AUDIT QUALITY DETERMINANTS AND THE RELATION OF FRAUD DETECTION

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ABSTRACT

The research aimed to evaluate the influence of independence and competence of an auditor on fraud detection capability with audit quality as the intervening variable. Based on the result of the research, it shows that independence of an auditor has no effect on audit quality, while auditor competencies positively affect audit quality. Meanwhile, audit quality has a positive effect on the fraud detection. The auditor independence has a positive effect, whereas auditor competencies have no effect on the fraud detection. Meanwhile, Auditor independence and auditor competence have no indirect effects on the fraud detection through audit quality.

Key words: Independence, competence, fraud detection, audit quality.


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1. INTRODUCTION

Since fraud increasingly and continuously prevails in various ways to grow, auditors’ efforts to detect it must also be continually improved. The cases of accounting scandals in recent years provide further evidence of audit failures which impose serious consequences. Since the beginning of the second quarter of 2017, the issue of accounting fraud at British Telecom had emerged. The British giant company experienced accounting fraud at one of its business lines in Italy. As other scandals of accounting fraud do, the scandal at British Telecom has an impact on its public accountant, Price Waterhouse Coopers (PwC) as the world’s leading...
public accounting firm and includes the big four since this firm has failed to detect the accounting fraud. Instead, the fraud was initially detected by a whistleblower, followed up with a forensic accounting by KPMG. The mode of accounting fraud which occurred in the British Telecom was committed through mark uping the company's earnings through the extension of fake contracts and invoices; and also creating fake transactions with vendors.

Another example comes from Indonesia which occurred at PT Kimia Farma Tbk (PT KF). Kimia Farma is a public, state-owned enterprise, the shares of which have been available on the stock exchange. In regard with indications of the Ministry of SOEs and auditors of Bapepam (Bapepam, 2002), it was found that there were financial misrepresentation in its financial reports which resulted in overstatement of net income for the year ended 31 December 2001 as much as Rp.32.7 billion. In fact, it represented 2.3% of sales and 24.7% of net income. The misstatement was performed through over-serving sales and inventory in 3 business units. It was done by means of inflating the price of inventory which had been authorized by the Production Director to determine the value of inventory at distribution units of PT KF as of December 31, 2001. In addition, PT KF's management recorded double on sales in 2 business units. It was carried out on units which were not sampled by external auditors. In regard to the external auditors who audited PT KF's financial statements as of December 31, 2001, Bapepam concluded that they had properly carried out audit sampling procedures as set out in the Public Accountants Professional Standard. In addition, no intentional element was found to help PT KF's management inflate their profits. Bapepam said that the audit process had not succeeded to detect the profit bubbles which management of PT KF created. To this finding, Bapepam gave PT KF administrative sanctions which accounted for Rp.500 million, Rp.1 billion to the former board of directors of PT KF and Rp.100 million to external auditors (Bapepam, 2002 and Koroy, 2008).

From the above cases, it is obvious that the role of the auditor is critical in detecting fraud. The independence and competence of an auditor are essential prerequisite in detecting fraud because it determines either success or failure an auditor will achieve. The following are previous studies related to the elements of the independence and competence of an auditor in fraud detection in determining the audit quality. The study results of Pratomo and Putra (2017) found that an auditor’s independence, competence, and experience influence the detection of fraud. Meanwhile, professional skepticism will affect an auditor in detecting an occurrence of fraud. On the other hand, the research results of Maryulianti (2015) revealed that audit quality has a significant effect on fraud detection. In addition, Putra (2016) in his study found that the independence, management commitment and competence of an auditor have a positive and significant effect on prevention and detection of fraudulence. The study conducted by Dwirendra (2015) suggested that the influence of independence, competence and accountability is positive on audit quality. Wibowo (2015) in his study found that competence and independence of an auditor positively affect audit quality, while regarding the audit time limit, it shows that time limit has a negative effect on audit quality. The results of Satoso's study (2014) on customs audit showed that work experience, independence and competence of an auditor have a positive effect on the audit quality, while objectivity does not affect the quality of audits. Based on the background above, this research will further investigate the effect of independence and competence of an auditor on fraud detection with audit quality as intervening variables. In regard to the background above, several problems are formulated in this study as follows:

