



THE EFFECT OF AUDITOR COMPETENCE, INDIVIDUAL MORALITY AND THE EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM ON FRAUD PREVENTION AT MEDAN CITY PUBLIC ACCOUNTING FIRM

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Abstract

This study aims to determine the influence of Auditor Competence, Individual Morality and the Effectiveness of the Internal Control System on Fraud Prevention at Medan City Public Accounting Firm. The sample selection in this study is to use a saturated sample model using the entire population into a sample. The total population in this study is 48 senior auditors from 22 Public Accounting Firms (KAP) located in Medan City. Data collection was carried out by distributing questionnaires to 48 respondents. The data obtained were analyzed using the SPSS (Statistical Product and Service Solutions) program. The analytical methods used in this study are validity test, classical assumption test and multiple linear regression analysis. The results of this study show that (1) Auditor Competence does not have a significant effect on fraud prevention. (2) Individual morality partially has a significant influence on fraud prevention. (3) The effectiveness of the Internal Control System does not have a significant effect on fraud prevention and (4) Auditor Competence, Individual Morality and Internal Control System Effectiveness simultaneously have a significant influence on fraud prevention.

Keywords: *Auditor Competence, Individual Morality, System Effectiveness Internal Control, Public Accounting Firm*

1. INTRODUCTION

Accounting fraud is now one of the topics that is often discussed among the public to become a global problem. Because fraud cases occur regardless of the place both in government agencies and private companies though. Fraud in accounting economics can be seen through financial statements. Financial statements are information from a summary of all company activities, which are useful for internal and external parties of the company as decision making. Therefore, financial statements are the most important thing to see the truth. (Harahap, 2013). Financial statements are the main measure used to see the performance or condition of the company. Because it has a significant influence, many companies manipulate their company's financial statements. These actions are often taken to provide sound financial statements to remain attractive in the eyes of shareholders and stakeholders, including investors, especially for companies that have gone public where annual financial statements can be seen transparently by the public.

The case in this study is in the city of Medan, namely the Public Accounting Firm (KAP) from Biasa Sitepu which received frozen sanctions to revoke office licenses due to problems caused. In his case, it was reported that Sitepu's Ordinary Public Accounting in auditing PT Jui Shin Indonesia's financial statements had not fully complied with the audit standards and professional standards of public accountants. The mistake made was that in auditing the financial statements of PT Jui Shin Indonesia, it turned out that it did not test the initial balance first and



then, there was no sufficient audit evidence to believe the fairness of the balance. (<http://pppk.kemenkeu.go.id/>).

From these cases, action is needed to overcome the problem of fraud so that it can be prevented or minimized. The main factor in fraud prevention can be done with the competence of auditors. According to Astuti and Sormin (2019), based on research that has been conducted, competence has a significant influence on the ability to detect fraud. Because in examining financial statements, the ability for an auditor to examine a financial statement is needed so that the possibility of fraud can be minimized. The second factor, Individual Morality in the internal environment of the company is also indispensable. According to Setiawan (2022), individual morality has a significant influence on fraud prevention. An organizational environment that has been based on the morals of each individual can help minimize the occurrence of fraud in the company environment. These frauds occur most likely because there are no good moral values in each individual or organization.

The third factor is the effectiveness of the Internal Control System, with the existence of good internal control in a company has the possibility to be able to reduce or even close opportunities to commit fraud on financial statements. According to Amrulloh (2022), internal control has a significant influence on fraud detection. Weak internal control can be one of the factors that cause the emergence and rampant acts of fraud.

2. THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

Competence of Auditor

Auditor competence, according to the 2016 IAPI (Indonesian Institute of Certified Public Accountants) Exposure Draft, is the professional ability of individual auditors to apply knowledge to complete an engagement either jointly in a team or independently based on Public Accountant Professional Standards, code of ethics, and legal provisions. From this statement, in carrying out the audit process, auditors need good knowledge, education and training because with this, auditors are better able to understand the financial condition and financial statements of their clients so that they can provide the right information from the audited financial statements.

