

EVALUATING THE IMPACT OF AUDIT EXPERIENCE ON FRAUD DETECTION PROFICIENCY IN ACCOUNTING PROFESSIONALS

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Abstract

Fraud detection in financial statements requires auditors to identify intentional offenses resulting in misstatements. Recognizing the red flags of fraud is imperative, indicating the deceptive trail left by perpetrators and necessitating an auditor's skepticism. This study investigates the correlation between auditors' experience and their efficacy in detecting fraud. The research involved 91 accounting professionals from Ahmedabad, Gujarat, and employed a survey method to gather data. Questionnaires were distributed via WhatsApp and Instagram. The analysis utilized correlation, t-test, and ANOVA to explore the relationship between experience and fraud detection ability. Results indicate a significant impact of the Audit Experience on the fraud detection ability of auditors and other accounting professionals. This study contributes valuable insights into the role of experience in enhancing auditors' capabilities to uncover fraudulent activities within financial statements.

INTRODUCTION

In the contemporary landscape of financial governance, where the specter of fraudulent activities poses an ongoing challenge to organizational integrity, the role of audit/accounting professionals stands as a crucial line of defense. As organizations grapple with increasingly sophisticated forms of financial malfeasance, the work experience amassed by auditors emerges as a potential key to enhancing fraud detection capabilities. This research paper tries to intricate relationship between audit experience and the effectiveness of fraud detection, aiming to shed light on the mechanisms through which professional expertise contributes to a more robust financial oversight framework.

Audit experience, often considered the amalgamation of knowledge, skills, and practical insights acquired over years of engagement with financial auditing processes, holds the promise of unlocking new dimensions in the fight against fraud. This paper delves into the ways in which the nuanced understanding cultivated through hands-on experience enables auditors to navigate the complexities of financial transactions, interpret subtle indicators, and discern irregularities that may signify fraudulent activities.

The research to be presented here builds upon a growing body of literature that acknowledges the pivotal role of audit experience in bolstering fraud detection mechanisms. From industry-specific insights to the development of intuitive risk assessment capabilities, the literature suggests that experienced auditors are better positioned to identify and respond to the ever-evolving tactics employed by those seeking to perpetrate financial fraud.

By synthesizing existing research, this paper seeks to offer a comprehensive overview of the current state of knowledge on the relationship between audit experience and fraud detection. Moreover, it aims to contribute fresh perspectives and insights, addressing gaps in understanding and proposing avenues for further exploration. Through a combination of theoretical frameworks, empirical evidence, and practical implications, this research endeavors to provide a nuanced understanding of how audit experience can be strategically harnessed to fortify organizations against the pervasive threat of financial malfeasance.

As we embark on this scholarly journey, the ultimate goal is to advance our comprehension of the symbiotic connection between audit experience and fraud detection, offering a foundation for both academics and practitioners to refine their approaches to financial governance in an era where vigilance and expertise are paramount.

LITERATURE REVIEW

Experienced auditors often rely on cognitive processes that involve intuition and pattern recognition. The ability to draw on past experiences and apply intuitive thinking can aid in the identification of anomalies or

inconsistencies that may signal potential fraud (Gong et al., 2019). Some literature explores the adaptability of auditors with experience in addressing new and emerging fraud risks. Experienced auditors may be more adept at learning from past engagements and adapting their approach to evolving fraud schemes (Kaplan et al., 2008). Professional skepticism is a critical aspect of fraud detection.

Researchers often highlight the positive relationship between auditors' experience and their ability to detect fraud. Experienced auditors tend to develop specialized knowledge and skills that contribute to a better understanding of complex transactions and potential fraud indicators (Bell et al., 2015). The literature suggests that auditors with more experience exhibit improved professional judgment and decision-making abilities. This includes the capacity to identify subtle cues or patterns that may indicate fraudulent activities and the ability to assess the overall risk of material misstatements (Trotman & Trotman, 2015).

Despite the benefits of experience, the literature also recognizes potential pitfalls. Experienced auditors may be susceptible to biases and overconfidence, relying too heavily on past experiences and potentially overlooking new or unconventional fraud schemes (Ricchiute, 1992).

