

**PERCEIVED EFFECTIVENESS OF FRAUD
DETECTION AUDIT PROCEDURES IN GOODS
AND SERVICES EXPENDITURES**



UNDERGRADUATE THESIS

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Economics and Business of Diponegoro University

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PRONOUNCEMENT

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ABSTRACT

The aims of this research is to examine the perceptions of auditors about the effectiveness of standard audit procedures in detecting fraud in goods and services expenditures.

The population of this study is BPK RI's auditors in AKN I, AKN II, AKN III, AKN IV, AKN V, and AKN VI. Research sample obtained in this study is 34 auditors. Respondents were given a questionnaire and asked to respond within five Likert scale. Data were analyzed using one-sample t-test and independent sample t-test.

The result showed that there are some standard audit procedures in goods and services expenditures that are perceived as more effective and others are perceived as moderately effective. It is found that there are no significant differences in the perceiving the effectiveness of standard audit procedures between less experienced auditor and more experienced auditor. The study has also found that there are only one procedure that has significant difference in the perceived effectiveness of standard audit procedure between male auditor and female auditor.

Keywords: perception, audit, auditing, audit procedure, fraud.

ABSTRAK

Penelitian ini bertujuan untuk menguji persepsi auditor atas keefektifan prosedur audit standar dalam mendeteksi kecurangan pada belanja barang dan jasa.

Populasi dari penelitian ini adalah auditor BPK RI di AKN I, AKN II, AKN III, AKN IV, AKN V, dan AKN VI. Sampel penelitian yang diperoleh dalam penelitian ini sebanyak 34 auditor. Responden diberi kuesioner dan diminta untuk merespon dalam lima skala Likert. Data dianalisis dengan menggunakan *one-sample t-test* dan *independent sample t-test*.

Hasil penelitian menunjukkan bahwa ada beberapa prosedur audit standar dalam belanja barang dan jasa yang dianggap lebih efektif dan prosedur lainnya dianggap cukup efektif. Hasil penelitian ini juga menemukan bahwa tidak ada perbedaan yang signifikan dalam mempersiapkan keefektifitasan prosedur audit standar antara auditor yang kurang berpengalaman dan auditor yang lebih berpengalaman. Studi ini juga menemukan bahwa hanya ada satu prosedur yang memiliki perbedaan yang signifikan persepsi keefektifitasan prosedur audit standar antara auditor pria dan auditor wanita.

Kata kunci : persepsi, audit, auditing, prosedur audit, kecurangan.

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10. All people who come into my life. I believe that no matter how the random things appear, there must be a plan beyond it.

I realize that this thesis is still far from perfect. Therefore, I will be glad to receive any constructive criticism and suggestion to make this thesis better. I expect that this thesis will be useful for the readers.

Semarang, 15 December 2014

Author

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CHAPTER I

INTRODUCTION

1.1. Background

The government of Indonesia encounter great problem of frauds. The annual report of *Komisi Pemberantasan Korupsi* (KPK) or Corruption Eradication Commission in 2008 indicated that KPK investigated 53 fraud cases. In 2009, KPK investigated 49 fraud cases and in 2010 it was growing to 62 fraud cases. In 2011, Fraud cases were investigated by KPK growing up to 66. In 2012, there were 72 fraud cases investigated by KPK. Investigation is one of the audit services. Because of that, Audit has an important rule in finding a fraud.

The fraud cases in government expenditure are interesting to follow because it is always involves a tremendous amount of money. The Hambalang Case for the example has inflicted a financial loss about Rp463.000.000.000,00. The SIM Simulator Case has inflicted a financial loss about Rp121.000.000.000,00.

Fraud is the activity that done by violating the rules. The Association of Certified Fraud Examiners (ACFE) defines “occupational fraud and abuse” (employee frauds) as: “the use of one’s occupation for personal gain through the deliberate misuse or theft of the employing organization’s resources or assets. Silverstone and Sheetz (2007) define fraud as an activity that takes place in a

social setting and has severe consequences for the economy, corporations, and individuals.

Auditing is a process to examine whether the activity, done by an organization, is in accordance with the rules. Rittenberg, et al (2012) stated, “auditing is systematic process of *objectively obtaining and evaluating evidence* regarding *assertions* about economic actions and events to ascertain the degree of correspondence between those assertions and *established criteria* and *communicating the results* to interested users”.

Audit program is a set of procedures that is used by auditor when doing the audit. Rittenberg, et al (2012) stated, “audit program lists the audit objectives and the procedures to be followed in gathering evidence to test the accuracy of account balances”.

Badan Pemeriksa Keuangan (BPK) or Supreme Audit Board of Indonesia is an external auditor of the government of Indonesia that has the power to do audit. The authority of BPK is stated in Undang-Undang Dasar Negara Republik Indonesia tahun 1945 (UUD 1945) paragraph 23 E and Undang-Undang No. 15 Tahun 2004 about *Pemeriksaan Pengelolaan dan Tanggung Jawab Negara*.

This paper seeks to explore the use of audit techniques in detecting fraud, especially in the governmental expenditure in Indonesia. The effectiveness in the fraud finding of the governmental expenditure will give a better information for the shareholder that are the Indonesian citizen, *Majelis Permusyawaratan Rakyat* (MPR), and others.

The previous researches about related topic have never done in the governmental environment. Owusu-Ansah, et al (2002) researched an empirical analysis of the likelihood of detecting fraud in New Zealand. Alleyne, et al (2009) researched perceived effectiveness of fraud detection audit procedures in a stock and warehousing cycle in Barbados.

