

Research Article

Effect of Red Flags and Competence on Fraud Detection with Professional Skepticism as Moderation

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Abstract: This study investigates the impact of auditor competence and red flag awareness on fraud detection ability, examining the moderating role of professional skepticism. As fraudulent financial reporting poses a critical threat to the integrity of financial disclosures and stakeholder trust, understanding the key factors influencing an auditor's detection capabilities is essential. This study employed a quantitative approach, gathering data from auditors at Public Accounting Firms (KAP) in Bali Province via a four-point Likert scale questionnaire. The data were subsequently analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 4 software. The findings indicate that both auditor competence and an awareness of red flags significantly and positively enhance fraud detection capabilities. Conversely, professional skepticism, when analyzed for its direct influence, demonstrated a significant negative effect on this ability. Furthermore, skepticism exhibited a complex moderating role: it significantly weakened the positive relationship between competence and fraud detection, while not significantly moderating the link between red flags and detection ability. These results provide crucial theoretical contributions by revealing the nuanced and sometimes counter-intuitive role of professional skepticism. Practically, they inform policy for audit firms and regulatory bodies, suggesting that while fostering competence and red flag awareness is vital, the application of skepticism requires a more sophisticated and refined approach to truly enhance audit quality and overall fraud detection effectiveness.

Keywords: Auditor Competence; Competence; Fraud Detection; Professional Skepticism; Red Flags

1. Introduction

The reliability of financial statements represents a fundamental cornerstone in the architecture of modern financial systems and serves as a critical foundation for effective economic decision-making (Satria & Fatmawati, 2021). High-quality financial reporting not only facilitates informed investment, lending, and regulatory decisions but also reinforces corporate accountability to a broad spectrum of stakeholders, including shareholders, creditors, regulators, and the public. The absence of reliability in such reports can distort market signals, misallocate resources, and erode confidence in both firms and the capital markets they operate within. Consequently, ensuring the integrity of financial statements has become an enduring concern for both regulatory bodies and the auditing profession. Within this framework, external auditors play an indispensable role as independent assurance providers whose primary mandate is to attest to the fairness and accuracy of financial statements. By conducting audits in accordance with established professional standards, auditors help to verify that the financial information presented is free from material misstatement, whether arising from error or deliberate fraud (Prambowo & Riharjo, 2020). However, the persistent failure of auditors to detect financial statement fraud remains a significant concern. This issue is not merely theoretical but has tangible consequences, as evidenced by numerous administrative sanctions, including license suspensions and revocations, issued against public accountants in Indonesia. Such failures not only result in severe economic losses for stakeholders but also erode the integrity and reputation of the entire auditing profession, creating an urgent need to better understand the factors that

Received: January 13, 2025

Revised: March 10, 2025

Accepted: May 5, 2025

Published: June 30, 2025

Curr. Ver.: June 30, 2025



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determine an auditor's fraud detection capabilities. These shortcomings are neither isolated nor trivial. In Indonesia, a number of high-profile cases have revealed auditors' failure to uncover fraudulent financial reporting, leading to substantial financial losses for investors, creditors, and other stakeholders. Such cases have prompted regulatory authorities to impose a range of administrative sanctions against public accountants, including license suspensions and permanent revocations. The recurrence of such failures raises fundamental questions about the determinants of an auditor's fraud detection capability and underscores the urgent need for a more nuanced understanding of the factors that influence audit effectiveness in fraud contexts.

Drawing from attribution theory, which posits that behavior is a function of both internal and external forces, an auditor's ability to detect fraud can be linked to specific factors (Heider, 1958). One critical external factor is the presence of red flags, which are early warning signs of potential irregularities (Munteanu et al., 2024). However, the empirical evidence on their effectiveness is notably inconsistent; while some studies report a significant positive influence on fraud detection (Achmad & Galid, 2022; Narayana, 2020), others have found a contradictory negative effect (Susilawati et al., 2022). Similarly, the internal factor of auditor competence encompassing knowledge, skills, and experience is considered essential, yet its impact also yields conflicting results. Research has shown both significant positive effects (Prasetya et al., 2023; Riadi et al., 2025) and insignificant effects (Rafnes & Primasari, 2020). These conflicting findings highlight a significant research gap and suggest that the relationship between these factors and fraud detection is not straightforward.

