

## The Effects of Quality Control System and Auditor's Competency Implementation on Auditor's Capability in Detecting Fraud on Public Accounting Office in Medan

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### ABSTRACT

This study deals to determine the effect of Quality Control System and Auditor Competence implementation on the Auditor's Ability in Detecting Fraud partially and simultaneously in Public Accounting Firm (KAP) on Medan. This was quantitative research and used associative method. The population in this study was auditors who worked at KAP in Medan, the sampling technique used Slovin formula and the survey method, namely distributing questionnaires to research respondents was used as data collection techniques. The data analysis technique in this study used multiple linear regression analysis with the help of the SPSS version 26 program. The results were as follows: partially the implementation of the quality control system has no effect on the auditor's ability in detecting fraud, while the auditor's competence has an effect on the auditor's ability in detecting fraud. Simultaneously the implementation of the quality control system and the competence of the auditor affect the ability of the auditor in detecting fraud.

**Keywords:** Auditor Competence, Auditor's Ability in Detecting Fraud, Quality Control System Implementation

**JEL Classification:** M42, M40, M49

## **INTRODUCTION**

Statement on Auditing Standards (SAS) No. 82 or Pernyataan Standar Auditing (PSA) No. 70 pointed out that the audit is conducted to provide reasonable assurance regarding the matter of material misstatement in the financial statements. Material misstatements in financial reporting will have an impact individually or entirely in presenting the financial statements unreasonably. The Misstatement can occur intentionally and unintentionally, namely error and fraud.

The auditor is an outsider (independent party) who conducts an investigation to provide an opinion regarding the fairness of the financial statements that have been prepared by the management of the client. The auditor must evaluate the collected evidences. The evidence must be sufficient and competent. The auditor communicates the results of his audit to interested parties. The communication is the culmination of the attestation process, and the mechanism is the audited financial statements.

Fraud is translated as fraudulent practice and fraud is often interpreted as irregularity or irregularity and deviation (Tuanakotta, 2010). According to the Standards of the Institute of Internal Auditors (2013), fraud is defined as any act characterized by deception or breach of trust to obtain money, assets, services or prevent payment or loss or to guarantee personal gains/benefits and business. The indicators contained in detecting fraud, according to Dr. Steve Albrech (in Priantara, 2013), namely anomaly of transaction evidence documentation, accounting anomaly, internal control structure weakness both transaction and entity, anomalies of analytical procedures, luxurious lifestyles, unusual behaviour, complain and complaints.

In order to improve the quality of audit services, Standar Pengendalian Mutu (SPM) provide guidance for public accountant office in carrying out services quality control produced by their offices by complying various standards as Standar Profesional Akuntan Publik issued by Institut Akuntan Publik Indonesia (IAPI, 2011). Quality Control System of Public Accountant office contains policies, quality control procedures, communication, implementation of responsibilities, and monitoring (IAPI, 2011: 17000.1). The indicators of the quality control system are the elements of quality control itself as reflected in SPM Section 100 [PSPM No. 01] Public Accountant Office Quality Control System divided into (1) independence, (2) personnel assignment, (3) consultation, (4) supervision, (5) hiring, (6) professional development, (7) promotion (advancement), (8) client acceptance and continuity, and 9) inspection.

Auditor competence has an important role for fraud detection. Competence is obtained from various activities to increase knowledge and skills such as education, training, and experience. Knowledge (knowledge) and experience are important components in audit tasks. Auditor competence will increase auditor sensitivity in detecting fraud (Yusrianti in Rosiana et al., 2019). As for the indicators contained in auditor competence proposed by (De Angelo in Pintasari, 2015) that is an auditor must have knowledge of accounting principles and auditing standards, knowledge of the type of client industry, formal education that has been taken, training, courses, and special skills possessed, the number of clients who have been audited, experience in conducting audits and the type of company that ever taken.

