

# **Influence of Ability, Experience, and Independence of Investigative Auditors on Effectiveness Implementation of Audit Procedures to Uncover Fraud**

**Armanto Witjaksono\* and Rosyidah Keumalasari**

*Accounting Department, Bina Nusantara University, Binus University, Jalan Kebon Jeruk Raya No.27, Kebon Jeruk, Jakarta Barat Indonesia*

\*Corresponding Author email: [armanto@binus.ac.id](mailto:armanto@binus.ac.id)

**Abstract.** This study aims to study the effect of Third Party Funds, Capital Adequacy, Non-Performing Loans, Operational Expenses and Operating Income on the profitability of Islamic banks. The sample of this study was determined by purposive sampling and obtained 12 banking companies listed as Islamic commercial banks in the Financial Services Authority (2015-2018). Data obtained from secondary data on banking company annual reports (2015- 2018). The results showed that capital adequacy and the comparison of operating expenses to operating income had a significant effect on profitability. Meanwhile, third party funds and non-performing loans have no effect on profitability. Simultaneously all independent variables have an effect on the dependent variable. Research indicates that Islamic banking requires additional capital while increasing the efficiency of its operational activities.

**Keywords:** *Ability, Experience, Audit*

## **1. INTRODUCTION**

We often find various acts of fraud, these acts of fraud are carried out intentionally to take the assets or rights of others. Fraud is an act of cheating that is carried out deliberately by taking away the rights of others for the sake of self-benefit and detrimental to other parties (companies, entities, individuals). Fraud can be categorized as cheating if there is an advantage for oneself or a group, it harms other parties, is illegal and is against the law. Several cases both inside and outside the country show that cheating often occurs. Some of the big cases that have occurred in Indonesia, Rini [4] provide examples, among others: PT Kimia Farma Tbk (PT KF). PT KF is a state-owned company whose shares have been traded on the stock exchange. Based on indications by the Ministry of BUMN and Bapepam's examination [1], it was found that there was a misstatement in the financial statements which resulted in an overstatement of net income for the year ended 31 December 2001 amounting to Rp 32.7 billion, which was 2.3% of sales. and 24.7% of net income. This misstatement occurs by over-presenting sales and inventory in 3 business units and is done by inflating the inventory price authorized by the Production Director to determine the inventory value in the distribution unit of PT. KF as of December 31, 2001. In addition, the management of PT. KF double records sales of 2 business units. The double recording was carried out

in units that were not sampled by the external auditor. External auditors who audit the financial statements of PT. KF as of December 31, 2001, Bapepam concluded that the external auditors had performed audit sampling procedures as stipulated in the Professional Standards for Public Accountants and found no intention to assist the management of PT. KF inflated profits. Bapepam stated that the audit process was not successful in detecting any profit markup by PT KF. Based on these findings, Bapepam gave an administrative sanction of Rp. 500 million to PT. KF, Rp. 1 billion to the old board of directors of PT. KF and IDR 100 million to external auditors [1]. Bapepam stated that the audit process was not successful in detecting any profit markup by PT KF. Based on these findings, Bapepam gave an administrative sanction of Rp. 500 million to PT. KF, Rp. 1 billion to the old board of directors of PT. KF and IDR 100 million to external auditors [1]. Bapepam stated that the audit process was not successful in detecting any profit markup by PT KF. Based on these findings, Bapepam gave an administrative sanction of Rp. 500 million to PT. KF, Rp. 1 billion to the old board of directors of PT. KF and IDR 100 million to external auditors [1].

Kresna (2018) provides an example of another case, namely the corruption case of electronic ID cards which cost the state Rp. 1.52 trillion, cases of bribery and criminal acts of money laundering by the Chairperson of the 2013-2018 Constitutional Court for several cases of local election disputes in the

Constitutional Court and many other major cases, and these were carried out by government elements and were difficult to detect because the perpetrators were usually are people who have the confidence to run big projects, if the fraudulent act cannot be detected by an audit, it will bring a lot of harm to companies and government institutions. Association Certified Fraud Examiners (ACFE) defines fraud, which is any deliberate act or negligence designed to deceive others, so that the victim suffers a loss and the perpetrator benefits. In carrying out an investigative audit, it is necessary to support the ability of auditors and independence. The current development and eradication of corruption shows a bright spot. In addition to the formation of the Supreme Audit Agency (BPK) and the Financial and Development Supervisory Agency (BPKP), which are independent institutions whose roles are to supervise and investigate the financial situation of government and private institutions, the government has also formed a special body to eradicate corruption, namely the Corruption Eradication Commission (KPK). The Supreme Audit Agency (BPK) is an independent institution whose role is to supervise and investigate the financial situation of government and private institutions [2]. Based on article 13 it is stated that the examiner can carry out investigative examinations in order to reveal indications of state / regional loss and / or criminal elements. This law became effective on 19 July 2004. Investigative audits are one of the activities in the context of implementing a strategy to combat fraud / corruption using an investigative approach. This audit is generally a further development of the results of operational audits that show indications of KKN, but can also be based on news in the mass media or reports / complaints from the public [3].

