

## THE INFLUENCE OF COMPETENCY, INDEPENDENCE, PROFESSIONAL SKEPTICISM ON FRAUD DETECTION ON FINANCIAL STATEMENTS IN THE REGIONAL GOVERNMENT OF WEST JAVA PROVINCE

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### ABSTRACT

*The research aims to determine the influence of competence, independence and skepticism on fraud detection. The research method used was explanatory research, the research population was active auditors/examiners at the BPK RI Representative of West Java Province with a sample size of 80 people. The analysis used uses multiple linear regression tests, coefficient of determination tests and hypothesis tests. The research results show that examiner competency influences fraud detection in local government financial reports which shows that the examiner has good competence. The independence of examiners influences fraud detection in regional government financial reports. This shows that the independence of auditors at BPK RI West Java Province Representative is considered good but needs to be improved to be better. The professional skepticism of auditors in conducting audits influences fraud detection in regional government financial reports which are assessed. Good, although it still needs to be improved to be better.*

**KEYWORDS** Competence, Independence, Skepticism, Fraud Detection



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### INTRODUCTION

The perception of corruption in Indonesia is certainly inseparable from fraud committed by many parties, both the government and the private sector. Data originating from the 2019 KPK Annual Report also shows that in Indonesia there is still a variety of corruption which of course cannot be separated from fraud. Many fraud cases in Indonesia can occur because auditors are still not optimal in detecting fraud (fraud detection). There are three categories of fraud schemes according to the Association of Certified Fraud Examiners (ACFE), namely fraud in financial

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reports, corruption and misuse of assets. Fraud has serious consequences and brings many losses. According to the results of the 2019 Indonesian Fraud Survey (SFI) conducted by the ACFE Indonesia Chapter, fraud cases in Indonesia included 167 cases of corruption (69.9%), 50 cases of misuse of state and company assets or wealth (20.9%), 22 cases financial statement fraud (9.2%). The total loss caused by fraud reached 873 billion rupiah. According to SFI in 2019, the media for disclosing fraud include reports (38.9%), internal audits (23.4%), external audits (9.6%). Fraud is the abuse of a person's duties and authority to benefit oneself or a group through deliberate actions or the use of resources or assets owned by the person's place of work. Auditors must of course be able to carry out audits properly and correctly to detect fraud. According to Arens et al. (2012), audit is the collection and evaluation of evidence about information to determine and report on the level of conformity of information with predetermined criteria. This audit must of course be carried out by someone who has competence in auditing.

*Fraud* translated as fraud in accordance with Statement of Auditing Standards (PSA) No. 70, likewise errors and irregularities are respectively translated as errors and irregularities according to the previous PSA, namely PSA No. 32. Auditors must have competence in disclosing fraud. Law (UU) Number 15 of 2006 states that in order to achieve the state's goals, namely achieving a just, prosperous and prosperous society, the management and responsibility of state finances requires a free, independent and professional audit institution to create a clean and free government. From corruption, collusion and nepotism. The State Financial Audit Agency of the Republic of Indonesia (BPK-RI) is mandated by Law no. 15 of 2004 concerning Examination of Management and Responsibility of State Finances to carry out examinations of the management and responsibility of state finances. Audit is a process of problem identification, analysis and evaluation carried out independently, objectively and professionally based on audit standards, to assess the truth, accuracy, credibility and reliability of information regarding the management and responsibility of state finances. Audits consist of financial audits, performance audits, and audits with specific objectives. Financial audit is an examination of Government Financial Reports.

Examination by BPK-RI not only produces an opinion on the audited financial statements but also provides a record of the findings. These findings explain weaknesses in internal control and non-compliance with laws and regulations. The results of the audit/examination also provide information on potential state losses found in the inspection process resulting from misuse and inefficient use of the APBN/APBD.

Overview of 2019 Semester I Audit Results, especially in the Representative Office of West Java Province, shows data on findings of non-compliance with statutory provisions in the form of losses, potential losses and shortfalls in revenue totaling 246 cases worth IDR 181 billion. Meanwhile, data from the Summary of Audit Results for Semester I 2020 shows data on findings of non-compliance with statutory provisions in the form of losses, potential losses and shortfalls in revenue in 205 cases worth IDR 103 billion. Based on this data, it can be seen that there is a decrease in the number of cases and the value of losses, potential losses and revenue shortfalls.

