

The Effect of Compensation on the Relationship Between Professional Skepticism, Ethics, Personality Type, Auditor's Experience and Fraud Detection

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Abstract— *The quality of financial reports is a major consideration for interested parties, so it is necessary to carry out an audit of the financial statements by an independent party (auditor) to detect bias manipulation or potential fraud in financial reporting. The auditor's ability to detect fraud tends to depend on the level of professional skepticism, ethics, personality type, and auditor experience. This study applies a survey research method using a questionnaire with independent auditors as respondents who are registered at the Public Accounting Firm in Bali. Hypothesis testing using Moderated Regression Analysis (MRA). The data in this study were obtained by conducting a survey using a questionnaire. There are 69 active auditors at KAP in Bali as the research population, but only 60 auditors are willing to be respondents and there are 4 incomplete questionnaires so that only 60 questionnaires/respondents are eligible to be research samples. This study proves that compensation moderates positively on the relationship between the variables of skepticism, professional ethics and experience on fraud detection. Compensation was not shown to moderate the relationship between personality type and fraud detection.*

Keywords— *Compensation, auditor experience, profesional ethic, skepticism, personality type, fraud detection.*

I. INTRODUCTION

The risk of information due to the incorrect, incomplete presentation of financial statements including bias will have an impact on the quality of financial statements. The main consideration due to the risk of information that has the potential to harm interested parties (Fransiska and Fatmawati, 2015). Thus, audits of financial statements by independent parties need to be carried out to detect bias manipulation or potential fraud in financial reporting. As a public accountant profession, supervision is an important thing that must be applied by a senior auditor in managing its members. This is presented in a statement from Audit Standards (SAS) Number 22 concerning the First Field Standard which reads 'The work is to be adequately planned and assistants, if any, are to be properly supervised' kawisana (2020)

The definition of 'misstatement' consists of two types, namely error and fraud, as stated in the Auditing Standards Statement (PSA) No. 70. The factor that distinguishes fraud and error is the underlying action, which results in misstatements in financial statements, in the form of intentional or unintentional actions (Indonesian Institute of Accountants, 2001).

The ability of auditors to detect fraud tends to depend on the level of professional skepticism they have so that audit quality can be maintained. (Novianty, 2008; Carpenter, Durtschi and Gaynor, 2002; Gusti and Ali, 2008). In addition, the ability of auditors to detect fraud is also strongly influenced by experience in applying their expertise (Noviari et al., 2005; Tirta and Sholihin, 2004). In fact, auditors who do not have the experience and qualifications to work in public accounting firms will have a negative impact on the public accounting firms themselves (Gaballa and Zhou Ning, 2011; Bawono and Singgih, 2011).

Another internal factor in an auditor that tends to also affect the auditor's ability to detect fraud is his personality type (Novianty, 2008). Auditors who have a high skepticism usually have personality traits that always think logically and make decisions based on existing facts. Meanwhile, Ludigdo (2006) states that ethics can guide human choices and actions that determine the goals and path of human life, including that stated by Winarto (2004) that ethics must be built in a procedure for activities and decision-making in organizations, including by the auditor profession. (Campbell and Houghton, 2005 in Savitri 2016). Public accountants must be aware of the need for ethics as a form of responsibility to the public, clients, fellow practitioners, including respectable behavior, even if it means making sacrifices for personal interests (Arens et al., 2008). To make it easier for auditors to detect fraud, public accountants must obey the rules of ethics as a responsibility to the public, clients, and fellow practitioners (Louwers, 1997 in Hasanah 2010).

The inconsistency of the influence of internal factors of an individual on the ability of an auditor's self, tends to be influenced by external or environmental factors. As with an auditor, the effect of compensation for services according to the expertise provided is a motivating factor for more achievement. The performance of an employee (as well as an auditor), can be seen from the good quality of his work (Hamdan and Setiawan, 2014). So, the amount of compensation is a policy that comes from outside the individual (external) that can affect a person's performance. The greater the compensation received by an auditor (external) can affect the internal characteristics of an auditor to increase the ability to detect fraud, so that it will improve audit quality. Based on the background described above, it can be

formulated that the research problem is whether compensation affects the relationship between professional skepticism, ethics, personality type, experience, and fraud detection from independent auditors?

II. GRAND THEORY

Attribution Theory

Attribution theory explains a person's behavior that contains a person's process of interpreting an event, reason, or cause of his behavior (Heider in Ikhsan and Ishak, 2008:55). A person's behavior is determined by a combination of internal forces (internal forces) and external forces (external forces). Internal forces are factors that come from within a person/individual about their personal abilities so that they are able to influence their performance and behavior, for example, such as nature, character, attitude, ability, expertise and effort. External forces are factors that come from outside the individual's control, such as situational pressures, difficulties in work or luck.

III. RESEARCH DESIGN

The population of this research is all auditors who work in Public Accounting Firms in Bali, a total of 10 (ten) Public Accounting Firms. The sample was obtained by purposive sampling technique, namely the method of determining the sample with certain considerations, where the sample members will be selected in such a way that the sample formed can represent the characteristics of the population (Sugiyono, 2013:122). The criteria for determining the sample in this study, namely.

