

THE INFLUENCE OF INDEPENDENCE, INTEGRITY, AUDITOR EXPERIENCE AND AUDIT FEES ON THE ABILITY TO DETECT CREATIVE ACCOUNTING PRACTICES

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Abstract

The ability to detect creative accounting practices is the skill possessed by auditors to detect financial number games including earnings management in financial reports. This research aims to test and analyze the influence of Independence, Integrity, Auditor Experience and Audit Fees on the Ability to Detect Creative Accounting Practices partially and simultaneously. The population of this research is the auditors of the Medan City Public Accounting Office. The data collection technique used in this research was conducting a field survey, namely by distributing questionnaires. The data used is primary data obtained by administering 90 questionnaires. From the results of distributing questionnaires and collecting them again, the amount of data processed was 80 questionnaires. Determination of the sample using the saturated sample technique. The research design developed was multiple linear regression analysis. The data collected by researchers was processed using the SPSS application. The research results show that Independence, Integrity, Auditor Experience, and Audit Fees partially influence the Ability to Detect Creative Accounting Practices. In addition, the variables independence, integrity, auditor experience, and audit fees influence the ability to detect creative accounting practices simultaneously.

Keywords: *Ability to Detect Creative Accounting Practices, Independence, Integrity, Auditor Experience, and Audit Fees.*

1. INTRODUCTION

Creative accounting is a process where someone who has the ability to understand accounting knowledge and uses this ability to manipulate financial reporting to change financial reports so that the company's performance looks good and legal. Creative accounting practices are associated with engineering financial reporting information because financial information is disclosed better than truthfully (Qiat et. al, 2015). Creative accounting practices are one form of financial report manipulation. Mulford and Comiskey (2010) stated that creative accounting practices are steps used to play the financial numbers game. Creative accounting practices are not in accordance with the Statement of Financial Accounting Standards (PSAK) number 1 of 2015 concerning the presentation of financial reports. PSAK number 1 states that companies present all components of financial statements completely and with priority the same so that it is useful for users of financial reports. Based on the results of an analytical survey conducted by the Association of Certified Fraud Examiners (ACFE) Indonesia, there was an increase and decrease in financial report irregularities from 2016, 2018, 2019 and 2022. In 2016, it was proven that deviations in financial reports were 2%, in 2018 it was 10% , in 2019 it will be 6.7%, and in 2022 it will be 9%.

Bhasin (2016) conducted a survey on creative accounting practices with 85 respondents stating that creative accounting practices had a big impact on financial reports by 52.95% (45 respondents) and were very illegal acts by 28.23% (24 respondents). Bhasin's survey is in line with Widiasari's research *et al* (2021) which states that when companies carry out creative accounting practices, the fraud committed in financial reports increases so that the reliability of financial reports decreases.

2. THEORETICAL BASIS

2.1. Agency Theory

Agency theory is an agency relationship as a contract where one or more people (principals) ask another party (agent) to carry out a number of jobs on behalf of the principal which involves delegating some decision-making authority to the agent. The principal assesses management (agent) performance through financial performance reflected in financial reports due to management (agent)'s fear of disclosing information that is thought to be detrimental to themselves (Jensen and Meckling, 1976).

2.2. Attitude and Behavior Theory

Triandis (1971) stated that the theory of attitudes and behavior is that behavior is determined by what people want to do, what they think (social rules), what they will do (habits) and the consequences of the behavior they think about.

2.3. Ability to Detect Creative Accounting Practices

The ability to detect creative accounting practices is the ability to detect the existence of implementers from several parties who use expertise or abilities in accounting (including techniques or standards and so on) to manipulate financial reporting so that the financial statements look as good as desired. Creative accounting practices are actions that can mislead users of financial reports by presenting inaccurate information and giving rise to illegal actions.

2.4. Independence

Independence is the attitude and actions in carrying out an audit that do not take sides with anyone and are not influenced by anyone. Auditors must also be objective and free from conflicts of interest in carrying out their professional responsibilities (State Financial Audit Standards, 2017).

2.5. Integrity

Integrity is maintaining and expanding public trust so that members must carry out all professional responsibilities with high integrity. Integrity is a quality that arises from public trust and is the highest value for members of the profession in examining all decisions (Public Accountant Professional Code of Ethics Session 100, 2011).

2.6. Auditor Experience

Experience is a learning process and increasing potential to behave either from formal or non-formal education, thereby bringing a person to a higher pattern of behavior (Sari, 2014). Experienced auditors can help find solutions to the problems faced because they have knowledge, abilities and skills from previous cases.

2.7. Audit Fees

Audit fees are fees received by public accountants after carrying out audit services, in the form of compensation or wages (Mulyadi, 2016). Agoes (2012) said audit fees are a form of remuneration that auditors provide to clients and the amount of member fees can vary depending on the risk of the assignment, the complexity of the services provided, and the level of expertise required to carry out these services.

