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The Impact of Internal Audit Function and Internal Auditor Competency on Detection of Fraudulent Financial Statement Survey in Internal Auditors of State-Owned Bank in Indonesia

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ABSTRACT: - The results of this research revealed, the internal audit function and internal auditor competency against detection of fraudulent financial reporting of internal auditor state owned bank in Indonesia. The research population was 489 internal auditor voters. Using the Slovin formula, the number of samples was 220 respondents. The list of questions in this research was structured data information from internal auditors of state-owned banks in Indonesia. The respondents in this research were internal auditors and the audit committee. Result of this research, internal audit function and internal auditor competence has positive impact on financial statement fraud detection, and simultaneously internal audit function variable and internal auditor competence have positive significant effect on fraudulent financial reporting detection. The most dominant variable whose influence is internal auditor competence, this can be seen from the high β value of the other variables. The competencies possessed by state owned bank auditor can help the organization to detect intentional fraud in preparing financial statements that provide biased and misleading information. The competence possessed by internal auditors can be seen from the procedural skills they have, audit experience, education level, so that they have the ability to improve the effectiveness of added value in internal audit, which is governance, risk management, and control processes so that in the end the financial statements that become the entity's activity reports for the year walk free from material misstatement, trustworthy, and reliable.

KEYWORDS :- in*ternal audit function, internal auditor competence, fraudulent financial reporting detection*

I. INTRODUCTION

Fraud in financial reports is a high level of crime that can harm the company. Fraud in financial statements is one of the serious problems that must be addressed immediately because people rely on financial statements as an important data on the company's financial performance in decision making. This form of fraud covers the true financial condition by engineering financial statements, misuse of accounting principles and changes or falsification of corporate accounting records motivated to fraudulent financial reporting when companies face a strong economy so that companies report results that look more profitable than having to follow provisions, as well as when ownership structures encourage financial performance for short-term orientation. A company under financial pressure (economic factors) and worsening financial conditions can motivate people in the company to take actions intended to improve the appearance of the financial position of company.

To reveal the perpetrators of fraud is very difficult because they are in the company environment, only the symptoms of fraud can be seen and even after the perpetrators of fraud have done their actions. SAS 99 said that, responsibility for detecting fraud, explains internal and external auditors using red flags among them: opportunities, incentives and pressures, and rationalization it is called fraud triangle (Albrecht et al., 2012). To catch fraud perpetrators, auditors must continue to practice to add capabilities in the field of auditing. This knowledge can be obtained from formal education that is expanded and augmented among others through auditor training and experiences in the practice of audit (Asthon, 1991). Components forming auditor competence consist of psychological characteristics, decision making strategies, knowledge components, thinking ability, and task analysis (Nursyofah, 2012).

In order for the internal auditor of a state-owned bank to run and work properly, the internal auditor must carry out the applicable internal audit function. Public Company must establish an audit committee in order to carry out its jobs effectively, the audit committee also requires an internal audit function. The current phenomenon of economic globalization provides awareness in order to realize good corporate governance in State-Owned banks in Indonesia. This demand is felt to be reasonable because so far State-Owned banks have been managed in a less transparent and less professional manner, so it is far from the principles of good corporate governance. As a business entity, the role of State-Owned banks is felt to be quite dominant in terms of its assets, which in total amount to hundreds of trillions of rupiah (Herawati, 2013).

II. LITERATURE REVIEW AND HYPOTHESES

Internal auditor activity can reduce 35% of the occurrence of fraud. This is where the importance of the role of an internal auditor, with the authority duties, and possessed by the internal auditor can play a role in the detection and prevention of fraud in the institution where he works. Therefore, to be able to detect internal fraud the auditor must have expertise as the existence of knowledge about the definite symptoms, the intent of each problem and the expertise to resolve the problem (ACFE, 2014).

2.1 Internal Audit Function

The scope of internal audit must include examining, and evaluating the adequacy and effectiveness of the organization's internal control system and the quality of work in carrying out the responsibilities given (Mulyadi, 2014). And it can be seen that internal audit must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach (Reding, 2013), (Tugiman, 2011)

2.2 Competency Internal Auditor

Detecting fraud is difficult. need special competence in carrying out the examination. The expertise in detecting fraud is important for the auditor to carry out his duties and detect fraud (Roe, 2001). Fraud in financial statements requires special competencies in addition to accounting competencies, such as skills, expertise, experience. The longer the auditor audits, especially cases of fraud, auditors will be more accurate in detecting fraud (Walsh, 2004).