Based on BPK RI Regulation Number 1 of 2017 concerning State Financial Audit Standards (SPKN), BPK RI carries out audits based on inspection/audit standards consisting of general standards, audit implementation standards, and audit reporting standards (Negara, 2017). Auditing Standards Statement 200 (PSP 200) regarding audit implementation standards in SPKN states that auditors must design adequate procedures to obtain adequate and appropriate audit evidence for identified fraud risks.

Fraud continues to occur in various ways that continue to develop, requiring auditors to improve their ability to detect fraud. Each auditor's ability to detect fraud is different. This is influenced by internal factors and external factors. However, the factors that have a more dominant influence are internal factors, which are factors that originate from within the auditor, such as competence, independence and professional skepticism.

To reexamine what factors influence the auditor's ability to detect fraud in Regional Government Financial Reports. This research was conducted using the BPK auditor's perspective on the implementation of the general standards contained in the SPKN to produce quality audits and be able to detect fraud in Regional Government Financial Reports.

The general standards in SPKN regulate the basic provisions to guarantee the credibility and quality of audit results carried out by BPK - RI. Credibility is very necessary for all audit organizations that carry out audits that are relied upon by entity officials and other users of audit results in making decisions, and is what the public expects from the information presented by examiners. This general standard regulates the requirements for the ability/expertise of examiners, the independence of audit organizations and individual examiners, the careful and careful implementation of professional skills in the implementation and reporting of audit results, as well as quality control of audit results.

According to the Association of Certified Fraud Examiners (ACFE) quoted by Tuanakotta (2010), fraud is an unlawful act carried out intentionally for a specific purpose to obtain personal or group benefits, directly or indirectly harming other parties. *The Association of Certified Fraud Examiners* (ACFE) classifies fraud into several classifications, and is known as the "Fraud Tree", which is a classification system regarding things caused by fraud, including asset misappropriation, false statements or fraudulent statement), corruption (corruption).

Arens et al. (2012), explains that audits must be carried out by competent people. Auditors must be qualified to understand the criteria used and must be competent to know the type and amount of evidence that tests will use to draw conclusions. According to Audit Standards Section 150 Professional Standards for Public Accountants (Publik, 2011), the first general standard states that audits must be carried out by one or more people who have sufficient technical expertise and training as an auditor. The third general standard states that in carrying out audits and preparing reports, auditors are required to use their professional skills carefully and thoroughly.

The quality of an audit depends on the public's perception of the auditor's independence. Arens, et.al. (2012) describes independence into two things, namely

independence in thought (independence in mind or independence in fact) and independence in appearance. According to the Code of Ethics for the Public Accountant Profession (Publik, 2011), independence in thought is a mental attitude of thought that makes it possible to state a conclusion without being influenced by pressure that could compromise professional judgment, thus enabling individuals to act with integrity and apply objectivity. Independence in appearance, namely the avoidance of very significant facts and circumstances to a rational and well-informed third party by considering all particular facts and circumstances, concludes that the integrity, objectivity of an audit office or team personnel has been compromised.

Professional Skepticism According to Audit Standard 200 Professional Standards for Public Accountants (Publik, 2011), professional skepticism is an attitude that includes a mind that always questions, being alert to conditions that could indicate possible misstatements, whether caused by fraud or error, and an important assessment of audit evidence. Auditors must plan and carry out audits with professional skepticism considering that certain conditions may occur that cause financial statements to contain material misstatements. High professional skepticism in an auditor means that failure to detect fraud will be low, auditors will tend to be thorough and more careful in examining financial reports.

Competence is an important factor that auditors must have. Competency includes the auditor's educational background and expertise in being able to detect quickly and precisely whether or not there are fraudulent practices as well as engineering tricks used in fraudulent acts. Widyastuti and Pamudji (2016) in their research revealed that competence is needed so that auditors can detect quickly and precisely whether or not there is fraud and the engineering tricks used to commit the fraud. The expertise that an auditor has can make him or her more sensitive to an act of fraud.