To address these inconsistencies, this study introduces professional skepticism as a key moderating variable. Defined as a questioning mind and a critical assessment of audit evidence (IAI, 2004), professional skepticism may be the crucial element that determines whether an auditor effectively acts upon identified red flags and appropriately applies their competence. It is hypothesized that the presence of red flags and high competence are most effective only when coupled with a strong skeptical mindset. Theoretically, professional skepticism can amplify the positive impact of both red flags and auditor competence by ensuring that warning signs are neither overlooked nor dismissed prematurely and that technical expertise is applied with the necessary depth and critical rigor. Without such skepticism, even competent auditors equipped with relevant knowledge may fail to respond adequately to the cues provided by red flags. Accordingly, the present study seeks to re-examine the influence of red flags and auditor competence on fraud detection ability, while explicitly testing the moderating role of professional skepticism. By integrating these variables into a single conceptual model, the research aims to contribute to the literature in three ways. First, it addresses the inconsistencies and contradictions present in prior empirical studies. Second, it advances theoretical understanding by situating fraud detection within an attribution theory framework enriched by the moderating influence of professional skepticism. Third, it offers practical insights for regulatory bodies, audit firms, and professional accounting organizations seeking to enhance fraud detection effectiveness through targeted training, policy development, and audit methodology refinement. The ultimate objective is to present a comprehensive and evidence-based model that not only explains variations in fraud detection performance but also provides actionable strategies for improving audit outcomes in practice.

2. Literature Review

Theoretical Framework: Attribution Theory

This study is firmly grounded in Attribution Theory, a psychological framework first conceptualized by Fritz Heider (1958) in his seminal work *The Psychology of Interpersonal Relations*. Attribution Theory seeks to explain how individuals make sense of events and behaviors by attributing underlying causes to either internal or external factors. Internal attribution, also referred to as dispositional attribution, links behavior to an individual's inherent characteristics such as ability, motivation, effort, values, or personality traits. In contrast, external attribution, or situational attribution, emphasizes environmental determinants such as social pressure, organizational culture, time constraints, or task difficulty (Jayanti & Kawisana, 2022). These attributions form the basis of how individuals interpret responsibility and accountability in their professional and social interactions.

Robbins and Judge (2008) highlight that this attribution process is commonly assessed along three diagnostic dimensions: distinctiveness, consensus, and consistency. Distinctiveness refers to whether the individual behaves differently in different situations; high distinctiveness indicates situational attribution, whereas low distinctiveness suggests dispositional attribution. Consensus considers whether other individuals behave similarly under the same circumstances; high consensus points to situational causes, while low consensus supports dispositional causes. Consistency evaluates whether the individual demonstrates the same behavior across time and contexts; high consistency strengthens

internal attribution, while low consistency indicates external attribution. These three dimensions provide a structured way to understand the reasoning behind behavioral interpretations.

In the auditing context, Attribution Theory is particularly relevant and insightful. Auditors are constantly engaged in evaluating events, anomalies, and potential irregularities, which requires attributing causes either to internal auditor-related factors or to external situational cues. For example, an auditor's ability to detect fraud may be attributed to internal factors such as competence, professional skepticism, ethical commitment, or analytical skills. Conversely, it can also be attributed to external factors, such as the existence of red flags in financial statements, the presence of organizational pressures like tight time budgets, or the influence of management's behavior and corporate governance structures.

Furthermore, the theory helps explain variations in auditors' responses to situational pressures. An auditor with high professional commitment may internally attribute the responsibility for audit quality to their professional role, leading to greater diligence and reduced dysfunctional behavior. On the other hand, under conditions of high time budget pressure, auditors may shift toward external attribution, perceiving that situational demands justify shortcuts or premature sign-offs, thereby rationalizing dysfunctional behavior. Similarly, Machiavellian auditors may strategically manipulate attribution processes, emphasizing situational excuses to justify self-serving decisions while disregarding ethical obligations.

Thus, Attribution Theory provides a robust conceptual foundation for this study, as it integrates the interaction between dispositional factors (e.g., professional commitment, Machiavellianism) and situational factors (e.g., time budget pressure) in shaping auditors' behavioral outcomes. By applying this theoretical lens, the research not only contextualizes the determinants of dysfunctional auditor behavior but also advances understanding of how internal and external attributions jointly influence ethical decision-making in the auditing profession.