- How is the effect of an auditor’s independence on audit quality?
- How is the effect of an auditor's competence on audit quality?
- How does the quality of audit affect the fraud detection?
Audit Quality Determinants and the Relation of Fraud Detection

- How does an auditor’s independence affect fraud detection?
- How does the competence of an auditor affect fraud detection?
- How does the auditor's independence influence fraud detection through audit quality?
- How does the auditor's competence influence fraud detection through fraud detection?

2. LITERATURE REVIEW

2.1. Independence of internal auditor
Can internal auditors have entire independence? Maybe not, or it is even unnecessary. But, with regard to the scope of internal audit, an internal auditor must be provided adequate independence to achieve objectivity both in reality and in perception. Mautz and Sharaf in their famous work in Sawyer’s (2006) explained the philosophy of auditing as providing several indicators of professional independence. The indicator is certainly intended for public accountants, but the same concept can be applied to internal auditors who are willing to be objective. The indicators are elaborated as follows:

- Being independent in the audit program, i.e. free of managerial intervention in the audit program, free of all interventions on audit procedures and from all requirements for audit assignments other than those which are necessarily required in an audit process.

- Independence in verification, i.e. free to access all records, conduct asset assessment, and examine employees that are relevant to the audit being carried out, obtain active cooperation from management employees during audit verification. They are free from any managerial effort which put constraint on examined activities or constrict the acquisition of evidence, free from personal interests that hinder verification.

- Independence in reporting: free from feeling obliged to modify the impact or significance of reported facts, free from pressure to report significant matters in audit reports, avoid using misleading words either intentionally or unintentionally in reporting facts, opinions, and recommendations in auditor's interpretation, free from any effort to negate the auditor's consideration of facts or opinions in the internal audit report.

2.2. Internal Auditor’s Competence
The purpose of auditing is to prepare independent opinion about the degree of conformity of organization financial statement with the specified criteria (umar dan Purba, 2018). Internal auditors are required to exhibit knowledge, skills, and other competencies necessary in performing their duties and responsibilities. Internal audit activities must collectively have or acquire mandatory knowledge, skills and other competencies to carry out their responsibilities. Knowledge, skills other competencies are collective terms which show professional skills/ability required by internal auditors to carry out their responsibilities effectively. Internal auditors are encouraged to show their expertise/skills through the acquisition of certification and appropriate professional qualifications. The Institute of Internal Auditing has developed the International Auditor Competency Framework (the Institute of Internal Auditors 2012 in Putra, 2016), in which the auditor's internal competence framework is divided into four areas, namely:

1. Interpersonal skill
Interpersonal skill is the ability required to effectively interact with others. In this area of expertise, an internal auditor is required, among others, to be able to make and use persuasion tactics, deliver messages clearly and convincingly, as well as willing to listen to others. In addition, he must also be able to perform management functions, such as developing policies and procedures, staffing, planning, prioritizing, and maintaining performance.
2. Tools and techniques
An auditor is expected to be able to use operational and management research tools, forecasting techniques, project management, business process analysis, balance scorecard, risk assessment techniques, control and governance, as well as data collection and analysis techniques.

3. Standards, theories and methodologies of internal audit
For an auditor, it is mandatory to understand the code of ethics, attribute standards and performance standards set forth in the standards of international internal audit.

4. Knowledge areas
An auditor has to possess the knowledge area related to the scope of work, including financial accounting, financial management, managerial accounting, legal and regulatory provisions, ethics and information fraud.

