The Role of Knowledge Level and Personal Perspective of Risk on Fraud Risk Assessment Consistency: A Quasi-Experimental Method

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ABSTRACT

This study compares the consistency of fraud risk assessment between two levels of knowledge (general auditor versus forensic auditor) and two levels of personal perspective (low versus high) in risk prediction). Both auditors have the same knowledge basis in audit, but the forensic auditor has a speciality in a skill related to the company's risk management. This study also examines the role of knowledge and personal perspective on fraud risk assessment because an individual's perspective may influence an individual's ethical judgment. This study uses the quasi-experimental method involving 80 voluntary accounting students of higher education that have the highest level of accreditation in education. The result reveals that an auditor with specific knowledge about fraud risk will be more conservative in fraud risk assessment. An auditor with general audit knowledge is also conservative on fraud risk assessment, but the auditor should have a conservative perception of fraud risk. It implies a personal characteristic of an auditor has an important role in fraud risk assessment, especially in a country which has low law enforcement. The organization should formulate a mechanism or system that can trigger the organization's members to behave with more ethical judgment. The environment surrounding the auditor has an important role in the personal perception of ethical judgment.

Keywords: Forensic Auditor, Fraud Risk, Personal Perspective, Ethical Judgment.

1. INTRODUCTION

Fraud risk assessment has become an exciting topic because auditors have a responsibility to detect fraud which should be a part of management's responsibility to prevent through an internal control system (Power, 2013; Ariyanto and Hariman, 2020). Fraud can derive from any organization level affected by the difference in knowledge or social influence between the organization that enables the difference of judgment inference (Davis and Pesch, 2013; Dennis and Johnstone, 2018), such as between auditor and auditee. Perception of fraud motivation also impacts fraud risk assessment, professionalism, and commitment of auditor and it determines the audit quality (Kassem, 2018; Hamdani, Rahimah and Hafiz, 2020).

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Amazingly, gender assumes differently about ethical behaviour, which affects fraud assessment differently (Cumming, Leung and Rui, 2015).

A survey of 195 experienced investors reveals that they rely on a financial statement for fraud risk assessment. Therefore, they use disclosure of legal officers (SEC), analysts, litigation, or external auditor who perceived objectively assess or protect investors (Brazel *et al.*, 2015). Investors less consider internal auditors (Brazel *et al.*, 2015) because management and the company owner can engage in manipulation depicted in the fraud triangle, namely pressure, incentive, and rationalization (Ilter, 2014). However, management should provide the fraud risk assessment report through their internal audit because they need a captive report in the annual report. The question is how their statement about fraud risk assures investors of an investment decision. Unfortunately, auditor judgment about fraud risk depends on case by case because of scepticism, fraud risk expectation, or knowledge (Tang and Karim, 2019).

The important question is whether fraud risk assessment requires specific knowledge of the auditor. Could personal perspective assess fraud risk differently, instead of knowledge level? According to the urgent role of the auditor, this study examines the role of the knowledge level of an auditor in the consistency of fraud risk assessment. This study also examines the person's perspective on fraud risk, such as low versus high possibility.

The knowledge level refers to general and forensic knowledge with different perspectives on fraud risk. Based on Russo JR (2002), the auditor's knowledge has a role in the auditor's expertise because the auditor formulates hypotheses based on cues about the auditee and the auditor's knowledge structure (Libby, 1985). The study of Kang, Trotman and Trotman (2015) states that an auditor needs an audit judgment rule that indicates professional judgment implementation according to improving judgment quality.

Conservative auditor prefers a high possibility of fraud risk, but vice versa for less conservative auditor. The judgment structure influences the auditor's perspective of management's aggressiveness on financial reporting (Backof, Bamber and Carpenter, 2016). An auditor who works on low accounting standard enforcement enhances lower accuracy on client's reporting than an auditor who works on accounting high standard enforcement. The specific environment needs a more personal perspective rather than specialized knowledge. Other studies also reveal that big four auditors encourage higher earnings quality than non-big four auditors (Wang and Xin, 2011).

This study enlarges the auditor's judgment that knowledge is part of the determinant of judgment consistency. Auditors need specific knowledge for their tasks because firm activities need various accounting treatments (Libby and Tan, 1994; Sunder, 2010). This study also contributes to audit practice that a specialized auditor can consider in a particular environment, such as a low enforcement level of investor protection. This country needs a conservative auditor that is implied in assessing fraud risk.

The rest will be divided into five sections: literature review, research method, result, discussion, and conclusion. The literature review will depict the prior research that shows fraud risk judgment and specific knowledge, personal perspective on fraud risk assessment, and will be closed with the hypothesis. The research method and result will detail the experiment and hypothesis examination result step. The last section of this study is the implication and the next future research opportunity.