Auditor's Ability to Detect Fraud

The auditor's ability to detect fraud is positioned as the central outcome variable of this research, representing a critical competence that underpins the integrity of the auditing profession. Fraud detection is not merely about identifying discrepancies in financial statements but rather about recognizing and substantiating material misstatements that arise from intentional acts of deception. This distinguishes it from routine audit procedures, which primarily emphasize verification and compliance. Fraud detection demands heightened vigilance, deeper analytical judgment, and a specialized skill set that goes beyond conventional auditing practices.

According to Valery (2011), this capability encompasses multiple dimensions, including strong technical proficiency in investigative procedures, the ability to collaborate effectively within an audit team, and the mastery of communication skills to present findings clearly and persuasively. Technical competence ensures that auditors are able to apply forensic techniques, evaluate complex transactions, and scrutinize financial evidence with precision. Team collaboration fosters the exchange of insights, allowing auditors to collectively identify patterns of irregularity that might otherwise go unnoticed. Meanwhile, communication skills are indispensable, as auditors must be able to articulate their suspicions, convey evidence-based conclusions, and interact diplomatically with both clients and stakeholders when sensitive issues are uncovered.

Detecting fraud also involves a meticulous and systematic search for corroborative evidence within a client's internal control systems, accounting records, and supporting documentation. Unlike typical audit testing, this process often begins with the recognition of indirect symptoms or red flags, such as unusual journal entries, inconsistencies in supporting documents, or behavioral cues from management that may indicate concealment (Rafnes & Primasari, 2020). These signals require auditors to exercise professional skepticism, drawing connections between seemingly minor irregularities and potential acts of deception.

Beyond technical aspects, the auditor's ability to detect fraud is also shaped by psychological and situational factors. Professional skepticism serves as a cognitive safeguard against overreliance on client representations, while ethical commitment ensures that auditors remain steadfast in pursuing truth despite potential resistance or pressure from management. Conversely, high levels of stress, limited time budgets, or opportunistic traits such as Machiavellianism may impair an auditor's vigilance and reduce the likelihood of fraud detection.

Therefore, the auditor's fraud detection ability is best understood as a multifaceted construct integrating technical expertise, interpersonal collaboration, communication effectiveness, and ethical integrity. In the context of this study, it represents not only an outcome variable but also a proxy for audit quality, reflecting the auditor's fundamental

responsibility to protect the reliability of financial reporting and safeguard public trust in capital markets.

Red Flags

Red flags are conceptualized as anomalies, irregularities, or unusual conditions within financial statements, operational activities, or organizational behavior that signal a heightened risk of fraud (Kurniawati et al., 2017). Although they do not constitute direct evidence of fraudulent conduct, these indicators serve as critical external cues that guide auditors in exercising professional skepticism and directing their attention toward areas of greater audit risk. In this sense, red flags function as an early-warning mechanism, highlighting potential vulnerabilities in an entity's internal control system or patterns of transactions that deviate from normal expectations.

The significance of red flags lies in their ability to reduce information asymmetry between auditors and clients. Because management often possesses more complete knowledge about the entity's operations, auditors rely on such cues to uncover inconsistencies or behavioral signals that may suggest concealment or manipulation. For instance, recurring adjustments at period-end, rapid turnover of key personnel, or resistance to providing documentation can all serve as red flags. These indicators, while circumstantial, warrant deeper inquiry through expanded testing, corroboration with external evidence, and heightened professional skepticism.

An auditor's competence in identifying and properly evaluating red flags is therefore a fundamental dimension of audit quality. The effective recognition of these warning signs ensures that audit resources are allocated more strategically, allowing auditors to apply rigorous and targeted procedures where the risk of misstatement is highest. This not only increases the likelihood of detecting fraudulent activities but also reinforces the credibility and reliability of the audit opinion issued.

Furthermore, the interpretation of red flags is not purely technical; it also involves judgment shaped by the auditor's experience, ethical stance, and cognitive orientation. Inexperienced auditors may overlook subtle indicators or misinterpret anomalies as benign, while seasoned professionals are more adept at contextualizing patterns within broader organizational and industry frameworks. Thus, the ability to identify red flags is not static but develops over time through exposure, training, and reinforcement of professional skepticism.