2.3. Audit quality
According to Kane and Velury (2005), audit quality is defined as the level of ability of the accounting firm to understand their client's business. Wibowo (2015) defined that audit quality is related to the extent to which the audit activities is conducted in line with auditing standards. In addition, according to the Public Accountant Professional Standards (SPAP), it is said to be the quality audit only if it meets the requirements or standards. In this study, the fulfillment of standards is set based on the SPKN appendix V and appendix VI in 2007 which regulates the standards of implementation and reporting, namely:

A. Implementation standards
- Planning. In planning an audit, the auditors must define their objectives, the scope and methodology by which they achieve audit objectives. The audit objectives, scope and methodology are not determined separately; instead, they determine these three elements simultaneously. Planning is a continual process which is simultaneous with the audit implementation. Therefore, the auditors have to consider making adjustments to the objectives of their scope and methodology as long as the audit is performed.
- Supervision. Supervision encompasses directing the activities of auditors and other parties (such as experts involved in audit) so that the auditor's objectives can be attained. Supervision elements cover giving instructions to staff, providing up-to-date information about significant problems they face, implementing reviews of work they have done, and provisioning effective field work training (on the job training).
- Evidence. Sufficient, reliable and relevant evidence must be attained to be adequate grounds for the auditor's findings and recommendations.
- Audit documentation. The auditors have to prepare and maintain their documents in the form of an auditors’ working paper. Auditors' documents pertaining to planning, implementation and reporting must contain sufficient information to enable experienced auditors who do not have a relationship with the auditors to ensure that the audit documents can be evidence which supports the findings, conclusions, and recommendations of the auditor.

B. Reporting standards
- Form of report. The audit report must state that auditor is performed in accordance with audit standards.
- Content of the report. The report of audit results include statement that the audit is conducted in accordance with auditor standard, auditor's objectives, scope and methodology. The results of audit are presented in the form of audit findings, conclusions, and recommendations, responses of officials responsible for audit results, reporting confidential information if any.
Audit Quality Determinants and the Relation of Fraud Detection

- Elements of report quality. The report of audit results must be timely, complete, accurate, objective, convincing, clear, and as concise as possible.

- Issuance and distribution of reports of audit results. The report of audit results is submitted to the representative institution, the entity being examined, the party which has the authority to regulate the entity being examined, the party responsible for following up the results of the audit, and other parties who are authorized to receive the audit results according to the applicable laws and regulations.

2.4. Detection of Fraud

According to the Indonesian Standard Dictionary (KBBI), fraud are defined as cheating, dishonest, not sincere, unfair, cheating someone like lying and tricking. According to standard of competence work, fraud is an intentional or deliberate act to eliminate one's money or property by means of guile, cheating, or any other ways not fair. According to the international standards on auditing (ISA) section 240 (2012) in Putra (2016), fraud is a deliberate action committed by members of company management, parties who play a role in company governance, employees or third parties who commit fraud or cheating to obtain unfair or illegitimate gain. According to Kumaat (2010), fraud detection is an attempt to obtain sufficient initial indications of fraud, while at the same time restricting the opportunity for the perpetrators to commit fraud. Whether the detection of fraud is immediate or slow, it depends on:

- Factors in the side of the perpetrators, related to their ability to cope the system or cover fraudulent practices, thus determining the level of complexity of an act of fraud.

- Factors determined by the auditor's own capacity, i.e. the ability to develop risk-based audits and build a network of informants while remaining cautious.

2.5. Conceptual Framework

![Conceptual Framework Diagram]

Figure 1. Model of Conceptual framework

2.6. Development of Hypotheses

**H1: Independence of internal auditors has a positive effect on audit quality.**

Previous researches revealed that the auditor's independence has a positive influence on audit quality as found in the research results of Dwirendra (2015). He found that the auditor’s independence has a positive effect on audit quality. Likewise, the research of Wibowo (2015) found similar result that independence has a positive effect on audit quality. Furthermore, the results of the study conducted by Satoso (2014) are also in agreement with them that independence has a positive effect on the quality of customs audits.
H2: **Internal auditor’s competence has a positive effect on audit quality**

The auditor’s competence has a very positive effect on audit quality. This is in line with several previous studies, such as the results of Dwirendra’s research (2015) which stated that competence of an auditor has a positive effect on audit quality. Likewise, Wibowo (2015) found that competence has a positive effect on audit quality and the research results of Budi Satoso (2014) proved the same results that competence has a positive effect on the quality of customs audits.