3. CONCEPTUAL FRAMEWORK AND HYPOTHESIS

3.1. Conceptual framework

This research aims to test and analyze the influence of auditors' independency, auditors' integrity, experience auditor and audit fees on the ability to detect creative accounting practices partially and simultaneously.

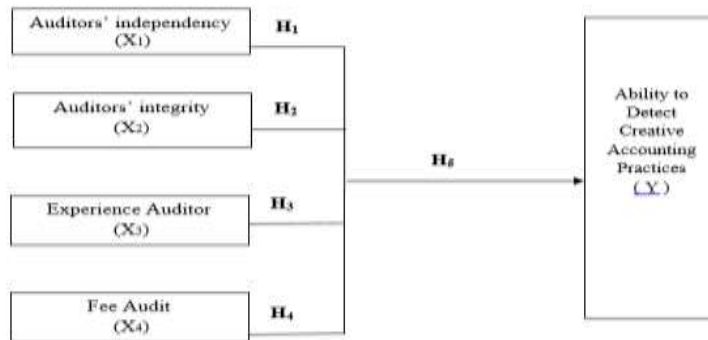


Figure 3.1 Research Conceptual Framework

3.2. Hypothesis

- H₁: Auditor independence has a positive effect on the ability to detect creative accounting practices
- H₂: Integrity has a positive effect on the ability to detect creative accounting practices
- H₃: Auditor experience has a positive effect on the ability to detect creative accounting practices
- H₄: Audit fees have a negative effect on the ability to detect creative accounting practices
- H₅: Auditor independence, auditor integrity, auditor experience and audit fees simultaneously influence the ability to detect creative accounting practices

4. RESEARCH METHODS

The research method used is a survey method by distributing questionnaires and is causality research. 90 questionnaires were distributed at the Medan City Public Accounting Office. Respondents totaled 80 auditors. Determination of the sample using random sampling techniques. The research design used is multiple linear regression analysis. Data collected by researchers was processed using SPSS. The multiple linear regression equation can be written as follows:

$$KMPAK = \alpha + \beta_1 INA + \beta_2 IA + \beta_3 PA + \beta_4 BA + e$$

$$KMPAK = 1.160 + 0.246 INA + 0.270 IA + 0.454 PA - 0.339 BA + e$$

Where :

- KMPAK = Ability to Detect Creative Accounting Practices
- α = Constant
- β = Independent variable coefficient
- INA = Auditor Independence
- IA = Auditor Integrity
- PA = Auditor Experience
- BA = Audit Fee
- e = error terms

5. RESULTS AND DISCUSSION

5.1. Research result

Descriptive statistics

Descriptive statistics is the use of statistics in analyzing data through explanations and descriptions of the material for obtaining respondents' answers. Descriptive statistical analysis is used to provide an overview of the variables in this research which shows the maximum value, minimum value, and average value of each variable.

Table 5.1 Descriptive Statistics

Variable	N	Mi n	Ma x	Mean
Independence (X ₁)	80	2	5	4.25
Integrity (X ₂)	80	2	5	4.19
Auditor Experience (X ₃)	80	2	5	4.03
Audit Fee (X ₄)	80	2	5	3.76
Ability to Detect Creative Accounting Practices (Y)	80	2	5	3.89

Partial Test (t Test)

Table 5.2 Partial Test Results (t Test)

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1,160	,622		1,864	,066
	Independence (X ₁)	,246	,100	,178	2,452	,017
	Integrity (X ₂)	,270	,077	,264	3,521	,001
	Auditor Experience (X ₃)	,454	,092	,377	4,935	,000
	Audit Fee (X ₄)	-,339	,082	-,281	-4,158	,000

a. Dependent Variable: Ability to Detect Creative Accounting Practices

Based on the table above, partial test results (t test), the following results are obtained:

1. Independence has a positive effect on the ability to detect creative accounting practices. This can be seen from the coefficient value of 0.246 and the significant value of independence of 0.017 which is smaller than 0.05, so the first hypothesis in this research states that independence has a positive effect on the ability to detect creative accounting practices so that H₁ is accepted.
2. Integrity has a positive effect on the ability to detect creative accounting practices. This can be seen from the coefficient value of 0.270 and the significant value of integrity of 0.001 which is smaller than 0.05, so the second hypothesis in this research states that integrity has a positive effect on the ability to detect creative accounting practices so that H₂ is accepted.
3. Auditor experience has a positive effect on the ability to detect creative accounting practices. This can be seen from the coefficient value of 0.454 and the significant independence value of 0.000 which is smaller than 0.05, so the third hypothesis in this research states that the auditor's experience has a positive effect on the ability to detect creative accounting practices so that H₃ is accepted.
4. Audit fees have a negative effect on the ability to detect creative accounting practices. This can be seen from the coefficient value (-0.339) and the significant independence value of 0.000 which is smaller than 0.05, so the fourth hypothesis in this research states that audit fees have a negative effect on the ability to detect creative accounting practices so that H₄ is accepted.