In sum, red flags represent a vital intersection between external situational cues and the auditor's internal evaluative capacity. Their recognition bridges the gap between routine audit verification and investigative inquiry, enabling auditors to transcend mechanical testing and adopt a more risk-focused and judgment-driven approach. By incorporating red flags into the audit process, auditors enhance their vigilance, improve fraud detection capabilities, and strengthen their role as guardians of financial statement integrity.

Auditor Competence

Auditor competence represents a critical internal attribute that encompasses an auditor's knowledge base, technical skills, and cumulative professional experience, all of which collectively determine their ability to perform audit tasks effectively, objectively, and responsibly (Syalsya & Octavia, 2023). Competence is not an innate characteristic but rather a cultivated proficiency, developed progressively through a combination of formal academic education, structured training programs, continuous professional development, and extensive exposure to real-world auditing practices. This ongoing process ensures that auditors remain adaptive to regulatory changes, technological advancements, and the evolving complexity of business transactions.

A competent auditor possesses a multidimensional skill set. On a technical level, competence allows auditors to interpret accounting standards, evaluate the adequacy of internal control systems, and design audit procedures that are both efficient and effective. On a cognitive level, competence sharpens analytical reasoning, enabling auditors to discern irregular patterns or anomalies that may be indicative of fraud or misstatement. Moreover, competence enhances professional judgment, which is crucial when auditors face ambiguous evidence or conflicting information requiring careful interpretation.

Beyond technical proficiency, competence also reflects ethical awareness and adherence to professional values. An auditor with high competence is not only capable of executing audit tasks but also demonstrates a strong sense of responsibility toward stakeholders, recognizing the societal importance of accurate and reliable financial reporting. This ethical dimension reinforces the auditor's independence and integrity, ensuring that their knowledge and skills are applied to uphold the public interest rather than personal or organizational bias.

Importantly, auditor competence is directly linked to audit quality. It determines an auditor's sensitivity in detecting material misstatements and their ability to respond effectively to red flags that signal a heightened risk of fraud. Research consistently shows that auditors with stronger competencies are more likely to uncover irregularities, propose relevant audit

adjustments, and provide assurance that financial statements present a true and fair view. Conversely, inadequate competence may lead to oversight, ineffective audit procedures, and ultimately, audit failures.

In the context of fraud detection, competence functions as a cornerstone of the audit process. A well-trained and experienced auditor can navigate complex financial reporting environments, apply forensic techniques when necessary, and integrate professional skepticism into every stage of the audit. Thus, competence is not merely a technical prerequisite but a strategic enabler of audit effectiveness, safeguarding both the credibility of the auditing profession and the integrity of capital markets.

The Moderating Role of Professional Skepticism

Professional skepticism represents a cornerstone of auditing practice and is widely recognized as one of the most vital intellectual attitudes for ensuring audit quality. Defined by professional standards such as SPAP (2011), it entails not merely a passive doubt but an active and questioning mind, coupled with a critical evaluation of audit evidence. This mindset functions as a safeguard against bias, undue influence, and overreliance on management's representations. In practice, professional skepticism compels auditors to remain alert to conditions that may indicate possible misstatements due to fraud or error, and to rigorously pursue corroborating evidence before forming audit conclusions.

Within the broader framework of behavioral auditing research, professional skepticism is best understood not simply as an isolated trait but as a moderating factor that strengthens the relationship between internal and external auditor attributes such as competence and red flag recognition and the ultimate effectiveness of fraud detection. While competence equips an auditor with the technical knowledge and analytical ability to detect irregularities, and red flags serve as external signals of potential fraud, it is the skeptical mindset that bridges these inputs with effective action. An auditor may be highly skilled and even aware of unusual conditions, but without skepticism, the necessary investigative depth may not be pursued, thereby undermining the detection process.

This moderating role of skepticism highlights its strategic significance. High professional skepticism amplifies the utility of competence by prompting auditors to apply their knowledge more rigorously, scrutinize evidence more carefully, and consider alternative explanations for management assertions. Similarly, when red flags emerge, a skeptical auditor is more likely to treat them as serious cues requiring expanded testing, rather than dismissing them as anomalies or benign irregularities. In this sense, skepticism operates as a catalyst, transforming potential insights into concrete investigative actions.

