

The Influencing Factors Toward the External Auditor in the Fraud Detection

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Abstract: This study is expected to be able to give benefit as a learning process that can increase knowledge about some factors which influence the external auditor in detecting the fraud through using the audit quality as an intervening variable. The data is collected through survey method that is questionnaires that is shared directly in the Public Accounting Firm in Surabaya. This deployment is directly given to all Public Accounting Firm in Surabaya. There are 100 questionnaires that will be shared. This study uses some variables, they are: Competency (X1), Experience (X2), Time Budget Pressure (X3), Audit's fee (X4), and Independency (X5). Dependent variable is the detection of fraud indication (Y) whereas Audit quality (Z) is the mediation variable. The data analysis in this study uses explanatory research method in which the data is analyzed, the hypothesis is examined through PLS (Partial Least Square) program.

Keywords: Competency, Experience, Time Budget Pressure, Audit's fee, Independency.

Introduction

The goal of the business entity establishment is not only to get high profit but also to get the company's value based on how much the company's stake value in the stock market is (Bradley 2018). Each company which include in the stock market member must give more information about finance through the financial report that has already been audited by public accounting firm as a guarantee for the reliability of the financial report. Financial statements is the result of management performance in making company's profit, and the function of the report itself is as a tool for decision making by the stakeholder and the shareholder to objectify the vision and mission of its business entity (Cooper 2017).

The next case of manipulation practice (fraud) happened in PT Thosiba. It is one of the biggest electronics company in Japan. In fact, this company has done the intervention toward the financial statements by raising company's profit to 16 trillion. This illegal thing has been done since 2008 until this incident was revealed in 2014. Based on the variety of research result above, the researcher will do the further research about factors which influence the external auditor in detecting the fraud indication by using audit quality as the intervening variable in public accounting firm.

The area that is used as the source of data in this research is public accounting firm in Surabaya which was chosen as the second largest public accounting firm in Indonesia after DKI Jakarta and the largest in East Java province (Directory IAPI, 2018). The large number of public accounting firms in Surabaya is expected to be able to answer the research questions on the audit quality in detecting the fraud indication that has been done by the auditors in public accounting firms in Surabaya. The fraud

indication will be detected, and examined through some guidance indicators of IAPI audit quality that is combined with the previous research that is auditor's competency, auditor's experience, auditor's independency, time budget pressure and audit's fee towards the fraud detection with the audit quality as its intervening variable.

To examine and analyze whether auditor's competency, auditor's experience, auditor's independency, time budget pressure, and audit's fee influence the fraud investigation, the researcher will use audit quality as the intervening variable. This study is expected to be able to give benefit as a learning process that can increase knowledge about some factors which influence the external auditor in detecting the fraud through using the audit quality as an intervening variable. The result of this study is also expected to be the reference for other researchers in conducting further research. Additionally, the research result is expected to be able to give an illustration towards the stakeholder and shareholder in assessing the external auditor and also could give broader knowledge about the importance of external auditor.

Literature Review

According to Edwin Locke (1978), Goal Setting Theory is a theory that explains the relation between goal and behavior. It is based on the target's proof / future inspiration / the expected circumstances. It means that this theory is based on some proofs that the target / future inspiration / the expected circumstances are expected to have the important role while performing an action. Association of Certified Fraud Examiners (ACFE) 2016 stated that fraud is a form of manipulation through accruals management to maximize its utility.

There are some influencing factors toward the auditor's competency, they are experience and knowledge. According to Libby and Frederick (1990), an auditor who has a good ability in making financial statements is the auditor who is experienced so that the decision making can be accounted. In carrying out the audit's work, an auditor needs to have knowledge about audit not only in general but also in specific. In addition, the other knowledge such as accounting and client industry are also needed.

Auditors' work experience could upgrade their proficiency or their capacity while doing each task. Audit personnel with a high working-hours tends to have better ability to analyze in detail, thoroughly, and coherently to detect the fraud indication compared with the auditors who has not been experienced. Auditing financial statements experience has significant impact towards the quality of audit's considerations. Knowledge about the difference of the kinds of fallacy certainly has positive effect towards auditor's experience (Noviyani, 2015).

According to DeEnglo (1981), audit's quality is defined as a process in assessing financial statements so that the auditors could reveal the fraud indication that is not in accordance with the accounting standard that is done by the employees. The finding is reported to the client. DeEnglo (1981) also states that audit's quality is also greatly influenced by the magnitude of public accounting firm scale. Public Accounting Firm with a great scale will produce audit with better quality, accurate, detail, and coherent compared with the public accounting firm with a low scale. This is because public accounting firm with a high scale has high numbers of human resources and good reputation of the external auditors, so that the investigation process to reveal the fraud will get positive impacts.

In carrying out the duties, an auditor must hold on the independence and professionalism principle as an accountant. Independence is an attitude of impartiality

and not easy to believe the other results until the auditor has actually proven. Each auditor must have an independent attitude.

Time budget pressure is described as budget and time limitations strictly or conditions which challenge the auditor in order to be able to do the efficiency towards the budget and the time (Latifa dan Ghozali, 2015).

