Fraud Prevention in the Public Accountant Firm

Muhammad Nur Rizky[1], Lindrianasari[2],Fransisca Hanita Rusgowanto[3]

[1]Accounting Program, School of Accounting, Bina Nusantara University, Jakarta, Indonesia, 11480.
[2,3]School of Accounting, Bina Nusantara University, Jakarta, Indonesia, 11480.

ABSTRACT: This study aimed to determine the effects of internal controls, auditor competence, and auditor independence on fraud prevention in the Public Accounting Firm in the Jabodetabek area. The study employed a quantitative method with a purposive sampling technique. The total sample was 200 respondents, and the data was processed using the SmartPLS application. The test methods applied the validity, reliability, and hypothesis tests. The results revealed that internal controls and auditor competence positively affected the fraud prevention. Meanwhile, auditor independence showed a positive relationship, but did not show a significant effect.

KEYWORDS: Internal Control, Auditor Competency, Auditor Independence, Fraud Prevention

LITERATURE REVIEW

According to the Association of Certified Fraud Examiners (ACFE, 2016), fraud refers to an action against the law, is done intentionally for a specific purpose, either manipulation or false reports against the other party is performed by organizational insiders or outsiders to gain personal or communal benefits that directly or indirectly harm others.

A robust control system is necessary as a preventive effort to tackle fraud. There are various applicable ways, one of which is strengthening internal control. Meanwhile, Hery (2016: 159) defines internal control as "a set of policies and procedures to protect the company's assets or property from all forms of abuses, to ensure the company's accurate accounting information availability, and confirm that all employees have complied with or executed all provisions (regulation) of the law, and management policy properly. The internal control aims to monitor if the company runs operational and financial activities following the procedures and policies set by the management.

The ACFE (2020) explains that although the organization has built an anti-fraud system or method, the implementation of this system or method may weaken the developed anti–Fraud. Therefore, outside parties, such as an auditor, are necessarily involved to ensure that all management elements obey the regulations and procedures.

The Indonesian Institute of Public Accountants (IAPI, 2016) states that "auditors will apply their professionalism and knowledge to complete an engagement either in a team or independently by considering Professional Standards of Public Accountants, code of ethics, and applicable laws. Auditor competence can be acquired through higher education in accounting, development activities and training of professionals in a workplace, and practical work experience to verify the application. A professional certification is a form of recognition from IAPI for an auditor's competence. Meanwhile, independence is the second common standard of three auditing standards established by the Indonesian Institute of Accountants (IAI), stating that auditors must maintain independence. The Statement of Auditing Standards (PSA) No. 04 (SA Section 220) confirms that this standard requires an auditor to be independent; he is not easily influenced because he works for the public. In performing his duty, an auditor is required to be expert and independent to prevent any possibility of fraud occurrence.

THEORY AND HYPOTHESES

Agency theory as a contractual relationship between principals and agents. This theory aims to explain the relationship business between principals (shareholders), agents (management company), and the third party (auditor). The auditor as the third party works as an independent party that bridges the interests of each party and acts as an independent mediator from all related parties; thus, the company can prevent conflict of interests and asymmetric information that can trigger fraud. The theory of planned behavior initially developed by Ajzen and Fishbein (1980 and explained that attitude and subjective norms affected individuals' behavior or actions through behavior controls. Attitude refers to someone's expression or feeling to reflect his likes or dislike of an object. Meanwhile, subjective norms constitute social pressures and individual beliefs to comply with directions or suggestions

from the closest people. Meanwhile, behavior control is an individual control to perform a certain behavior and describes individual abilities to perform a behavior.

Internal control is an organizational structure, method, and coordinated measure to protect the organization's assets, check the accuracy and reliability of accounting data, and encourage the compliance with management policies (Mulyadi, 2017: 129). It can be concluded that internal control is a process run to provide adequate assurance and assure that the control objectives are achieved. An auditor must possess competence in auditing to prevent or minimize fraud. Moreover, he is responsible for checking the financial statements of a client's company before they are presented to the public. According to the Indonesian Institute of Public Accountants (IAPI, 2016), auditor Competence is the ability of individual professional auditors in applying the knowledge to complete a job, either jointly in a team or independently based on Public Accountants Professional Standards, code of ethics, and applicable law. In performing his duties, an auditor must be competent and independent to lessen any probability of fraud occurrence. The Statement of Auditing Standards (PSA) No. 04 (SA Section 220) confirms that an auditor must be independent; he is not easily influenced and stands objectively because he works for public interests.