2.3 Detection of Fraudulent Financial Reporting

Fraud in the financial statements is an action taken deliberately to enhance your financial statements (Belkaoui, 2004). This is done to enrich yourself, your family, and management. The perpetrators of fraud in financial statements always provide corrections that cheating is a good thing for example inflating profits, lowering the burden so that the financial statements look beautiful. The benefits are annual bonuses, promotion, and a luxurious life.

2.4 Fraud Theory

(Cressey,1953) who concluded fraud consisted of three general conditions (Dorminey et al, 2012):.

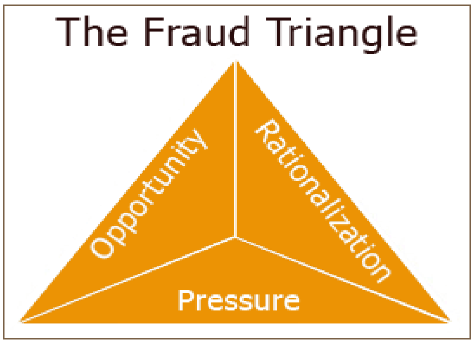

Figure 1. Fraud Triangle

a. Opportunity

Someone cheating definitely when there is an opportunity. If the opportunity comes fraudsters will take advantage of the opportunity to commit fraud. Cheating in financial statements is usually done at certain times for example when the boss is not in the office, he will use the opportunity to commit fraud. The higher the position, the greater the opportunity for cheating.

b. Pressure

Pressure to commit fraud is more dependent on individual conditions, such as facing financial problems, bad habits such as gambling and drinking; or have unrealistic expectations / goals. Financial problems are generally caused by urgent needs and cannot be helped by others.

c. Rationalization occurs when someone builds justification for cheating. For example, someone claims to take company money, but he pretends to only borrow and will return the money after receiving a salary or quibble that he deserves because he has worked hard for the company.

2.4 Conceptual Framework

The relationship between the variables used is seen as Figure 2, and each relationship between the independent variable and the dependent variable represents the hypothesis.

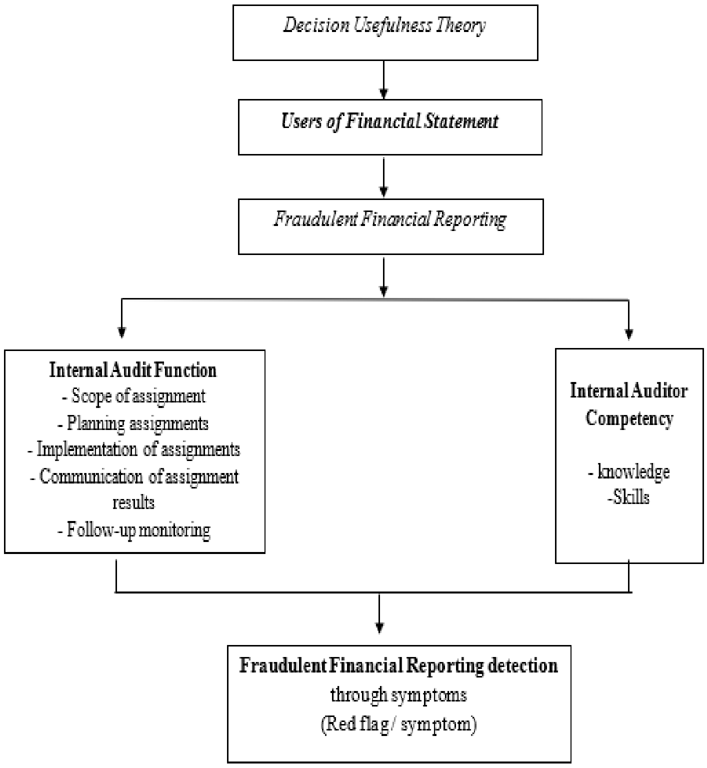

Figure 2 Conceptual Framework

2.5 Research Hypothesis

The hypothesis in this study is how the variable x (independent) internal audit function and the competence of internal auditors, affect the variable y (dependent) of fraud in financial statements, and how the two independent variables x simultaneously affect the dependent variable.