H3: **Audit quality affects fraud detection**

Audit quality affects the fraud detection. This is in line with previous research, such as the results of research by Maryulianti (2015) in which she found that audit quality has an effect on fraud detection. Therefore, enhanced audit quality the auditors conduct leads to improved fraud detection. Audit quality has an effect on the fraud detection, this is in line with previous research, the results of research by Maryulianti (2015) which found that audit quality has an effect on fraud detection, so that the increased audit quality is expected that auditors can increase fraud detection.

H4: **Independence of internal auditors has a positive effect on detection of fraud.**

The auditor’s independence greatly influences the detection of fraud. It is revealed in several previous studies, such as Pratomo and Putra (2017). They found that the auditor’s internal independence has a positive and significant effect on fraud detection. In the research conducted by Putra (2016), he claimed that the auditor's internal independence has a positive and significant effect on fraud detection.

H5: **Internal auditor’s competence has a positive effect on fraud detection.**

The auditor’s competence has a very positive effect on fraud detection as concluded in some previous studies. The results of research by Pratomo and Putra (2017) affirmed that internal the auditor’s competencies have a positive and significant effect on fraud detection. Likewise, the results of Putra (2016) found that internal auditor competency has a positive and significant effect on fraud detection.

H6: **Independence of internal auditors influences the detection of fraud through audit quality.**

Several studies found that independence of internal auditor is positively related to audit quality. Among the studies is what is conducted by Dwirendra (2015) which concluded that independence has a positive effect on audit quality. The research conducted by Wibowo (2015) also found similar results which revealed that independence has a positive effect on audit quality and so did what is conducted by Satoso (2014). In his finding, he found that independence has a positive effect on the quality of customs audits. An internal auditor’s independence has a very positive effect on fraud detection. This is in line with some previous studies, one of which is the research of Pratomo and Putra (2017) which found that the auditor's internal independence has a positive and significant effect on fraud detection.

H7: **Internal auditor’s competence influences audit quality through fraud detection.**

An auditor’s competence has a very positive effect on audit quality as what is found in several previous studies. Dwirendra (2015) conducted a research, the results of which found that the competence of an auditor has a positive effect on audit quality. Likewise, research conducted by Wibowo (2015) came to the similar results with previous research. Satoso (2014) in his research also found that competence has a positive effect on the quality of customs audits.
3. METHODS

The study used variables of the independence and competence of an internal auditor on fraud detection with the audit quality as intervening variables. The research employed survey method using an associative descriptive analysis approach, in which the author described and analyzed the actual conditions in the research location systematically. In the present study, whether it is success or failure an audit attains is greatly determined by the inter-related variables; therefore, those variables must be taken into consideration. The following passage describes these variables.

1. Independent variables
   
   a) Auditor’s independence
   
   The Institute of Internal Auditor (2012) defined the term ‘independence’ as a condition free from situations that can threaten the ability of internal auditors to be able to carry out their responsibilities impartially. This can be achieved through multiple reporting relationships to these parties. Threats to independence must be managed from the level of the individual internal auditor, assignment, functional, and organization. Mautz and Sharaf in Sawyer’s (2006), providing several professional independence indicators are: Independence in audit programs, Independence in verification, Independence in reporting

   b) Auditor competence
   
   Auditor competence including aspects of knowledge, skills/attitudes, and mental capacity to carry out tasks of the auditor's functional position with good outputs.

2. Dependent variable

   Dependent variables are those which are influenced or which are the impact of the existence of independent variables (Sugiyono, 1999). According to Priantara (2013), the occurrence of fraud can be detected by the following indications, i.e. anomalies of documentation of transaction evidence and accounting, poor internal control structures, anomalies of analytical procedures, extravagant lifestyles, uncommon behavior, appeal and complaints.

