THE EFFECT OF AUDITOR COMPETENCE TO FRAUDULENT FINANCIAL REPORTING DETECTION ON PUBLIC ACCOUNTANT OFFICE AT BANDUNG AND JAKARTA

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ABSTRACT

Many cases involve the act of fraudulent financial reporting such as PT Jiwasraya, EY (Ernest & Young) even PT PLN Persero. Fraudulent financial reporting is an action that is done intentionally and can affect to materially misstatement in financial statement. This research aims to analyze and examine the effect of auditor competence to fraudulent financial reporting detection. The sample of this study are 43 auditors selected by simple random sampling method at public accounting firms at Bandung and Jakarta. The data collection method is primary data and the analysis method is using SEM-PLS. The result of this research is auditor competence has a positive effect and significant to fraudulent financial reporting detection.

Key words: auditor competence, fraudulent financial reporting, detection

INTRODUCTION

Recently, auditor is generally required to make professional judgments (Gramling *et al.*, 2012). Professional judgments is an application of the experience and knowledge of an auditor to achieve a decision (Johnstone *et al.*, 2014). The decisions incorporate practices, theories, discussions and discoveries, also work experiences or auditory involvement in audit practice (Hossler & Bontrager, 2015). Auditors need to synergize with accountants to decide whether if these financial reports are being investigated incorrectly (Brooks & Dunn, 2012).

On the investigation, an auditor is required to be competent (Cannon, 2008). Auditor competence is an ability to assess objects which is being audited (Jarman & Luna-Reyes, 2016). An auditor needs skills and abilities as its competence, which included competence that can be obtained from education in general, and knowledges which could be obtained from formal course and already meet the standards of a company (Gupta, 2005). Skills can be defined as a process where an individual, in this case an auditor, performs his performance with great seriousness and sustainability which reality habits can arise through efforts and practices in life (Söylemez & Güneş, 2018). Abilities can be defined as competence or capacity from an auditor, with global intellectual and physical capacity, for performing tasks with varying degrees of one to another (Robbins & Judge, 2017). Meanwhile, knowledges can be defined as a natural behavior that appear from each auditor to measure how good or bad the work performance is done (Champoux, 2011).

Competence of the auditor will effect to adequate audit implementation (Tandiontong, 2016). The implementation could be seen through audit documentation like audit working papers, where auditor could do a *review* and related to audit quality (Zamzami *et al.*, 2014). That statement strengthen by previous research on 31 auditors are public accountant office at Makassar city which is conducted by Ramlah *et al.* (2018) and found that there is a significant effect from auditor competence to audit quality (p. 6).

Fraudulent financial reporting can be defined as a intentional action which is conducted, usually caused by negligence, and impacted to materially misstatement of financial statements and have a harmful effect to a company finance (Vallabhaneni, 2018). In process, auditor could measure the fraudulent financial reporting from six main indicators, that are improper revenue recognition, overstatement of assets, understatement of expenses or liabilities, misappropriation of assets, inappropriate disclosure, and other miscellaneous techniques (Beasley *et al.*, 1999, p. 4-67).

This time, fraud action can involve many big companies (Anshori & Reskino, 2016, pp. 256-269). One of the problems of fraudulent financial reporting is a case involving Jiwasraya Assurance Company, where there are irregularities number of assets on 2017, which is impacted in rising company profits significantly (Soemarno, 2018). Other problem related to fraudulent financial reporting is found at PT Perusahaan Listrik Negara (PLN) Persero, where their assets soared so it did not describe the real condition occurred (Perdana, 2016).

The next problem related to fraudulent financial reporting is also found at PT SNP Finance, in which this company is trying to overcome the problem of good purchases from their providers on credit by making an MTN (Medium Term Notes) agreement, but the agreement has not been approved yet by OJK and misused. This was confirmed by the audit result from Deloitte who guessed that the company has falsified documents, done embezzlements, deceptions, and money laundering (Silitongan, 2018).

Fraudulent financial reporting turns out to be found not only in the financial related sector, but can also happen in the sport sector. For example is on one of the English League club, Manchester City, where they rigged accounting by manipulated its financial statement in order to win a big reward in Europe (Leterme, 2019).

