

**THE INFLUENCE OF AUDIT PROCEDURES AND  
AUDITORS' EXPERIENCE ON AUDITORS'  
RESPONSIBILITY IN DETECTING FRAUD WITH  
JAVANESE CULTURE AS A MODERATING  
FACTOR**



**THESIS**

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## **THESIS ORIGINALITY DECLARATION**

I, the undersigned, Ratna Siti Nuraisya, declare that the title: The Influence of Audit Procedures and Auditors' Experience on Auditors' Responsibility in Detecting Fraud with Javanese Culture as Moderating Factor; is my own writing. I hereby declare in all conscience that in this thesis there are no parts that were written by others nor did I try to copy or imitate in the form of words or symbols that shows the ideas or opinions of other researchers and consider them as my own writing, and nor did I took writings from others without referencing the original writer.

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## **ABSTRAK**

Penelitian ini bertujuan untuk mengetahui pengaruh prosedur audit dan pengalaman auditor terhadap tanggung jawab dalam mendeteksi fraud, dan untuk mengetahui apakah budaya jawa memoderasi pengaruh prosedur audit dan pengalaman auditor terhadap tanggungjawab mereka dalam mendeteksi.

Sampel dalam penelitian ini berjumlah 35 responden dan kuesioner disebarkan kepada karyawan yang bekerja di 8 Kantor Akuntan Publik (KAP) di Semarang. Semua pertanyaan diukur menggunakan Skala Likert dengan 4 peringkat jawaban dari sangat tidak setuju sampai sangat setuju. Data diolah menggunakan program SPSS 22. Metode analisis data yang digunakan adalah analisis kuantitatif dengan menggunakan uji validitas, uji reliabilitas, uji normalitas, uji asumsi klasik, uji analisis regresi linier berganda dan uji moderasi.

Hasil penelitian ini menunjukkan bahwa variabel prosedur audit dan pengalaman auditor mempunyai pengaruh yang signifikan terhadap tanggung jawab auditor dalam mendeteksi fraud, dan variabel Budaya Jawa terbukti memoderasi pengaruh prosedur audit dan pengalaman auditor terhadap tanggung jawab auditor yang bekerja di KAP di Semarang dalam mendeteksi fraud.

**Kata Kunci: Prosedur Audit, Pengalaman Auditor, Tanggung Jawab Auditor, Fraud Detection, Budaya Jawa**

## **ABSTRACT**

This study aims to determine the influence of audit procedures and auditors' experience on auditors' responsibility in detecting fraud, and to examine whether Javanese culture moderates the influence of audit procedures and auditors' experience on their responsibility in detecting fraud.

The samples in this study are 35 respondents and the questionnaires were distributed to employees working in 8 Public Accounting Firms (KAP) in Semarang. All questions were measured using Likert scale with 4 rank answers from strongly disagree to strongly agree. The data were processed using SPSS 22. Data analysis method used is quantitative analysis using validity test, reliability test, normality test, classic assumption test, multiple linear regression analysis test and moderating test.

The results of this study showed that the variables audit procedures and auditors' experience has a significant influence on the auditors' responsibility in detecting fraud, and the variable Javanese Culture is found to moderate the influence of audit procedures and auditors' experience on the responsibilities of auditors who are working in public accounting firms (KAP) in Semarang regarding fraud detection.

**Keywords: Audit Procedure, Auditor Experience, Auditor Responsibility, Fraud Detection, Javanese Culture.**

## FOREWORD

Praise be to Allah SWT, who has bestowed His grace and guidance so that I can finish this thesis entitled “**The Influence of Audit Procedure and Auditors’ Experience on Auditors’ Responsibility in Detecting Fraud With Javanese Culture as A Moderating Factor.**”

This thesis is written in order to complete the requirements of completing Bachelor of Accounting studies, Faculty of Economics and Business, Diponegoro University, Semarang. In writing this thesis I have received much assistance in the form of guidance, information, and encouragement until this thesis is eventually completed.

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From my humble self, I would like to apologize for all the mistakes and flaws in writing this thesis. I have realized that this thesis is far from perfect, but I hope that this research can be useful to other writers, students, and readers throughout the future.

Semarang, 23 March 2016

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# CHAPTER I

## INTRODUCTION

### 1.1 Background of the study

An auditor has the main responsibility to plan and perform audits with practical reassurance of detecting material misstatements in financial reports. But through time, there have been conflicting opinions on the role of auditors with respect to their responsibility in detecting fraud. Though auditors have claimed that fraud detection is an audit objective, since the beginning, the auditor's role has not been well defined, which then resulted in the case of World-Com and Enron, as well as many other accounting scandals (Alleyne & Howard, 2005). Due to that, the auditing and the accounting professions have previously undergone major changes.