1.2. Problem Formulation

The effectiveness in finding fraud can be affected by the audit procedures, experiences, and sex. It is in accordance with Alleyne, et al (2009) who stated, “There is a moderate to high perceived effectiveness of standard audit procedures in the detection of fraud. There are mixed findings with respect to significant relationship between level of auditing experience of auditors and perceived effectiveness of fraud detection techniques. This study also indicates that males consistently rated the level effectiveness of audit procedures higher than females”.

The size of audit firms is omitted in this paper because BPK as respondent is the only office that related in this topic. Because of that, the problem formulation in this paper is:

1. Which standard audit procedures are perceived as most effective in detecting fraud in the governmental expenditure cycle?
2. Is there a significant relationship between audit experience and perceptions of effectiveness of standard audit procedures?

3. Are there differences in the perceived level of effectiveness of standard audit procedures in detecting fraud in the governmental expenditure cycle between male and female auditors?

1.3. Purpose and Implication

1.3.1. Purpose

The Researching Purpose is to collect data to find information about the following:

1. The effectiveness of audit procedure in finding fraud in public expenditure.
2. The effect of the experience of the auditors toward the perceived effectiveness of audit procedure.
3. The effect of the sex of the auditors toward the perceived effectiveness of audit procedure.

1.3.2. Implication

The research will be benefit to the researcher, the observed unit, the observed institution and educational institution.

1. The researcher

The researcher is expected to study the used of the audit procedure in governmental environment especially in the public expenditure.

2. The Observed Unit

The research will give a feedback to the observed unit's management in determining the composition of the auditor team and the audit procedure used.

3. Supreme Audit Board of Indonesia

The research will give a feedback to the management in determining policy implementation, audit planning, audit implementation, and audit reporting.

4. Educational institution

The educational institution will get the information of the implementation of an audit.

1.4. Organizations of the Writing

This thesis is composed of 5 (five) chapters in a systematic order. It will be easier to understand if it is read as a consistent series between chapters. The systematics in question is as follows:

CHAPTER I: INTRODUCTION

This chapter contains an introduction that outlines the background of the study, the formulation of the problem, the purpose of research, the implications of research, and organizations of the writing.

CHAPTER II: LITERATURE REVIEW

This chapter outlines the basic theory underlying each variable, a summary of the results of previous similar studies, framework, and hypothesis.

CHAPTER III: RESEARCH METHODOLOGY

This chapter describes the operational description and definition of the study variables, the determination of the population and the sample, the types and sources of data, methods of data collection, and data analysis methods.

CHAPTER IV: FINDINGS

This chapter describes the description of the object of research, data analysis, interpretation of results and arguments of the research results.

CHAPTER V: CONCLUSION

This chapter contains the conclusions derived from the data processing research. In addition, this chapter also contains suggestions for other research.

CHAPTER II

Literature Review

2.1. Theory and Prior Research

2.1.1. GONE Theory

GONE Theory is a theory that explaining why someone doing fraud. Bologna (1993) stated that there are four reasons why the fraudsters commit a fraud, that are:

1. Greed

The fraudsters have a greed and gluttony personality which potentially in every body's personality. By means, the fraudsters are not satisfied on their situation or condition so they need more and more.

2. Opportunity

The situation of the environment has not much control so the fraud can be done. The fraudsters are always the one who know about the system so they can find the way on how to do a fraud.

3. Need

Need is the thing that the fraudsters need. The need of every fraudster is not the same because every fraudster has their own normal things to have paradigm.

4. Exposure

Exposure is the penalty given to the fraudsters. The more insignificant the penalty and the less publication of fraud finding will be affecting to the more aggressive the fraudsters.

2.1.2. Fraud Triangle Theory

Fraudsters have their own reason in doing fraud. Singleton, 2010 stated, “Generally there are three main causes why they are doing fraud, called fraud triangle”. The three main causes are:

Chart 2.1
Fraud Triangle



Source: Singleton, 2010

1. Pressure

Pressure is something that happened in personal life of the fraudster to do fraud. For example, Gambling problem is one of them. The needs of money to gamble encourage the fraudster to do the fraud. Drug problem is another example. The fraudster needs the money to buy the drug for his drug problem.

2. Rationalization

Rationalization is something that used as an excused. For example, the thought about the size of the place where the fraud committed is so big so stealing a little amount of money will not hurt the company. Another example, the fraudster think that they have never gone to jail or gotten harsh prison sentences for stealing, defrauding, or embezzling from their employers or the consequences is not significant.

3. Opportunity

Opportunity is the possibility to do fraud. For example, the weakness or the absence of internal control is the main factor in the opportunity. The fraudster knows the system very well so that fraud can be committed easily.

2.1.3. Agency Theory

Agency theory is a theory about the difference behavior between principal and agent. Jensen and Meckling (1976) put forward the theory of the agency, explained that the interests of management and shareholder interests often conflict, so that conflicts can arise between them. This happens because managers tend to try to give priority to private interests. Shareholders may not like the personal interests of leaders as it will add costs to the company, it will reduce the benefits received. Conflicts of interest between managers and shareholders can be minimized by a monitoring mechanism to adjust the related interest. But with the advent of such a mechanism would cause the cost of fees the agency said. This cost can be body or agency costs of equity.

Jensen and Meckling (1976), define an agency relationship as “a contract by which one or more persons (the principal(s)) contract another person (the agent) to execute some service in favor of them and which involves delegating to the agent some authority of decision making”.

Every agency relationship can, in principle, suggest a search for efficiency since the principal, for not having the experience, time, competence or qualification confers the task of management of resources and the execution of activities to the agent. However, as Jensen and Meckling highlight, (1976) “if both the parties of the relationship are maximizes of utility there is good reason to believe that the agent will not always act in the best interests of the principal” (our translation).