III. RESEARCH METHODE

This research is survey explanatory research was used to obtain descriptive, systematic or factual and accurate descriptive or depictions of facts and the relationship between variables studied.The population of the research were all internal auditors and audit committees of state-owned banks in Indonesia, totaling 489 participants. Referring to the Slovin formula with a tolerance of 5%, the number of samples is 220 respondents,using multiple linear regression.

IV. FINDINGS AND DISCUSSION

4.1 Characteristic Respondents

The selected sample in this research was 220 respondents from the total questionnaire that was distributed only returned a total of 182 questionnaires, an analysis of the returned questionnaire and from the questionnaire that was eligible to be analyzed was 160 questionnaires or by 73% so that the total sample was 160 respondents. The basis of the analysis is obtained through the processing of primary data that is from questionnaires that have been sent to respondents. Primary data consists of questionnaires in the form of case studies that are used to assess internal auditors in detecting fraudulent financial reporting.

4.2 Instrument Testing Results

All three variables tested in this study have been successfully tested for validity and reliability. Results of testing the validity of the independent variables and the overall dependent variable has a correlation number above 0.3
which means that overall valid data is used to measure the variables to be examined. For the reliability test, it shows number 0.770 which one greater than 0.70 so that the data is reliable and can be continued in further analysis.

4.3 Testing Multiple Linear Regression

Table 1 Multiple Regression Output

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	T	Sig.
1	(Constant)	134,393	26,871		5,001	,000
	x1	,499	,247	,160	2,016	,045
	x2	,524	,345	,166	2,096	,038

a. Dependent Variabel: y

Source: SPSS V.23

Based on the calculation results, we get the equation of multiple linear regression as follows:

$$Y = 134,393 + 0.499 X1 + 0.524 X2 + e$$

a) A constant of 134,393 means that if the Internal Audit Function and the Internal Auditor Competency value is 0 then the Fraudulent Financial Reporting Detection value is 134.339

b) Internal Audit Function Regression coefficient of 0.499 states that each addition of the internal audit function by 1 unit, it will increase the Detection of Financial Reporting Fraudulent Financial Reporting by 0.499

c) Internal Auditor Competency regression coefficient of 0.524 states that for each addition of internal auditor competence by 1 unit, it will increase Detection of Financial Reporting Fraudulent Financial Reporting by 0.524.

d) The regression coefficient / β of 0.499 and 0.524 indicates that there is a variable relationship. Positive correlation shows that the relationship is unidirectional. The better the Internal Audit Function and the Internal Auditor Competency, the better Detection of Fraudulent Financial Reporting.

4.4 Analysis Coefficient of Determination

Table 2 Coefficient Determination

Model Summary

Model	R	R Square	Adjusted R Square
1	,512[a]	,450	,330

a. Predictors: (Constant), x2, x1

Source: SPSS V.23

Coefficient of determination is 0.330 or 33%. It shows that the independent variables jointly influence the dependent variable by 33%. The influence of the independent variable by 33% can be said to be small on the dependent variable, while the remaining 67% can be explained by other variables outside the regression model above.

4.5 Hypothesis Test

Table 3 F-test for multiple linear regression

ANOVAa

Model		Mean Square	F	Sig.
1	Regression	5090,286	3,659	,028[b]
	Residual	1391,037		
	Total			

a. Dependent Variabel: y
b. Predictors: (Constant), x2, x1

Source: SPSS V.23

The F-count value of 3.659> F-table (n-k-1 = 157) is 2.655 and the significance value is 0.028 <0.050, so that there is a significant simultaneous from the variable Internal Audit Function and Internal Auditor Competency. All independent variables together can provide a significant impact on the Detection of Fraudulent Financial Reporting.