An example quality control system violation namely a case of manipulated financial statements with the involvement of an external auditor, PT Kimia Farma which does the markup on its financial statements, Bank Lippo which duplicates the financial statements (Ikbal, 2016). It can be seen from the two cases, it was suspected that an error was made by the auditor, that is less quick in realizing and not reporting any discrepancies that had

been made by the company's management. As for other cases that occurred, a quality control system did not work well for public accountants Office Kasner Sirumapea and KAP Tanubrata, Susanto, Fahmi, Bambang & Partners. This was explained by Sri Mulyani Indrawati and imposing sanctions on public accountants' office Kasner Sirumapea and Public Accountant Office Tanubrata, Sutanto, Fahmi, Bambang & Partners as auditors for the 2018 financial statements of PT Garuda Indonesia (Persero) Tbk on the period 2018. Sri Mulyani imposed sanctions on Public Accountant Office by written warning accompanied by an obligation to make improvements to the Quality Control System of Public Accountant Office (Aldin, 2019).

The examples of auditor competence violations are the existence of several financial scandals involving public accountants such as Delotte Indonesia which failed to prove fraud at SNP Finance (CNN Indonesia), E&Y Indonesia which presented an opinion based on inadequate evidences on the audit results of PT Indosat's financial statements. Tbk (Tempo Jakarta). Supposedly, if the auditor carried out the audit properly, including fraud detection, there would be no such adverse cases.

The research results of Fauji et al., (2015) show that there is a positive relationship between the implementation of the quality control system of public accountant firms with the effectiveness of audit planning and audit quality. The research results of Presti Rosiana. et al., (2019) pointed out that Auditors have influence on Fraud Detection.

The phenomenon of auditors' ability degradation is in detecting fraud (fraud). The first case, tax restitution in Simalungun and Langkat carried out by Hasnil who is the head of Hasnil M Yasin & Partners Public Accountant Office (Tribun Medan., 2018). Hasnil has committed or corrupted taxes in two districts, Simalungun and Langkat, in the 2001-2002 fiscal year. These cases show the increasing level of fraud that occurs in financial statements. (Kumaat, 2011:156) pointed out that detecting fraud is an effort to obtain sufficient early indications of fraud, while at the same time narrowing the space for the doer of fraud

## **LITERATURE REVIEW**

According to the Standards of the Institute of Internal Auditors in 2013, fraud is defined as any act characterized by deception or breach of trust to obtain money, assets, services or prevent payments or losses or to guarantee personal gains/benefits and business. In this research, Fraud detection is defined as the ability of an auditor to detect fraud. Detecting fraud is an effort to get sufficient early indications of fraud, while at the same time narrowing the space for fraud doer (i.e. when the doer realizes the practice has been known, it is too late to shrug off (Kumaat in Francisco, 2019). In detecting fraud an Auditors must have special skills. An auditor who has expertise in the field of auditing is highly required to have the potential to become a fraud auditor (Darmawati & Puspitasari, 2018).

According to PSPM No. 01, SPM Section 100 (SPAP:16000.1-2), the Quality Control System of Public Accountant Office includes the organizational structure, policies and procedures established by public accountant office. The Quality Control System should be comprehensive and should be designed in line with the organizational structure, policies and nature of the firm's practices. Quality Control Systems have inherent limitations that can affect their effectiveness. Performance differences between staff and professional requirements understanding, can affect the level of compliance for public accountant office's policies and quality control and then affects the effectiveness of the system. The public accountant office's Quality Control System must be able to provide reasonable assurance that the contract of a public accountant office done by a branch

office, affiliate office or correspondent office has been carried out in accordance with SPAP.

Competency is a must for auditors to have formal education in the field of auditing and accounting, adequate practical experience for the work in progress, and taking sustainable professional education (Srikandi, 2013). According Pintasari (2015), auditor competency is to carry out an audit till reach an opinion statement, the auditor must always act as an expert in the field of accounting and auditing. The achievement of this expertise began with his formal education which was expanded through subsequent experiences in auditing practice. To qualify as a professional, the auditor must undergo sufficient technical training. This training should cover both technical and general education aspects.

