

## Effects of risk-based internal audit implementation, competence of government's internal auditors, auditors' independence and auditors' ability to detect fraud

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**ABSTRACT:** This study examines the effects of applying risk-based internal audit, government's internal auditors' competence, auditors' independence, and the auditors' ability to detect fraud. A questionnaire was used to collect data for the auditors working at the National Population and Family Planning Agency (BKKBN), Jakarta. We also used a saturated sample for the selection of 52 target respondents comprising of all structural officials and auditors who are domicile at the central or provincial representative offices. Results showed that the application of risk-based internal audit, government's internal auditors' competence, auditors' independence all influence the auditors' ability to detect fraud significantly and positively. These are all related to agency policies, which have increased the auditors' ability to detect fraud. Future studies are expected to broaden the scope of the survey area and research object variables.

### 1 INTRODUCTION

Indonesia commemorates Anti-Corruption Day (HAKI) on October 9. The government's commitment to fighting corruption is often faced with various obstacles and challenges. This condition can be seen from the Corruption Perception Index score released by Transparency International, where Indonesia is ranked 89th out of 180 countries.

Alexander Marwata (2017), one of the commissioners of the Indonesia Corruption Eradication Commission, stated that the number of regional heads involved in corruption is almost certain because the inspectorate has not been functioning well. Legal cases such as corruption are rampant because, currently, the Government Internal Supervisory Apparatus (APIP) is structurally not yet independent. Vice President Jusuf Kalla (2017) complained about his position in the inspectorate or internal supervision agency, stating that this is a government agency that was often filled with officials who did not have competence in the field of supervision.

Various efforts have been made by the leadership of the BKKBN to improve the quality of financial management and suppress corrupt practices within the BKKBN environment, among others is the efforts to strengthen the role of government's internal auditors.

This research was conducted to answer the following research questions: 1. Does the Implementation of Risk-Based Internal Audit have a significant effect on the ability of auditors to detect fraud? 2. Does the competence of the government's internal auditors have a significant effect on the ability of auditors to detect fraud? 3. Does the independence of Auditors have a significant effect on the ability of auditors to detect fraud?

### 2 LITERATURE REVIEW

#### 2.1 *The concept of fraud*

According to Mark F Zimbelman (2017: 7), cheating is a general term that includes all kinds of ways that can be used with certain shrewdness, chosen by an individual, to benefit from

other parties by making a wrong representation. The definition of fraud, according to BPK RI (2007), is a type of unlawful act that is done intentionally to obtain something by deception. The Association of Certified Fraud Examination categorizes fraud into three groups as follows: 1) Financial Statement Fraud, which is defined as fraud committed by management in the form of material misstatement of Financial Statements that could harm investors and creditors. This fraud can be financial or non-financial fraud. 2) Asset Misappropriation, misuse of assets can be classified as fraudulent cash and fraudulent inventories and other assets as well as fraudulent expenses (fraudulent disbursement). 3) Corruption, according to ACFE, corruption is divided into the conflict of interest, bribery, illegal gratuity, and extortion (economic extortion).

#### 2.2 *The implementation of Risk-Based Internal Audit (RBIA)*

According to the IIA Risk Based Internal Audit (RBIA), risk-based internal auditing (RBIA) is a methodology that links internal auditing to the organization's overall risk management framework. The implementation of an individual audit assurance on such organizational conditions uses a control-based audit. According to Hoesada (2005), AIBR guarantees the quality of risk management built by organizations. Research conducted by D. Paul Newman (2017) stated that the level of the financial report of fraud is reduced when the audit plan is based on information that is not influenced or controlled by management, that information increases auditors' ability to detect or prevent the report of fraud.

H1: Implementation of risk-based internal audit affects the ability of auditors to detect fraud.

#### 2.3 *The competence of government's internal audit*

Mc Schanes and Glinow (2010) stated that competence is a skill, knowledge, talent, and other personnel characteristics that produce superior performance. According to Mjayansari (2003), experienced auditors have advantages in terms of detecting errors, understanding errors accurately, and looking for causes of errors. Nur Gamal Djahuri's research found that auditors who are considered as doctors of fraud have not been able to carry out their roles optimally due to the lack of internal auditors' competence. From the research conducted in Nigeria by Popoola (2016), two capability requirements (knowledge and skills) were found to correlate with competency requirements in the Nigerian public sector.

H2: Competence of the Government's Internal Audit influences the ability of auditors to detect fraud.

#### 2.4 *Auditors' independence*

Arens (2015:103) stated that independence is taking an unbiased perspective in conducting audit testing, evaluating the results of testing, and publishing audit reports. According to the research of Khotib and Ahmad (2018), partially speaking, there is no significant effect of independence on audit responsibilities in detecting financial statement of fraud. This is not much different from the results of Pranggono's research (2016). Conclusion: There is no direct effect between Auditors' Independence and fraud detection. While from Widyastuti's (2009)'s research, it was concluded that Auditors' Independence had a positive effect on the ability of auditors to detect fraud.