Recent work in the area of agency theory has focused on the problems engendered by incomplete information, that is, when not all states are known to both parties and, as result, when certain consequences are not considered by both, such situation are known as information asymmetries. (Hendrikson and Breda, 1992)

A particular example of incomplete information exists in agency theory when an owner is unable to observe all the actions of the manager. These actions may differ from those the owners would have preferred, either because the manager has a different set of preferences, or because the manager is deliberately attempting to shirk or cheat the owners. This creates what is known as a moral hazard problem. One possible solution is for the owners to hire a firm of auditors to check on what management is doing. Another is to provide management with incentives, such as shares in the company, to align their preferences with the owners.

The fraud, done by the management, is expected to be revealed by auditing. The shareholder use the audit reports to make sure that the managements report are delivering the fact.

2.1.4. Expectancy Theory

Expectancy theory stated that the decision made by a person is based on their motivation. Victor H. Vroom (1964) defines motivation as a process governing choices among alternative forms of voluntary activities, a process controlled by the individual. The individual makes choices based on estimates of

how well the expected results of a given behavior are going to match up with or eventually lead to the desired results. Motivation is a product of the individual's expectancy that a certain effort will lead to the intended performance, the instrumentality of this performance to achieving a certain result, and the desirability of this result for the individual, known as valence.

Three elements of the theory are:

1. Expectancy

Expectancy is the belief that one's effort will result in attainment of desired performance goals. Usually based on an individual's past experience, self-confidence, and the perceived difficulty of the performance standard or goal. This will affect the individual's decision-making process because they will ultimately choose behaviors that will ensure their desired goals. There are 3 components associated with the individual's Expectancy perception. They are self-efficacy, goal difficulty, and perceived control. Self-efficacy is the person's belief about their ability to successfully perform a particular behavior. The individual will assess whether they have the required skills or knowledge desired to achieve their goals. Goal difficulty is when goals are set too high or performance expectations that are made too difficult. This will most likely lead to low expectancy. This occurs when the individual believes that their desired results are unattainable. Perceived control is that Individuals must believe that some degree of

control over the expected outcome. When individuals perceive that the outcome is beyond their ability to influence, expectancy, and thus motivation, is low.

2. Instrumentality

Instrumentality is the belief that a person will receive a reward if the performance expectation is met. This reward may come in the form of a pay increase, promotion, recognition or sense of accomplishment. Instrumentality is low when the reward is the same for all performances given.

Factors associated with the individual's instrumentality for outcomes are trust, control and policies. If individuals trust their superiors, they are more likely to believe their leaders promises. When there is a lack of trust in leadership, people often attempt to control the reward system. When individuals believe they have some kind of control over how, when, and why rewards are distributed, Instrumentality tends to increase. Formalized written policies impact the individuals' instrumentality perceptions. Instrumentality is increased when formalized policies associate rewards to performance.

3. Valence

Valence is the value an individual places on the rewards of an outcome, which is based on their needs, goals, values and Sources of Motivation. Influential factors include one's values, needs, goals,

preferences and sources that strengthen their motivation for a particular outcome.

Valence is characterized by the extent to which a person values a given outcome or reward. This is not an actual level of satisfaction rather the expected satisfaction of a particular outcome.

2.1.5. Fraud

Fraud is an action of fraudsters by violating the rules to get a benefit of it. Silverstone and Sheetz (2007) define fraud as “an activity that takes place in a social setting and has severe consequences for the economy, corporations, and individuals. It is an opportunistic infection that bursts forth when greed meets the possibility of deception”. The fraud investigator is like the attending physician looking and listening for the signs and symptoms that reveal an outbreak.

UU Nomor 31 Tahun 1999 about Pemberantasan Tidak Pidana Korupsi stated that “corruption is every person who acts unlawfully enrich themselves or another person or a corporation that could harm the state finance or economy of the state, sentenced to life imprisonment or an imprisonment for a minimum 4 (four) years and a maximum of 20 (twenty) years and a fine for a minimum Rp200,000,000.00 (two hundred million rupiahs) and a maximum of Rp1,000,000,000.00 (one billion rupiahs)”.

Singleton (2010) divides the definition of fraud to some sub-definitions that are:

1. Fraud as a crime.

Fraud is a generic term, and embraces all the multifarious means that human ingenuity can devise, which are resorted to by one individual, to get an advantage by false means or representations. No definite and invariable rule can be laid down as a general proposition in defining fraud, as it includes surprise, trick, cunning, and unfair ways by which another is cheated. The only boundaries defining it are those that limit human knavery.

2. Corporate fraud.

Corporate fraud is any fraud perpetrated by, for, or against a business corporation.

3. Management fraud.

Management fraud is the intentional misrepresentation of corporate or unit performance levels perpetrated by employees serving in management roles who seek to benefit from such frauds in terms of promotions, bonuses or other economic incentives, and status symbols.