Individual Morality

Individual morality is a moral trait or a whole of actions or behaviors and values related to good and bad human beings. Individual morality can be interpreted as the ability to understand good or bad actions, have ethics instilled in oneself and apply them in daily actions, from these actions one can see one's professional and honorable attitude. According to Radhiah, (2016) states that individual morality is the quality of whether a person's behavior is good or bad. Someone who is immoral tends to be more courageous in committing fraud which will harm others.

Effectiveness of the Internal Control System

Internal control is a policy or procedure carried out to provide assurance that company objectives can be achieved, and to reduce losses for possible security threats in information. The American Institute of Certified Public Accountants (AICPA) defines the internal control system as a system that includes the organizational structure and all methods and regulatory policies that are coordinated within the company with the aim of protecting:

1. Company property



2. Checking the accuracy and reliability of accounting data
3. Improve the efficiency of business operations
4. Encourage adherence to established policies

Fraud Prevention

Fraud prevention is a low-cost activity to combat fraud. Fraud prevention can be analogized to disease, which is better prevented than treated. If you wait for new fraud to be handled, it means that there have been losses incurred and have been enjoyed by certain parties, compared to if we succeed in preventing it, of course the losses have not all been transferred to the perpetrators of fraud (Fitrawansyah & Syahnifah, 2018). The definition of fraud, according to the Association of Certified Fraud Examiners (ACFE, 2016), is an act that is contrary to the law and is carried out intentionally for the purpose of manipulating people inside or outside the organization, in order to gain personal or group benefits that can directly or indirectly harm other parties. Cheating can be interpreted as an action that can harm someone for personal or group interests. Where the act of fraud is an unlawful act, because it is done intentionally. It is different from an error if an error is an act that produces the wrong result, but this is not intentional or can be said to be due to lack of thoroughness.

3. IMPLEMENTATION METHOD

This research is quantitative research with a case study approach. To obtain quantitative data, researchers circulated questionnaire sheets addressed to senior auditors at the Medan City Public Accounting Firm, then an assessment will be carried out based on the scores on each answer from respondents. The sampling technique in this study is using saturated sampling techniques is a sampling technique using all data that becomes the population. There are 48 senior auditors from 22 Public Accounting Firms in Medan City who will be used as respondents in this study. In testing the data the author used the help of the SPSS program.

4. DISCUSSION AND RESEARCH RESULTS

The Effect of Auditor Competence on Fraud Prevention

Based on the results of hypothesis testing in this study, if the significance value of the variable < 0.05 or the t-statistical value $> t$ -table, the hypothesis is accepted. The results of hypothesis testing from research that has been conducted based on the results of questionnaire data that has been processed by the SPSS program, which shows that auditor competence does not have a significant effect on fraud prevention. Where the significance value of the auditor competency variable is $0.136 > 0.05$ and the t-statistical value (1.520) is $<$ from the t-table value (2.015), then the auditor's competence partially in this study has no influence on fraud prevention. The results in this study are in line with research conducted by Dewi, Y.M. (2022) with the results of research on auditor competence variables that do not have a partial effect on detecting fraud. Auditors basically must have competence in the field of auditing in particular, but with the competence possessed by an auditor cannot guarantee fraud will not occur.

The Influence of Individual Morality on Fraud Prevention

Based on the results of testing the morality hypothesis, individuals obtained a partial test value of regression coefficient (t-statistical) of 2.166 with a significance value of 0.036, where the



value of $0.036 < 0.05$ and the value of t-statistic ($2.166 > t\text{-table } (2.015)$). So it can be concluded that the variable of individual morality partially has a significant influence on fraud prevention. Respondents' responses to the influence of individual morality were generally very agreeable. This shows that an individual with a high moral level will be able to prevent cheating. This research is in line with research by Setiawan (2022) which suggests that individual morality has a significant influence on fraud prevention. This shows that an individual with a high moral level will be able to prevent cheating.