Audit's fee is an important thing when the task is accepted. The auditor will work well in order to get worthy income. Because of that, the first thing that has to be done is making an agreement between the auditor and the client related to the audit's fee. Suraida (2005) revealed that an auditor with high standard competency will be easier to investigate the fraud in a business entity. This thing is supported by the other research from Zarefar (2016), Nazib (2017), and Cogan (2018). They stated that the general standard for conducting an audit is that the audit must be carried out by a person who has followed audit technical guidance which is quite high and also has good skills as an auditor. So, the auditor with a high level of competency tends to have more capability in doing the fraud investigation. It happens also because the very competent auditor can differentiate, identify the fraud and can manage the risk which is possible to happen because of the fraud.

The research by Suraida (2005), Zarefar (2016), Nazib (2017) and Cogan (2018) inversely proportional to Maria, Patric, and Eva's research (2018) which revealed that auditor's competency could not give significant impact toward the fraud investigation. Maria, Patric and Eva (2018) stated that the auditor's competency has not been able to detect the fraud if the auditor does not have enough experience in auditing. Likewise with audit's quality, an auditor who only has competency without experience tends to produce audit's quality which is not better than the auditor who has been experienced (Maria, Patric and Eva 2018).

Methods

The object of this research is public accounting firms in East Java province especially in Surabaya. The population of this research is the external auditors who have duties in public accounting firms in East Java area especially Surabaya. The type of the data in this study is the primary data. Primary data is the data which is obtained directly by the researcher. The primary data that is used in this study is questionnaires which are shared to district inspectorate auditors throughout Madura.

According to Dajan (2008:38), questionnaire is a series of statements sent by the researcher to the respondents to be filled in. The questionnaire is answered by the respondents themselves without any intervention from the researcher. Because of that, the researcher must make some clear questions so that the respondents could easily understand the questions. The submission of the answer depends on the respondents' willingness and the researcher cannot force the respondents to fill out and return the questionnaire.

This study uses some variables, they are:

- a. Competency (X1)
- b. Experience (X2)
- c. Time budget pressure (X3)
- d. Audit's fee (X4)
- e. Independency (X5)

Dependent variable is the detection of fraud indication (Y) whereas Audit quality (Z) is the mediation variable.

In this study, the data analysis uses explanatory research method in which the data is analyzed, the hypothesis is examined through PLS (Partial Least Square) program. The steps of data processing process are as follows;

- 1) Stabilizing the data in order to be processed furthermore that is by checking out the data completeness of the respondents.
- 2) Doing the instrument test through using the inner model and outer model and weight relations.
- 3) Doing the validity test and data rehabilitation
- 4) Performing the hypothesis test by PLS (Partial Least Square).

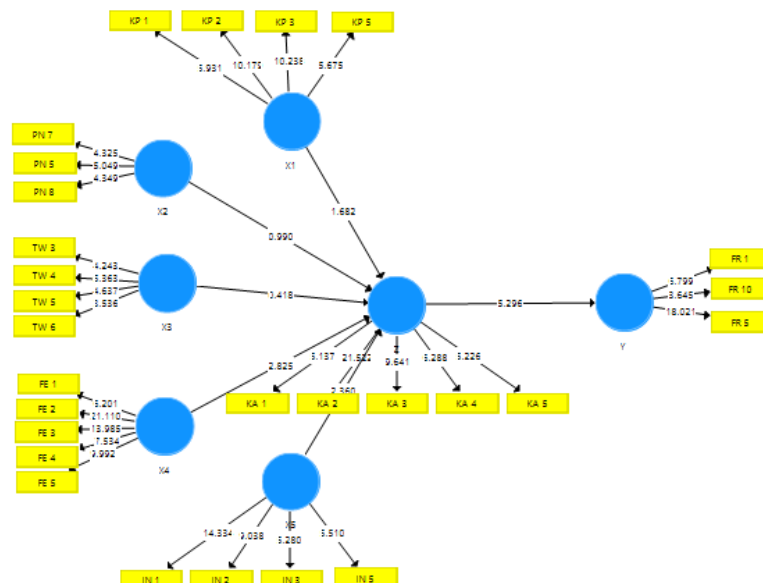
Findings

The data is collected through survey method, by handing out the questionnaires to public accounting firm in Surabaya. This deployment will be directly given to all Public Accounting Firm in Surabaya There are 100 questionnaires that is shared and there are 54 questionnaires that are given back to the researcher. The questionnaires result that can be processed is 54 questionnaires or 54%. From 66 respondents, 47% or 31 respondents are female, and 52% or 35 respondents are male. So, the largest number of the samples is male.

In table 4.13, we could see the processing result from SmartPLS, the correlation value between construct and the outer model does not fulfill convergent validity because there are indicators whose the loading factor values are below 0,5. Then, the researcher performs the modification model by excluding indicators that have outer loading value below 0,5 so that this modification shows that all outer loading factors have value above 0,5 and the constructs for all existing variables are eliminated from the model.