4. Layperson's definition of fraud.

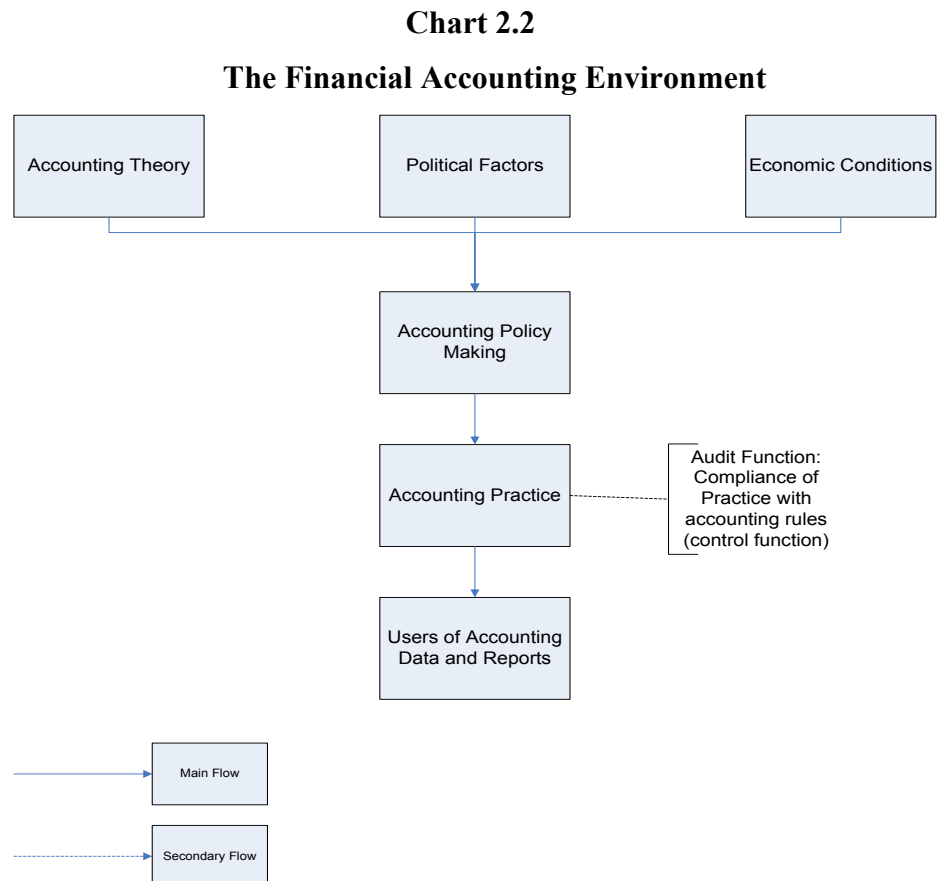
Fraud is dishonesty in the form of an intentional deception or a willful misrepresentation of a material fact. Lying, the willful telling of an untruth, and cheating, the gaining of an unfair or unjust advantage over another, could be used to further define the word fraud because these two words denote intention or willingness to deceive.

5. ACFE's definition of fraud.

The Association of Certified Fraud Examiners (ACFE) defines "occupational fraud and abuse" (employee frauds) as: "the use of one's occupation for personal gain through the deliberate misuse or theft of the employing organization's resources or assets." The ACFE defines financial statement fraud as: "the deliberate misrepresentation of the financial condition of an enterprise accomplished through the intentional misstatement or omission of amounts or disclosures in the financial statements in order to deceive financial statement users."

2.1.6. Auditing

Auditing has an important role in the financial reporting. The importance of an audit is shown in the chart 2.1.6.a.

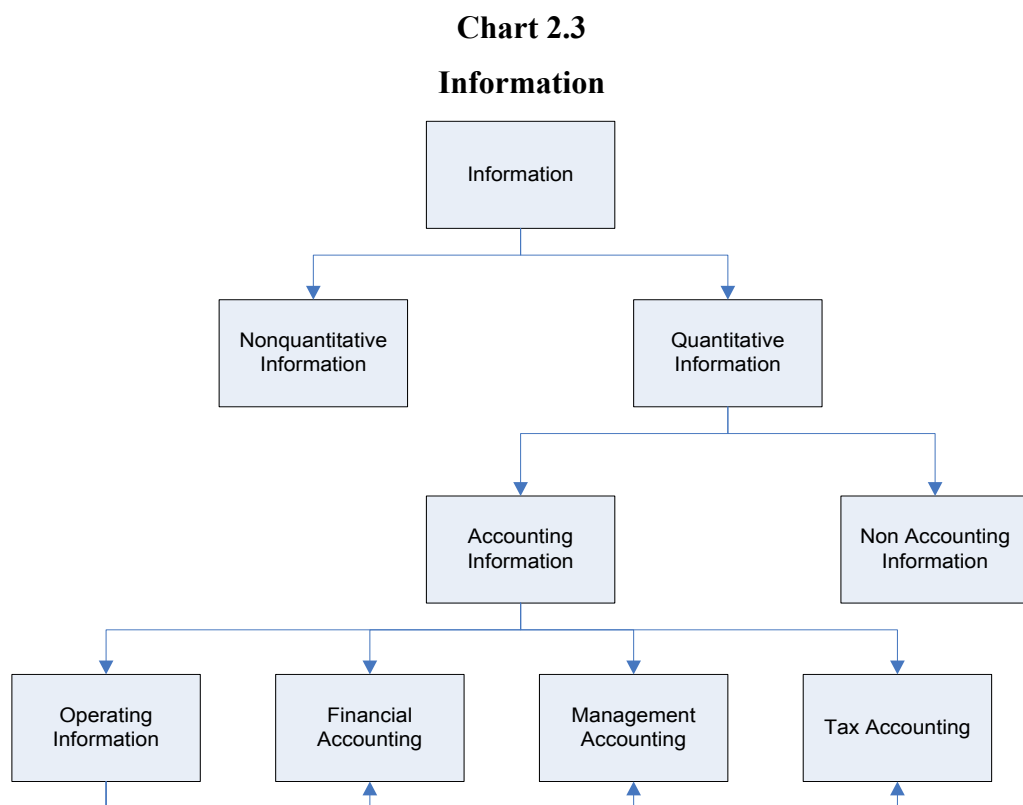


Source: Wolk, 1992

Accounting Theory, Political Factors, Economic Conditions influence the Accounting Policy Making. Accounting Practice, done by company, is based on the Accounting Policy. Financial Statement is issued as the result of the accounting practice. The shareholder in decision-making will use financial statement. The shareholder will need a second opinion on the financial statement.