The Association of Certified Fraud Examiner (ACFE, 2016) defines fraud as an unlawful act performed by internal or external parties of an organization and intending to gain personal or communal benefits that can be detrimental to another party. The Association of Certified Fraud Examiners (ACFE) classifies fraud into three types: corruption, asset misappropriation, and financial statement Fraud.

Hypotheses Development

The focus of the research conducted by Mirinaviciene (2014) is to analyze previous research that detects and prevents fraud. From previous researchers it was found that strong internal control is a factor that will result in fair financial reporting for report users and at the same time can prevent and detect fraud. The development of an internal control system is very beneficial for a reliable financial report, plus employee fraud can be very expensive for businesses and the company's economy (Mirinaviciene, 2014) and improves the performance of SMEs (Shanmugam, Che Haat, & Ali, 2012). Other studies that have found that internal control can prevent financial crime are Adetiloye, Olokoyo, & Taiwo (2016); Joseph, Albert, & Byaruhanga (2015); Iyinomen & Nkechi, (2016); and Taufik (2019). Internal control itself is effective against fraud, although not all staff are committed to good internal control enforcement.

H₁: An internal control positively influences fraud prevention.

In previous studies, the competence of auditors examined was predicted as an element that determines the occurrence of financial statement fraud. The experience and knowledge of the auditor in auditing is used as an influential variable in preventing fraud, because with this experience and knowledge the auditor can carry out the audit process with scepticisms and objectivity. Research to determine the effect of auditor professional competence on audit quality to prevent fraud from the perspective of auditors working in companies, has been carried out in many countries, such as Iran (Zahmatkesha & Rezazadeh, 2017), Tunisia (Thabet, 2017), Indonesia (Susanto, Mulyani, Azis, & Sukmadilaga, 2019), Turkey (Kurnaz, Köksal, & Ulusoy, 2019), and Malaysia (Othman, Aris, Mardziyaha, Zainan, & Amin, 2015). The researcher identified the shaping factors on audit quality in Iran and found that the professional competence of auditors has a significant effect on audit quality (Zahmatkesha & Rezazadeh, 2017). An important argument described in the study is that hiring auditors who have high experience can of course increase the sensitivity of the investigations carried out by auditors on the object of examination and will ultimately improve audit quality. Thabet (2017) argues that the ability of auditors to increase independence and the professionalism of auditors, including in the public sector (Othman et al., 2015).

These studies recommend that auditors obtain deeper and better knowledge and training to achieve competence in performing audit work as assigned (Zahmatkesha & Rezazadeh, 2017; Thabet, 2017; and Othman et al., 2015).

H₂: An auditor's competency positively influences fraud prevention.

As a professional and has a binding professional code of ethics, auditors play a key role in contributing to the credibility of the financial statements they report. A high-quality audit can support the financial stability of the auditee company (Ismail, Merejok, Dangi, and Saad, 2019). Likewise, the independence, competence, and workload of the auditor are some of the variables that will affect the quality of the audit. The importance of conducting audit quality studies is because audit quality will suppress financial statement crime behavior (Al-Sorihi, 2018; Huang and Thiruvadi. 2010). So that research related to the factors that have an impact on the quality of financial statements (Amara, Ben-Amar, and Jarboui, 2013) include the size of the audit firm and the independence of the auditors significantly impacting the company's financial performance (Farouk and Hassan, 2014; Hien-Phana, Laib, Lec, Trand, and Trane, 2020), and the quality of internal control and internal audit (Hien-Phan et al., 2020). The results of this study explain that auditor independence influences financial statement crime prevention measures.