3. Intervening variables

   Intervening variables are those which theoretically influence the relationship between the independent and dependent variables, but it cannot be observed and measured (Sugiyono, 1999). The present study considered audit quality intervening variables. The aspect of audit quality is developed since the initial stage of audit implementation to reporting and recommendations. SPKN appendix V and VI of 2007 sets forth the standards for implementation and reporting of audit activities. Watkins (2004) defined that audit quality is how appropriate the audit is performed according to audit standards.

   According to Sugiyono (2008), a population is an area of generalization consisting of objects or subjects which have certain qualities and characteristics set by researchers to be studied and then drawn conclusions from. In this study, the population was internal auditors of SOEs who were the members of the SPI Communication Forum (FKSPI) and those attended the meeting with the Internal Auditor Education Foundation (YPIA). In this study, the research sample was selected from YPIA and FKSPI. The number of sample from population was determined using convenience sampling method, i.e. the sample members was selected or taken based on the easiness to obtain the required data (Hamid, 2007). In present study, the primary data were gathered from respondents’ answers to the questionnaires which had been distributed by the authors. Based on the data source, the authors used a survey method in data collection. The type of questionnaire of the study was closed questionnaire, by
which the respondents were asked to make choices between a series of alternatives provided by the researchers (Sekaran, 2006).

Path analysis, descriptive statistics, instrument quality, classic assumption test, multiple regression analysis and hypothesis testing were used as the test methods in present study. For data analysis, SPSS software was employed. Ghozali (2013) suggested that path analysis is an extension of multiple linear regression analysis which is used to test the effect of intervening variables. Direct influence covers some aspects, such as the effect of independent variables directly on a dependent variable while the indirect effect is to determine the effect of independent variables on the dependent variable through other variables.

4. RESULTS AND DISCUSSIONS

4.1. Result

The object the study used was internal auditors of SOEs who were the members of the FKSPI and YPIA. There were 109 internal auditors as the samples of the study. Overall, 109 questionnaires were distributed, 100% of which or totally 109 questionnaires were returned. Out of the total respondents (109 respondents), there were 49 internal auditors or 45% as members, 33 respondents or 30.3% as leads of team, 9 respondents or 8.3% as technical controller, 2 respondents or 1.8% as quality controllers, and 16 respondents or 14.7% occupied other positions. Based on the composition of respondents’ positions, it is concluded that the majority of respondents occupied position of audit members. Out of the 109 respondents, there were 35 respondents or 32.1% who had worked less than 5 years, 26 respondents or 23.9% had worked for 5 – 10 years, 11 respondents or 10.1% had worked 11 – 15 years, 6 respondents or 5.5% had worked for 16 – 20 years, 31 respondents or 28.4% had worked more than 20 years.

4.1.1. Validity test results

Validity and reliability tests were carried out on 109 respondents at a significance level of 0.05 and the value of $r$ table was 0.1882. If the value of $r$ count > $r$ table, the item of statement that was tested on 109 respondents was declared to be valid. On the contrary, if the value of $r$ count < $r$ table, the item statement tested on 109 respondents was declared to be invalid. From the results of the validity test to 109 respondents on auditor independence variable, auditor competence, audit quality, fraud detection at a significance level of 0.05, it can be concluded that all statements are considered valid because they have the value of $r$ count greater than that of $r$ table.

4.1.2. Reliability test results

Subsequently, the reliability test was performed after validity test completed. The results of reliability test for each variable in this study are presented in the Table 1 as follows:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Cronbach's Alpha</th>
<th>N of Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auditor’s independence</td>
<td>0.893</td>
<td>11</td>
</tr>
<tr>
<td>Auditor’s competence</td>
<td>0.906</td>
<td>13</td>
</tr>
<tr>
<td>Audit quality</td>
<td>0.881</td>
<td>8</td>
</tr>
<tr>
<td>Fraud detection</td>
<td>0.920</td>
<td>17</td>
</tr>
</tbody>
</table>


Based on the results of reliability test above, there are four outputs from the variables found to have the reliability value (Cronbach’s Alpha) above 0.60. Therefore, it can be concluded that all the measurement tools in this study are proven to be reliable. Likewise,
based on the results of normality test, it shows that the points spread around and following
the diagonal line. Thus, the regression model has met the normality test.