2. LITERATURE REVIEW

2.1. Fraud Risk Judgment and Forensic Audit Knowledge

Management fraud can be based on financial motivation, such as remuneration and tax avoidance or non-financial motivation, such as pressure from the owner and avoiding de-

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listing (Kassem, 2018). Fraud detection is a demanding task because of the variability classification, such as financial statements, financial scams, and the uncertainty in penalties (Tang and Karim, 2019). For illustration, in a risk-based audit that each account has a risk level, such low versus high-risk account, which requires a different level of resources in the audit process, so the auditor should be appropriate in resource allocation (Bowlin, 2011). Resources refer to the attention of the auditor through strategy formulation. The auditor should understand risk and make the appropriate decision about audit resource allocation in each account (Nelson and Tan, 2005). Trotman and Wright (2012) suggested that auditors should be able to predict the compatibility between the auditee's financial performance and business strategy. The less spread between the financial performance of auditee, such as revenue, and business management indicates the less management fraud in a period.

To implement an effective audit procedure, the auditor can use two approaches: brainstorming (gathering input or ideas) or anticipating specific fraud (Hoffman and Zimbelman, 2009). Tang and Karim (2019) also suggest brainstorming through big data analytics. Based on fraud risk indicators, the auditor reviews and analyzes the auditee's prior information, both unstructured and structured, and then presents it in an understandable format (Tang and Karim, 2019). Due to brainstorming requiring talent and technology, Tang and Karim (2019) suggest training for compatibility between the auditor's knowledge and skill and data trend and technology, respectively.

Agarwal and Sharma (2014) formulate probability fraud (PF) to prevent banks' fraud risk and their merchant relationship. However, experience, knowledge, ability, and cognitive limitation impact auditor performance (Nelson and Tan, 2005). Bédard (1989) states that expert and novice auditors have different methods of identifying, measuring, and organizing cues and information, so expertise indicates a process of acquiring task-specific knowledge. Turisová, Mihok and Kádárová (2012) also state that an expert can estimate the probability of phenomena that contributes to risk.

Other opinion states that expertise can be categorized as general and specific, which refers to how an auditor responds to the problem (Marchant, 1990). Specific expertise applies specific experience, training, and knowledge, but general expertise has no method for problem-solving. Libby and Tan (1994) suggest that the performance of an auditor's judgment on a specific task is determined by the ability of the auditor to acquire knowledge and implement the specific knowledge to perform the specific task. Harber and Marx (2020) prove that audit failure in a corporate scandal is caused by a lack of auditor competency. The auditor's independence contributes to the risk assessment failure less likely than the auditor's competency.

Popoola, Ahmad, and Samsudin (2014) compare the performance of auditors and forensic accountants in the fraud detection task. This study concludes that forensic accountants have higher performance than auditors because they understand innovative techniques and methods for fraud prevention and detection. It implies that fraud risk assessment needs an auditor's competency in the workplace. The competency can be built as a student through practitioners in captive curricula (Rezaee and Wang, 2019).

2.2. Personal Perspective of Risk on Fraud Risk Assessment

There is a limitation in knowledge and method to prevent and detect fraud (Riney, 2018). Members of the organization should be sensitive to the ethical dilemma. Jones, Massey and Thorne (2003) state that auditors should have sensitivity regarding an ethical situation that may not be defined explicitly by the organization's profession. The sensitivity can be triggered by the organization's system and organization members' perspectives that show explicitly which one of unethical behaviour (Aprilliani, Anggaraini and Anwar, 2014).

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Organizations should have a mechanism to prevent members from unethical behaviour. Morales, Gendron and Guénin-Paracini (2014) state that understanding the concept of the fraud triangle is essential to preventing and detecting management fraud. As an example, less economic dependency of the auditor on a client will be perceived as more independent in opinion (Dart, 2011). Therefore, an organization can formulate guidance to decrease the inconsistency between normal and abnormal behaviour that depends on an individual or organization's value (Morales, Gendron and Guénin-Paracini, 2014). Implementation of appropriate governance can be one mechanism to prevent fraudulent behaviour. Cumming, Leung and Rui (2015) state that the optimum presence of a woman on the board can reduce fraud because women, female senior executives, are less likely to commit fraud than males.

However, guidance and an organization's system just are a tool, because a person's optimum achievement depends on a person's motivation. Such as a finding of Wang and Wu (2008) that high personal motivation in learning encourages implementation of high strategies in learning. Professional judgment is not easy to define, but based on a survey of 305 audit partners in South Africa, a high degree of independence of auditor and professional scepticism determines it (Harber and Marx, 2020).