### **The Effect of Quality Control System Implementation on Auditor's Ability in Detecting Fraud**

With the quality control system implementation, it can improve the quality of auditor's performance, from the elements contained in the quality control system, there is a reflection of auditors' nature and workings ways that can improve the auditor's quality and public accountant office's quality. In public accounting office, the enhancement towards improvements of quality control system depends on the auditors' view on the quality control system itself. If the auditors think and consider a good quality control system not only a formality, it shows they have been responsible for their profession. As pointed out in public accountant office's quality control system elements, it can be concluded that the better the audit quality provided by the auditors, the better the auditor's performance thereby, the better the auditor's credibility.

### **The Effects of Auditor's Competency on Auditor's Ability in Detecting Fraud**

SPAP 2014 explains that the audit must be carried out by a competent person. The auditor must be qualified to understand the criteria used and must be competent to know the type and amount of evidence that will be used for tests to take conclusions. Auditor competency is the auditor's experience and knowledge required in conducting auditing activities on a financial statement. Competency can be obtained through formal education and special training. The auditor's knowledge concerning client's business industry, audit planning, preparation of effective audit program, and analysis conditions that have potency for fraud to come up (red flag), will support the auditor to detect fraud that occurs. So, it can be concluded that the higher the auditor's competency, the more responsibility the auditor in detecting fraud contained in the financial statements.

### **The Effects of Quality Control System and Auditor's Competency Implementation on Auditor's Ability in Detecting Fraud**

The quality control system is a mandatory standard for a public accounting office as a guide in accounting and auditing. If the auditors think and consider a good quality control system not only a formality, it shows they have been responsible for their profession. Thus, an auditor must be able to implement the quality control system with his knowledge, experience and skills according to the applicable standards in a public accounting office. This is named auditor competency. Auditor competency is auditor's experience and knowledge in doing an audit task. The higher the auditor's competency, the higher the audit quality, by having an auditor who has good competence and responsible for the applicable standards, automatically the auditor will be more objective and can minimize the level of fraud.

## RESEARCH METHOD

This research is a quantitative study by using the associative method, due to this study was designed to test theory and to examine the effect of quality control system and auditor's competency on the auditor's ability implementation in detecting fraud at a public accounting office in Medan. The data were collected by using a survey method, namely distributing questionnaires to respondents. The population of this research are public accountants who work at public accounting office in Medan.

**Table 1.** Operational Definition

Variable	Definition	Indicators	Scale
Auditor's Ability in Detecting Fraud	Fraud is an unlawful act committed by people from within and outside the organization, in order to obtain personal or group benefits that directly harm other parties.	1. Anomalies of transaction proof documentation; 2. Anomalies of Accounting; 3. Internal control structure weakness both transaction and entity anomaly from analytical procedure; 4. Luxurious lifestyles; 5. Unusual behavior; 6. Complaint and complain;	Likert equivalent interval
Auditor's competency	Competency is a must for auditors to have formal education in the field of auditing and accounting, adequate practical experience for the work in progress, and taking sustainable professional education	1. Knowledge of accounting principles and auditing standards; 2. Knowledge of the client's type of industry; 3. Formal education that has been taken; 4. Training courses, and special skills possessed; 5. Number of clients who have been audited; 6. Experience in conducting audits; 7. Types of companies that have been audited;	Likert equivalent interval
Quality control system Implementation	The quality control system is a process and specifications that have been previously established which are realized by using appointed guidelines or standards.	1. Independency; 2. personal assignment; 3. Consultation; 4. Supervision; 5. Employment; 6. Professional development; 7. Promotion; 8. Client's acceptance and sustainability; 9. Inspection;	Likert equivalent interval

This research was carried out in several public accounting offices in Medan. And the object of this research was the auditors who work at that public accounting offices. As it is known there are 19 public accounting offices in Medan and 130 auditors. Due to Covid 19 pandemic many public accounting offices do not accept to conduct research and several are no longer operating/closed. So, the authors took sample from 5 public accounting offices and 37 respondents.