4.1.3. Hypothesis Test Results
In this study, path analysis used individual and simultaneous tests which were divided into
two sub-structures, namely sub-structure 1 and sub-structure 2. The equation of structural
analysis path is as follows:

4.1.3.1. Sub-structure 1 evaluation
Sub-structure 1 was analyzed using path analysis, with structural equations of audit quality = a + b1_independence + b2_competence + e. SPSS software was used to analyze the sub-structure 1 consisting of variables of independence, competence, and audit quality. The results of the path analysis of sub-structure 1 are presented in the following Table 2.

Table 2. Anova of sub-structure 1

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>9.658</td>
<td>2</td>
<td>4.829</td>
<td>57.631</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>8.882</td>
<td>106</td>
<td>.084</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>18.540</td>
<td>108</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors (constant): auditor’s competence, auditor’s independence
b. Dependent variable: audit quality

Based on the Table 2, the significance value of 0.000 is less than 0.05, which means that
the independence variable and the auditor competence simultaneously have an effect on audit
quality.

Table 3. Model summary of sub-structure 1

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R square</th>
<th>Std. error of the estimate</th>
<th>Durbin Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.722</td>
<td>.521</td>
<td>.512</td>
<td>.289</td>
<td>2.195</td>
</tr>
</tbody>
</table>

a. Predictors (constant): auditor’s competence and independence
b. Dependent variable: audit quality

The extent to which the auditor’s competencies and independence influence audit quality
can be determined by observing the value of adjusted R2, which indicates 0.512 = 51.2%.
Meanwhile, the influence of other factors which affect the audit quality outside of this study
accounts for 100% - 51.2% = 49.8%.

Table 4. Coefficients of sub-structure 1

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1.180</td>
<td>.303</td>
<td>3.894</td>
<td>.000</td>
</tr>
<tr>
<td>auditor’s independence</td>
<td>.085</td>
<td>.092</td>
<td>.095</td>
<td>.917</td>
</tr>
<tr>
<td>Auditor’s competence</td>
<td>.651</td>
<td>.104</td>
<td>.647</td>
<td>6.259</td>
</tr>
</tbody>
</table>

a. Dependent variable: audit quality

The structural equation of sub-structure 1 is depicted as follows.

Audit quality = a + b1_independence + b2_competence + e
= 1.180 + 0.085 X1 + 0.651 X2
Based on the above Table 4, it is found the results of hypothesis evaluation are as follows: it is seen that value of the independence variable indicates $\beta = 0.085$ and significance value of 0.361 which is greater than 0.05. Therefore, hypothesis 1 is rejected, meaning that the auditor’s independence does not positively affect audit quality. However, this result differs from the initial hypothesis which stated the other way around. In fact, internal audits are not independent so they are not influential because they are under the directors even though there is an audit committee. This research is not supported by the research results of Dwirendra (2015); Wibowo (2015) who stated that independence positively affect audit quality.

Meanwhile, the aspect of auditor’s competence variable indicates $\beta = 0.651$ and the value of significance shows 0.000, obviously less than 0.05. Therefore, hypothesis 2 is accepted, meaning that auditor competence positively affect audit quality. Auditors’ expertise can make them more aware or sensible to any indication of fraudulent actions; in addition, highly educated auditors will have a broader view on wide ranges of issues. Auditors will increasingly have a lot of knowledge about the fields they are engaged in, so they can cope with more various issues. Besides, being rich in knowledge, auditors will find it easier to keep up with increasing complexity of changes. Complex audit analysis requires experienced auditor with a broad spectrum of expertise in terms of: (1) detecting errors, (2) understanding errors accurately, and (3) finding the cause of errors. The results show that the more experienced auditors are, the more aware they are to errors. The more aware they are to unusual mistakes, the more they understand the matters related to the errors they find out. This statement is supported by the results of the research of Dwirendra (2015); Satoso (2014) which stated that auditor’s competence has a positive effect on audit quality.