That is which the auditing take part. The audit report gives information about the fairness of the financial statement.

There is information that useful to management. Anthony (1999) stated, the information needed by the management shown in chart 2.1.6.b.



The information can be divided to two general categories. Nonquantitative information is every information, company related information, that has no effect to the financial position of the company nor includes a certain amount of money. Quantitative Information is information that has an economy effect to the company. Financial Accounting, one of the quantitative information, needs to be audited.

Auditing is a process to determine the fairness of an act compared to criteria. Arens (2003) defines auditing, as “the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria, and it should be done by a competent, independent person”.

Opinion is a result of an audit process. There are four opinions that can be given. Arens (2003) stated that the audit report have four possibility opinions, that are given in the specific condition.

Table 2.1
Audit Report (Opinion)

| Audit Report (Opinion) | Auditor’s Judgment |
|---------------------------|--|
| Unqualified Opinion | Auditor convinced that the financial statement is fairly presented according to Generally Accepted Accounting Procedures, SAK (Standar Akuntansi Keuangan), or SAP (Standar Akuntansi Pemerintahan). |
| Qualified Opinion | Auditor convinced that the financial statement is fairly presented according to Generally Accepted Accounting Procedures, SAK, or SAP but in the several account. |

| Audit Report (Opinion) | Auditor's Judgment |
|---------------------------|---|
| Adverse | Auditor convinced that the financial statement is not fairly presented according to Generally Accepted Accounting Procedures, SAK, or SAP. |
| Disclaimer | Auditor did not convince whether that the financial statement is fairly or not fairly presented according to Generally Accepted Accounting Procedures, SAK, or SAP. |

2.1.7. Perception

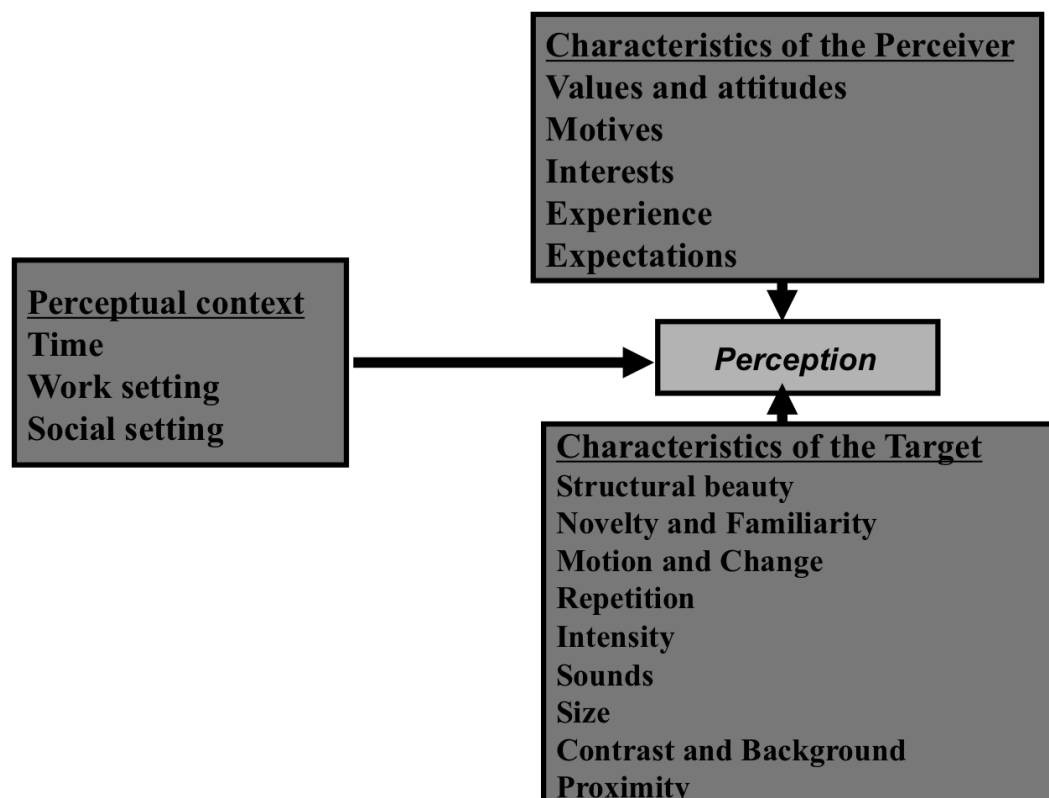
Robbins and Judge (2013) define perception as “a process by which individuals organize and interpret their sensory impressions in order to give meaning to their environment. However, what we perceive can be substantially *different* from objective reality. For example, all employees in a firm may view it as a great place to work - favorable working conditions, interesting job assignments, good pay, excellent benefits, understanding and responsible management - but, as most of us know, it's very unusual to find such agreement”.

Characteristics of the target also affect what we perceive. Loud people are more likely to be noticed in a group than quiet ones. So, too, are extremely attractive or unattractive individuals. Because we don't look at targets in isolation, the relationship of a target to its background also influences perception, as does

our tendency to group close things and similar things together. We often perceive women, men, Whites, African Americans, Asians, or members of any other group that has clearly distinguishable characteristics as alike in other, unrelated ways as well.