H₃: An auditor's independence positively influences fraud prevention.

Fraud Prevention in the Public Accountant Firm

RESEARCH METHODS
Data and Source
This study employed an associative quantitative method. Quantitative research is a process of obtaining and analyzing data through numbers. Rahi (2017) opines that a quantitative method focuses on data collection adjusted with a major problem of populations and ignores personal feelings or environmental context in the data analysis. The analysis unit of this research was all auditors, including active auditor and those who worked as an auditor, in the Public Accounting Firm (KAP) in Jakarta. Meanwhile, the time horizon of this research was a cross-sectional study.

Sampling Techniques
A wider scope of the research object, namely the Jabodetabek region (Jakarta, Bogor, Depok, Tangerang, Bekasi), was expected to provide accurate, complete, and useful information on fraud prevention for the research results. However, the research population was difficult to determine or accurately calculate because the number of auditors in Jabodetabek always increases or reduces every day. Therefore, this research employed a purposive sampling technique to collect the data because the researchers could determine the sampling by setting specific characteristics following the research objectives. The Cochran formula can be applied to determine samples with an unclear total population. Based on this theory, the minimum samples of this study were 97 respondents. Meanwhile, the criterion of the respondents was auditors working in the Public Accounting Firm HOOD in the Jabodetabek area.

Research Instruments
The data collection methods of this research were surveys with questionnaires. Survey research is a method to gain data from a specific natural place (not artificial); researchers can collect data by distributing the questionnaire, researching a library, etc. The questionnaire of this study employed Likert scales as the measurement scale. Likert scales refer to a scale designed to assess the rates of respondents' approval attitudes to a statement. The Likert scale of this research consisted of five levels of preference answers: strongly disagree (SD), disagree (D), undecided (U), agree (A), and strongly agree (SA).

RESULTS AND DISCUSSION
Respondents
This research involved 207 respondents, but only 200 samples were collected because they meet the research criteria. The research instruments included an online questionnaire distributed on Google Form to auditors who work in the Public Accounting Firm in the Jabodetabek area. This questionnaire was distributed from May 26 to June 18, 2021. The respondents' characteristics represent gender, age, the location of the Public Accounting Firm, and future work. This study found that the majority of the respondents were men for 114 respondents (57%), while women were 86 respondents (43%). The respondents' ages were divided into three categories: 20-29 years old, 30-39 years old, and 40 years old and above. This research obtained 96 respondents (48%) were 20-29 years old, 72 respondents (36%) were 30-39 years old, and 32 respondents (16%) were 40 years old or above.

This study employed a purposive sampling technique by determining the respondents' criteria: auditors working in the Public Accountant Firm in Jakarta, Bogor, Depok, Tangerang, dan Bekasi (Jabodetabek). Based on these areas, this study collected 65 respondents (32.5%) from Jakarta, 25 respondents (12.5%) from Bogor, 24 respondents (12%) from Depok, 63 respondents (31.5%) from Tangerang, and 23 respondents from Bekasi. The authors classified working length into three criteria: less than 1 year, 1-4 years, and more than 4 years. This study collected 46 respondents (23%) who had less than 1 year of working length, 66 respondents (33%) had 1-4 years, and 88 respondents (44%) had more than 4 years. This data showed that the respondents had enough experience because most of them had been working for more than four years, and the data were distributed evenly so that they represented auditors working Jabodetabek area.

Measurement Model Evaluation (Outer Model)
This study applied an outer model to test the validity and reliability of the collected data. The latent variables of a study must have at least one indicator to test. Therefore, this study used the SEM-PLS method with the SmartPLS application version 3.0 as a measurement model to measure the results of the collected data.

