

The Effect of Information Technology Audit on the Audit Quality in Detecting Fraud Using the Competence of the Auditor as a Moderation Variable

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ABSTRACT

The development of technology in the time of Covid-19 pandemic has affected a lot of accounting professions, for instance, auditors. In doing their field works at the moment, a lot of auditors rely on technology to ensure the good quality of their audit by making certain that the audit report is free from fraud, which has to be supported by a competent auditor. This research aims to see the effect of information technology audit in detecting fraud using the competence of the auditor as a moderation variable. The data are collected from sample auditors working for Public Accounting Firms in Bandung and Jakarta, which are then processed using regression analysis equipment. The findings show that the information audit influences the quality of the audit in detecting fraud using the competence of the auditor as a moderation variable in which the results are used to advise the Public Accounting Firms to be mindful of the competence of the auditor, specifically in the field of IT auditing in order to have a good quality audit report.

CCS CONCEPTS

• General and reference; • Document types; • General conference proceedings; • Social and professional topics; • Professional topics; • Computing profession; • Codes of ethics;

KEYWORDS

Information Technology Audit, Audit Quality, Fraud, Competence

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1 INTRODUCTION

In May 2018, PT Sunprima Nusantara Pembiayaan (SNP Finance) became the spotlight of both financial authority and the public. This financial company that has been in business for approximately eighteen years is on the brink of bankruptcy. It is alleged that the SNP Finance failed to account for their financial report correctly or use fictitious reports so that both the rating company and the auditor were not able to issue a warning before the failure of payment happened. This issue of a financial report is very vital and oftentimes becomes a complicated matter for a company if not organized well [1]

In its practice, there is a need for further auditing for a financial report whose purpose is to make the report accountable to all parties—both the owner(s) and people from outside the company itself [2]. All financial reports and other information that may influence the report have to be disclosed transparently as there is a tendency of falsity when said information is not included and/or disclosed [3]

When the company presents the financial information to the user, there is information asymmetry. In addition, the user of the financial report is at information risk, which means that there is a risk that the information received is incorrect. In order to minimize this risk into the acceptably low level, auditor holds a big role [4]

An annual audit has to be conducted by an external, independent auditor who is competent and holds a good qualification in order to give external and objective assurance that the financial report has presented a valid financial position and the company performance in all material matters [5]. An audit conducted by a competent and independent individual is a quality audit. What is considered a competent auditor is one that holds competence in terms of the use of technology, understands and is able to conduct a correct auditing procedure, etc., while an independent auditor is one that will report any violations independently if such violations are found. The quality of the audit is understood as the probability of an auditor finding and reporting a mistake and/or violation in a client's accounting system [3]

ISA (International Standards on Auditing) emphasizes that the objective of an auditor is to give sufficient assurance that a financial report is free from all material misstatements which may be caused by errors or fraud [4]. In the context of financial report auditing, an audit is defined as an intentional misstatement in a financial report.[6]

The development of information technology nowadays plays a big role in the auditing area. It shifts a traditional business process into more efficient operation and also increases communication in the company as well as between the company and its client [7]. Information technology auditing is associated with an auditor who uses their technical skills and knowledge of auditing using a computer system, or the one who provides auditing service in which the process or data—or both—is embedded in technology [7]. With the increase of the use of information technology, an auditor needs to have adequate skill and sufficient knowledge regarding the issues their clients may have in order that they may gather and interpret all necessary proof to provide assurance that the financial report is stated reasonably [8]. The Audit Board of the Republic of Indonesia (BPK) has put an effort to optimize the electronic auditing system which is proven to be effective and efficient in helping prevent the practice of corruption, collusion, and nepotism in state institutions. The chairman of the Audit Board, Hadi Poernomo states that the existence of SNSI (The National Synergy of System Information), which uses electronic-based auditing or “e-audit”, helps the examination process and minimizes the risk of direct contact between the examiner and entity [9].