However, an auditor competence does not always has an effect to fraudulent financial reporting detection, like a research conducted by Wibisono (2019, p. 1-69) which is concluded that auditor competence has a negative effect to fraudulent financial reporting detection.

Research Purposes

In connection with the background and introduction above, this study is intended to study how much influence of auditor competence and fraudulent financial reporting detection. And also this study is expected to be a reference material for further research, public accountant office and its auditors, also IAPI in developing concepts and regulations about auditor competence and fraudulent financial reporting detection. The main purpose of this study is to analyze and know that auditor competence has a positive effect to fraudulent financial reporting detection.

LITERATURE REVIEW

AUDITOR COMPETENCE

According to Arens *et al.* (2014), Adelsberger *et al.* (2008), and Gupta (2005), competence in general can be defined as a unified need of skills and knowledge from each individual in the accomplishment of a task, including the ability to consider the level of competency when performing a task.

Another source suggested that competence as one aspect to perform a performance and also as a reference in a focused work environment (Tritschler, 2013). According to Pain and Watson (2018), auditor competence can be defined as an aspect that need to be developed continuously, because when it is applied, auditors are said to have performed part of the audit process.

Based on several definitions that have been explained, researcher synthesize that the definition of auditor competence is a crucial factor in the auditor's quality itself, knowledge and skill which is needed continuously in order to run the entire audit process against the corresponding auditing objects.

Competence of an auditor can be a crucial factor in both good or bad performance from the auditing process that has been done. According to U.S. department of education, auditor competencies in detail can be measured through the four characteristics which described as follows (Jones & Vorhees, 2002, pp. 1-160):

1. Traits and characteristics.
2. Skills, knowledge, and abilities.
3. Competencies.
4. Demonstrations.

Research conducted by Dawson (2010, p. 1-24) which supported by Harland and Staniforth (2008, p. 669-678) suggested that competence is not only formed by skill, ability and knowledge, but also competence and expertise that exists within each auditor. The same thing is described in Frank's research (2010, p. 638-645) which is supported by Aggarwal and Darzi (2006, p. 2695-2696).

Based on research conducted by Succar *et al.* (2013, p. 1-16), dimension of auditor competence can be divided to skill, ability and knowledge. Skill can be measured through the implemented knowledge, knowledge can be measured from formal education both theories and practices, whereas the other aspect is personal traits which can be measured through the auditor's behavior and physical ability.

Based on the explanation from the experts above, it can be concluded that this study uses indicators mentioned in the research conducted by Succar *et al*. (2013, p. 1-16).

FRAUDULENT FINANCIAL REPORTING DETECTION

Fraud can be defined as a misstatement action which is intentionally done (Hery, 2017). Another source said that fraud also can be defined as an error in misstatement materially and done from one party to the next party with a motive to harm the party which is involved (Hall & Singleton, 2007). Meanwhile according to Murwanto, Budiarso & Ramadhana (2006), fraud is an action which is involved misstatement in the past or present based on the fact materially with no forethought. Thus, from those definitions about fraudulent financial reporting according to some experts above, it can be said that fraudulent financial reporting is all fraud actions in financial statement also when disclosing or delivering report which cause a strange incident like material misstatement in the financial statement.

A research which is conducted by Jackson *et al.* (2010, p. 160-164) and Hegazy *et al.* (2010, p. 2-12) refers to measure that is done by ACFE (2008, p. 1-68). Based on the analysis, some triggers that cause fraudulent financial reporting inside a company can be classified to five dimensions, which are Improper Revenue Recognition, Timing Difference, and Understatement of or Concealed Expenses and Liabilities, Misappropriation of Assets or Improper Asset Valuation, and Inappropriate Disclosure.

Based on the explanation from the experts above, it can be concluded that the indicators used in this study refers to the research conducted by Beasley *et al*. (1999, p. 4-67) and ACFE (2008, p. 1-68).

Research Framework: The Effect of Auditor Competence to Fraudulent Financial Reporting

Auditor competence has a positive effect to fraudulent financial reporting. That statement appropriate with researches which are conducted by Ramadhany (2015, p. 1-15), Sulistyowati and Supriyati (2015, p. 95-110), and also Mokoagouw *et al*. (2018, p. 261-272).