Following the latest financial calamities, including the collapse of investment banks, the awareness of fraud had increased. The Association of Certified Fraud Examiners (ACFE, 2012) in their worldwide survey entitled *The Report to the Nations on Occupational Fraud and Abuse* has reported that annual fraud costs to overall companies was estimated around 5% of their revenues, which is roughly US\$3.5 trillion annually.

Occupational fraud had been defined by The ACFE (2012, p.6) as “the use of one’s occupation for personal enrichment through the deliberate misuse or misapplication of the employing organizations’ resources or assets.” The common types of fraud would include expense reimbursement schemes, payroll schemes, skimming, creating fictitious creditors, and bribery.

In their study, it was stated that the median loss caused by occupational fraud was US\$140,000 and the cases were reported with a median of 18 months before being detected. Comprising of 87% of the cases reported, undoubtedly the most widespread type of occupational fraud was asset misappropriation schemes. Though financial statement fraud plots made up to just 8% of the cases, with US\$1 million, it caused the utmost median loss. In Asia, the common type of fraud was corruption schemes with the percentage of 51% whereas financial statement fraud only took up to 9%.

Based on the Asia-Pacific Fraud Survey done by Ernst & Young (EY, 2013), in Indonesia, 79% of the survey participants believed that corruption and bribery is common with 36% saying that it is accustomed to use bribes to win long and short term business agreements. It was also noted that the study respondents suspected that when it comes to financial reporting, Indonesia has weak controls. The lack of regulation

and allocated resources to fight corruption, bribery, and fraud nationally is mostly to blame.

An example corruption case in Indonesia would be the massive corruption in the awarding of contracts to build the Hambalang Sports Center in Bogor at the beginning of the year 2013. The project had a budget of Rp 2.5 trillion, but caused Rp 243 billion in state losses<sup>1</sup>. The most recent case would be the fictitious credits given by Syariah Mandiri Bank in Bogor totaling up to Rp 102 billion, that has a potential to cause Rp 59 billion in state loss<sup>2</sup>.

The recent rise in fraud and the nature of corrupt decision making in organizations resulted in the increase of the public outcry for fraud prevention. In response to the massive frauds and public protest, the Sarbanes-Oxley act of 2002 had been acted out, which generated a focus on fraud prevention. Thus Statement on Auditing Standards (SAS) No. 82 *Consideration of Fraud in a Financial Statement* (Auditing Standards Board 1997), which had provided guidance on how auditors should perform an audit had been superseded by SAS No.99.

*Consideration of Fraud in a Financial Statement*, the SAS No. 99 was put into practice to develop procedures in detecting fraud. It was

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<sup>1</sup> Sihaloho, M. J., 2013, "Minister Asserts Graft – Tainted Hambalang Project Should Be Continued" *The Jakarta Globe*, March 6 2013.

<sup>2</sup>Prabowo, D., 2013, "Beri Kredit Fiktif Rp 102 Miliar, Tiga Pegawai BSM Bogor Ditangkap" *Kompas*, October 23 2013.

argued by Ramos (2003) that SAS No.99 was considered to have the auditor's deliberation of fraud integrated wholly into the audit process from start to end. This new standard requires auditors to audit financial statements with professional skepticism.

Arens *et al.* (2003) have also stated that financial statements should be audited by experienced, independent individual and involves the collection and reviews of evidence to decide and report on the degree of connection between the information and certain established criteria. But it had been found by ACFE (2012, p.14) on their survey that fraud which had been detected by external audit only fall up to 3.3%.

Alleyne and Howard (2005) argued that due to today's technological age, it is becoming more difficult to detect fraud, particularly if it is conspirative in nature and that top managements were able to conceal it. Other than that, extensive fraud detection will result in higher cost and are not efficient. As a result, auditors have argued that it is not fully their responsibility in detecting fraud.

Due to the high cost, in the survey done by EY (2013), 31% of the Indonesian respondents said that complying anti-bribery/anti-corruption (ABAC) laws using technology, such as monitoring transactions or forensic data analysis are not being applied. Furthermore, when asked about the best way to proactively detect fraud, most of them

believed that continuous transaction monitoring and whistle-blowing policy are much more effective than stronger internal audit team or using external auditor to assess fraud risk.

The users of financial statements and management perceptions on auditors' judgment and responsibility to detect fraud are gradually decreasing due to the wide expectation gap. Auditors still feel that it is management's responsibility to detect fraud and that companies have effective audit committees that are better equipped, sound internal controls, internal auditors to deal with prevention and detection (Alleyne and Howard, 2005). However, Moyes and Hasan (1996) had argued that the type of auditor was not reliant to the level of fraud detection, since both internal and external have equal capabilities to detect fraud. Watkins *et al.* (2004) concluded that individual auditor judgment produces the quality of an audit and it is also affected by auditor's individual competence.