[10] in his research entitled “Detecting Fraud: Utilizing New Technology to Advance the Audit Profession” concludes that the focus of the future auditing process will shift from manual detection to technology-based prevention. The role of an auditor will change rapidly and the use of technology-based audits will be one of the ways to ensure effective and efficient auditing, specifically in the prevention and the detection of fraud.

This research aims to examine whether information technology auditing plays a role in the auditing quality in detecting fraud using the competence of the auditor as a moderation variable. It is hoped that the research will be beneficial for the Public Accounting Firms, especially in terms of the importance of an auditor’s competence in relation to information technology auditing to provide quality auditing which can find fraud in a financial report.

2 LITERATURE REVIEW

2.1 Information Technology Auditing

Information technology auditing relates to an auditor who utilizes their technical skills and auditing knowledge through a computer system or one who provides auditing service which processes and data, or both, are embedded in technology. This auditor is usually certified by a Certified Information Systems Auditor (CISA)[7]. Information technology audit focuses on the aspect of a computer-based organization information system. This type of auditing deals with the implementation, scoring, operation, and control of computer sources. In this type of auditing, a control system that will protect the integrity of the data and accounting process is needed. [7]

The auditing standard mentions two control categories for auditing, which are, [6] 1) General controls, which is applied to all information technology functions, including the information technology administration; the development of the system; physical and online security in relation to the access to the hardware, software and data; backup planning and contingency for unpredictable emergencies; and hardware control, and 2) Application controls, which is operated specifically in the business process level and is

applied in the transaction process such as control during the trading process.

2.2 Auditing Quality

Auditing Quality is defined as the probability of an auditor finding and reporting an error or fraud in a client’s accounting system. A quality audit is conducted by a competent and independent individual.[3] Based on the International Standard on Quality Control (ISQC), a public accounting firm has to establish a quality control system which is designed to give sufficient assurance that the company and its personnel abide by the professional standard and the law and that the report published by the company or partner corresponds to the situations. The quality control is applied to human resource, which includes ethics. [8]

The quality of an audit is reflected through (1) Input orientation, including the appointment of personnel by the KAP to conduct an agreement, consultation, supervision, appointment, profession development promotion, and inspection; (2) Processes orientation, including independency, obedience to auditing standard, audit control, and the competence of the auditor; (3) Output orientation, including the performance of the auditor, acceptance, and partnership with clients, and due professional care; (4) Follow-up on audit recommendation, including how the client management boards support the implementation of the auditor’s recommendation, the possibility of the client’s internal regulations and company system to follow the auditing recommendation, the cultures and the facilities in the client’s company which enables the auditor’s recommendations to be implemented. [3]

A quality audit will be able to minimize the uncertainty factors which are related to the financial reports presented by the management.[3] This type of audit is conducted by a competent and independent individual. A competent auditor is one with a technical skill, who understands and implements a correct auditing procedure and uses the most suitable sampling method, etc. Meanwhile, an independent auditor is an auditor who reports any violations found independently. The probability of an auditor reporting any violations, or the independence of the auditor depends on the auditor’s own competence level.[3]

2.3 Fraud

[4] defines fraud as “Any illegal acts characterized by deceit, concealment or violation of trust. These acts are not dependent upon the application of threats of violence or physical force”. Fraud is a deceit which includes the following elements: a representation regarding some materials that are inherently untrue which is conducted on purpose or haphazardly so that the victim will consider it as a fact and do a follow-up, which results in a loss for the victim.[11]

There are two types of fraud according to [6].; 1) Fraudulent financial reporting, which is a misstatement which is conducted on purpose regarding a sum or revelation which deceives the user(s) and 2), Misappropriation of assets, which is a fraud relating to the theft of the assets of a company.

[6] state three conditions causing fraud, which is known as the fraud triangle. They are: 1) Incentives/pressures, where the management and/or other employees have the incentive or pressure to do fraud; 2) Opportunities, in which there is a situation which creates

an opportunity for the management or employee(s) to do fraud; and 3) Attitudes/rationalization, which means the attitude, characteristics or other ethical instruments which enable the management or staff to be dishonest.