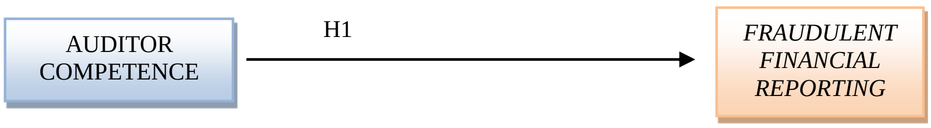
From the findings described, one of them stated that auditor experiences (including auditor competence) simultaneously has impact or positive effect to the ability to detect fraud from external auditor. That statement also in line with other research which is done by Adnyani, Atmadja, dan Herawati (2014, p. 1-11). From the findings, the experts emphasized the effect of independence (which include competence inside) to auditor tasks. This is caused because skills, experiences and strong knowledge allowing auditor to get aware in detecting fraud.

However, there is a research that contradicts with the result of research above. Research conducted by Wibisono (2019, p. 1-69) shows that auditor competence has a negative effect to fraudulent financial reporting detection. This statement can be proven through the significant test that results above 0.05. This research proved that even though auditor competence is high, sometimes it cannot detect fraud because basically auditor competence is not usually affected by the level of experience and tasks given.

Based on the research which have been done by experts above, researcher can conclude that specialization include competence from auditors has a significant effect to the fraud detection because it is a crucial factor especially on the disclosure and reporting phases.

Research Model

In detail, the hypothesis which has stated above can be described in a model as follows:



Source: Researcher's Observation Results (2020)

Figure 1. Research Model

Hypothesis Development

Based on the phenomena, theories and previous researches which has been described, so the hypothesis for this research is:
H_1: Auditor competence has a positive effect to fraudulent financial reporting detection.

RESEARCH METHODOLOGY

Sekaran & Bougie (2016) defines research as "a process of finding solutions to a problem after a thorough study and analysis of the situational factors". The research objects are auditor competence as a independent variable and fraudulent financial reporting as a dependent variable. In this study, researcher use the quantitative technique (statistical analysis for each variable) including the descriptive (analysis by showing a phenomena contained on each variable) and verification method (analysis by using a standardized measurement criteria) for analyze. The subject in this research are all auditors that incorporated with Public Accountant Office in Bandung and Jakarta which is registered in Indonesia Public Accountant Institute (IAPI).

The population target for this study are all certified auditors in Public Accountant Offices, registered as member from IAPI with the position of auditor manager or above (audit partner until supervisor). The sampling frame is based on the 2019 IAPI's directory where there are 35 Public Accountant Offices in Bandung and 286 offices in Jakarta. The sampling technique used in this study is simple random sampling method.

Hair *et al.* (2017) emphasized that it should have a minimum requirement for sample size of 100 samples. The unit analysis in this study are Public Accountant or Public Accountant Offices registered on OJK in Indonesia (as per 2019).

The data collection method used in this study is primary method by sending questionnaires to 43 respondents at Public Accountant Offices in Bandung and Jakarta, including 6 physical questionnaires and all returned. The questions in the questionnaire on that primary method are the closed question. The measuring scale in each question uses interval scale. The data analysis in this study uses SEM-PLS (*Structural Equation Modeling-Partial Least Square*). Researcher uses the analysis method which refers to Hair's theory (2017).

RESULT AND DISCUSSION

The analysis result from this study divided to descriptive and verification statistical analysis for every variable studied.

Table 1: Descriptive Statistics Analysis

Variable	Min	Max	Mean	Std Deviation
Auditor Competence (X1)	1.833	4.833	3.620	0.640
Fraudulent Financial Reporting (Y1)	1.357	4.714	2.796	0.860

Source: Researcher's Observation (2020)

Based on analysis result in the table above, it can be concluded that auditor competence in Public Accountant Office located in Bandung and Jakarta is relatively high. This statement is reinforced with an average of 3.62 on a 1 to 5 scale. From skills dimension shows 3.41, personal traits dimension shows 3.10, and knowledge dimension shows 4.36. These results show that auditor's skills and personal traits is quite good, while auditor's knowledges is very good.