The auditor's experience will further develop with increasing audit experience, discussions about auditing with Colleagues, and the presence of training programs and standard use. The development of one's cognitive morality is strongly influenced by experience (Nasution, 2012). Work experience is seen as an important factor in predicting auditor performance (Januarti, 2013). Noviyani (2002), Tirta and Sholihin (2004) and Nasution (2012) found that experienced auditors would have more knowledge about errors and fraud so that they would produce better performance in detecting fraud cases as compared to inexperienced auditors.

Anggriawan (2014) found that auditors who have high levels of working hours will encounter many cases or problems that can deepen their knowledge and expertise.

Adnyani et al (2014) state that auditor experience can influence the level of success of detection of fraud and financial statement errors. The higher the experience of the auditor, the higher the auditor's ability to detect fraud.

The Association of Certified Fraud Examiners (ACFE) categorizes fraud into three main classifications, each representing distinct types of deceptive practices within organizations:

1. Corruption:

Corruption, as defined by "Black's Law Dictionary" in Wells (2007), is characterized by actions that are spoiled, tainted, depraved, or morally degenerate. ACFE further classifies corruption schemes into four categories:

- **Conflict of Interest:** Instances where individuals in positions of trust have conflicting personal interests that may compromise their objectivity.
- **Bribery:** The act of offering, giving, receiving, or soliciting something of value to influence the actions of an official or other person in a position of authority.
- **Illegal Provision:** Involves providing illegal benefits or favors to individuals in positions of authority.
- **Economic Blackmail:** Schemes aimed at manipulating economic interests through threats or coercion.

2. Assets Misappropriation:

This category involves the misappropriation of assets and is divided into two subcategories:

- **Cash Abuse:** Including practices like skimming cash, larceny, or fraudulent disbursements.
- **Non-Cash Abuse:** Encompassing the abuse or theft of inventory and other non-cash assets within an organization.

3. Fraudulent Financial Statements:

Fraudulent financial statements involve deceptive practices related to the reporting of financial information. This category can be achieved through various means, including:

- **Sale of Fictitious Assets:** Reporting assets that do not exist to inflate the financial position of the company.
- **Manipulation of Income and Expenses:** Incorrectly recording income or expenses in periods where they are not appropriate.
- **Concealing Liabilities and Expenses:** Hiding liabilities and expenses to portray the company as more profitable than it is.
- **Misinformation in Financial Statements:** Including deliberate misinformation or omitting crucial information in the notes to the financial statements.
- **Inappropriate Asset Valuation:** Assessing the value of assets in a manner that does not reflect their true worth.

RESEARCH PROBLEM

The identified research problems set the stage for this study into the nuanced relationship between audit experience and fraud detection, addressing two distinct yet interconnected dimensions.

1. The Impact of Audit Experience on Fraud Detection:
2. Comparative Analysis of Audit Experience and Fraud Detection: Chartered Accountants vs. Other Accounting Professionals

RESEARCH OBJECTIVES

1. Investigate the extent to which varying levels of audit experience influence auditors' effectiveness in detecting and mitigating fraudulent activities within organizational contexts.
2. Conduct a comparative analysis to discern differences in the impact of audit experience on fraud detection between chartered accountants and other accounting professionals, examining the unique contributions of their respective expertise and qualifications.

RESEARCH HYPOTHESES

- H₀₁ : There is no significant correlation between audit experience levels and auditors' ability to prevent and detect fraud.
- H₀₂ : There is no significant association between varying levels of audit experience and the effectiveness of auditors in detecting fraud.
- H₀₃ : There is no significant difference in the impact of audit experience on fraud detection between chartered accountants and other accounting professionals.

RESEARCH METHODOLOGY

1. Research Design:

This study employs a quantitative research design.

2. Population and Sample:

The population for this research consists of chartered accountants and other accounting professionals serving as auditors in the Ahmedabad region, Gujarat. Stratified sampling is applied to ensure a comprehensive representation from both chartered accountants and other accounting professionals. The study encompasses a sample size of 91 participants.

3. Data Collection:

The research employs structured surveys to gather quantitative data on auditors' years of experience and their proficiency in fraud detection. The study utilizes a 5-point Likert scale (1- less likely to 5- most likely) to assess responses pertaining to fraud detection. A set of 10 questions is presented to respondents, aimed at determining their willingness to audit in specified scenarios. The Likert scale offers a nuanced approach to measuring the auditors' perceived likelihood or proficiency in handling various aspects of fraud detection. The structured survey, incorporating the Likert scale and scenario-based questions, serves as a comprehensive tool to quantify and analyze auditors' perspectives and experiences in the context of fraud detection.