Fraud Prevention in the Public Accountant Firm

Table 1. Validity Convergent Test
Loading Factors

Latent Variables	Indicators	Outer Loading	Description
X1 (Internal Controls)	IC1	0.964	Valid
	IC2	0.928	Valid
	IC3	0.914	Valid
	IC4	0.903	Valid
	IC5	0.916	Valid
	IC6	0.922	Valid
	IC7	0.914	Valid
	IC7	0.914	Valid
	IC8	0.936	Valid
	IC9	0.929	Valid
	IC10	0.938	Valid
X2 (Auditor Competencies)	KA1	0.929	Valid
	KA4	0.928	Valid
	KA6	0.948	Valid
	KA7	0.933	Valid
X3 (Auditor's Independence)	IA4	0.967	Valid
	IA5	0.963	Valid
Y (Fraud Prevention)	F1	0.860	Valid
	F2	0.920	Valid
	F3	0.864	Valid
	F4	0.920	Valid
	F5	0.924	Valid

Table 1 shows that all latent variables with each indicator have a value of loading factor more than ≥ 0.7. This finding concluded that all indicators of each variable met valid standards of convergent validity and were applicable to measure the developed constructs.

Table 2. Average Variance Extracted (AVE)

Latent Variables	AVE	Description
IC (X1)	0.858	Valid
KA (X2)	0.873	Valid
IA (X3)	0.931	Valid
F (Y)	0.806	Valid

The previous table 2 shows the values of the average variance extracted (AVE) in the internal control (IC) variable by 0.858, auditor competency (KA) by 0.873, auditor independence (HE) by 0.931, and fraud prevention (F) by 0.806. These findings denote that all latent variables met the requirements of convergent validity with the value of the average variance extracted (AVE) of > 0.5.

The Discriminant Validity Test
Fornell-Larcker Criterion
A latent variable is considered as fulfilling requirements of the discriminant validity if the square root value of AVE is greater than the correlation value of this latent variable and other latent variables. The results of testing the discriminant validity using the Fornell-Larcker criterion are summarized in the following table.

Table 3. The Discriminant Validity Test

Constructs	F	IA		IC	KA
F	**0.898**				
IA	0.838	**0.965**			
IC	0.764	0.711		**0.926**	
KA	0.880	0.920		0.727	**0.934**

The table 3 concludes that the latent variables in the discriminant validity test using the Fornell-Larcker criterion met the passing standards of the discriminant validity because the construct values of these variables are greater than the values of other variables.

Fraud Prevention in the Public Accountant Firm

Table 4. Cross Loading

	F	IA	IC	KA
F1	**0.860**	0.691	0.681	0.728
F2	**0.920**	0.741	0.658	0.835
F3	**0.864**	0.772	0.723	0.748
F4	**0.920**	0.777	0.689	0.814
F5	**0.924**	0.781	0.684	0.822
IA4	0.832	**0.967**	0.746	0.892
IA5	0.784	**0.963**	0.622	0.884
IC1	0.739	0.672	**0.964**	0.706
IC2	0.696	0.619	**0.928**	0.686
IC3	0.697	0.658	**0.914**	0.643
IC4	0.695	0.666	**0.903**	0.704
IC5	0.706	0.631	**0.916**	0.653
IC6	0.683	0.630	**0.922**	0.651
IC7	0.704	0.642	**0.914**	0.649
IC8	0.714	0.727	**0.936**	0.709
IC9	0.719	0.679	**0.929**	0.668
IC10	0.723	0.660	**0.938**	0.667
KA1	0.851	0.859	0.802	**0.929**
KA4	0.800	0.832	0.635	**0.928**
KA6	0.842	0.876	0.653	**0.948**
KA7	0.794	0.872	0.621	**0.933**

Table 4 signifies that the indicator on each latent variable has a prominent value of validity discriminant. This finding is evidenced by the result that the correlation value of each indicator to the related latent variables was greater than the values of other latent variables.

Reliability Test
Composite Reliability
A latent variable is considered as fulfilling the composite reliability criteria if its composite reliability value is ≥ 0.7. This number indicates that the latent variable has a significant reliability value, and the research questionnaire was reliable and consistent. The results of the composite reliability test are exhibited in the following table 5.