2.4 Competence

Competence is connected to the skills, knowledge, and experience that an auditor has; this means that a competent auditor is one with sufficient knowledge, training, skills, and experience to be able to do their auditing job [3]. A competent auditor is a person who possesses skill in technology and understands and implements a correct auditing procedure and uses the most suitable sampling method, etc.[3]

The competence of an auditor is a professional ability of an auditor in implementing their knowledge in order to complete a task well, either together in a team or individually, according to the public accounting professional standard, ethical codes, and the applicable law. An auditor can acquire their competence through taking accounting major in a university, workshop, and professional development training at their workplace, which is then proven through applications in working practice.[12]

Professional competence can be categorized into two different levels, which are the achievement of professional competence and the maintenance of professional competence. To achieve professional competence, a high standard of general knowledge is needed, which is followed by education, training, special tests on relevant subjects, and work experience. Meanwhile, the maintenance of professional competence needs a sustainable understanding and awareness of the development of technical, professional, and relevant businesses through continuous professional education. [8]

3 RESEARCH FRAMEWORK & HYPOTHESIS DEVELOPMENT

The financial report published by the company is very important for the management and the owner of the company. Aside from that, there are also some parties who have an interest in the company's financial report, for instance, the government, creditors, investors, and suppliers.[2] To give assurance about the financial report for the investors and creditors, an auditor is obligated to present their independent opinion according to their expertise regarding the validity of the financial report.[8]

The development of information technology has given a lot of influence in terms of auditing; it is now highly related to how an auditor uses their technical expertise and knowledge about auditing through a computer system or provides an auditing service in which the process or data, or both, are included in the technology. [7]

Alongside the development of the information technology, an auditor needs sufficient skills and knowledge about their client's issues that will enable them to obtain and interpret all necessary evidence to offer assurance about the validity of the financial report.[8] The ISA (International Standards on Auditing) emphasizes that the objective of an auditor should be to give assurance that a financial report is free from misstatements caused by either an error or manipulations (fraud).[4]

An audit conducted by a competent and independent individual is a quality audit. A competent auditor has technical skills and is

able to understand and conduct an auditing procedure correctly, among others; while an independent auditor is a person who will, independently, report any violations found. The quality of an audit is understood as an auditor's probability in finding and reporting any misstatements and/or violations in a client's accounting system.[3]

A previous research by [13] entitled "Pengalaman Audit sebagai Pemoderasi Pengaruh Penerapan E-Audit dan Lingkungan Kerja Audit terhadap Kualitas Temuan Audit dalam Fraud Audit di BPK-RI" shows that there is a positive significance which results from the application of e-audit to the quality of auditing findings in fraud audit.

Based on the theory and previous research, the present researcher proposes two hypotheses in this current study:

H1: Information technology auditing influences the auditing quality in detecting fraud.

H2: Information technology auditing possesses an influence on the auditing quality in detecting fraud with competence as a moderation variable.

The research model to be tested is as follows:

4 RESULT AND DISCUSSION

Data collection is conducted by the means of questionnaires for Public Accounting Firms in Bandung city and Jakarta city, Indonesia. The samples are taken from 34 auditors from both Bandung and Jakarta.

The researcher applies regression analysis method in this research, the purpose of which is to test the influence between one variable with the other(s) [14]. Figure 1 Research Model

The Test Result of the Influence of IT Auditing towards the Auditing Quality in Detecting Fraud Below are the results of SPSS data processing between an independent and a dependent variable with the existence of a moderation variable: moderation variable:

Hypothesis 1The test result of Variable X to Y.

Table 1 shows that the simultaneous influence of IT auditing to the quality of audit in detecting fraud is 0,424 or 42,4%. Table 3 shows that partially the sig value of IT auditing is 0,000 $\leq$ 5%, which means that there is a partial influence of the IT auditing to the quality of audit in detecting fraud. Table 2 shows that the sig. value is $\leq$ 0.05, which suggests that the hypothesis 1 is accepted. This means that there is an influence of IT auditing to the quality of audit in detecting fraud. This is in line with [13] which states that there is a positive influence between information technology audits and the quality of audit findings in fraud audits. This can be caused by the design of the use of information technology to make it easier for auditors to find fraud so as to produce quality audits.