4. Variables:

- a. Independent Variable: Audit experience levels.
- b. Dependent Variable: Effectiveness in fraud detection.

5. Instrumentation:

The primary method of data collection involves surveys administered through a questionnaire. The questionnaire is distributed via email, WhatsApp, and other relevant social media platforms, providing participants with flexibility in responding.

This research methodology is designed to provide a comprehensive understanding of the relationship between audit experience levels and the efficacy of fraud detection among chartered accountants and other accounting professionals in the specified geographical context.

6. Data Analysis Techniques

In this study, a combination of statistical methods is employed to analyze the data collected through questionnaires and draw meaningful conclusions. The following techniques are utilized:

a. Pearson's Correlation:

Pearson's correlation analysis is applied to assess the strength and direction of the linear relationship between variables. Specifically, it helps examine the correlation between audit experience levels and the effectiveness of fraud detection among chartered accountants and other accounting professionals.

b. ANOVA (Analysis of Variance):

ANOVA is employed to analyze the variance among group means in a sample. In this study, ANOVA is used to explore potential differences in fraud detection effectiveness among different categories of experience levels.

c. Two sample t-test:

A two-sample t-test is a statistical method used to determine if there is a significant difference between the means of two independent groups. It's commonly employed when comparing the means of two different populations or groups to assess whether any observed difference is likely due to sampling variability or if it represents a genuine difference in the population means. These data analysis techniques are selected to provide a comprehensive understanding of the relationships and differences within the collected data. The combined use above techniques enhances the robustness of the analysis, allowing for a more nuanced interpretation of the research findings.

RESULTS AND ANALYSIS

Demographic details

	Frequency	Percent	Valid Percent	Cumulative Percent
Female	36	39.56	39.56	39.56
Male	55	60.44	60.44	100.00
Total	91	100.00	100.00	-

Experience

In this study, the experience of respondents is categorized within 5-year intervals and organised into 4 groups. The study specifically collects data from auditing professionals, including Chartered Accountants, Company Secretaries, Cost Accountants, Internal Auditors, and other individuals engaged in the auditing field. Acknowledging the inconsequential nature of age in the face of challenging professional exams, we opt to pivot our analysis towards the more pertinent factor of professional experience.

Particulars	Frequency	Percent	Valid Percent	Cumulative Percent
0-5 years	18	19.78	19.78	19.78
5-10 years	27	29.67	29.67	49.45
10-15 years	25	27.47	27.47	76.92
More than 15 years	21	23.08	23.08	100
TOTAL	91	100	100	

Qualification

	Frequency	Percent	Valid Percent	Cumulative Percent
Chartered Accountants	60	65.93	65.93	65.93
Other accounting professionals	31	34.07	34.07	100
TOTAL	91	100	100	-

Fraud detection score calculation:

The fraud detection score is derived from the responses provided by the respondents in the survey. The scoring system assigns a minimum possible score of 10 and a maximum of 50 based on the Likert scale responses.

Minimum Fraud Detection Score: 10 Maximum Fraud Detection Score: 50

The mean of the fraud detection scores is calculated, establishing a benchmark. Scores above the mean are considered indicative of a higher perceived ability in fraud detection, while scores below the mean suggest a comparatively lower perceived ability.

This scoring system provides a quantitative measure to categorize respondents based on their perceived effectiveness in fraud detection, allowing for a clear distinction between those with higher and lower ability in this critical aspect of auditing.

ANALYSIS

1. **H₀**: There is no significant correlation between audit experience levels and auditors' ability to prevent and detect fraud.

Pearson correlation analysis

		Overall Score	Fraud Detection
Experience levels	Pearson correlation	1	0.819 **
	Sig. (2-tailed)		0.000
	N	91	91
Fraud detection	Pearson correlation	0.819**	1
	Sig. (2-tailed)	0.000	

	N	91	91
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** Correlation is significant at the 0.01 level (2-tailed)

The correlation coefficient ($r = 0.82$) falls close to +1, suggesting a robust and positive linear association between audit experience and fraud detection scores. This high positive correlation indicates that as audit experience increases, there is a tendency for fraud detection scores to increase as well.

A positive correlation implies that, on average, individuals with more years of audit experience tend to have higher fraud detection scores. This finding aligns with the expectation that increased experience in the field of auditing enhances an individual's ability to detect and identify fraudulent activities.