To plan and perform audits to provide reasonable assurance of detecting material misstatements and errors in financial statements is the main responsibility of auditors. And in order to detect misstatements and errors, they have to rely on their professional judgments, knowledge of accounting errors and past experiences (Chan, *et al.* 2003).

An important environmental factor influences accounting practices is culture, whether it's their corporate culture or their cultural

heritage. Patel *et al.* (2000, 2002) have argued that auditors' judgments are influenced by their collective and individual values, which are the product of country-specific culture in different countries. The relationship between attitudes towards fraud and cultural heritage has also been examined by Watson (2003). It was found that based on their cultural heritage; there is diversity in how people endorse fraud in general. For example, In Japan, the Japanese host was affronted by US businessmen because they turn down gifts, in fear of bribery. But it has been stated before that in Indonesia, bribery has become very common.

When discussing about culture in Indonesia, the Javanese culture has dominated the way of life of its citizens, including the culture of business, social and political activities (Magnis-Suseno 1997). Magnis has also stated that the foundation of Javanese culture is upholding social harmony. Thus, reflecting the principles of respect and conflict avoidance.

In the Javanese society, it is noted there is no room for individualism in a social relationship, they prefer much on collectivism (Chariri, 2009). They believed that individualism, diversity and conflict may threaten that social harmony (Mulder 1994). Therefore, by detecting fraud, auditors may cause conflicts and disrupt the social harmony or their auditor-client relationships. However, auditing is a profession that requires individualism and should remain independent.

Other than culture, the auditors' sense of responsibility in detecting fraud when performing audits is influenced by the audit procedure itself. Though detecting misstatements, errors, and fraud are already a part of the auditing procedure, according to Alleyne & Howard (2005) in Barbados, auditors obstinate that it was not their responsibility to search for illegal acts. Large businesses already have their own extensive internal controls and internal audits department. But then again the AICPA had stated that, "The SAS No.99 reminds auditors that they must approach every audit with professional skepticism and not assume that management is honest."

There are plenty of researches regarding the competence of auditors conducted worldwide. Whereas studies about the relationship of culture and accounting practices that were done in Asian countries especially Indonesia are limited. Furthermore, studies that had examined the relationship of culture and accounting practices, especially in fraud detection and prevention, had been mostly done in China (Chan *et al.* 2003; Lin *et al.* 2008; Hwang *et al.* 2008).

Based on the reasons above, the author is interested in conducting this research on external auditors, from public accountant firms located in Semarang, and their responsibility in detecting fraud. This research attempts to focus on the factors that influence their sense of responsibility, such as related audit procedures, the auditors'

experience in detecting fraud with a moderating factor of Javanese culture.

## **1.2 Problem Statement**

When talking about how auditors' perceived their responsibilities in detecting fraud, there are many factors that contribute to it. However, this study will only attempt to explain its relation with the local culture, regulations and procedures, and the experience of the auditors themselves.

Based on the arguments above, the questions that have risen is as follows:

1. Do factors such as audit procedures, and the auditors' experience influence their responsibility in detecting fraud?
2. Does Javanese culture moderates the influence of audit procedures and auditors' experience on their responsibility in detecting fraud?

## **1.3 Study Objective**

In accordance with the problem statement, the purpose of this study is as follows:

1. To examine the influence of factors such as audit procedures and auditors' experience on auditors' responsibility in detecting fraud.

2. To examine whether the Javanese culture moderates the influence of audit procedures and auditors' experience on their responsibility in detecting fraud.

#### **1.4 Contributions of Study**

The results of this study are expected to give contributions such as follows:

1. To add information and reference to the theory development of auditing, behavioral accounting and ethics.
2. To provide additional understandings to public accounting firms on the factors that influence auditors' responsibility in detecting fraud, so that actions can be taken in order to increase the performance of their auditors.
3. To provide information to management and financial statement users such as stockholders, investors, creditors, and others on the responsibility of auditors' in detecting fraud in order to increase their awareness.
4. To add understandings and information to accounting students on fraud and the auditors' responsibility for detecting fraud.

## **1.5 Thesis Outline**

### **CHAPTER I : INTRODUCTION**

This chapter describes the study background, problem statement, the study objectives and contributions as well as the thesis outline.

### **CHAPTER II: LITERATURE REVIEW**

This chapter contains the theories that underlie this study, the definitions of terms, and results of previous studies. This chapter also describes the theoretical framework and the hypothesis development.

### **CHAPTER III: RESEARCH METHODOLOGY**

This chapter describes about the research methodology which is operated in the conduct of this study. The description includes the definition and measurement of variables, population and sample, the type and source of data, the methods of data collection, variables identifications and data analysis methods.

**CHAPTER IV: DATA ANALYSIS AND DISCUSSION**

This chapter explains the object of study, the quantitative analysis, results interpretation and argumentations.

**CHAPTER V: CONCLUSION**

This chapter contains the conclusions and limitations of the study. Suggestions or future studies are also included in order to overcome the limitations.