From fraudulent financial reporting variable, auditors at Public Accountant Offices located in Bandung and Jakarta have a relatively low on fraud rate. This statement is reinforced with an average of 2.80 on a 1 to 5 scale. From Improper Revenue Recognition dimension shows 2.90, Timing Difference dimension shows 2.89, Concealed Liabilities and Expenses dimension shows 2.82, Improper Disclosure dimension shows 2.60, and Improper Asset Valuation dimension shows 2.70. These results shows that the rate of fraudulent financial reporting is relatively low.

Validity Test

The results of validity test are as follows:

Table 2: Validity Analysis

Dimension	Loading factor	Dimension	Loading factor	Dimension	Loading factor
X2113	1.000	Y1125	0.840	Y1336	0.782
X2215	0.864	Y1226	0.787	Y1437	0.884
X2216	0.793	Y1227	0.842	Y1438	0.946
X2317	0.970	Y1228	0.887	Y1439	0.944
X2318	0.820	Y1229	0.848	Y1440	0.911
Y1119	0.646	Y1230	0.876	Y1441	0.783
Y1120	0.808	Y1231	0.784	Y1542	0.886
Y1121	0.793	Y1332	0.873	Y1543	0.875
Y1122	0.770	Y1333	0.894	Y1544	0.859
Y1123	0.843	Y1334	0.862	Y1545	0.820
Y1124	0.858	Y1335	0.924	Y1546	0.835

Source: Researcher's Observation (2020)

According to Hair (2017), minimum value that has been interpreted from loading factor test should be above 0.50, and the data on the table above have met the criteria. Thus, all data above have passed the validity test of the loading factor.

Based on the data processing results before, the reliability test values are as follows:

Table 3: Reliability Analysis

Variable	Cronbach's Alpha	Rho_A	Composite Reability	AVE
Auditor Competence	0.910	0.916	0.957	0.917
Fraudulent Financial Reporting	0.951	0.951	0.976	0.954

Source: Researcher's Observation (2020)

According to Sekaran (2016), the reliability test value of a data should be bigger than or equal to 0.6. Unless, the results of the reliability test can be erased or considered as an invalid value. Thus, the result from data processing above has met the criteria and passed the reliability test.

Based on data processing results before, the result of T value test is as follows:

Table 4: Test Result for T Value

	Original Sample	Sample Mean	Standard Deviation	T Stat	P Value
Auditor Competence → Fraudulent Financial Reporting	0.609	0.610	0.131	4.632	0.000

Source: Researcher's Observation (2020)

Based on the data processing above, it can be concluded that the Test Result for T value on Auditor Competence (X2) to Fraudulent Financial Reporting (Y1) is 4.784 > 1.96, which means that the value is bigger than t table value. Thus, it can be concluded that auditor competence has a positive effect to fraudulent financial reporting detection. This shows that when the auditor competence is increasing, then the auditor could be better in detecting fraud in the financial statement. This is inline with the researches which are conducted by some experts as described before.

This condition also happens at Public Accountant Offices in Bandung. An auditor's ability in detecting fraudulent financial reporting can be measured and observed through the amount of knowledge and experience owned. This thing always become a motivation for auditor to be more competent in solving the fraudulent financial reporting problems. Therefore, the more competent an auditor (able to have skill, ability, and knowledge), the better an auditor can detect fraudulent financial reporting in solving the problem when they jump into the real audit workforce.

CONCLUSION

This research shows that auditor competence has a positive effect to fraudulent financial reporting detection.

Suggestion

1. For the next researcher, it is better to increase the amount of samples and also research area, not only in Bandung and Jakarta in order to allow the research result to be more general.
2. For the next researcher, it is better to emphasize the experience as a moderator and the important impact to increase skepticism and auditor competence, in order to describe the findings deeply or detailed.
3. Based on the correlation between auditor competence to fraudulent financial reporting detection, it is better for every auditor who works at Public Accountant Office in Bandung and Jakarta to motivate themselves to increase the auditor competence by join the auditor training which is more specialized on solving the fraudulent financial reporting cases.
4. For Indonesian Public Accountant Institute (IAPI), its better to give more training in fraudulent financial reporting detection.

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