The Test Result of the Influence of IT Auditing towards the Auditing Quality in Detecting Fraud using Competence as a Moderation Variable
Hypothesis 2The test result of Variable X to Y with Moderation Variable Z

Table 4 shows that the simultaneous influence of IT auditing to the quality of audit in detecting fraud with competence as a moderation variable is 0,678 or 67,8%. Table 6 shows that partially the sig value of IT auditing is 0,000 $\leq$ 5%, which means that there is a partial influence of the IT auditing to the quality of audit in

Table 1: Determination Coefficient Simultaneous Test of the first Hypothesis

Model R	R square	Adjusted R Square	Std.Error of the Estimate
1 .664 ^a	.442	.424	3.30688

a. Predictors:(constants),TOTALX

b. Dependent variable:TOTALY

Table 2: Anova test Results of the first Hypothesis

Model	Sum of Squares	df	Mean Square	F	Sig
Regression	276.683	1	276.683	25.301	.000 ^b
Residual	349.935	32	10.935		
Total	626.618	33			

a. Dependent variable:TOTALY

b. Predictors:(constants),TOTALX

Table 3: Coefficient test Results of the first Hypothesis

Model	Unstandardized Coefficients B	Std.Error	Standardized Coefficients	t	sig
1 (Constant)	34.956	5.459		6.404	.000
TOTALX	.498	.099	.664	5.030	.000

a. Dependent variable:TOTALY

Table 4: Determination Coefficient Simultaneous Test of the second Hypothesis

Model R	R square	Adjusted R Square	Std.Error of the Estimate
1 .829 ^a	.688	.678	2.47249

a. Predictors:(constants),INTERAKSIXZ

b. Dependent variable:TOTALY

Table 5: Anova test Results of the second Hypothesis

Model	Sum of Squares	df	Mean Square	F	Sig
Regression	430.994	1	430.994	70.502	.000 ^b
Residual	195.623	32	6.113		
Total	626.618	33			

a. Dependent variable:TOTALY

b. Predictors:(constants),INTERAKSIXZ

Table 6: Coefficient test Results of the second Hypothesis

Model	Unstandardized Coefficients B	Std.Error	Standardized Coefficients	t	sig
1 (Constant)	40.126	2.671		15.026	.000
INTERAKSIXZ	.019	.002	.829	8.397	.000

a. Dependent variable:TOTALY

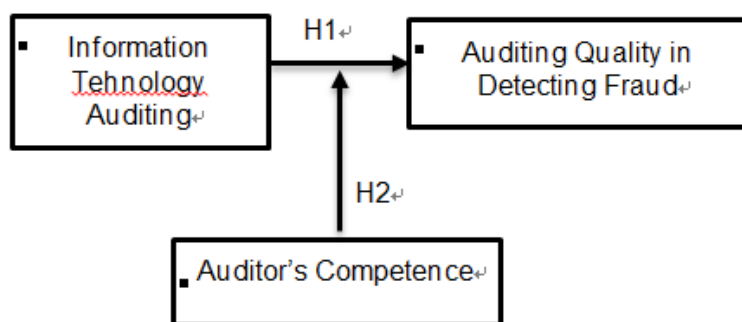


Figure 1: Research Model

detecting fraud with competence as a moderation variable. Table 5 shows that the sig. value is ≤ 0.05 , which suggests that the hypothesis is accepted. This means that there is an influence of IT auditing to the quality of audit in detecting fraud with competence as a moderation variable.. This may be due to the fact that to generate a good quality auditing, there should be a competence auditor so that any fraud in the audit may be detected. Information technology auditor needs to have not only the competence in auditing process but also in information technology to be able to produce a quality auditing result.

5 CONCLUSION, IMPLICATION & SUGGESTION

The researcher concludes that information technology auditing plays a role in the quality of the auditing in detecting fraud using competence as a moderation variable. It is suggested that the Public Accounting Firms ensure that an auditor possesses competence, especially in information technology auditing, in order that a quality auditing result may be achieved during the field work.

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