FRAUD DETECTION IN ISLAMIC PERSPECTIVE IN PUBLIC ACCOUNTING OFFICES IN MEDAN CITY AND ITS RELATIONSHIP WITH THE SKEPTISM AND AUDITOR'S INDEPENDENCE

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Abstract

This study aims to determine and analyze the effect of professional skepticism and auditor independence on the ability of auditors to detect fraud in public accounting firms in Medan city. The sample data in this research are 63 auditors of all auditors who work in public accounting firms in Medan City. The primary data collected by using a questionnaire which was measured by a Likert scale. The Structural Equation Model (SEM) is used to estimate our models, with the

help of the WarpPLS application version 7.0. The Findings show that there is a significant influence of the variable professional skepticism on the ability of auditors to detect fraud. On the other hand, auditor independence variable gives no influence on the ability of auditors to detect fraud. For this reason,

Keywords: Professional skepticism, auditor independence, auditor ability, fraud detection

INTRODUCTION

The ability to detect fraud activity in an organization or institution is a skill that must be possessed by auditors to find indications of fraud. Kumaat (2011) says that fraud detection is an effort to get sufficient early indications of fraud, as well as to narrow the space for the perpetrators of fraud.

Auditing requires great service to the community and high moral commitment. Society demands to obtain the services of public auditors with high quality standards, and demands that they are willing to sacrifice themselves. Ethical standards are needed for the auditing profession because the auditor has a position as a trusted person and faces possible conflicts of interest (Widia Astuty, 2019).

Islam strongly rejects all acts of fraud, regardless of its form, because in principle it will result in harm that will harm all parties. In Islam, cheating is a form of disgrace. This is stated in the Qur'an Karim Surah Al-Muthaffifin verses 1-6:

وَيْلٌ لِّلْمُطَفِّفِينَ ٱلَّذِينَ إِذَا ٱكْتَالُواْ عَلَى ٱلنَّاسِ يَسْتَوْفُونَ وَإِذَا كَالُوهُمْ أَو وَّزَنُوهُمْ يُخْسِرُونَ أَلَا يَظُنُّ أُوْلَٰئِكَ أَنَّهُم مَّبْعُوثُونَ لِيَوْمٍ عَظِيمٍ

Meaning:

"Big woe to those who cheat. (That is) people who when they receive a dose from someone else, they ask to be fulfilled. And when they measure or weigh for others, they reduce. Don't these people believe that they will be resurrected. One big day. (That is) the day (when) man stands before the Lord of the worlds.

The Qur'anic verse concludes that if a person is given a mandate (in general) and especially as an auditor, he should be trustworthy, not commit fraudulent reporting so that the quality of the audit report can be accurate and reliable (Yurmaini, 2017).

Various findings on the financial statements produced by public accountants in general have caused negative perceptions in the public and users of public accounting services, this can be found from the various cases that occurred, which can be seen in table 1.