Furthermore, professional skepticism carries ethical implications. It embodies an auditor's responsibility to the public interest, ensuring that their role as an independent examiner is not compromised by client relationships, time pressures, or personal biases. By fostering vigilance and critical assessment, skepticism helps auditors uphold the principles of integrity, objectivity, and due care.

Thus, in the context of this study, professional skepticism is not positioned as a direct antecedent of fraud detection effectiveness but as an essential moderating construct. Its presence magnifies the positive effects of competence and responsiveness to red flags, while its absence weakens these links and increases the risk of oversight. Ultimately, professional skepticism functions as the intellectual filter through which technical ability and situational awareness are translated into high-quality audit outcomes.

Research Gap and Hypotheses Development

The existing body of literature reveals a considerable degree of inconsistency in findings regarding the key determinants of fraud detection, thereby underscoring the presence of a significant research gap that warrants further investigation. These inconsistencies manifest across three major constructs: red flags, auditor competence, and professional skepticism, each of which has been subject to divergent empirical conclusions.

Regarding Red Flags: Previous studies have yielded mixed evidence on whether red flags effectively enhance auditors' ability to detect fraud. On the one hand, some scholars (Achmad & Galib, 2022; Narayana, 2020) argue that the presence of red flags serves as critical external cues that sharpen auditors' focus on high-risk areas, thereby improving the likelihood of identifying fraudulent activity. Conversely, other empirical findings (Susilawati et al., 2022) reveal a paradoxical negative effect, suggesting that red flags may sometimes be misinterpreted, overlooked due to cognitive biases, or disregarded because of workload pressures, thus diminishing their practical utility.

Regarding Auditor Competence: A similar debate arises concerning the role of auditor competence. Several studies confirm a strong and significant positive relationship, arguing that auditors with higher levels of knowledge, skill, and professional experience are better equipped to detect fraud (Prasetya et al., 2023; Riadi et al., 2025). However, other research (Rafnes & Primasari, 2020) challenges this assumption, reporting no significant impact of

competence on fraud detection effectiveness. These discrepancies raise questions about whether competence alone is sufficient or whether it requires interaction with other psychological or situational factors to manifest its influence fully.

Regarding Professional Skepticism: The role of professional skepticism as a moderating factor also remains unsettled within the literature. Some empirical evidence (Noch et al., 2022) supports its critical function in strengthening the link between auditor competence and fraud detection, suggesting that a questioning mindset allows auditors to apply their technical skills more effectively. In contrast, other studies (Natasya et al., 2024) find no significant moderating effect, implying that skepticism may not always enhance auditors' capacity, possibly due to contextual constraints, organizational culture, or time budget pressures that limit its application.

Taken together, these contradictory findings highlight that the relationships among red flags, competence, and professional skepticism are more nuanced and complex than previously assumed. Rather than operating in isolation, these variables may interact in ways that are conditional on situational and behavioral factors. This study seeks to bridge these gaps by re-examining the direct effects of red flags and auditor competence on fraud detection, while placing particular emphasis on the moderating role of professional skepticism. By doing so, it aims to provide a more comprehensive and integrative explanation of how internal auditor attributes and external cues collectively shape the effectiveness of fraud detection in the auditing context.

3. Research Method

This study adopts a quantitative research design to empirically investigate the determinants of auditors' fraud detection ability. Specifically, the research seeks to examine the direct effects of red flags and auditor competence, while also testing the role of professional skepticism as a moderating variable that could strengthen or weaken these relationships. The choice of a quantitative design is grounded in its capacity to provide objective, measurable, and generalizable evidence, allowing for statistical testing of the proposed hypotheses.

The population under study comprises external auditors working in Public Accounting Firms (KAP) in Bali, as formally registered in the 2025 Indonesian Institute of Certified Public Accountants (IAPI) directory. This ensures that the sample frame is both comprehensive and up to date, covering professionals who are actively engaged in audit practices within the designated region.

To ensure the selection of respondents with adequate exposure to audit engagements, the study employed a purposive sampling technique, a non-probability method commonly used in behavioral accounting research. The key inclusion criterion required that participating auditors must have accumulated at least one year of professional audit experience. This threshold was established to guarantee that respondents possess sufficient practical knowledge to understand fraud risk indicators and apply their professional judgment, thereby enhancing the validity of responses.