Table 5. Reliability Test

Latent Variables	Composite Reliability	Description
F	0.954	Reliable
IA	0.964	Reliable
IC	0.984	Reliable
KA	0.965	Reliable

Table 6. Cronbach's Alpha

Latent Variables	Cronbach's Alpha	Description
F	0.940	Reliable
IA	0.926	Reliable
IC	0.982	Reliable
KA	0.952	Reliable

Table 6 shows that all the latent variables of this study met the standards of Cronbach's alpha ≥ 0.7. Therefore, the latent variables were reliable.

Structural Model Evaluation (Inner Models)
This study comprised of several stages of the structural model test by examining the value of the coefficient of determination (R^2), path coefficient, T-statistic (bootstrapping), and predictive relevance.

Fraud Prevention in the Public Accountant Firm

Table 7. Coefficient of Determination (R^2)

Latent Variables	R-Squared	Adjusted R-Squared
F	0.809	0.806
	0.809 X 100%	80.9%
	100%-80.9%	19.1%

Table 7 shows that the latent variable agreed with the obtained value of R-squared. This finding means that the internal controls, auditor competence, and auditor independence to fraud prevention influenced 80.9% of the fraud prevention. Meanwhile, other constructs out of this research influenced 19.1% of the fraud prevention. The R-squared test concluded that the endogenous variables were strong because they had a value of more than 0.809.

Table 8. Path Coefficients

Variables	X1	X2	X3	Y	Description
X1 (Internal Control)				0.253	Positive
X2 (Auditor Competency)				0.589	Positive
X3(Auditor Independence)				0.117	Positive
Y (Fraud Prevention)					

Table 8 shows that all latent variables of this study have a positive value of path coefficients. The variables X1, X2, and X3 had a positive influence on Y with the path coefficient values of each were 0.253, 0.589, and 0.117.

T-Statistic (Bootstrapping)

To perform hypothesis testing, the researchers employed a significant level of 5% with a confidence level of 95%. The influence between the exogenous variables and the endogenous variables is significant if the p-value is < 0.05 with the value of T-statistic > 1.96 (t-table of significance 5%). Meanwhile, the influence between the exogenous.

Table 9. Statistic Test

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T-Statistics (|O/STDEV|)	P-Values	Description
IC→F	0.253	0.257	0.090	2.818	0.005	Accepted
KA→F	0.589	0.581	0.088	6.718	0.000	Accepted
IA→F	0.117	0.119	0.075	1.549	0.122	Rejected

Variables and the endogenous variables are insignificant if the p-value is > 0.05 with the value of the T-statistics < 1.96 (t-table significance 5%).

Table 10. Predictive Relevance

	SSO	SSE	Q^2(=1-SSE/SSO)
F	1000.000	353.428	**0.647**
IA	400.000	400.000	
IC	2000.000	2000.000	
KA	800.000	800.000	

The table above shows that the predictive relevance results (Q^2) in the fraud prevention (F) variable have a value of 0.647. This finding shows that the variables of auditor independence (IA), internal controls (IC), and auditor competence (KA) have predictive relevance of the fraud prevention variable (F).

Table 11. Model Fit

	Saturated Model	Estimated Model
SRMR	0.046	0.046
d ULS	0.489	0.489
d_G	0.791	0.791
Chi-Squared	803.605	803.605
NFI	0.875	0.875
	87.5%	87.5%

Fraud Prevention in the Public Accountant Firm

Table 11 shows that the model fit values can be seen from the NFI values in the saturated and estimated models. The NFI value is 0.875 or 87.5%. Thus, the model of this research earned 87.5%.

CONCLUSION

This research aimed to determine the effects of internal controls, auditor competency, and auditor independence on fraud prevention) in the Public Accountant Office (KAP) in the Jabodetabek area. The data analysis using the Smartpls application version 3.0 concludes three points.

1. First, this study proved that internal controls had a positive and significant impact on fraud prevention.
2. Second, this study proved that auditor competence positively and significantly affected fraud prevention.
3. Third, this study proved that auditor independence positively affected fraud prevention, but not significantly.