- 1) Auditors who have conducted investigative audits.
- 2) Auditors have been assigned to field work.

The reason for choosing these criteria is that auditors who have been involved in the audit process including investigative audits, are indirectly involved in detecting fraud. The type of data in this study is qualitative data which is quantified in the form of a Likert scale which refers to the measurement of the variables used. The qualitative data in this study is the auditor's perception of professional skepticism, ethics, personality type, experience, compensation, and fraud detection.

The analysis technique used in this research is moderated regression analysis. In addition, the classical assumption test was previously carried out and accompanied by descriptive statistical analysis. Moderation Regression Analysis was used to obtain empirical evidence of the effect of compensation that could moderate the relationship between professional skepticism, ethics, personality type, and auditor experience on fraud detection by KAP auditors in Bali using the Statistical Package for Social Science (SPSS) program.

IV. RESULT

1) The Compensation Effect strengthens the relationship between Professional Skepticism and Fraud Detection

Professional skepticism is one of the personal characteristics possessed by the auditor. The results of hypothesis testing indicate that compensation affects the relationship of professional skepticism to fraud detection. The

results of this study support research conducted by Hasanah (2010) and Nasution and Fitiany (2012) which states that the higher the level of professional skepticism a person will be able to detect fraud better when faced with symptoms of fraud than auditors with low professional skepticism, especially if the compensation received is deemed adequate. An auditor hopes to receive adequate compensation due to demands to exercise professional skepticism in every audit assignment so as to be able to detect fraud in the financial statements. Professional skepticism requires that the audit must be designed in such a way as to provide high and adequate confidence to reverse detect errors and the possibility of material fraud in the financial statements (Silalahi, 2013).

2) Compensation Effect strengthens the relationship between Ethics and Fraud Detection

The compensation received by the auditor can affect Ethics as an internal force that can affect the auditor's behavior. The slightest change in auditor ethics will result in a change in audit quality (Djarmiko and Rizkina, 2014). The results of the hypothesis test indicate that the compensation received by the auditor has an effect on the relationship between auditor ethics in detecting fraud. The results of this study are in line with research conducted by Hasanah (2010) which states that the application of ethical rules plays an important role in the audit process, where increasing the application of ethical rules will further enhance the auditor's ability to detect fraud. Ethics is one part of the personal characteristics that encourage a person to perform an activity or act. An ethical auditor has integrity and objectivity in carrying out his work, so that he is able to detect fraud in his client's financial statements, and can produce quality information, especially if he feels that the amount of compensation he receives is adequate.

3) Effect of Compensation on the relationship between Personality Type and Fraud Detection

Hypothesis test results show that compensation has no effect on the relationship between Personality Type and fraud detection. The results of this study indicate that the compensation received by auditors in different personality types does not affect the ability to detect fraud. This is in line with research conducted by Supriyanto (2014) and Faradina (2016) which states that both auditors with the combined Sensing-Thinking (ST) and Intuition-Thinking (NT) personality types and auditors with other personality types have the ability to detect fraud when faced with signs of fraud.

4) Effect of Compensation on the relationship between Experience and Cheating Detection

Auditor experience has an effect on the ability to detect fraud. If the compensation received is felt to be adequate, it will increasingly affect the experience in improving the quality of work (Zeng and Cullinan, 2010). The greater the compensation received by an auditor will improve the performance and ability of the auditor in detecting fraud, so that it will improve the quality of work of the auditor. The results of this study are in line with the results of research conducted by Noviyani and Bandi (2002) which is also supported by research by Tirta and Solihin (2004) which states

that experienced auditors will have more knowledge about errors and fraud so that it will produce better performance in detecting fraud in the financial statements. An experienced auditor is an auditor who is able to detect, understand and even look for the causes of the emergence of frauds contained in financial statements, thus requiring an adequate amount of compensation so that the resulting audit quality will be better than an inexperienced auditor (Bawono and Singgih, 2011).

V. CONCLUSION

Compensation moderates positively on the relationship between professional skepticism and fraud detection. The greater the compensation received, the greater the influence of the auditor's professional skepticism in detecting fraud.

Compensation also moderates positively on the relationship between ethics and fraud detection. The greater the compensation received by the auditor, the stronger the influence of the auditor's ethics in detecting fraud.

Compensation was not shown to moderate the relationship between personality type and fraud detection. The test results did not succeed in showing the amount of compensation in influencing the relationship between the auditor's personality type in detecting fraud.

Compensation has been shown to moderate positively on the relationship between experience and fraud detection. The greater the compensation deemed adequate by the auditor, the stronger the influence of the auditor's experience in detecting fraud.

Based on data obtained directly from respondents, it shows that there are still weaknesses in appreciating the work carried out by the auditors. This is further supported by the tight level of competition among audit service providers in the Bali region. Thus, an increase in compensation as a form of appreciation for the value of the auditor's work can certainly improve audit quality. Further researchers can develop research by paying attention to the individual characteristics of culture-based auditors, including revealing the effect of

reputation-based competitiveness between auditors from large public accounting firms and auditors in the regions.

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