The study relied on primary data collection using a self-administered questionnaire as the main research instrument. The questionnaire was carefully structured to capture perceptions and practices related to each construct. Measurement of variables was operationalized through multi-item scales anchored on a 4-point Likert format, ranging from "strongly disagree" to "strongly agree." Such a scale was selected to reduce central tendency bias and encourage more discriminating responses from participants.

The instrument itself was adapted from established literature and prior empirical studies to ensure both reliability and validity. For example, items measuring red flags were drawn from Wahyuni et al. (2021), those assessing auditor competence were adapted from Digdowiseiso et al. (2022), while scales for professional skepticism and fraud detection ability were modified from other well-validated instruments used in contemporary auditing research. Prior to full distribution, the questionnaire also underwent a content validity assessment by academic experts and practitioners to ensure clarity, appropriateness, and contextual relevance.

For data analysis, the study employed Partial Least Squares Structural Equation Modeling (PLS-SEM), a variance-based approach particularly well-suited for exploratory models, complex relationships, and studies with relatively small to medium sample sizes. PLS-SEM offers several advantages, including its ability to simultaneously estimate both measurement and structural models, assess moderating effects, and handle constructs measured by reflective indicators. The technique was applied to test the proposed hypotheses, both direct relationships and moderated relationships (the role of professional skepticism as a moderator).

This methodological approach not only enhances the robustness of statistical inferences but also contributes to the reliability of findings, providing a rigorous empirical basis for discussing the interplay of red flags, auditor competence, and skepticism in shaping auditors' fraud detection capabilities.

4. Results and Discussion

This section presents a comprehensive account of the outcomes derived from the data analysis process. It begins with a systematic assessment of the model to ensure its validity and reliability, followed by the testing of the proposed hypotheses to evaluate their statistical significance. The results obtained from these analyses are then elaborated upon through an in-depth discussion that not only highlights the key findings but also places them within the broader context of existing literature and established theoretical frameworks. By doing so, this section provides a clear linkage between empirical evidence and conceptual understanding, thereby offering meaningful insights that contribute to the overall objectives of the study.

Model Assessment

The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 4 software. Prior to hypothesis testing, the measurement model (outer model) was assessed. The results confirmed that all constructs met the required standards for reliability and validity. Composite reliability (CR) and Cronbach's Alpha values exceeded the 0.70 threshold, while Average Variance Extracted (AVE) values were above the 0.50 benchmark, establishing convergent validity. Discriminant validity was also confirmed, ensuring each construct was empirically distinct. The overall model demonstrated moderate explanatory power for the dependent variable.

Hypothesis Testing

The structural model (inner model) was subsequently evaluated to test the research hypotheses. The path coefficients, T-statistics, and P-values derived from the bootstrapping procedure are presented in Figure 1 and summarized in Table 1. Hypotheses were considered supported if the P-value was less than 0.05.

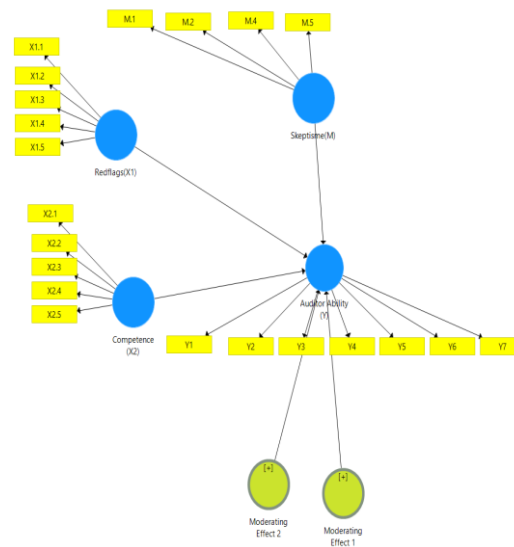


Figure 1. PLS-SEM Structural and Measurement Model.

Table 1. R Square Results

Variable	R Square	R Square Adjusted
Fraud Detection Ability (Y)	0.726	0.708

The R Square (R^2) value of 0.726 indicates that 72.6% of the variation in the dependent variable is explained by the independent variables included in the regression model. Meanwhile, the remaining 27.4% is influenced by other factors outside this research model. This value suggests that the model has a strong explanatory power, demonstrating a considerable relationship between the independent and dependent variables.