REFERENCES

1) Adetiloye, K.A., F.O. Olokoyo, and J.N. Taiwo. (2016). Fraud Prevention and Internal Control in the Nigerian Banking System. International Journal of Economics and Financial Issues 6(3): 1172-1179.
2) Ajzen, I. & Fishbein, M. (1980) Understanding Attitudes and Predicting Social Behavior Englewood Cliffs, NJ: Prentice-Hall.
3) Al-Sorihi, Sultan Ali. (2018). The Relationship between Auditor's Independence and Financial Reporting Fraud Risk Assessment in the Yemeni Context. Journal of Social Studies 24(1): 137-175.
4) Amara, I., A. Ben Amar, A. Jarboui. (2013). Detection of Fraud in Financial Statements: French Companies as a Case Study. International Journal of Academic Research in Accounting. Finance and Management Sciences 3(3): 40–51.
5) Farouk, M. A., & Hassan, S. U. (2014). Impact of audit quality and financial performance of quoted cement firms in Nigeria. International Journal of Accounting and Taxation 2(2): 1-22.
6) Hery. (2016). Auditing dan Asurans, Jakarta: Grasindo.
7) Huang, Hua-Wei and S. Thiruvadi. (2010). Audit Committee Characteristics and Corporate Fraud. International Journal of Public Information Systems 4(1):71-81.
8) Ismail, A.H., N. Merejok, M.R.M. Dangi, and S, Saad. (2019). Does Audit Quality Matters in Malaysian Public Sector Auditing? Journal of Academia 7(Special Issue 1): 102-116
9) Iyinomen, O.D. and O.T. Nkechi. (2016). Effect of Internal Control on Fraud Prevention and Detection in the Public Sector in Nigeria. Journal of Accounting and Financial Management 2(4): 21-27.
10) Joseph, O.N., O. Albert, J. Byaruhanga. (2015). Effect of Internal Control on Fraud Detection and Prevention in District Treasuries of Kakamega County. International Journal of Business and Management Invention 4(1): 47-57.
11) Kurnaz, N., I. Köksal, T. Ulusoy. (2019). Forensic Accounting in Financial Fraud Control in Digital Environment: A Research on Independent Auditors. *Turkish Studies* 14(3): 1609-1627.
12) Mirinaviciene, Stacey. 2014. Internal Control and Fraud Prevention: Prior Research Analysis. Science and Studies of Accounting and Finance 1(9): 173-179.
13) Mulyadi. (2017). Accounting System. Fourth Edition. Jakarta: Salemba Empat.
14) Othman, R., N. A. Aris, A. Mardziyaha, N. Zainan, N.Md Amin. 2015. Fraud Detection and Prevention Methods in the Malaysian Public Sector: Accountants' and Internal Auditors' Perceptions. *Procedia Economics and Finance* 28: 59–67.
15) Phana, T.T.H., L.A. Laib, T.T. Lec, D.M. Trand, and D.T. Trane. (2020). The impact of audit quality on performance of enterprises listed on Hanoi Stock Exchange. Management Science Letters 10: 217–224.
16) Rahi, Samar. (2017). Research Design and Methods: A Systematic Review of Research Paradigms, Sampling Issues and Instruments Development. International Journal of Economics & Management Sciences 6(2): 1-5.
17) Shanmugam J.K., M.H. Che Haat, and A. Ali. (2012). An Exploratory Study of Internal Control and Fraud Prevention Measures in SMEs. International Journal of Business Research and Management 3(2): 1-12.
18) Susanto, H., S. Mulyani, H. Azhar Azis, C. Sukmadilaga. (2019). The level of fraud detection affected by auditor competency using digital forensic support. *Utopía y Praxis Latinoamericana*: 252-267.
19) Taufik, Taufeni. (2019). The Effect of Internal Control System Implementation in Realizing Good Governance and Its Impact on Fraud Prevention. International Journal of Scientific & Technology Research 8(09): 2159-2165.
20) Thabet, Imen. (2017). Auditor skills, traits and knowledge evidence from Tunisia. *International Journal of Accounting and Economics Studies* 5 (1): 7-15.
21) Zahmatkesha, S., & J. Rezazadeh. (2017). The effect of auditor features on audit quality. *Tekhne - Review of Applied Management Studies* 15: 79-87.