Discriminant validity is comparing the correlation between other constructs in the model and the value of square root of average variance extracted (AVE). If the correlation of other constructs in the model is smaller than square root of average variance extracted (AVE), so it can be stated that the discriminant validity is good. The measurement value must be higher than 0.50. Based on the result, each variable has a higher level of significance than the significance value of 0.50. This result indicates that there is no discriminant in the construct of this study.

The result of Composite Reliability test is all the variables values are higher than the significance value that is 0.7 in which it indicates that the data is truly reliable for this research.



R-Square value for the fraud detection variables on the partial test obtained a value of 0.192. The result indicates that the magnitude of the influence of the competency, experience, audit's fee, time budget pressure, and independency towards the fraud investigation is 19% while the remaining 81% is influenced by other factors. The R-Square value for the audit quality variable on the partial test obtained a value of 0.483. These results indicate that the magnitude of the influence of audit quality on fraud detection is 48% while the remaining 52% is influenced by other factors.

The first hypothesis (H1) that is the auditor's competency influences the fraud detection through the audit quality. The result of path analysis is 0.154 which shows insignificant influence and has a higher value than alpha 0.05. So, it means that the competence does not have a significant effect on fraud detection through audit's quality as mediation. The second hypothesis (H2) that is the auditor's experience influences the fraud investigation through audit's quality. The result of path analysis is 0.379 which shows insignificant influence and has a higher value than alpha 0.05. So, it means that the experience does not have a significant effect on fraud detection through audit's quality as mediation. The third hypothesis (H3) that is the auditor's time budget pressure influences the fraud investigation through audit's quality. The result of path analysis is 0.695 which indicates insignificant influence and has a higher value than alpha 0.05. So, it means that the time budget pressure does not have a significant effect on fraud detection through audit's quality as mediation. The fourth hypothesis (H4) that is the auditor's fee influences the fraud investigation through audit's quality. The result of path analysis is 0.011 which shows the significant influence and has a lower value than alpha 0.05. So, it means that the auditor's fee has a significant effect on fraud detection through audit's quality as mediation.

The fifth hypothesis (H5) that is the auditor's independency influences the fraud investigation through audit's quality. The result of path analysis is 0.066 which indicates insignificant influence and has a higher value than alpha 0.05. So, it means that the independency does not have a significant effect on fraud detection through audit's quality as mediation. This research result indicates the insignificant values in which the auditor's competency does not influence fraud detection through audit's quality. It proves that the competence of an auditor could not give more contribution in producing audit's good quality to detect the fraud. The result of this study shows the insignificant values in which the auditor's experience does not influence fraud detection through audit's quality. It proves that the experience of an auditor could not give more contribution in producing audit's good quality to detect the fraud.

The result of the hypothesis test indicates the insignificant values in which the auditor's time budget pressure does not influence fraud detection through audit's quality. It proves that the time budget pressure of an auditor could not give more contribution in producing audit's good quality to detect the fraud, in line with Yuara, Ibrahim, dan Diantimala (2018) who stated that time budget pressure has negative impact on the fraud detection. The hypothesis test result indicates the significant full mediation values in which the auditor's fee audit influences fraud investigation through audit's quality. This study is in line with the research by Omer and Xie (2017), Asthana, Khurana dan Sanjar (2018). This could happen because the amount of fee is determined by the level of public accounting firm as a place for auditors to finish the tasks.

The result of the hypothesis test indicates the insignificant values in which the auditor's independency does not influence fraud detection through audit's quality. It

proves that the independency of an auditor could not give more contribution in producing audit's good quality to detect the fraud, in line with the research by Arif (2016) who stated that the independency does not influence the auditor's capability to detect the fraud.

Conclusion

The competence that is had by an auditor does not guarantee the auditor's ability to investigate the fraud indications, the current case of fraud is very complex and sophisticated in which the investigation demands more specific capability and experience in doing the fraud detection. An auditor with low number of experiences is usually less thorough in detecting fraud than an auditor with a higher numbers of experiences. An experienced auditor is the auditor who could undertake the detection, understand the fraud, even look for the further explanation related to the cause-effect – what the causes and the effects of the existing fraud are, if the auditor works optimally and not in a depressed state. The time pressure that is obtained by the auditors demands them to perform the efficiency towards the limited time in order to reach the optimal result. However, the higher the time pressure faced by the auditors, the lower the audit fraud detection level.

This is because the auditor only focus on the audit's completion rather that the audit's quality. Public accounting firm Big 4 has a higher standard of competence and tends to work optimally so that the audit's quality that is offered has also high standard and quality and it leads to the accuracy of the fraud detection in the company. The high independency of an auditor makes the audit's quality more reliable. If the auditor's independency is high, but the independency has not been able to influence the fraud investigation due to the ability to detect the fraud is influenced by other factors such as a skill in detecting the fraud.

The limitations of this study includes: the research variables only use the auditor's competence, experience, independency, audit's fee, and time budget pressure, using different research instrument. Based on the result of this study, the researcher gives suggestion as follows: The next researcher should involves more samples such as ethics, editor, genre, and others. In addition, the next research is expected to use more sophisticated instrument such as regression, SEM, and others.

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