Table 1. Incidents of fraud cases

Case	Source
Unfair credit Tirta Amarta Bottling-Bank Mandiri, IDR1.8 trillion	Source: (Husin, 2018)
Fictitious receivables from Sunprima Nusantara Financing, IDR14 trillion	Source: (Liputan6.com, 2018
Inflated assets of PT Tiga Pilar Sejahtera Food, IDR4 trillion	Source: (Kontan, 2019
PT Garuda Indonesia revenue recognition too early, USD239 million	Source: (IAPI, 2019)
PT Hanson Internasional sales bubble, IDR613 billion	Source: (OJK, 2019
Public accounting firm Arthur Andersen manipulated the financial statements by recording a profit of $600 million when the company lost, with the aim of keeping investors interested in Enron's stock and providing an unqualified opinion on the financial statements of Enron Corporation, which, not long after, surprisingly, Enron Corporation was declared bankrupt.	Source: (Wiratama and Budiartha 2015)
KAP Dra. Meilina Pangaribuan, MM did not meet the professional code of ethics in terms of accepting and carrying out audit engagements for PT Jui Shin Indonesia for the 2015 financial year which had been audited by other KAPs and had not complied with auditing standards – SPAP especially regarding the absence of audit evidence on Sales accounts, Cost of Goods Sold, and Tax payable in the audit of the Financial Report of PT Jui Shin Indonesia for the 2015 financial year	Source: (Effendi 2019)
KAP Ordinary Sitepu Involved in the corruption case of bad credit, because he was involved in preparing Raden Motor's financial statements in order to obtain a loan worth Rp 52 billion from BRI Jambi Branch in 2009.	Source: (Wiratama and Budiartha 2015)
KAP Hasnil M Yasin and Partners manipulating the calculation of the 2001 and 2002 civil servants tax in Langkat Regency and 2008 in Simalungun Regency with a total state loss of Rp. 4.1 billion	Source: (Hasibuan, Lubis, and Bukit 2018)
Two members of the world's largest public accounting firm, KPMG and PWC, were fined millions of pounds for failing their audits. KPMG was fined more than US$6.2 million or GBP4.8 million by the Securities and Exchanges Commission (SEC) for its auditing failure of energy company Miller Energy Resources which had significantly increased the carrying value of its assets by 100 times from the real value in the 2011 financial statements. KPMG has also issued an unqualified opinion on the financial statements. PWC was fined GBP5.1 million and denounced by the Financial Reporting Council in the UK after PWC admitted to being wrong in its audit of RSM Tenon Group in the 2011 financial year. The audit failure was discovered after an accounting fraud scandal became public or was discovered by financial authorities or was discovered after the company open means experiencing a financial crisis and bankruptcy.	Source: (Prasanti, Ramadhanti, and Puspasari 2019)

Based on the description of the background and the phenomenon above, the authors conducted a study entitled "The Effect of Professional Skepticism and Auditor Independence on Fraud Detection in an Islamic Perspective at a Public Accounting Firm in Medan City."

LITERATURE REVIEW

The ability of an auditor to detect fraud is a process of finding or determining an illegal act that can result in intentional misstatements in financial reporting (Widyastuti & Pamudji, 2009). The method that can be used to detect fraud is to look at signs, signals, or red flags of an action that can be suspected of causing or potentially causing fraud. Fraud that may occur must be prevented, among others, by the following ways: 1. Establishing a good Internal Control Structure, 2. Streamlining control activities, 3. Increasing organizational culture, and 4. Streamlining the internal audit function.

Auditors need to have professional skepticism, especially when obtaining and evaluating audit evidence. The auditor should not simply assume that management is dishonest, but neither should the auditor assume that management is completely honest (IAI, 2000, SA section 230; AICPA, 2002, AU 230).Indicators to measure the variable of professional skepticism adopted from research (Hurtt, Eining, & Plumlee, 2003), namely: 1. Interrogative, 2. Prudence in making decisions, 3. Curiosity, 4. Interpersonal understanding, 5. Confidence, 6 .Confidence.

According to Arens (2009) independence is an impartial perspective in the implementation of tests, evaluation of examination results, and preparation of audit reports. According to (Elfarini, 2007) the independence of auditors is measured through: length of relationship with clients, pressure from clients, reviews from auditors and the provision of non-audit services. According to Supriyono (1988) examined 6 factors that influence independence, namely: (1) ties of financial interest and business relations with clients, (2) other services other than audit services, (3) duration of audit relationship between public accountants and clients, (4) competition between KAPs, (5) KAP size, and (6) audit fees.

From an Islamic point of view, audit activities are the embodiment of the maqashid sharia concept. Simply m*aqashid shari'ah* means the goals set by the Shari'a for the benefit of humans from a legal determination. The scholars agree that basically the legal rules that Allah has set aim to realize the benefit of humans and prevent humans from harm. Imam Abū āmid al-Ghazālī proposes five basic concepts of maqasid sharia, one of which is the protection of property (hifzul mal). A person's property must be protected from actions that can cause that person to lose his property by vanity, such as through acts of al-ghasb (forced taking) and al-sirqah (theft).