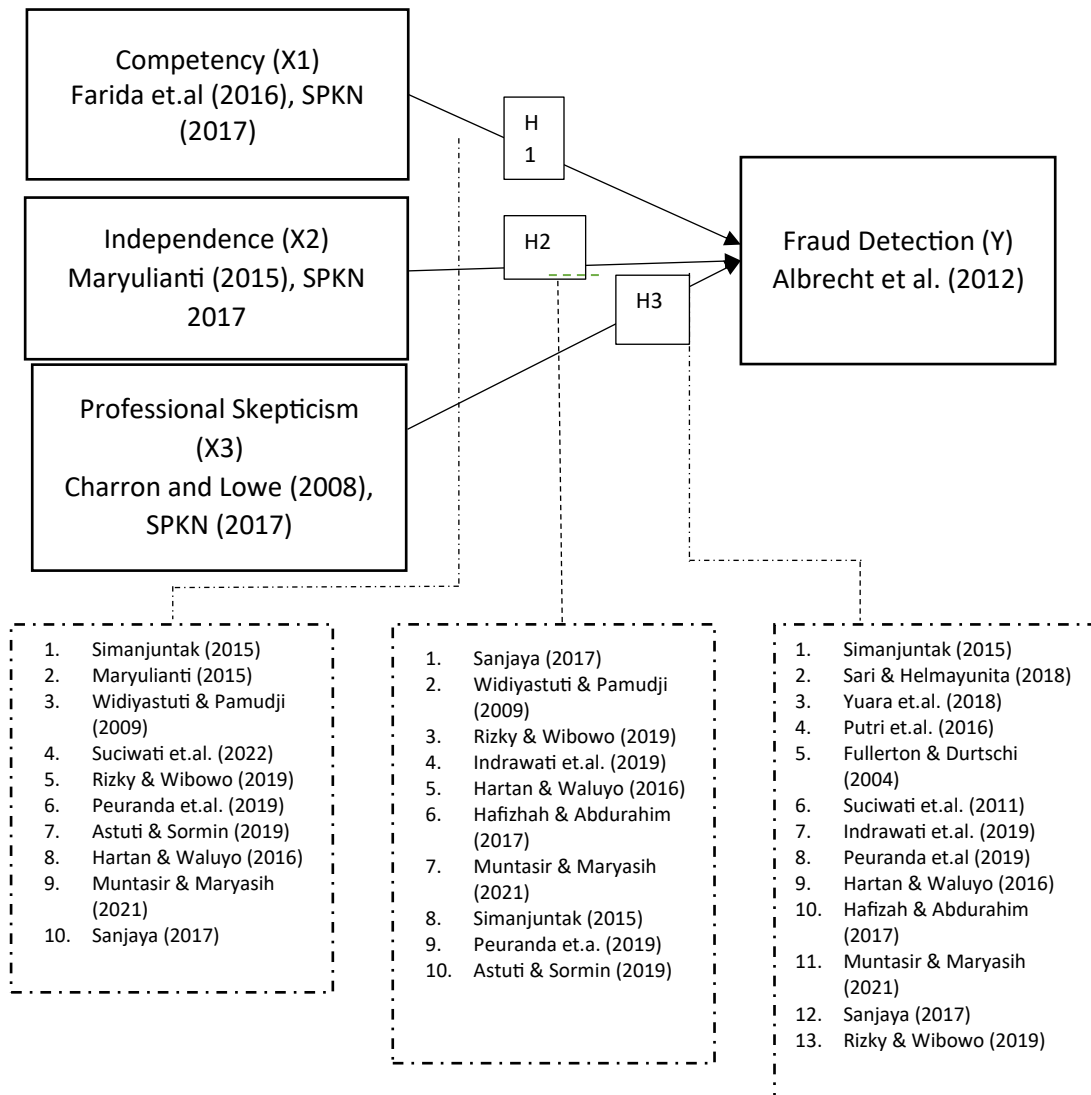
H1: Competence influences the detection of fraud in Regional Government Financial Reports.

Research conducted by De Angelo (1981), assumes that an auditor with his abilities will be able to find a violation and the key is that the auditor must be independent. Widiyastuti and Pamudji (2009) found that independence influences the auditor's ability to detect fraud. This is in line with research by Sanjaya (2017) which examined the perceptions of auditors working at Public Accounting Firms in Semarang, finding that independence had a positive influence on auditors' responsibilities in detecting fraud.

H2: Independence influences the detection of fraud in Regional Government Financial Reports

The auditor's professional skepticism is the auditor's attitude in carrying out audit assignments, where this attitude includes a mind that always questions and critically evaluates audit evidence. Because audit evidence is collected and assessed during the audit process, professional skepticism must be used throughout the process. Skepticism is a manifestation of objectivity.

H3: Professional Skepticism influences the detection of fraud in Regional Government Financial Reports.



