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Assurance for  
Accountability and  
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25 & 26 September 2024

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## FRAUD EXPERIENCE: HOW FAR IT COULD AFFECT INTERNAL AUDITOR'S JUDGMENT PERFORMANCE

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### ABSTRACT

*The capacity of internal auditors to make solid judgements is crucial for providing audits of high quality. The role of auditor experience, which is a crucial aspect in this process, has been thoroughly examined, yielding conflicting findings. This study investigates the potential impact of internal auditors' experience with fraud on their judgement performance. A comprehensive literature study was undertaken, specifically examining internal audits, auditor's fraud experience, and audit judgement. External audits and Big 4 firms were deliberately excluded from the analysis. Analysed data from pertinent studies indicates that having general audit experience alone may not improve judgement performance. However, it is the particular experiences, such as fraud detection, that have a substantial influence on auditors' capacity to make accurate judgements. These findings indicate that future study should prioritise in-depth experiences rather than overall length of service in order to have a better understanding of their impact on audit judgements.*

**Keywords:** Internal Auditor's Fraud Experience; Audit Judgment.

### 1. INTRODUCTION

Internal Auditor making sound judgment is crucial to ensure high quality audits can be delivered (Sarens, De Beelde, & Everaert, 2009). This encompasses the internal auditor's responsibilities of establishing the audit focus area, recognising the risk of fraud, drawing findings on the efficacy of internal control, and offering suitable advice. The efficacy of their judgements is impacted by their professional skepticism and expertise in dealing with instances of fraud. This study investigates the impact of different degrees of fraud experience on the judgement performance of internal auditors. Prior studies emphasise the significance of professional skepticism and the ability to identify red flags, although there is a limited comprehension about the precise function of fraud experience. The objective of this research is to bridge this gap, providing insights to improve the training and development of internal auditors.

### 2. LITERATURE REVIEW

Audit experience, as described by Chung and Monroe (2000), refers to the unique knowledge, skills, and abilities that auditors acquire via their professional auditing practices. This experience enhances auditors' capacity to assimilate relevant information, perform comparative evaluations of various courses of action, initiate following activities, and improve the efficiency and effectiveness of decision-making. Additionally, it encompasses the

preservation of essential data using a dependable memory and the application of precise judgement when carrying out audit responsibilities. As stated by Badara and Saidin (2013), audit experience is the process of gaining skills

by participating in audit tasks that are relevant to audit standards, accounting guidance, and experiences connected to errors, such as financial misstatements. These experiences significantly influence the execution of audit tasks and the overall effectiveness of audits. Auditors must possess professional skepticism, which is essential for establishing a mentality of inquiry and critical evaluation of audit evidence. In their study, Carpenter, Durtschi, and Gaynor (2002) discovered that the presence of professional skepticism greatly improves the auditor's judgment and their ability to identify fraud. Pretnar (2014) highlighted the importance of skepticism in mitigating the likelihood of false financial reporting (Carpenter, Durtschi, & Gaynor, 2002; Pretnar, 2014). Auditors' proficiency in fraud detection is enhanced via their fraud experience in auditing, enabling them to effectively recognise abnormalities and red flags. Dewi, Yasa, and Subiyanto (2022) propose that auditors with more fraud experience possess superior abilities to identify these signs. Hussin, Saleh, and Al-Smady (2019) provide inconclusive findings about the moderating effect of fraud experience on the influence of professional scepticism. Some findings suggest that skepticism without sufficient fraud experience may not significantly enhance fraud detection.

### **3. METHODOLOGY**

For this research, a research question has been set which is "Do internal auditor's experience with fraud affect the internal auditor's judgment performance?" Once set, a predetermined search strategy is developed with inclusion and exclusion. Inclusion comprises of internal audit, auditor's fraud experience, and audit judgment, whereas exclusion comprises of external audit and Big 4. These keywords have been entered into several databases (e.g., Google Scholar, Scopus) to find past studies. Lists of past studies are generated by the search engine and are reviewed to ensure that only relevant studies are included. Data from relevant past studies are extracted and analysed in this research.

### **4. RESULTS AND DISCUSSION**

Previous research undertaken on experience has solely focused on the quantity of experiences of internal auditors. Badara and Saidin (2013) contend that possessing auditing skills does not automatically provide the ability to detect instances of fraudulent behaviour. Nevertheless, it is the specific personal experience of the individual in the subject of fraud detection that grants them the capability to distinguish instances of fraudulent activity. Agustia et al. (2018) similarly hold the same perspective, as their research findings indicate that audit experience has a detrimental effect on the auditor's judgement performance. A study conducted by Rosè (2007) has demonstrated that auditors who possess greater experience in detecting fraudulent activities exhibit superior judgement when compared to auditors with limited or no experience in fraud detection. The direct impact of fraud experience on risk judgment performance was nuanced. Experienced auditors demonstrated better judgment in complex scenarios, but the overall effect was modest, suggesting that experience alone is insufficient without continuous learning and reflective practices. Experience moderated the relationship between professional skepticism and risk judgment performance to some extent. Auditors with high skepticism and extensive fraud experience exhibited the best performance, indicating a synergistic effect (Carpenter, Durtschi, & Gaynor, 2002; Dewi, Yasa, & Subiyanto, 2022; Hussin, Saleh, & Al-Smady, 2019).

### **5. CONCLUSION**

Past research on internal auditor's experience has resulted in contradictory findings on the impact it has on audit judgments. Generalizing the experience by the number of years working of one auditor to another auditor without looking further deep on the actual experience that the auditor gains from working might be the factor for such findings. The study concludes that while professional skepticism is essential for effective fraud detection, the role of fraud experience is more complex. Experience enhances risk judgment performance but is significantly



amplified when combined with high levels of professional skepticism. Therefore, training programs for internal auditors should focus on building professional skepticism and providing exposure to various fraud cases to develop practical experience. Continuous professional development and reflective practices are recommended to sustain and enhance internal auditors' effectiveness in managing risks.

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