In addition to having the ability to audit, an auditor must have sufficient experience, an auditor must also be independent. The experience possessed by the auditors will assist the auditors in increasing their knowledge of errors and fraud [5]. In carrying out their duties, auditors must always maintain an independent mental attitude in providing professional services as stipulated in the professional standards of public accountants established by IAI. Independence in auditing means taking an unusual point of view. Independence is very important for auditors to be maintained in carrying out their responsibilities. The public accountant profession is a position of trust for the general public.

The effectiveness of the implementation of investigative audit procedures can be achieved if the auditors are able to comply with implementation

standards. If an independent auditor works without auditing standards, he puts himself in a very weak position, especially when he provides an audit that is expected to uncover fraud.

## **2. RESEARCH METHOD**

### **2.1. Object of Research**

The object of research which becomes the independent variable in this study is the ability ( $X_1$ ), experience ( $X_2$ ), and the independence of the investigative auditor ( $X_3$ ), then the dependent variable is the dependent variable, namely the effectiveness of the implementation of audit procedures in proving fraud ( $Y$ ).

### **2.2. Sample Collection Method**

The data collection method used is primary data collection, data sources obtained directly from the original source or the first party. Primary data were obtained specifically in the form of questionnaires and observations to answer the researchers' questions so that researchers could conclude the results of the research.

### **2.3. Data Quality Test**

In measuring the variables using a questionnaire instrument, quality testing must be carried out on the data obtained. This test aims to determine whether the instrument used is valid and reliable because the correctness of the data processed greatly determines the quality of the research results. To determine the quality of the data generated by using a questionnaire instrument, it can be tested by testing the validity and reliability testing. A question item is said to be valid if the value of r-count contained in the corrected item-total correlation column is greater than r-table ( $r\text{-count} > r\text{-table}$ ), and reliability testing is that the reliability of the question construct is said to be good if it assesses alpha is greater than 0.600 ( $\alpha > 0.600$ ).

### **2.4. Classic Assumption Test**

Hypothesis testing with multiple regression analysis must fulfill several assumptions called classical assumptions. The assumptions that must be met are the assumption of autocorrelation, heteroscedasticity, multicollinearity, and normality. The research equation model used in this study can be considered in the following regression equation,

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon \quad (1)$$

$Y = \text{Fraud Detection (Fraud)}$

$\alpha = \text{constant}$

$X_1 = \text{ability}$

$X_2 = \text{experience}$

$X_3 = \text{auditor independence}$

$\beta_1, \beta_2, \beta_3$  = theregression coefficient to be calculated  
 $\varepsilon$  = confounding factor or error term

**3. RESULT AND DISCUSSION**

**3.1. Descriptive Analysis Results**

Based on Table 1 below, it has provided information about the measurement results of each independent variable and the dependent variable. The number of data that are ready to be processed is 40 items from 40 respondents, the minimum value of data obtained is between 35 and 40 while the maximum is between 45 and 60. The mean is between 39.20 to 52.42 and the average dispersion of the sample (standard deviation) is between 3,864 to 5,064.

**TABLE 1.** Descriptive statistics test result

	N	Minimum	Maximum	Mean	Std.Deviation
$X_1$	40	40	50	45,00	5,064
$X_2$	40	35	45	39,20	3,864
$X_3$	40	47	60	51,90	4,976
$X_4$	40	47	60	52,42	4,717
Valid N	40				

**3.2. Classical Assumptions Test Result**

**3.2.1 Normality Test**

The normality test aims to test whether in the linear regression model, confounding or residual variables have a normal distribution or not. To find out that the research data is normally distributed, the value of the Jarque-Bera (JB) test must be compared with the significance value 5% or 0.05. Data is declared normal if JB Probability value > Significance Value

**TABLE 2.** Normality test results

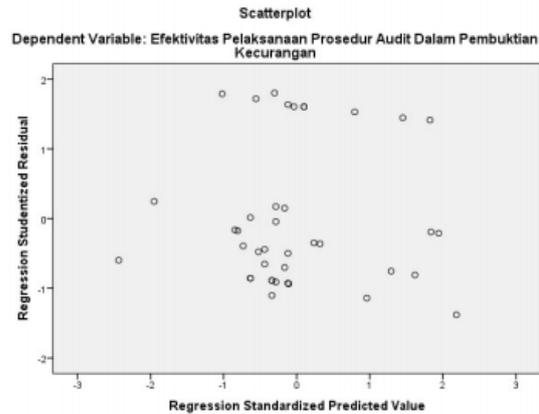
		$X_1$	$X_2$	$X_3$	Y
N		40	40	40	40
Normal parameter <sup>a,b</sup>	Mean	89,18	39,20	51,90	52,43
	Std. Deviation	8,794	3,864	4,976	4,717
Most extreme difference	Absolute	0,266	0,222	0,249	0,201
	Positive	0,223	0,222	0,249	0,201
	Negative	-0,266	-0,208	-0,198	-0,196
Test statistic		0,266	0,222	0,249	0,201
Asymp Sig.(2-tailed)		0, 200 <sup>c</sup>	0, 060 <sup>c</sup>	0, 080 <sup>c</sup>	0, 090 <sup>c</sup>

From the test results above, the asymp value is obtained. Sig. (2 tailed) variables  $X_1, X_2, X_3 > 0.05$  are fulfilled, so the data is normally distributed.