Effectiveness of Internal Control System on Fraud Prevention

Based on the results of testing the effectiveness hypothesis of the internal control system obtained a partial test value of regression coefficient (t-statistical) of 1.053 with a significance value of 0.298, where the value of $0.298 > 0.05$ and the value of t-statistic ($1.053 < t\text{-table } (2.015)$). So it can be concluded that the variable effectiveness of the internal control system partially does not have a significant influence on fraud prevention. This research has similarities with Fajar's (2017) research which has the results of internal control testing does not have a partially significant effect on fraud. This is because whether or not an internal control system is effective, fraud can occur if compliance with the rules that have been made and agreed upon does not work well.

The Effect of Auditor Competence, Individual Morality and the Effectiveness of the Internal Control System on Fraud Prevention

Based on the hypothesis testing conducted, there is a simultaneous influence between the independent variable (auditor competence, individual morality and effectiveness of the internal control system) on the dependent variable (fraud prevention). Where the value of F is calculated ($2.978 > F\text{ table } (2.810)$), which means the competence of auditors, individual morality and the effectiveness of the internal control system together can affect fraud prevention at Public Accounting Firms in Medan City. Testing on fraud detection was also carried out by Dewi (2022), regarding "The Application of Quality Control Systems and Auditor Competence on the Auditor's Ability to Detect *Fraud* at the Medan City Public Accounting Firm (KAP). Demonstrate that the auditor's competence and the application of the quality control system affect the auditor's ability to find fraud.

Coefficient of Determination (R square)

Finding out how much influence the independent variable has on the dependent variable is the goal of this analysis. The results of the calculation of the coefficient of determination (R^2) carried out using SPSS V.26 are as follows:

Table 1. Results of Determination Analysis
Model Summary

Del	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.411 ^a	0.169	0.112	3.31008

Source: Data Processed, 2022

Based on the table above, an R^2 (*R Square*) value of 0.169 or 16.9% is obtained. This shows that the percentage of influence of the independent variable (auditor competence, individual morality and effectiveness of the internal control system) on the dependent variable (fraud



prevention) is 16.9%. This means that the independent variables in the model (auditor competence, individual morality and effectiveness of the internal control system) are able to explain 16.9% of the dependent variables (fraud prevention), while the remaining 83.1% are influenced or explained by other variables that are not included in this research model.

5. CONCLUSION

This study aims to examine the influence of auditor competence, individual morality and the effectiveness of the internal control system on fraud prevention at a Public Accounting Firm (KAP) in Medan City. To analyze the relationship between the independent variable and the dependent variable, this study uses the help of the Statistical Product and Service Solutions (SPSS) program. From the results of the research that has been done, researchers can conclude that the auditor competence variable does not have a significant effect on fraud prevention. This illustrates that the auditor's competence has no relationship in conducting fraud prevention.

Individual Morality has a significant effect on fraud prevention. This can be interpreted that the higher the individual morality, the better the fraud prevention. The effectiveness of the internal control system has no effect on fraud prevention. This means that the internal control system has no relationship with fraud prevention. Fraud prevention is strongly influenced by auditor ability, individual morality, and the effectiveness of the internal control system. This shows that the three independent variables jointly affect fraud prevention. In other words, if an auditor has good competence, has good individual morality, and can comply with applicable rules, the level of fraud prevention will also be successful.

Based on the research that has been conducted, the researcher suggests that auditors are expected to increase audit competence by making good financial reports and reducing or avoiding fraud. Auditors are expected to have good individual morality so that with a high level of good moral understanding, fraud prevention will also run well. For auditors and public accounting firms, it is hoped that they will always carry out and implement an internal control system, with an effective internal control system, performance will also be more directed, so that fraud prevention will be higher. For all Public Accounting Firms (KAP), it is hoped that they can provide correct and reliable performance results and can minimize any acts of fraud that may occur. For further researchers, it can add variables that have more influence in preventing fraud.



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