RESEARCH METHODS

This research is associative research. According to Marzuki (1999) this research is a research conducted with the aim of knowing the relationship between 2 or more variables. Associative research is research with the highest level compared to descriptive and comparative

research. With associative research, a theory can be built that serves to explain, predict and control a symptom/phenomenon. In associative research, this research includes causal research. Sugiyono (2011) states that the Causal Associative method is a research problem formulation that is asking the relationship between two or more variables. So here there is an independent variable (X) that affects and a dependent variable (Y) that is influenced.

The sample is part of the number and characteristics possessed by the population (Sugiyono, 2013). Sampling technique used is Stratified Random Sampling, namely taking samples from members of the population randomly and stratified proportionally (Akdon & Riduwan, 2008). The sample size of the population determined in this study was carried out by means of statistical calculations, namely by using the Slovin formula according to (Husein, 2010:146). For the level of precision specified in the determination of the sample is 10%. Determination of the number of samples in this study was carried out by statistical calculations using the Slovin formula. The level of precision specified in the determination of the sample is 10%. Based on the Slovin formula above,

The operational definition of the variable is a brief description of the research variables. This study uses independent and dependent variables. The independent variables used in this study are professional skepticism (X1), independence (X2) while the dependent variable in this study is the ability of auditors to detect fraud (Y).

The data used in this study is primary data, namely data obtained by field surveys in the form of questionnaires and must be reprocessed. Questionnaire method is a technique of collecting data through a form containing written questions to a person or group of people to get answers or responses as well as the necessary information. The scale used in this study is the Likert scale. Likert scale is used to measure attitudes, opinions and perceptions of a person or group of people about a phenomenon.

Before collecting data, all questionnaires must be tested for validity and reliability tests. There are two validity tests, namely convergent validity and discriminant validity. Convergent validity was tested through loading factor parameters and Average Variance Extracted (AVE) values. Measurements can be categorized as having convergent validity if the loading factor value is more than 0.7 and the AVE value is more than 0.5 (Ghozali, 2008). Discriminant validity is determined by looking at the cross loading of each variable. The measurement can be categorized as having discriminant validity if it has a cross loading value of more than 0.7 (Jogiyanto, 2011). The reliability test can be seen based on Cronbach's alpha value that must be more than 0.6 and the composite reliability value must be more than 0.7 (Jogiyanto, 2011).

This research uses data analysis method using WarpPLS software version 7.0 which is run on computer media. PLS (Partial Least Square) is a variant-based structural equation

analysis (SEM) that can simultaneously test the measurement model as well as test the structural model. The measurement model is used to test the validity and reliability, while the structural model is used to test causality (testing hypotheses with predictive models). Descriptive statistical analysis was used to determine the characteristics of the sample used and describe the variables in the study. Descriptive statistical analysis includes the number, sample, minimum value, maximum value, average value (mean), and standard deviation of all variables.

This data will be analyzed using statistical analysis, namely the partial least square – structural inquiry model (PLS-SEM) which aims to perform path analysis with latent variables. This analysis is often referred to as the second generation of multivariate analysis (Ghozali, 2018). Variant-based structural equation analysis (SEM) which can simultaneously test the measurement model as well as test the structural model.
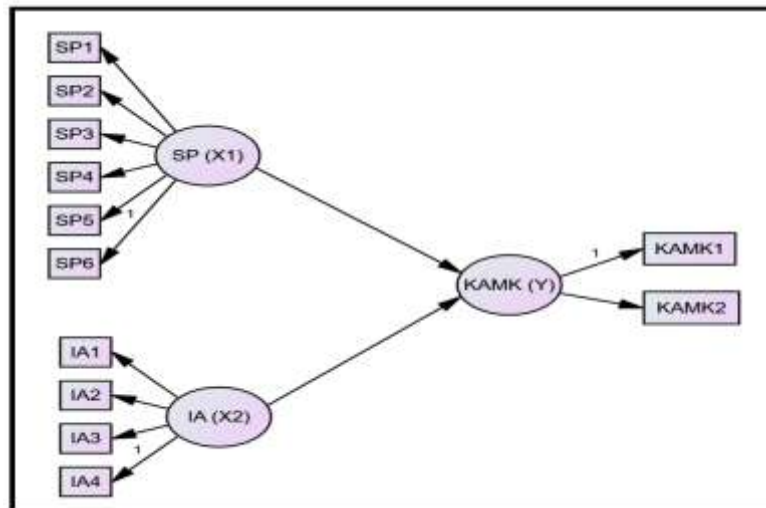