Furthermore, using Multicollinearity Test, it is known that the tolerance value of the two independent variables is greater than 0.1 and the VIF value is less than 10, so it can be concluded that there is no multicollinearity problem.

**3.2.2 Heteroscedasticity Test**

The following are the results of the normality test that has been carried out:



**FIGURE 1.** Heteroscedasticity Test

Based on the scatterplot output above, it can be seen that the dots are spread out and do not form a clear pattern, so it can be concluded that there is no heteroscedasticity problem. When using the Spearman's rho method. This method is used for decision making if the significant value between the independent variables and residuals is 0.05 then Heteroscedasticity does not occur, otherwise if significant 0.05 then Heteroscedasticity occurs.

### 3.3 The Coefficient of Determination R2

**TABLE 3.** A slightly more complex table with a narrow caption

Model	R	R Square	Adjust R Square	Std. Error of te Estimate
1	,981 <sup>a</sup>	,962	,960	0,86899

The amount of Adjusted R2 based on the results of the analysis using SPSS 22.0 was obtained at 0.960. Thus the magnitude of the influence exerted by the variable investigative auditor ability, investigative auditor experience and investigative

auditor independence on the effectiveness of the implementation of audit procedures in proving fraud is 96.0%. while the remaining 4.0% is influenced by other factors not examined in this study.

**TABLE 4.** Multiple linear regression analysis test

Model		Unstandardized Coefficients		Unstandardized Coefficients		Sig
		B	Std.Error	Beta	Q	
<b>1</b>	Constant	20,270	14,200		1,427	0,162
	X <sub>1</sub>	0,994	0,385	,905	2,663	,022
	X <sub>2</sub>	0,974	0,400	,798	2,436	,020
	X <sub>3</sub>	0,773	0,287	,815	2,694	0,011

The multiple regression equation for the three independent variables in this study is as follows:

$$Y = 20.270 + 0.994X_1 + 0.974X_2 + 0.773X_3 + \epsilon$$

The multiple linear regression equation above can be explained as follows:

- If the investigative auditor's ability, investigative auditor experience and investigative auditor independence are zero (0), the effectiveness of the implementation of audit procedures in proving fraud is worth 20,270.
- If the investigative auditor's ability is increased by 1 unit, the effectiveness of the implementation of audit procedures in proving fraud will increase by 0.994.
- The investigative auditor's experience is increased by 1 unit, the effectiveness of the implementation of audit procedures in proving fraud will increase by 0.974.
- If the investigative auditor independence is increased by 1 unit, the effectiveness of the implementation of audit procedures in proving fraud will increase by 0.773.

Based on Table 4, several conclusions can be explained as follows:

- The calculated value on the investigative auditor ability variable is 2.663 > 1.69 from the t table value and the significant value is 0.02 < 0.05. Then the rejected hypothesis is H1 and H0 accepted. in other words, the investigative auditor's ability partially influences the effectiveness of the implementation of audit procedures in proving fraud.
- The calculated value on the investigative auditor experience variable is 2.436 > 1.69 from the t table value and the significant value is 0.02 < 0.05. Then the rejected hypothesis is H1 and H0 accepted. in other words, the investigative auditor's experience partially influences the effectiveness of the implementation of audit procedures in proving fraud.
- The calculated value on the investigative auditor independence variable is 2.694 > 1.69 from the t table value and the significant value is 0.01 < 0.05. Then the rejected hypothesis is H1 and H0 accepted. in other words, investigative auditor independence has a partial effect on the effectiveness of the implementation of audit procedures in uncovering fraud.

### 3.4 Simultaneous Hypothesis Test (Test F)

**TABLE 5.** F test results (simultaneous)

	Model	Sum of Squares	df	Mean Square	F	Sig.
<b>1</b>	Regresion	153,061	3	51,020	6,570	0.020 <sup>b</sup>
	Residual	714,714	36	19,853		
	Total	867,775	39			

From table 5, it is obtained that F count is 6,570, because  $6,570 > 2,870$  with a probability value (p-value) of  $0.02 < 0.05$  then  $H_0$  is rejected.  $H_a$  is accepted. In other words, it shows that there is simultaneous influence of the investigative auditor ability, investigative auditor experience and investigative auditor independence on the effectiveness of the implementation of audit procedures in proving fraud (Y).

## 4. CONCLUSION

The conclusion obtained from the research conducted shows that Islamic banking requires additional capital while increasing the efficiency of its operational activities.

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