Simultaneous Test (F Test)

Table 5.3 Simultaneous Test Results

		ANOVA				
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	35,690	4	8,922	55,477	,000b
	Residual	12,062	75	,161		
	Total	47,752	79			

a. Dependent Variable: Ability to Detect Creative Accounting Practices

b. Predictors: (Constant), Audit Fee, Integrity, Independence, Auditor Experience

Based on Table 5.3, the results of the simultaneous test have a significant value of 0.00, which is smaller than 0.05, which means that independence, integrity, auditor experience and audit fees have a simultaneous effect on the ability to detect creative accounting practices.

Coefficient of Determination Test

Table 5.4 Coefficient of Determination Test Results

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,880a	,747	,734	,4010

a. Predictors: (Constant), Audit Fee, Integrity, Independence, Auditor Experience

b. Dependent Variable: Ability to Detect Creative Accounting Practices

Based on Table 5.4, the coefficient of determination test results for the adjusted R Square number are 0.734 (73.4%), which is the amount of influencing factors, namely independence, integrity, auditor experience and audit fees, which can provide an idea of the ability to detect creative accounting practices. The remaining adjusted R value of 0.266 (26.6%) is another factor outside the form of this research which can provide an illustration/explanation regarding the ability to detect creative accounting practices.

5.2. Discussion

The Effect of Auditor Independence on the Ability to Detect Creative Accounting Practices

The results of testing the effect of auditor independence on the ability to detect creative accounting practices show that auditor independence has a positive effect on the ability to detect creative accounting practices in the Medan City Public Accounting Firm. The independence of auditors at the Medan City Public Accounting Firm shows that auditors have very good independence. The auditor has an honest attitude, is not contradictory and does not take sides with anyone or has a high level of independence in carrying out audit duties. Independence is the first factor that auditors must have because independence is one of the important audit standards.

The Influence of Auditor Integrity on the Ability to Detect Creative Accounting Practices

The results of testing the influence of integrity on the ability to detect creative accounting practices show that integrity has a positive effect on the ability to detect creative accounting practices in the Medan City Public Accounting Firm. Auditors must have integrity, be honest and transparent, be brave, be responsible in carrying out audits.

The Influence of Auditor Experience on the Ability to Detect Creative Accounting Practices

The results of testing the effect of auditor experience on the ability to detect creative accounting practices show that auditor experience has a positive effect on the ability to detect creative accounting practices in the Medan City Public Accounting Firm. The auditor's extensive experience can grow the auditor's ability to process information, discover fraud, and make information comparisons of various alternative solutions and take the necessary actions. In contrast to auditors who have no experience and therefore do not have such abilities.

The Effect of Audit Fees on the Ability to Detect Creative Accounting Practices

The results of testing the effect of audit fees on the ability to detect creative accounting practices show that audit fees have a negative effect on the ability to detect creative accounting practices in the Medan City Public Accounting Firm. Securities and Exchange Commission (*Securities and Exchange Commission (SEC)*) in the Markelevich and Rosner (2012) article states that audit fees can affect auditor independence because audit quality can be reduced when the auditor is economically dependent on the client. High audit fees can raise questions about the auditor's independence and stakeholder trust in the company's financial reports audited by the auditor.

The Influence of Independence, Integrity, Auditor Experience and Audit Fees on the Ability to Detect Creative Accounting Practices Simultaneously

The results of the simultaneous test have a significant value of 0.00, which is smaller than 0.05, which means that independence, integrity, auditor experience and audit fees have a simultaneous effect on the ability to detect creative accounting practices. Independence, integrity, auditor experience, and audit fees have a significant influence on the ability of Public Accounting Firm auditors in Medan City to detect creative accounting practices. Auditors who have a lot of audit experience in auditing and the higher the level of independence the auditor has, the greater the auditor's ability to detect creative accounting practices.

6. CONCLUSIONS AND RECOMMENDATIONS

6.1. Conclusion

Auditor independence has a positive effect on the ability to detect creative accounting practices at the Medan City Public Accounting Firm. Auditor integrity has a positive effect on the ability to detect creative accounting practices at the Medan City Public Accounting Firm. Auditor experience has a positive effect on the ability to detect creative accounting practices at the Medan City Public Accounting Firm. Audit fees have a negative effect on the ability to detect creative accounting practices at the Medan City Public Accounting Firm. Auditor independence, auditor integrity, auditor experience and audit fees influence the ability to detect creative accounting practices simultaneously at the Medan City Public Accounting Firm

6.2. Suggestion

Carry out further testing of the variables by including other variables that influence the ability to detect creative accounting practices in Medan City public accounting firms, for example task complexity, gender, auditors' professional skepticism and accountability. It is hoped that further research can increase the number of respondents. It is hoped that further research can expand the research objects, for example internal auditors in private companies and state-owned companies.

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