Figure 1. PLS Structural Model

There are two group stages to analyze SEM-PLS, namely the analysis of the measurement model (outer model), namely (a) convergent validity; (b) construct reliability and validity; and (c) discriminant validity and structural model analysis (inner model), namely (a) coefficient of determination (r-square); (b) f-square; and (c) hypothesis testing (Hair, et al., 2014). In the PLS (Partial Least Square) method, the analysis techniques carried out are as follows:

1) Analysis of the Measurement Model (Measurement Model)

This analysis is carried out to ensure that the model used is feasible to be used as a measurement model (valid and reliable). The analysis of this model specifies the relationship between latent variables and their indicators.

2) Structural Model Analysis (Structural Model)

This analysis describes the relationship between latent variables based on a valid theory. This analysis can be evaluated using the R-square parameter, Stone-Geisser Q-square test for predictive tests and t-test and the significance of the coefficients of the structural path parameters.

3) Hypothesis testing

In testing the hypothesis, it can be seen from the t-statistical value and probability value. To test the hypothesis by using statistical values, for alpha 5% the t-statistic value used is 1.96. So the criteria for acceptance/rejection of the hypothesis are that Ha is accepted and H0 is rejected when the t-statistic > 1.96. To reject/accept the hypothesis using probability then Ha is accepted if the probability value is <0.05.

RESULTS AND DISCUSSION

The results of the estimation of the structural model from this study can be seen in Figure 1 below. The R-square parameter from the model estimation results is 0.75, indicating that the independent variables (Professional Skepticism (X1) and Auditor Independence (X2)) which are selected together are able to explain the dependent variable (Auditor Ability to Detect Fraud (Y)) . From the R-square value, it can be concluded that the structural model is included in the category of a good model.
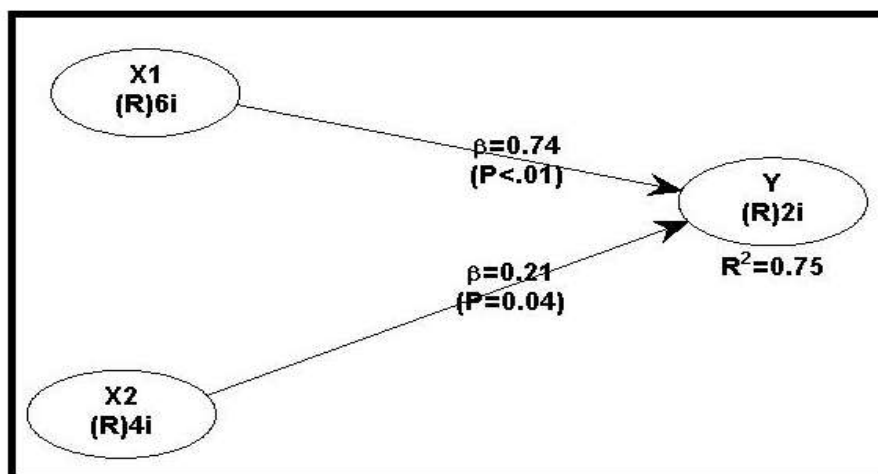

Figure 2. Estimation result of SEM model

From the estimation results of the structural model as shown in Figure 1 above, it can be seen that the Professional Skepticism variable (X1) has a positive and significant effect on the Auditor's Ability to Detect Fraud (Y), with a beta coefficient of 0.74. The value of this coefficient

indicates a strong influence between the two variables. The probability value (p-values) of the effect of X1 on Y is <0.01, meaning that the effect is significant at the alpha error rate (kesalahan) <1%, which also indicates that the effect is very statistically significant. From hereThe probability value obtained can be concluded that the hypothesis H0 is rejected. The implication is that the greater the professional skepticism of an auditor, the higher the level of the auditor's ability to detect fraud. Skepticism is needed by an auditor in carrying out his activities to detect fraud. A skeptical auditor will not take for granted explanations from clients or information from one particular party, but he will ask questions and look for other ways to obtain reasons, evidence, and confirmation of the object in question.