The data collection technique used primary data and by using survey method, by distributing questionnaires and they will be answered by respondents, auditors and staff/audit officers who work at public accounting offices in Medan. Generally, the formulation of multiple regression can be written as follows:

$$Y = a + b_1X_1 + b_2X_2 + e$$

Where, Y: auditor's ability in detecting fraud, a: intercept/constant value, b1, b2: regression coefficient of each variable, X1: quality control system implementation, X2: auditor's competency, and e: error.

## RESULTS

### Multiple Linear Regression Analysis

The following is the results of data testing by using multiple linear regression and obtained.

**Table 1.** The Result of Multiple Linear Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	6,507	9,120		,713	,480
Quality Control System Implementation	-,156 ,675	,192 ,243	-,128 ,437	-,813 2,773	,422 ,009
Auditor's competency					

Source: Result of SPSS

Then the regression equation is as follows.

$$Y = 6,507 - 0,156X1 + 0,675X2 + e$$

### The Effects of Quality Control System Implementation

Based on a partial test, the effect of quality control system implementation on the auditor's ability in detecting fraud by using the SPSS program, the t-count is -0.813, while the t-table is 2.032 with a significance value of 0.422. Because the value of t count is smaller than t table and the significance is  $0.422 > 0.05$ , it can be concluded that H1 is rejected. This shows that the quality control system implementation has no effect on the auditor's ability in detecting fraud.

### The Effects of Auditor's Competency

Based on a partial test, the effect of auditor competence on the auditor's ability in detecting fraud by using the SPSS program, the t count is 2.773 with a significance value of 0.009. Because the t-count value is greater than t-table and the significance is  $0.009 < 0.05$ , it can be concluded that H2 is accepted. This shows that the competence of the auditor affects the auditor's ability in detecting fraud.

**Table 2.** The result of F test

Model	Sum Squares	df	Mean Square	F	Sig.
Regression	79,652	2	39,826	3,890	,030
Residua	348,078	34	10,238		
Total	427,730	36			

Source: Result of SPSS

Based on the results of F test, then it obtained that the F count is 3.890 with a significance value of  $0.030 < 0.05$  so it can be concluded that H0 is rejected and the F count  $>$  F table is  $3.890 > 3.28$ , which means that there is a simultaneous effect of the quality control system and auditor's competency implementation on the auditor's ability in detecting fraud.

**Table 3.** The Result of Determination Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,432	,186	,138	3,200

Source: Result of SPSS

Based on the table 4.9, the R<sup>2</sup> (R Square) value is 0.186 or 18.6%. This shows that the contribution percentage of the independent variable effects (the quality control system and auditor's competency implementation) on the dependent variable (auditor's ability in detecting fraud) is 18.6%. Or the independent variable used in the model (the quality control system and auditor's competency implementation) is able to explain 18.6% of the dependent variable (auditor's ability in detecting fraud), while the remaining 81.4% is influenced or explained by other variables which is not included in this research model.

## DISCUSSION

### **The Effects of Quality Control System Implementation on Auditor's Ability in Detecting Fraud**

Based on table 1, it can be seen that the quality control system implementation has no significant effect on the auditor's ability in detecting fraud. In public accounting offices, the improvement towards the quality control system, depending on the views of the auditors, thinks and considers a good quality control system not only a formality, showing they have been responsible for their profession. As stated in the elements of a quality control system, in PSPM No. 1 (IAPI: 2011) it is explained that the elements of the quality control system implementation states that all personnel at every level of the organization are required to comply with the provisions of independence as regulated by the Indonesian Institute of Certified Public Accountants.