Massey and Thorne (2006) suggested that task information feedback (TIF) can be useful guidance for auditors on ethical dilemma problems. Prior audit involvement influences the auditor's perspective about the client (Tan, 1995). An auditor assumes negatively about a client, bringing their assumption continuity into the next audit task. An experiment involving 172 internal auditors also revealed that their uncomfortable feeling could be triggered by an organizational hierarchy, such as their obligation to report finding to management or audit committee (Norman, Rose, and Rose, 2010).

Lukviarman *et al.* (2018) state that personal perspective (such as moral maturity, and religiosity) determines an individual's commitment to a code of ethics. Lukviarman *et al.* (2018) also reveal that an individual's moral maturity has a positive influence on individual/s moral reasoning. It implies individual perspective influences an individual's ethical decision, but the environment should support this behaviour (Zhilla *et al.*, 2018).

Hypothesis Development

Fraud risk assessment needs specific knowledge that implies expertise. We predict that specific knowledge enhances consistency in judgment. Therefore, this study formulates a hypothesis as below:

H1: A subject who acquires forensic knowledge is more consistent in fraud risk assessment rather than a subject who acquires general knowledge

An ethical judgment also depends on the individual's perspective about ethical behaviour, such as moral maturity. We predict that the consistency of fraud risk assessment does not depend on knowledge level. Therefore, this study formulates a hypothesis as below:

H2a: A subject who predicts low fraud risk is less consistent in fraud risk assessment rather than a subject who predicts high fraud risk on general knowledge background

H2b: A subject who predicts low fraud risk is less consistent in fraud risk assessment rather than a subject who predicts high fraud risk on forensic knowledge background

3. RESEARCH METHOD

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This research conducts a quasi-experimental method with undergraduate accounting programs as subjects. They are from universities with accreditation A and joined voluntarily. They have passed auditing courses 1 and 2 as the basis of accounting in general. The subjects also have graduated or are currently studying forensic audit courses (optional). Thus, students already understand auditing from learning audits 1 and 2. The 80 students are willing to take part in this experiment.

Related to the research objective, which is to examine the effect of knowledge on fraud risk assessment, this study is based on the AICPA's definition that fraud risk assessment is a process to identify and address organizational vulnerabilities to internal and external fraud. Therefore, knowledge as an independent variable has two characteristics: knowledge of auditors and forensic auditors.

Referring to the purpose of the study, the experimental method uses a fraud case of a hypothetical company, and it is to understand the role of knowledge in the two-level of fraud assessment. The experimental procedure consisted of three stages: filling in demographic data and measuring general knowledge, giving treatment, and checking experimental manipulation. The treatment for subjects is a fraud risk assessment using a Likert scale from 1 – 5, which is very low to very high.

The hypothetical company of this study is PT ABC which has been manipulated in financial statements, inventory reports, sales documents, and minimum information in the audit. Thus, the subject will be categorized into auditor who has general knowledge and auditor who has forensic knowledge. The next cell will be categorized as an auditor who predicts low fraud risk as less conservative people and an auditor who predicts high fraud risk as more conservative people. In other words, the different knowledge of both skills will have differences in detecting the possibility of fraud in the hypothetical company. The different personal perspective (low versus high possibility prediction) also assumes different prediction of fraud risk. At the end of the experiment, the subject will receive a manipulation check to measure the understanding of the experimental participants on the treatment.

4. RESULT

This study involved 80 students as experimental subjects divided into two categories as auditor and forensic auditors: twenty-seven male subjects (33.7%) and 53 female subjects (66.3%). The first step experiment asks questions about the fraud triangle component to understanding the subject's basic knowledge according to audit knowledge. The answer indicates that both groups have the same basic knowledge based on their understanding of the fraud triangle. The homogeneity test results also showed that the two subjects had the same variance so this study can compare the treatment's results.

The study divides the fraud risk assessment into high and low by separating ratings 1 and 2 from 4 and 5. Furthermore, groups with high or low fraud risk assessments are categorized according to the general auditor and forensic auditor (see table 1). Thus, there are four groups, namely (1) a general auditor with a high-risk assessment (AUD_GN_H), (2) a general auditor with a low-risk assessment (AUD_GN_L), (3) a forensic auditor with a high-risk assessment (AUD_FR_H), and (4) a forensic auditor with a low-risk assessment (AUD_FR_L). The mean of auditor's fraud risk assessment consists of 8.6 for low and 13.65 for high category (see table 1). Subjects with general knowledge and low fraud risk assessment detect the mean fraud risk rate of 8.60, but subjects with general knowledge and high fraud risk assessment decide the mean rate of fraud risk 13.65.

Forensic auditors also have two mean categories, namely 12.15 for low and 12.85 for high. Forensic knowledge subjects predict the same rate of fraud risk for both low and high-

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risk assessments. In the low fraud risk assessment, the range of both auditors is also more expansive than in the high fraud risk assessment.