**Figure 1 Framework of Thought**

## RESEARCH METHODS

The research carried out is survey research, namely research carried out on large and small populations, but the data studied is data from samples taken from that population, so that relative events, distributions and relationships between sociological and psychological variables are found. According to the level of explanation, the research that will be carried out is aimed at examining associative problems. Causal associative research is research that aims to analyze the relationship between one variable and other variables or how one variable influences other variables. The form of relationship in the problem that will be researched is a causal relationship or cause and effect. The data analysis technique used is Structural Equation Modeling (SEM) with the help of Smart PLS software. This analysis technique is used to measure predictive relationships between variables by looking at the relationship or influence between variables (Ghozali, 2013).

## RESULTS AND DISCUSSION

The research results showed that the overall average value of the competency variable was 4.17. For the independence variable, it is 4.16 and skepticism is 4.14, which means that the three variables are good because they are in the interval 3.40 – 4.19. This shows that the competence, independence and professional skepticism of auditors at the BPK RI West Java Province Representative are considered good and therefore need to be maintained. Likewise, fraud detection is considered good.

Significance and predictions in hypothesis testing can be seen through the path coefficient values and t-values.

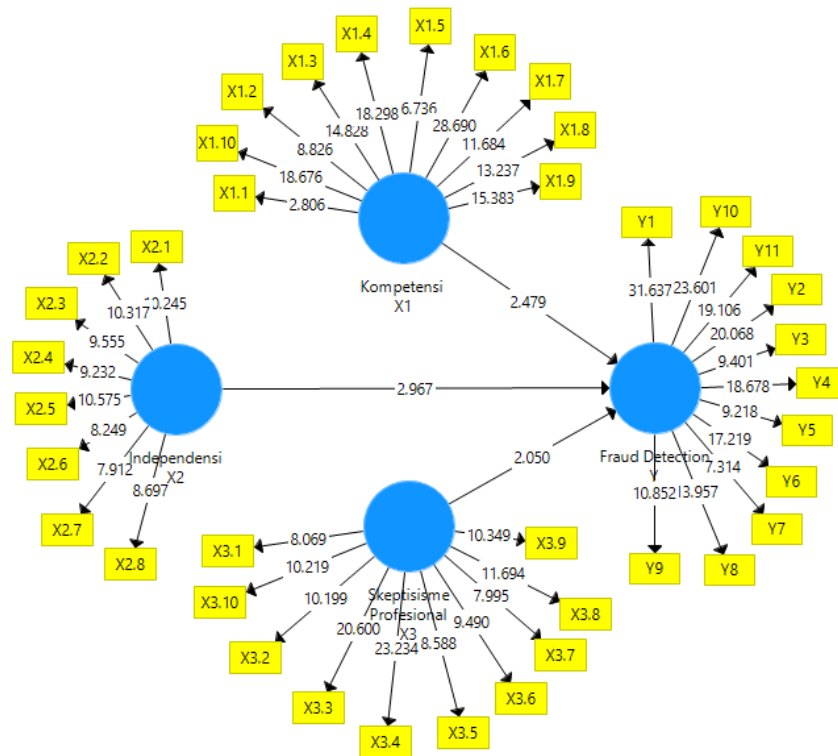


Figure 1 Bootstrapping results

Table 1 Bootstrapping Results

Hypothesis	Construct Relationships	Path Coefficient	T-Statistics	Information	P-Values	Conclusion
H1	X1 → Y	0.346	2,479	Accepted	0.013	Significant
H2	X2 → Y	0.365	2,967	Accepted	0.003	Significant
H3	X3 → Y	0.248	2,050	Accepted	0.041	Significant

Source: data processed by the author

Based on Table 1 it can be seen that the two-tailed bootstrapping results show that all hypotheses are accepted. The hypothesis can be declared accepted if the t-statistic value of the calculated variable is  $>2.003$ , the Path coefficient is used to see whether the variable has a positive or negative influence, and p-values are used to see the significance of the hypothesis with a value  $<0.05$ .

Based on Table 1, it can be explained that Hypothesis 1 is accepted, because the t-statistic value obtained is 2.479, which means it meets the requirements  $> 2.003$  and there is a significant influence relationship because the p-value obtained is  $< 0.05$ , namely 0.013. So it can be concluded that competency has a positive influence on Fraud detection (Y).