The value of the beta coefficient on the Auditor Independence variable (X2) is 0.21 which indicates that the influence of the X2 variable on the Auditor's Ability to Detect Fraud (Y) is on a moderate scale. The probability values (p-values) of the effect of X2 on Y are 0.04, meaning that the effect is significant because <0.05.Thus, auditor independence plays an important role in fraud detection. The increasing attitude of auditor independence is expected to be more able to detect fraud. An auditor who is independent will avoid conflict of interest with the party being audited (auditee), and also avoids pressure from internal and external auditee parties.

The parameter estimation results for the measurement model (outer model) can be seen in the summary of table 2 below.

Table 2. Cross loading factor

	X1	X2	Y	Type	SE	P value
X1.1	0.824	-0.125	-0.026	Reflect	0.095	<0.001
X1.2	0.868	0.193	-0.394	Reflect	0.094	<0.001
X1.3	0.871	0.078	-0.089	Reflect	0.093	<0.001
X1.4	0.877	-0.136	0.135	Reflect	0.093	<0.001
X1.5	0.912	-0.071	-0.059	Reflect	0.092	<0.001
X1.6	0.715	0.072	0.528	Reflect	0.099	<0.001
X2.1	-0.066	0.905	0.184	Reflect	0.092	<0.001
X2.2	0.223	0.831	-0.374	Reflect	0.095	<0.001
X2.3	0.065	0.858	0.050	Reflect	0.094	<0.001
X2.4	-0.225	0.805	0.126	Reflect	0.096	<0.001
Y.1	0.100	-0.096	0.895	Reflect	0.093	<0.001
Y.2	-0.100	0.096	0.895	Reflect	0.093	<0.001

From the table above, it can be seen the estimation results related to the validity and reliability of the model construction. First; the convergent validity of all indicators forming the

measurement model is valid because all loading factors are >0.7. Second; the discriminant validity value is valid. This can be seen from the loading factor value of each model forming indicator which is greater than the cross loading factor value between variables. Meanwhile, the test results refer to table 3 below.

Based on table 3 data, it can be seen that each of the variables Professional Skepticism (X1), Auditor Independence (X2) and Auditor Ability to Detect Fraud (Y) has a Cronbach's Alphas value > 0.7. Thus these results can indicate that each variable has met the requirements of Cronbach's Alpha value, so it can be concluded that all variables have a high level of reliability. In addition, it can also be seen that the Composite Reliability value is > 0.6. These results can be concluded that each variable Professional Skepticism (X1), Auditor Independence (X2) and Auditor Ability to Detect Fraud (Y) has met Composite Reliability, meaning that all indicators of research variables are declared eligible or valid for research use.

Table 3. Coeff. of Cronbach Alpha, Composite Reability, and AVE

	Cronbach's Alpha	**Composite Reliability**	**Average Variance Extracted (AVE)**
SP (X1)	0.92	0.937	0.712
IA (X2)	0.872	0.912	0.721
KAMK (Y)	0.752	0.89	0.801

From the results of the loading factor estimation for each indicator as well as an assessment of the validity and reliability of the measurement model above, it can be concluded that all indicators in each latent variable are valid and reliable to use.

CONCLUSION

Based on the results of the research and discussion that have been stated previously, it can be concluded from the research regarding the effect of auditor knowledge, professional skepticism, auditor independence on the auditor's ability to detect fraud at the Public Accounting Firm in Medan City as follows:

1. Auditor professional skepticism affects the auditor's ability to detect fraud at the Public Accounting Firm in Medan City. This shows that the higher the professional skepticism of the Public Accountant, the better the auditor's ability to detect the resulting fraud.
2. Auditor independence affects the ability of auditors to detect fraud at the Public Accounting Firm in Medan City. This shows that the higher the auditor independence of the Public Accountant, the better the auditor's ability to detect fraud committed.

Further researches are needed to explore the impact of other additional independent variables such as the auditor experiences, ethics, competency and interpersonal communication of auditors etc in both Medan city or north Sumatera province as a larger area.

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