### 4.1.3.2. Sub-structure 2 evaluation

#### Table 5. Anova of sub-structure 2

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>6.741</td>
<td>3</td>
<td>2.247</td>
<td>8.957</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>26.341</td>
<td>105</td>
<td>.251</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>33.081</td>
<td>108</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(a. \) Predictors : audit quality, independence and competence of auditor

b. Dependent variable: fraud detection

Based on the results of the above tests, it is found that the significance value of 0.000 is less than 0.05. It means that the variables of auditor’s independence, audit quality, auditor’s competence simultaneously influence fraud detection.

#### Table 6. Model summary of sub-structure 2

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R square</th>
<th>Adjusted R square</th>
<th>Std. error of the estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.451(^a)</td>
<td>.204</td>
<td>.181</td>
<td>.501</td>
<td>2.292</td>
</tr>
</tbody>
</table>

\(a. \) Predictors : audit quality, independence & competence of auditor

b. Dependent variable: fraud detection

The influence of independence and competence of auditor, audit quality on fraud detection can be found by observing the adjusted $R^2 = 0.204$ or 20.4%. The other factor influence which affect the detection of fraud outside of this study is 100% - 20.4% 79.6%.
Audit Quality Determinants and the Relation of Fraud Detection

Table 7. Coefficients of sub-structure

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized coefficients</th>
<th>Standardized coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>1.044</td>
<td>.561</td>
<td>1.863</td>
<td>.065</td>
</tr>
<tr>
<td>Independence of an auditor</td>
<td>.087</td>
<td>.160</td>
<td>.073</td>
<td>.543</td>
</tr>
<tr>
<td>Competence of an auditor</td>
<td>.111</td>
<td>.211</td>
<td>.083</td>
<td>.527</td>
</tr>
<tr>
<td>Audit quality</td>
<td>.450</td>
<td>.168</td>
<td>.337</td>
<td>2.678</td>
</tr>
</tbody>
</table>

a. Dependent variable: fraud detection

Based on Table 7 above, the regression model is formulated as follows:

Fraud detection = 1.044 + 0.087 X1 + 0.111X2 + 0.450Y

Based on the above Table 7, the result of hypothesis test is that variable of audit quality on fraud detection shows $\beta = 0.450$ at significance value of 0.009 which is less than 0.05. As a consequence, hypothesis 3 is accepted. It means that the audit quality has a positive effect on fraud detection. To ensure good audit quality in an organization, an active role is required in conducting internal audit. Fraud detection is an activity to prevent fraud at a low cost. Control fraud after its occurrence means there have been losses caused by perpetrator who commits the fraud and obtains benefit of it; thus, it costs much more than if preventing it from occurring since the losses will not all turn to fraud perpetrator. Corrective action on fraud detection can be carried out through improving audit quality against fraud detection efforts.

Likewise, the auditor’s independence variable on fraud detection shows the value of $\beta = 0.111$ at significance level of 0.588 which indicates greater value than 0.05. Therefore, hypothesis 4 is rejected which means that independence of an auditor does not have a positive effect on fraud detection. The influence of auditor’s independence on fraud detection in this study result does not conform to the initial hypothesis. The main control which can eliminate the chance of fraudulence of financial statements is an independent audit where an independent auditor is able to provide a final evaluation to prevent its occurrence. The auditor must maintain independence attitude which means that he or she must be free from all interests which cannot align with integrity and objectivity in carrying out audit duties, particularly in fraud detection. The auditors’ independence is required so that they are free from the interests and pressures of any party. Therefore, the auditors can appropriately detect whether fraud is present at a company being audited. After the fraud is detected, the auditor is not expected to be involved in securing the fraudulent practice.