There are factors that influence perception. The factors are shown in the chart 2.1.7.

Chart 2.4
Factors that Influence Perception



Source: Robbins and Judge (2013)

Individuals in organizations make decisions, choices from among two or more alternatives. Top managers determine their organization's goals, what

products or services to offer, how best to finance operations, or where to locate a new manufacturing plant. Middle-level and lower-level managers set production schedules, select new employees, and decide how to allocate pay raises. Non-managerial employees decide how much effort to put forth at work and whether to comply with a boss's request. Organizations have begun empowering their non-managerial employees with decision-making authority historically reserved for managers alone. Individual decision-making is thus an important part of organizational behavior. The way individuals make decisions and the qualities of their choices are largely influenced by their perceptions.

Decision-making occurs as a reaction to a problem. That is, a discrepancy exists between the current state of affairs and some desired state, requiring us to consider alternative courses of action. If your car breaks down and you rely on it to get to work, you have a problem that requires a decision on your part. Unfortunately, most problems don't come neatly labeled "problem." One person's *problem* is another person's *satisfactory state of affairs*. One manager may view her division's 2 percent decline in quarterly sales to be a serious problem requiring immediate action on her part. In contrast, her counterpart in another division, who also had a 2 percent sales decrease, might consider that quite acceptable. So awareness that a problem exists and that a decision might or might not be needed is a perceptual issue.

Every decision requires us to interpret and evaluate information. We typically receive data from multiple sources and need to screen, process, and interpret them. Which data are relevant to the decision, and which are not? Our

perceptions will answer that question. We also need to develop alternatives and evaluate their strengths and weaknesses. Again, our perceptual process will affect the final outcome. Finally, throughout the entire decision-making process, perceptual distortions often surface that can bias analysis and conclusions.

2.1.8. Goods and Services Expenditures (*Belanja Barang dan Jasa*)

Operational Goods Expenditures (*Belanja Barang Operasional*), as defined in PP Nomor 71 Tahun 2010 about Standar Akuntansi Pemerintah, is “budget expenditure for day-to-day activities of the central/regional government that have short-term benefits. Operating expenses include personnel expenditures, goods expenditure, interest, subsidies, grants, social assistance“.

Buletin Teknis Nomor 4 about Penyajian dan Pengungkapan Belanja Pemerintah defines Goods and Services Expenditures as “Goods and services expenditures that used for purchase/procurement of goods and the benefits is less than 12 (twelve) months and/or services used for the implementation of programs and activities of local governments. Goods and services expenditures include consumables, materials, office services, insurance premiums, maintenance of motor vehicles, printing/reduplication, house/building/warehouse/parking rental, mobility medium rental, heavy equipment rental, equipment and tools offices rental, food and beverages, uniforms and attributes, working clothes, special clothes and certain days, business travel, business travel tour of duty, and repatriation of employees “.

Goods expenditures are government spending in consumables to create another goods to be sold or not, goods to be handed over or sold to the public, and business trip expenditures. Goods expenditures can be divided to goods and services expenditures, maintenance expenditures, and business trip expenditures.

- a. Goods and Services Expenditures (*Belanja Barang dan Jasa*) are expenditures that are used for daily office needs, consumables (stationary, printer ink, etc.), services and energy subscriptions, non-physical expenditures, and equipment (the value of it less than minimum capitalization amount).
- b. Maintenance Expenditures (*Belanja Pemeliharaan*) are expenditures that are used to preserve fixed or other assets used normally. Maintenance expenditures can be divided to land maintenance, office building maintenance, official residence maintenance, vehicles, equipment, road, installation, irrigation, and other tools that related to government service.
- c. Business Trip Expenditures (*Belanja Perjalanan Dinas*) are expenditures that are used for government business trip as of the duties, functions, and positions.

Specifically goods expenditures can be divided to 54 types in the appendix

1.

2.1.9. Capital Expenditures (*Belanja Modal*)

Capital Expenditures (*Belanja Modal*), as defined in PP Nomor 71 Tahun 2010 about Standar Akuntansi Pemerintah, is “budget expenditures for the acquisition of fixed assets and other assets that have benefit for more than one accounting period. Capital expenditures include capital expenditures for the acquisition of land, buildings, equipment, and intangible assets”.

Buletin Teknis Nomor 4 about Penyajian dan Pengungkapan Belanja Pemerintah defines Capital Expenditures as “Capital expenditures used for purchase/procurement or construction of tangible fixed assets that have benefits for more than 12 (twelve) months to be used in government activities, such as in the form of land, equipment and machinery, buildings, roads, irrigation and installation, and other fixed assets. The acquisition cost of purchase/procurement or construction of tangible fixed assets in capital expenditure budget is only for the purchase/build price”.

Capital expenditures is expenditures that is used for buying fixed or other assets that can be used more than one accounting period. There are characteristics for expenditure to be recognized as the capital expenditures. Fixed assets characteristics are tangible, increasing government assets, used for more than one year, and covering a material value. Other Assets characteristics are intangible, increasing government assets, used for more than one year, and covering a material value. Expenditure is a capital expenditure if the assets bought are:

- a. increasing fixed or other assets of the government,

- b. exceeding the minimum value of assets, and
- c. meant to be used not meant to be sold.

Specifically capital expenditures can be divided to 69 types in the appendix 2.

2.1.10. Previous Research

There are already some researches about the topic. The area of fraud detection is particularly important from a shareholder's perspective; all shareholders want to protect their investments and want to be reassured that the assets of the company/government are correctly stated and safeguarded. Similarly, prospective investors also want to know that they are not only investing in sound companies, but that these companies will continue to remain viable and profitable in the future. The aforementioned issues reinforce the responsibility of auditors to provide reasonable assurance of financial information to society stated by Makkawi and Schick, 2003.