Hypothesis 2 is accepted, because the t-statistic value obtained is 2.967 which means it meets the requirements  $> 2.003$  and there is a significant relationship because the p-value obtained is  $< 0.05$ , namely 0.003. So it can be concluded that independence (X2) has a positive influence on Fraud detection (Y). Hypothesis 3 is accepted, because the t-statistic value obtained is 2.050, which means it meets the requirements  $> 2.003$  and there is a significant influence relationship because the p-value obtained is  $< 0.05$ , namely 0.041. So it can be concluded that skepticism has a positive influence on Fraud detection (Y).

The average result of the AVE (Average Variance Extracted) value and the value of  $R^2$  and then entered into the GoF formula:

$$GoF = 0.735\sqrt{0.671 \times 0.806}$$

The GoF value obtained after the calculation is 0.735, which means it is in the large or high category because the GoF value is greater than 0.36. The conclusion from the GoF results in this research means that the suitability of the model to the object under study, namely fraud detection, is strongly influenced by the variables of competence, independence and skepticism.

Based on the research results, it shows that competence influences fraud detection BPK RI Representative of West Java Province. Responses regarding competency received a rating of 4.21 which is included in the very good category, indicating that the auditor has good competency. Likewise with the results of hypothesis testing which shows that Hypothesis 1 is accepted, because the t-statistic value obtained is 2.479, which means it meets the requirements  $> 2.003$  and there is a significant relationship because the p-value obtained is  $< 0.05$ , namely 0.013, which means  $H_0$  is rejected and  $H_1$  is accepted. This means that there is an influence between competence and fraud detection. This research is in line with the results of research conducted Desak Putu Suciwati, Ni Putu Ari Astari & I Made Bagiada (2022) in their research stated that auditor competence has a positive and significant effect on the ability to detect fraud.

The research results show that Independence has an influence on fraud detection BPK RI Representative of West Java Province. Responses regarding auditor independence had a value of 4.25, which means very good. This shows that the independence of auditors at the BPK RI West Java Province Representative is considered good and needs to be maintained. Meanwhile, the results of the hypothesis test show that because the t-statistic value obtained is 2.967, which means it meets the requirements  $> 2.003$  and there is a significant relationship because the p-value obtained is  $< 0.05$ , namely 0.003, which means  $H_0$  is rejected and  $H_1$  is accepted. This means that there is an influence between independence and fraud detection. The research results are in line with research by Widiyastuti and Pamudji (2009) Sanjaya (2017) who found that independence influences the auditor's ability to detect fraud.

The auditor's professional skepticism has an influence on fraud detection BPK RI Representative of West Java Province. Results of assessing respondents' responses with average values of 3.77. This shows that the professional skepticism of auditors at the BPK RI West Java Province Representative is considered good and needs to be maintained. Meanwhile, the results of the hypothesis test show that the t-statistic value obtained is 2.050, which means it meets the requirements  $> 2.003$  and there is a significant relationship because the p-value obtained is  $< 0.05$ , namely 0.041, which means  $H_0$  is rejected and  $H_1$  is accepted. This means that there is an influence of skepticism on fraud detection.

This research is in line with research Fullerton and Durtschi (2004) in Peytcheva (2013) are supported by Sari and Helmayunita (2018), Yuara et al. (2018) and Putri et al (2017) who found that high auditor skepticism had a positive effect on the auditor's ability to detect fraud. Desak Putu Suciwati, Ni Putu Ari Astari & I Made Bagiada (2022) in their research stated that professional skepticism has a positive and significant effect on the ability to detect fraud.

## CONCLUSION

Based on the research findings and discussions on examiner competence, independence, and professional skepticism, several conclusions can be drawn. Firstly, examiner competency significantly influences fraud detection in local government financial reports, indicating a need for ongoing competence enhancement. Secondly, while the independence of examiners at the BPK RI West Java Province Representative is deemed satisfactory, there's room for improvement to bolster their autonomy further. Thirdly, although auditors demonstrate a decent level of professional skepticism, there's scope for enhancement to ensure more effective fraud detection. In light of these conclusions, several recommendations can be proposed. Firstly, the BPK should establish robust criteria for examiner selection, emphasizing technical competencies and educational qualifications. Secondly, while audit program preparation remains relatively independent, examiners must cultivate and maintain an unbiased mindset alongside technical expertise. Lastly, fostering a culture of professional skepticism among examiners is crucial to enhance fraud detection capabilities, as it enables thorough questioning and scrutiny of information, thus safeguarding institutional integrity and public trust.

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