Table 4 T- test for multiple linear regression

Coefficients[a]

Model		Unstandardized Coefficients B	t	Sig.
1	(Constant)	134,393	5,001	,000
	x1	,499	2,016	,045
	x2	,524	2,096	,038

a. Dependent Variabel: y

Source: SPSS V.23

Internal Audit Function variable t-count of 2.016 when compared with t table 1.975 obtained t count > t table = 2.016> 1.975. Meanwhile the significance value of the internal auditor function is 0.045 when compared with α = 5%, 0.045 <0.05 is obtained. Ho is rejected, this means that partially the Internal Audit Function has a significant impact on the detection of fraudulent financial reporting.

Internal Auditor Competency has a t-value of 2.096 when compared with the value of t table 1.975, it is obtained t-count> t table = 2.096> 1.975. Meanwhile the significance value of the Internal Auditor Competency is 0, 038 when compared with α = 5%, it is obtained 0. 038 <0.05. Ho is rejected, this means that partially the Internal Auditor Competence has a significant impact on the detection of fraudulent financial reporting.

V. CONCLUSIONS AND RECOMMENDATIONS

This research produces the following conclusions: 1). The independent variable, namely the internal audit function, has a significant effect on the detection of financial statement fraud. Internal audits function to prevent and detect irregularities that occur in organizations according to Petrascu (2014). In addition, Soeharmoro (2012) concluded in his research that there was an influence of the character of the internal auditor on the detection of fraud. Then the results of Gras-gill (2012) conducted research on internal audit and financial reporting, where the internal auditor's function influences openness, integrity and standard of financial reports, and internal audits are able to evaluation and explain problems of finding. In line with Coram et.al, (2006) proved there is a very strong influence between organizations that have an internal audit function with fraud detection. Wilopo (2006), in his research that analyzed the factors that impact the trend of accounting fraud: a research of general companies and state-owned enterprises in Indonesia. Salameh (2011), internal auditors are able to detect fraud in the company from their knowledge. This is in accordance with the internal audit function, which is detecting fraud. It is proved that auditors internal was competent in detecting fraud compared to external auditors. 2) The second result of this research is that the independent variable of internal auditor competence has a great effect on the detection of financial statement fraud. This means that the better competency of internal auditors, the better the detection of financial statement fraud. Client business understanding, audit experience, auditor ability to detect fraud have a positive impact on fraud detection strategies according to Lianitami (2016). The variable of competence influencing fraud detection was successfully proved by Sulistyowati (2015). Auditor competence has a great impact to sense fraud in audits. This proves that more competent auditors will be able to improve the ability to detect fraud Idawati (2015), from Widyastuti (2009) research, namely the internal auditor's competence influences the auditor's ability to detect fraud. Continuing education can improve the ability of internal auditors to detect fraud, the technical competency of internal auditors will increase credibility in the financial reporting process (Kranacher, 2008). 3)The internal audit function together with internal auditor competency are simultaneously able to influence the fraudulent detection of financial reporting, and the contribution of a greater influence is indicated by the internal auditor competency variable. The most dominant variable influences the competence of internal auditors. This can be seen from the high value of β from other variables.

Recommendation in this research :1) Internal auditors need competence to be able to support fraud. Cheating is difficult to detect because it can only be detected from symptoms to detecting fraudulent actions in the preparation of financial statements. In order to improve competence, internal auditors must be supported with education and experience such as participating in the CFE (Certified Fraud Examiner) fraud certification program and other supporting certifications, taking public speaking classes to improve communication skills. Training needs to be provided in the form of seminars and group discussions on red flags and other forms of cheating. 2) For the government, it is necessary to support each professional certification program provided by each professional institution by conducting training that can give internal auditors recognition of their abilities.

Input for other researchers need to expand scope: 1) The independent variable in this research still cannot contribute significantly to the dependent variable. From statistic result adjusted R^2 value which is only able to reach 33%. Thus, it is recommended for further researchers to add independent variables that theoretically affect the financial statement fraud detection. If the next researcher wants to add new variables it is recommended to use the variables of experience, independence and professionalism. 2) In this research only using state-owned banks in Indonesia. Future studies are suggested using other state-owned bank companies. Because of course every company is very risky of fraud in the preparation of financial statements. In addition to state owned banks, researchers can then add Regional Development Banks (BPD).

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