessment result. The assessment result stating that an area/account/cycle/transaction has a high risk is an illustration that the area/account/cycle/transaction has a higher possibility of fraud than an area/account/cycle/transaction that has a low-risk assessment result so that it will make it easier to identify or detect existing/occurring fraud.
2. The Effect of Professional Skepticsm on Fraud Detection
   The results of this study reinforce the second hypothesis (H2) which states that professional skepticsm has a positive and significant effect on fraud detection. This is proven through multiple regression analysis obtained a t_{hitung} value of 2.355 > the t_{tabel} value of 2.026192 and a Significant of 0.024 less than the *level of Significant*, namely 0.050 (0.024 <0.050), thus H2 is accepted. Therefore, the higher the professional skepticism possessed by the auditor, the more the auditor's ability to detect fraud will increase.
   With high professional skepticism in the auditors at the Audit Board of Republic Indonesia (BPK RI) Representative of Lampung Province in their audit assignments, it can improve the auditors' ability to detect fraud for the better. If the auditors at the BPK RI Representative of Lampung Province have a skeptical

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attitude when faced with signs of fraud or red flags that occur around them, they will have a good and high ability to detect fraud. The application of skepticism during the audit process is very important because when conducting an audit, the auditor will always question whether the documents/transactions that occur and the auditors are correct or not until the documents/transactions are proven correct. Skepticism does not mean disbelief but rather seeking proof before being able to trust a statement or a transaction cycle. The more information or audit evidence the auditor obtains in the audit process, the more able the auditor is to demonstrate whether or not the indications of fraud are real.

3. The Effect of Risk-Based Audit Implementation and Professional Skepticism on Fraud Detection
   The results of this study support the third hypothesis (H3) which states that the application of risk-based auditing and professional skepticism has a positive and significant effect simultaneously on fraud detection. This is proven through multiple regression analysis obtained a fhitung value of 75.821 > from the ftabel value of 3.24 and a significant value of 0.001 is smaller than the level of Significant, namely 0.050 (0.001 <0.05), thus H3 is accepted. Therefore, the higher the application of risk-based auditing and professional skepticism owned by the auditor, the more the auditor's ability to detect fraud will increase.
   The application of risk-based auditing requires high skepticism from auditors, especially during the LKPD Audit. This is because the auditor will determine the audit strategy by focusing on more complete and detailed audit procedures on an area/account/cycle/transaction that has a high-risk assessment of fraud, according to his assessment. This assessment will be more appropriate if accompanied by an auditor's professional skepticism in order to identify a fraud that exists/occurs in a transaction cycle

Conclusion and Recommendations

Conclusion

Based on these tests, it can be concluded that the application of risk-based auditing and auditor skepticism has a significant positive effect on the auditor's ability to detect fraud either partially or simultaneously at the BPK Representative for Lampung Province.

Recommendations

The following theoretical and practical implications can be made based on the study's findings:

1. Based on short questions distributed through Google Forms to respondents, several inputs were given to the BPK Institution, especially matters related to the implementation of risk-based audits, namely the need for a special working group to update the P2 LKPD which is more applicable according to the risk assessment of each entity, simplifying risk assessment forms that consider the short audit implementation time, but still in accordance with applicable audit standards.
2. The need for maximal development and utilization of e-Audit in carrying out LKPD audits, especially in assessing risks, collecting and examining evidence, reporting KKP, and the process of preparing Audited Financial Statements.
3. BPK Auditors of Lampung Province Representatives should always implement Risk-Based Audits and maintain and increase professional skepticism in carrying out every audit or examination process, especially LKPD audits.
4. BPK Representative of Lampung Province continues to regularly carry out Education and Training on LKPD Audit, especially the application of Risk-Based Auditing in risk assessment and Fraud Auditing which is updated with the development of auditing science so that it will increase the ability of auditors to detect fraud when carrying out LKPD audits.
5. In addition, it is recommended that further research may include additional variables that may affect the detection of fraud, expand the research sample, and add more research objects.

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