Furthermore, the public accounting offices will provide an explanation of the approach used in personnel's assignment. After that, the public accounting offices will identify special problems and situations that require personnel to consult and encourage to consult by using sources or authorities regarding complex and unusual issues. From the description of the elements explanation of quality control system as presented in the questionnaire, it can be proven from respondents regarding the variables of quality control system implementation, that is the majority of respondents answered agree for 89%.

This shows that the quality control system implementation is very important to be applied by auditors in carrying out their professional work. Because by implementing a quality control system, it can facilitate a job by following the applicable procedures from the public accounting offices. According to this, it can be seen that the quality control system implementation must still be needed in a company or public accounting office. This research is not in line with Darmawati & Puspitasari (2018) which stated that the quality control system implementation affects the auditor's ability in detecting fraud.

### **The Effects of Auditor's Competency on Auditor's Ability in Detecting Fraud**

Based on table 1, it can be seen that the auditor's competency has a significant effect on the auditor's ability in detecting fraud. This is in line with the existing theory. SPAP 2014 (in Atmaja, 2016) explained that audit must be carried out by a competent person. The auditor must be qualified to understand the criteria used and must be competent to know the type and amount of evidences to be used in the tests to draw conclusions. Auditor's competency has an important role for fraud detection. The auditor's knowledge

concerning client's business industry, audit planning, preparation of an effective audit program, and analysis of conditions that have the potential for fraud to emerge (Red Flag) support the auditor in detecting fraud that occurs. Auditor's competency is an important thing that must be applied to every auditor in carrying out his work. In addition, competency is a must for auditors to have formal education in auditing and accounting, adequate practical experience for the work being carried out, then taking the advanced professional education (Srikandi, 2013).

In this case an auditor must have this ability and must be responsible for the financial statements that have been made. In addition, the auditor must have knowledge concerning the type of client's industry because with the auditor's knowledge of each client industry to be audited, it is very important to know whether an auditor's competency is qualified or not. From the description of auditor's competency indicators from each statement as presented in the questionnaire, it can be proven from the answers obtained by respondents regarding the auditor's competency variable, that is the majority answered strongly agree.

This shows that the auditor's competence is very necessary in carrying out a professional job. The results of this research are in line with the research conducted by Presti Rosiana, et al, (2019) which stated that auditor's competency has an influence on the fraud detection variable.

#### **The Effects of Quality Control System and Auditor's Competency Implementation on Auditor's Ability in Detecting Fraud**

Based on the conducted hypothesis testing, there is a simultaneous effect of the variables of the quality control system and the auditor's competency implementation on the auditor's ability in detecting fraud. That means the quality control system and the auditor's competency implementation can affect the auditor's ability in detecting the resulting fraud. To detect fraud, so it is necessary to implement a good quality control system and auditor's competency, with the quality control system implementation within a company or public accounting offices, so all procedures and rules will work well and the auditors who have the ability and experience to examine financial statements and detect all forms of fraud so that a company or public accounting firm can achieve certain goals and get good grades by the public in carrying out relationships with companies/public accounting offices.

The majority answers obtained regarding the auditor's ability in detecting fraud did not agree. This shows that the auditor's ability in detecting fraud in a public accounting office is quite good. Because this relates to the reports results that have been audited by auditors who did not commit fraud on the financial statements so it produces relevant and transparent reports.

### **CONCLUSION**

The quality control system implementation has no effect and is not significant on the auditor's ability in detecting fraud. This illustrates that the quality control system implementation carried out by the auditor will not affect the auditor's ability in detecting fraud.

Auditor's competency has a positive and significant effect on the auditor's ability in detecting fraud. This illustrates that the better the auditor's competence, the better the auditor's ability in detecting fraud.



The implementation of quality control system and auditor's competency simultaneously has a significant effect on the auditor's ability in detecting fraud. This illustrates that both variables in common influence on the auditor's ability in detecting fraud, if an auditor has implemented a quality control system and has qualified auditor's competency, the level of fraud committed by auditors will be lower and in detecting fraud (fraud) will be more critical and better

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### **DECLARATION OF CONFLICTING INTERESTS**

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