Most research (Romney et al., 1980; Pincus, 1989) concerning fraud detection has focused primarily on so-called red flags – a body of literature, which originated as a direct response to detect and deter fraud. Red flags are described as conditions or circumstances that indicate or highlight potential fraud situations. Moyes and Hasan (1996) concluded that the use of red flag questionnaires caused increased auditor comprehension and uniformity in data collection, as well as assisted auditors in assessing the risk of fraud during the planning stage of the financial statement audits. Although red flags provide some insight into the

likelihood of fraud occurring, they have nonetheless been criticized for being too general and are difficult to operationalize in empirical research (Owusu-Ansah et al., 2002). Alleyne and Howard (2005) found that users perceived that fraud detection was the auditors' responsibility and that companies who had internal auditors, sound internal controls and effective audit committees were better equipped to deal with fraud prevention and detection.

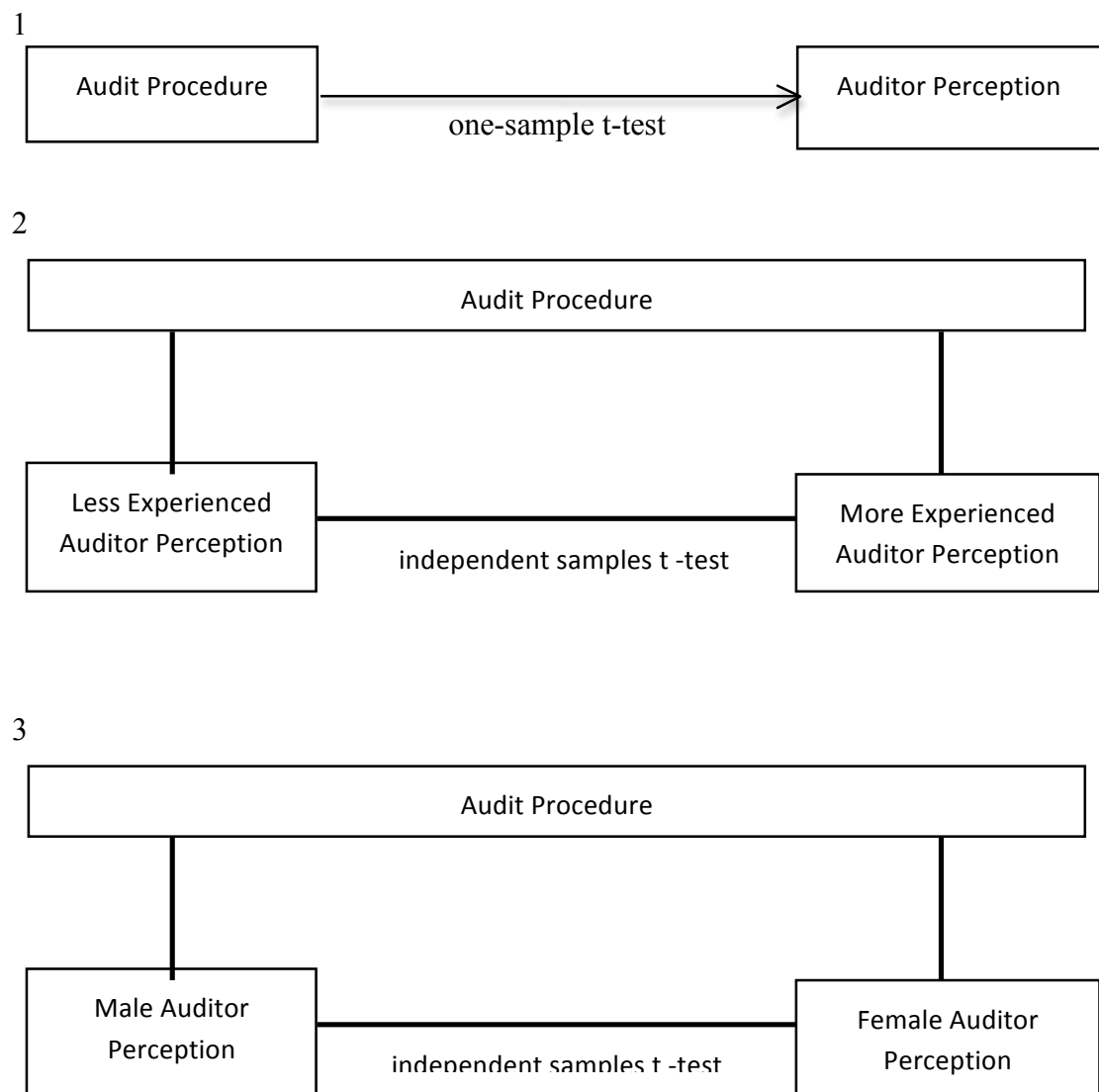
The research of the topic by Alleyne (2009) indicates that there is a moderate to high-perceived effectiveness of standard audit procedures in the detection of fraud in the stock and warehousing cycle in Barbados and that the majority of the "more effective" audit procedures can be classified as field research techniques that are more direct in obtaining evidence. It is found that auditors from larger firms reported higher means for audit procedures. There are mixed findings with respect to the significant relationship between level of auditing experience of auditors and perceived effectiveness of fraud detection techniques. The study also indicates that males consistently rated the level of effectiveness of audit procedures higher than females.

2.2. Research Framework

The perceived effectiveness of audit procedures is different based on the auditor. Based on the expectancy theory every personal has different judgment in valuing something. Thus the procedures that perceived effective will differ between auditors.