The strength of the correlation (0.82) suggests a practically significant relationship. The considerable positive correlation indicates that audit experience is a meaningful predictor of fraud detection proficiency.

Organizations may benefit from recognizing the expertise gained through audit experience to enhance fraud detection capabilities. This positive correlation underscores the importance of investing in the continuous professional development of auditors, as it appears to contribute significantly to their effectiveness in detecting fraudulent activities.

2. **H0:** There is no significant association between varying levels of audit experience and the effectiveness of auditors in detecting fraud

ANOVA: Single Factor				
SUMMARY				
Groups	Count	Sum	Average	Variance
0-5	18	651	36.16667	6.147059
05-10 years	27	1015	37.59259	5.019943
10- 15 years	25	1029	41.16	1.556667
more 15	21	925	44.04762	4.147619

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	794.2735	3	264.7578	64.82389	4.1302E-22	2.709402145
Within Groups	355.3309	87	4.084263			
Total	1149.604	90				

The value 4.1302×10^{-22} is the p-value associated with the one-way ANOVA test.

In hypothesis testing, the p-value indicates the probability of obtaining the observed results (or more extreme) if the null hypothesis is true. A very small p-value (much smaller than the significance level at 0.05) suggests that there are significant differences in the means of the groups being compared.

Given the extremely small p-value (4.1302×10^{-22}), it indicates strong evidence against the null hypothesis. It provides very strong evidence that at least one of the group means is significantly different from the others. Further post-hoc tests or pairwise comparisons might be conducted to identify which specific groups differ from each other.

3. **H0:** There is no significant difference in the impact of audit experience on fraud detection between chartered accountants and other accounting professionals.

T-test: Two sample assuming equal variances

	CA	Non-CA
Mean	41.13333	37.16129
Variance	8.693785	10.47312
Observations	60	31
Pooled Variance	9.29356	
Hypothesized Mean Difference	0	
Df	89	
t Stat	5.890588	
P(T<=t) one-tail	3.37E-08	
t Critical one-tail	1.662155	

The above p-value is the scientific notation for a very small value $3.36573698594797 \times 10^{-8}$

In hypothesis testing, the p-value represents the probability of obtaining the observed results (or more extreme) if the null hypothesis is true. A small p-value (typically less than the significance level at 0.05) suggests that the observed difference between the two groups is statistically significant.

The p-value of $3.36573698594797 \times 10^{-8}$ is indicative of strong evidence against the null hypothesis. Therefore, it rejects the null hypothesis in favor of the alternative hypothesis, concluding that there is a statistically significant difference between the two groups.

CONCLUSIONS

1. The conducted analysis provides robust evidence supporting a statistically significant correlation between work/audit experience and auditors' effectiveness in detecting fraud.
2. The results clearly indicate variations in fraud detection proficiency across different experience levels, highlighting the influence of professional experience on the ability to identify fraudulent activities.
3. The test results establish a noteworthy difference in fraud detection proficiency between Chartered Accountants and other accounting professionals, suggesting that the nature or depth of accounting qualifications may impact their ability to detect fraudulent behaviour.

SCOPE FOR FURTHER STUDY AND RECOMMENDATIONS

Future researchers may investigate additional factors that may contribute to or influence fraud detection beyond experience levels. This could include educational background, ongoing professional development, or the utilization of advanced technology in auditing. Future researchers may conduct a longitudinal study to observe changes in fraud detection proficiency over time within the same group of auditors. This could provide insights into the evolving impact of experience on fraud detection. Future researchers may explore whether the observed correlation between experience and fraud detection varies across different industries. Different sectors may present unique challenges and requirements for auditors. Future researchers may incorporate qualitative methods, such as interviews or focus groups, to gain a deeper understanding of auditors' perspectives on the challenges and successes in fraud detection. This can complement quantitative findings.

RECOMMENDATIONS

Encourage auditors to engage in continuous professional development programs to stay abreast of emerging trends, technologies, and methodologies in fraud detection. Develop training programs that specifically address the identified differences in fraud detection proficiency at various experience levels. Tailoring training to meet the needs of auditors at different career stages can enhance overall effectiveness. Implement cross-training initiatives to promote knowledge exchange between Chartered Accountants and other accounting professionals. Establish benchmarking practices within the industry to compare and evaluate fraud detection proficiency. This can provide valuable insights into best practices and areas for improvement.

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