Meanwhile, the variable of auditor’s competence on fraud detection shows the value of $\beta = 0.087$ at significance value of 0.599 which is greater than 0.05. As a consequence, hypothesis 5 is rejected, which means that competence of an auditor does not have a positive effect on fraud detection. This result, however, does not conform to the initial hypothesis. In carrying out their duties, auditors are expected to have excellent attitude in order to produce audit quality. In this case, the fraud detection by upholding the principles of competence, integrity and objectivity. The auditors can sharpen his sensibility in analyzing financial statements being audited so that they recognize whether the fraudulence action is present in financial statements. They are also able to detect tricks and manipulation carried out in fraud.
4.1.3.3. Intervening variables evaluation

To investigate the direct and indirect influence, it is depicted by the following Figure 2:

![Figure 2](image)

Based on Figure 2 to find out the indirect effects of the auditor’s independence and competence variables on fraud detection, the calculation was performed using the Sobel Test approach. The results of the test are presented in the following Table 8.

**Table 8** Matrix of direct and indirect influence

<table>
<thead>
<tr>
<th>Type of Influence</th>
<th>Indirect</th>
<th>Direct</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Path X → Y</td>
<td>Path Y → Z</td>
</tr>
<tr>
<td></td>
<td>B</td>
<td>Std Error</td>
</tr>
<tr>
<td>Independence</td>
<td>0.085</td>
<td>0.092</td>
</tr>
<tr>
<td>Competence</td>
<td>0.651</td>
<td>0.104</td>
</tr>
</tbody>
</table>


From the results of path analysis and Sobel test, the explanation is as follows: the Sobel test results show that the value of $t_{count}$ of path X1 → Y → Z is 0.543 or less than $t_{table}$ (0.543 < 1.982) at a significance level of 0.588. This result indicates that the aspect of independence does not have a positively indirect effect on fraud detection, the path of which is from independence to audit quality and then to fraud detection. The magnitude of the direct effect is 0.087 and that of the indirect one is 0.085 x 0.450 = 0.03825. Because the magnitude of the direct effect is greater than the indirect one (0.087 > 0.03825), it can be concluded that the direct influence is the actual or the real influence. Meanwhile, the aspect of independence has a direct effect on audit quality through the fraud detection. More independence aspect in audit quality will result in more improved fraud detection. However, mere detection is not sufficient; thus, the auditor must also understand how to early detect fraud whenever it occurs. The activity of detection cannot be generalized against all fraud since each type of fraud has its own particular characteristics. Therefore, in order to be able to detect fraud, it is necessary to have a good understanding of the types of fraud which may arise in a particular organization. It is found that most of the fraud evidence is not direct one. Thus, it can be said that independence has a direct effect on audit quality through fraud detection.

Furthermore, the results of Sobel test show that the value of $t_{count}$ is 0.527 or greater than that of $t_{table}$ (0.527 < 1.982) at a significance level of 0.599. This result indicates that the
aspect of auditor’s competence does not have an indirect effect on fraud detection, i.e. the path from competence to audit quality and then to fraud detection. Competence has a direct effect on audit quality through fraud detection. The expertise an auditor possesses cannot make him/ her more sensible to fraud. Neither does the auditor have sufficient intellectual knowledge capacity to be in line with the frame of thought and knowledge he/she possesses. At least, the knowledge must be able to support added value for business and audit functions, keep up with the development of the business world and the contextual supervision over time. Thus, competence does not directly affect audit quality through detection of fraud. The magnitude of the direct effect is 0.111 while that of the indirect one is 0.651 x 0.450 = 0.29295. Because the magnitude of the direct effect is less than the indirect one (0.527 > 0.29295), it can be concluded that the direct influence is the actual effect. The entire results of data processing can be concluded as presented in the following table.

REFERENCES