Table 1. Descriptive Statistic

		Conservative Level	
		Low (L)	High (H)
Knowledge	General Auditor (UAD_GN)	8.60 (2.19)	13.65 (1.14)
	Forensic Auditor (AUD_FR)	12.15 (1.93)	12.85 (2.08)

The t-tests show that the difference within a group or between high and low fraud risk assessments for auditors (UAD_GN_H vs. AUD_GN_L) is significant (see table 2). However, the difference in the level of fraud risk assessment on forensic auditors (AUD_FR_H vs. AUD_FR_L) is not significantly different. Thus, the group of auditors with general audit knowledge influences risk assessment. This group of auditors is inconsistent in risk assessment, while the forensic auditor group has the same consistency in assessing fraud risk. This finding supports H2a, but the result does not support H2b.

Table 2. The mean difference in the treatment group

Group	*Mean Difference*	*SE*	*Sig.*
Within group comparison			
AUD_GN_H vs. AUD_GN_L	5.050	0.5943	0.000***
AUD_FR_H vs. AUD_FR_L	0.700	0.5943	0.643
Between-group comparison			
AUD_FR_L vs. AUD_GN_L	3.550	0.5943	0.000***
AUD_FR_H- vs AUD_GN_H	0.800	0.5943	0.537

Notes:
General Auditor with a high-risk assessment (AUD_GN_H)
General Auditor with a low-risk assessment (AUD_GN_L)
Forensic auditor with a high-risk assessment (AUD_FR_H)
Forensic auditor with a low-risk assessment (AUD_FR_L).
*** Significance level < 1%

The comparison between the low forensic auditors and the general auditors with low-risk assessment (AUD_FR_L vs. AUD_GN_L) shows a significant difference between both (see table 2). However, the high forensic auditor group with the high auditor group in risk assessment (AUD_FR_H vs. AUD_GN_H) showed the same or not significantly different results. This result supports the H1 dan it implies the importance of knowledge specialization of auditor in fraud risk assessment.

This study emphasizes consistency in a decision that is influenced by knowledge. The group of subjects with general knowledge does not have consistency in fraud risk assessment and is based on the spread of low and high is significantly different. However, the subjects with specific knowledge do not have a different judgment on fraud assessment. This study was also supported by the between-group examination that subjects with general knowledge predict less likely fraud risk than subjects with forensic knowledge. Therefore, specific knowledge influences the fraud risk rate of subjects.

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5. DISCUSSION

The consistency of judgment that derives from specific knowledge implies that the knowledge structure determines the auditor's formulation of opinion (Libby, 1985), the difference in judgment inference (Davis and Pesch, 2013; Dennis and Johnstone, 2018), and expertise (Russo JR, 2002). Based on the auditor's knowledge, the auditor enhances professional judgment (Kang, Trotman, and Trotman, 2015), it shows the quality of auditor judgment. The quality enables the difference in professional level (Bédard, 1989) and mitigates the conflict between auditor and auditee (Heyrani, Banimahd and Roudposhti, 2016).

Another implication is that the high quality of auditor's judgment enhances high investor protection from management's expropriation (Brazel *et al.*, 2015), and it will encourage internal auditors to be professional under management's pressure (Ilter, 2014). Moreover, specific characteristics, such as gender, law enforcement, and organization (Davis and Pesch, 2013; Power, 2013; Cumming, Leung and Rui, 2015; Backof, Bamber and Carpenter, 2016; Dennis and Johnstone, 2018; Kassem, 2018), does not influence auditor's professional judgment anymore, but specific expertise has a vital role on it (Wang and Xin, 2011).

The prior study states that the auditor's judgment is an integral determinant of the task, person, and interpersonal person (Nelson and Tan, 2005). The assessment needs a variety of knowledge and personal attributes that influence the judgment's outcome. Auditors also need specific guidance that will mitigate scepticism to reduce the negative effect on the auditee. Other empirical evidence states that an auditor needs a strategic system approach to consider business risk because risk assessment needs critical information provided by the approach (Schultz, Bierstaker, and O'Donnell, 2010). Therefore, an auditor's judgment requires a professional judgment that mitigates conflict between management and auditor (Heyrani, Banimahd, and Roudposhti, 2016) and the auditor's knowledge level enhances the auditor's professional judgment, such as novice and expert auditor (Bédard, 1989).

6. CONCLUSION

This study examines the effect of knowledge on fraud on the level of fraud risk assessment, and it has implications for judgment consistency. Therefore, this study compares auditors with general knowledge with those with special knowledge or forensic auditors. The test results reveal that the general auditor must understand fraud to conduct fraud audits and forensic auditors. This study only separates high and low fraud risk assessments based on the subject's perception. Therefore, future research should include the level of conservatism of decision-makers in assessing fraud risk. Forensic auditors have a common understanding of fraud risk assessment, but this is not the case for auditors. Prudence may influence the level of the assessment.

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