Table 2. Hypothesis Testing Results

Hypothesis	Path	Coefficient	Coeff	T-Statistic	P-Value	Result
H1	Red Flags → Fraud Detection Ability		0.274	3.230	0.001	Supported
H2	Competence → Fraud Detection Ability		0.484	7.699	0.000	Supported
H3a	Skepticism → Fraud Detection Ability		-0.190	2.282	0.023	Supported
H3b	RF * Skepticism → FDA (Mod. 1)		-0.072	0.627	0.531	Supported
H3c	Comp * Skepticism → FDA (Mod. 2)		-0.277	2.658	0.008	Supported

The empirical results of this study provide several noteworthy insights. First, Red Flags ($\beta = 0.274$, $p < 0.05$) were found to exert a significant positive effect on an auditor's Fraud Detection Ability. This finding confirms H1 and is consistent with prior studies (Achmad & Galib, 2022; Narayana, 2020), emphasizing that anomalies and unusual conditions serve as effective external cues that guide auditors toward areas requiring heightened scrutiny. The result highlights the importance of auditors' capacity to recognize and interpret red flags as an early-warning mechanism in the detection of fraudulent activities.

Second, Auditor Competence ($\beta = 0.484$, $p < 0.05$) also demonstrated a significant positive relationship with Fraud Detection Ability, thereby supporting H2. This result aligns with the perspective that technical knowledge, analytical skills, and professional experience are indispensable in navigating complex transactions and identifying indicators of fraud. The relatively stronger coefficient of competence compared to red flags suggests that internal attributes of auditors may carry greater weight than external cues in enhancing their ability to detect fraud.

Intriguingly, the results regarding Professional Skepticism reveal unexpected dynamics. Contrary to conventional assumptions that skepticism always strengthens audit outcomes, the analysis shows that skepticism has a significant negative direct effect on Fraud Detection Ability ($\beta = -0.190$, $p < 0.05$). This finding suggests that excessive skepticism may not necessarily improve fraud detection and might, in fact, hinder auditors' judgment by fostering overcautiousness, reducing efficiency, or diverting attention away from the most relevant evidence.

Moreover, the moderating role of skepticism presents further complexity. Skepticism was found to exert a significant negative moderating effect on the relationship between Auditor Competence and Fraud Detection Ability ($\beta = -0.277$, $p < 0.05$). In other words, when auditors with high competence also exhibit high levels of skepticism, their ability to detect fraud may actually diminish rather than improve. This outcome may reflect a counterproductive interaction where skepticism undermines the effective application of competence, possibly due to over analysis, excessive doubt, or a reluctance to rely on professional judgment.

Interestingly, skepticism did not significantly moderate the relationship between Red Flags and Fraud Detection Ability. This indicates that the influence of external warning signals on fraud detection operates relatively independently of the auditor's skeptical disposition. Auditors are likely to respond to clear anomalies regardless of their level of skepticism, suggesting that red flags function as objective triggers that are less susceptible to cognitive bias.

Taken together, these results reveal a paradoxical role of professional skepticism. While traditionally celebrated as a cornerstone of auditing, skepticism in this study emerges as a double-edged sword beneficial when applied judiciously, yet potentially detrimental when excessive. These findings not only support the hypotheses regarding red flags and competence but also extend the literature by challenging the unidimensional view of skepticism, offering a more nuanced understanding of its role in the fraud detection process.

Discussion

The findings of this study offer a nuanced and partially counter-intuitive perspective on the factors influencing fraud detection. The confirmation that auditor competence and an awareness of red flags positively enhance fraud detection aligns with mainstream auditing literature and Attribution Theory. Competence represents a critical internal capability, while red flags are key external cues, logically, proficiency in both areas equips auditors to better identify potential fraud. These results reinforce the fundamental importance of continuous training and developing sensitivity to anomaly indicators within the profession.

The most significant contributions of this study, however, lie in the paradoxical role of professional skepticism. The finding that skepticism has a direct negative impact on fraud detection ability is striking. This suggests that skepticism, while essential, may have a "dark side." An overly skeptical or misapplied mindset could lead to "analysis paralysis," where auditors become so engrossed in questioning minor, immaterial issues that they lose focus on

the broader picture and areas of genuine high risk. This inefficiency could paradoxically reduce their overall effectiveness.