H3: Independensi auditor berpengaruh terhadap kemampuan auditor mendeteksi fraud.

### 3 METHOD

Based on the type of analysis, the research conducted is quantitative research, where we presented data obtained through statistical procedures or by using quantification methods that

produced data in the form of numbers. This research is focused on the application of risk-based internal audit, increasing the competence of the government's internal control apparatus, and auditors' independence on the ability of auditors to detect fraud by surveying auditors and structural officials in the Main Inspectorate of the BKKBN RI, the population of this study was 47 employees. This research will be carried out by taking a sample as a whole or by census/saturated sample where a survey will be conducted on all employees. The data used in this study are primary data. The questionnaire used contains closed questions, which means that the answers were limited to the choice of answers that the researchers have provided.

#### 4 RESULTS AND DISCUSSION

##### 4.1 Results

The object of research used in this study was the structural officials led by APIP and all auditors in the BKKBN both at the center and at the provincial representative office. The sample used in this study was 47 employees. The instrument used in this study was a questionnaire given directly to respondents who were the target of the study.

H1 stated that the variable implementation of risk-based internal audit (X1) is a variable that is thought to influence the ability of auditors to detect fraud. Hypothesis testing results obtained by t count value of -0.484 < t table 1.677, thus  $H_0$  is accepted, and  $H_a$  is rejected, which means the application of risk-based internal audit has no effect on the ability of auditors to detect fraud.

H2 stated that the competency variable of the government's internal control apparatus (X2) is a variable that is thought to influence the ability of auditors to detect fraud. Hypothesis testing results obtained t count value of 2.139 > t table 1.677; thus,  $H_0$  is rejected, and  $H_a$  is accepted, which means Government's Internal Audit competence has a significant effect on the ability of auditors to detect fraud.

H3 stated that the auditors' independence variable (X3) is a variable that is thought to influence the auditors' ability to detect fraud. Hypothesis testing results obtained a t count value of 1.631 < t table 1.677. Thus  $H_0$  is accepted, and  $H_a$  is rejected, which means auditors' independence has no effect on the ability of auditors to detect fraud.

##### 4.2 Discussion

###### a. Implementation of Risk-Based Internal Audit Influences the Auditors' Ability to Detect Fraud.

Based on the results of statistical tests and the significance that the application of risk-based internal audit has no significant effect on the ability of auditors to detect fraud, these results are not the same as Newman (2017)'s research which stated that when the auditors consider and use information that is related to the organization, this information enhances the auditors' ability to detect or prevent financial statement fraud. From other research conducted by Bowlin (2011), it was observed that Risk-based auditing is an intuitive approach that focuses more resources on accounts that are considered more risky and fewer resources on accounts that appear to be less risky.

###### b. Competence of Government's Internal Auditors has a Significant Effect on the Auditor's Ability to Detect Fraud.

Based on the results of statistical tests and the significance that the government's internal auditors' Competence has a significant effect on the ability of auditors to detect fraud, this means that the competence of the Government's Internal Audit BKKBN directly affects the ability of auditors to detect fraud. These results are consistent with the research conducted by Asmara (2017) who observed the effects of competence on the professional judgment of auditors to be related to another study conducted by Popoola (2016), which stated that the knowledge and skill requirements for detecting fraud correlate with the competence of auditors in the public sector. From another study conducted by Widiyastuti (2009), it was discovered that competence has a positive effect on the ability of auditors to detect fraud (fraud).

c. Auditors' Independence Influences the Auditors' Ability to Detect Fraud

Based on the results of statistical tests and significance that the auditors' independence has no effect on the auditors' ability to detect fraud in the BKKBN, this is in line with the research of Bernardi (1994) which revealed that there was no significant difference in the detection of fraud between independent and non-independent auditors. While from other studies conducted by Widiyastuti (2009), it was discovered that independence had a positive effect on the ability of auditors to detect fraud.

## 5 CONCLUSION

Based on the formulation of the problem, descriptive analysis, hypothesis testing, and the discussion previously presented, the results of this research can be concluded as follows:

1. The application of risk-based internal audit has no significant effect on the ability of auditors to detect fraud. The risk-based internal audit approach has begun to be applied in the BKKBN Main Inspectorate, but not all stages have been implemented optimally. The application of risk-based internal audit has so far not been able to influence the ability of auditors to detect fraud in the BKKBN.
2. Increasing the competence of the government's internal control in the BKKBN has a significant effect on the ability of auditors to detect fraud. BKKBN has tried to meet the basic criteria of competence for the government's internal control apparatus through increased risk management competence in areas regarding supervision strategy, competence in reporting the results of supervision and competence in the field of communication. When these four areas of competence are improved upon, it can significantly improve the auditor's ability to detect fraud.
3. Auditors' independence has no significant effect on the auditors' ability to detect fraud. BKKBN has supported sufficient independence conditions for the implementation of internal audit tasks. However, the auditors' independence does not directly affect the auditors' ability to detect fraud in the BKKBN.

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