Furthermore, the significant negative moderating effect of skepticism on the competence-detection relationship is equally compelling. This indicates that for highly competent auditors, an increase in skepticism may actually weaken their performance. A possible explanation is that competent auditors often rely on well-honed judgment and efficient, experience-based heuristics. Excessive skepticism might disrupt these effective cognitive processes, forcing them to second-guess their own sound judgments and leading to inefficient audit pathways. Instead of enhancing their ability, skepticism in this context may introduce counter-productive friction, thus diminishing the positive impact of their expertise.

5. Implications

Theoretically, this research advances the discourse on professional skepticism by challenging the oversimplified axiom that "more skepticism is always better." While skepticism is undeniably a cornerstone of the auditing profession, excessive or misdirected skepticism may lead to inefficiencies, strained auditor-client relationships, or even impaired judgment. This study suggests that there exists an optimal threshold of skepticism a level at which auditors are sufficiently questioning and vigilant without becoming unreasonably distrustful or rigid in their evaluations. It underscores the importance of shifting the scholarly focus from the presence of skepticism to the manner of its application. Thus, the theoretical contribution lies in reframing skepticism as a nuanced construct that functions along a spectrum, influenced by contextual, organizational, and psychological factors. This perspective opens avenues for future research to explore how skepticism interacts with other auditor attributes, such as competence and ethical judgment, to affect fraud detection outcomes.

Practically, the implications for audit firms, regulatory bodies, and professional organizations are far-reaching. Traditional training programs have often emphasized cultivating skepticism in general terms, encouraging auditors to question evidence more rigorously. However, this study suggests that training should evolve toward fostering judicious skepticism the ability to apply skepticism selectively and strategically in contexts where it is most needed. Such training would equip auditors not only with a questioning mindset but also with the discernment to calibrate their skepticism appropriately depending on the complexity of the engagement, the nature of the client, and the level of inherent risk.

Furthermore, audit firms must foster an organizational culture that supports and rewards constructive skepticism. This involves creating an environment where auditors feel empowered to raise concerns and pursue additional evidence without fear of retaliation or being labeled as obstructive. At the same time, firms should discourage unproductive skepticism that leads to inefficiencies or unnecessary delays in the audit process. In this sense, the concept of "smart skepticism" becomes essential skepticism that is purposeful, risk-focused, and outcome-oriented.

Ultimately, the practical goal is to ensure that skepticism functions as a catalyst for enhancing audit quality, rather than as a barrier to efficiency or a source of conflict. By aligning training, organizational culture, and professional standards toward the cultivation of smart skepticism, the auditing profession can strike a balance between vigilance and efficiency, thereby strengthening both the reliability of financial reporting and public trust in the auditing function.

6. Conclusion

This study set out to examine the influence of red flags and auditor competence on fraud detection ability, with a focus on the moderating role of professional skepticism. The findings confirmed that both competence and awareness of red flags are significant positive predictors of an auditor's ability to detect fraud. However, the research also uncovered a more complex and counter-intuitive role for professional skepticism: it was found to have a direct negative effect on fraud detection and significantly weakened the positive impact of auditor competence.

The key contribution of this research is its challenge to the conventional wisdom that "more skepticism is always better." Theoretically, it suggests the need to consider the concept of an optimal, or judicious, skepticism, where its application enhances rather than hinders audit effectiveness. Practically, these findings are a vital message for audit firms and professional bodies. Training programs must evolve beyond simply encouraging skepticism to teaching how it should be applied effectively to avoid potential inefficiencies or "analysis paralysis." Fostering an environment where auditors can channel their skepticism productively is crucial for genuinely improving audit quality.

This study is not without its limitations. Its findings are based on a sample of auditors from a single geographical region (Bali) and rely on self-reported survey data, which may limit generalizability and be subject to response biases. Future research is therefore encouraged to replicate these findings in diverse cultural and professional settings. Furthermore, employing experimental or qualitative methods could provide deeper insight into the psychological mechanisms behind the paradoxical effects of skepticism observed in this study, paving the way for a more sophisticated understanding of this critical professional attribute.

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