This research is about to value the effect of the personal judgment of auditors in perceiving effectiveness of audit procedures. Aforementioned, the framework of the research is as shown bellow.

Chart 2.5
Research Framework



2.3. Hypothesis

Hypothesis is a statement that will be tested in this research. Hypothesis can be defined as a tentative, yet testable, statement, which predicts what you expect to find in your empirical data (Sekaran and Bougie, 2010).

This research is an expansive model of previous research with some adjustment according to the research object. This research is made to find the audit procedures that perceived as more effective.

2.3.1. Audit Procedures

Audit procedures used in audit to examine the fraud happened. The Expectancy theory shown that every individual has their own choice so every auditor have their own judgment on valuing the effectiveness of a standard audit procedures. Alleyne et al (2009) in their research found that there are audit procedures perceived more effective in examining fraud. This research will examine the same hypothesis.

H₁: There are standard audit procedures perceived as more effective in detecting fraud in the goods and services expenditures.

2.3.2. Experience

Experience is one of the components of auditor expertise. The Expectancy theory stated that expectancy is one of the elements in the theory. The expectancy can be based on individual's experience. Thus, The judgment on perceiving the effectiveness of a standard audit procedures will be differs between the less

experienced auditor and more experienced auditor. Alleyne et al (2009) found that experience has no significant influence in the perceiving the effectiveness of audit procedures. The other research by Moyes and Hasan (1996 in Alleyne et al, 2009) found that audit experience of auditors was a significant factor in fraud detection. Thus, the research is to test the next hypothesis:

H₂: Experience has significant influence in perceiving the effectiveness of standard audit procedures in detecting fraud in the goods and services expenditures.

2.3.3. Sex

Sex differs not only the physical appearance but it differs the perception and way of thinking too. The expectancy theory also stated that the perception can be based on perceived difficulty of performance standard, motivation and self-confidence. Alleyne et al (2009) found that sex significantly affecting the auditor in perceiving the effectiveness of audit procedures. Alleyne et al (2009) also found that male auditor tend to score higher than female auditors' score. Moyes (2007 in Alleyne et al, 2009) found the contrary that the female auditors tend to score higher than male auditors' score. Aforementioned, this research will test the next hypothesis:

H₃: Sex has significant influence in perceiving the effectiveness of standard audit procedures in detecting fraud in the goods and services expenditures.

CHAPTER III

RESEARCH METHODOLOGY

3.1. Operational Definition and Variable Identification

3.1.1. Perceived Effectiveness

Perceived Effectiveness is the dependent variable of this research. It will be measured using *likert* scale (1-5). Value number 1 indicates that the procedure is not effective and vice versa the value number 5 indicates the procedure is effective.

3.1.2. Standard Audit Procedures

Standard audit procedures are the dependent variable of this research. Standard audit procedures used to detect the fraud and answer the 5W 1H question. Fraud triangle and GONE theory can be used in audit process as based in finding the fraud.

There are 25 standard audit procedures in the goods and services expenditures that will be tested in the research (appendix 3).

3.1.3. Experience

Experience is the first independent variable. Experience is the measurement of the duration of a person that has been working as an auditor. It will be categorized into less than five years and more than five years.

3.1.4. Sex

Sex is the second independent variable. Sex is an auditor's physical and psychological characteristics. It will be categorized into male and female.

3.2. Population and Sample

3.2.1. Population

Population is all of the objects that can be researched in a research. Population refers to a whole group of people, events, or things of interest that wants to be investigated in the study (Sekaran, 2011). The population of the research is the auditor of BPK in the Auditor Keuangan Negara (AKN) I until AKN VI. The populations of the research are 547 auditors.

3.2.2. Sample

Sample is a part of the population that used in this research. Sample is data collected from a small subset of the population and it used to infer things about the population as a whole (Field, 2009).

Sampling method used is purposive sampling. Purposive sampling is one of the nonprobability sampling methods. Purposive sampling is sampling method to collect data from specific object of research (Sekaran, 2003).

The sample of the research is estimated to be at least 30 auditors. Roscoe (1975, in Sekaran, 2003) proposed the rules to determine the sample size. The sample size of more than 30 and less than 500 is appropriate for most research.

3.3. Types and Sources of Data

Data used in this research is primary data that obtained directly from the respondents. Primary data was collected using questionnaires distributed to the auditor in the AKN I, AKN II, AKN III, AKN IV, AKN V, and AKN VI BPK.

3.4. Data Collection Methods

Data is obtained by distributing a questionnaire to the respondents. Questionnaires will be distributed online using *google form*. The consideration using such method is the mobility auditors, so that all respondents can fill in a questionnaire.

3.5. Analytical Method

3.5.1. Descriptive Statistics

Descriptive statistics were used in this study to provide an overview of the demographics of the survey respondents including the work experience and sex. “Descriptive statistics are statistics that aims to give an overview of the study variables were derived from respondents” (Ghozali, 2011).

3.5.2. Validity Test

Validity test is used to measure the validity of the questionnaires. “A questionnaire is valid if the questionnaire is able to express something that will be measured by the questionnaire” (Ghozali, 2011). The method is by doing a bivariate correlation between scores of each indicator with a total score of variables. “If the correlation between each of the indicators to the total score of the variables showed significant results, it can be concluded that each indicator is a valid question” (Ghozali, 2011).

3.5.3. Reliability Test

Reliability test is a tool to measure a questionnaire, which is an indicator of variables or constructs. “A questionnaire is reliable if someone answers on the statement is consistent or stable over time” (Ghozali, 2011). The method is by calculating Cronbach’s Alpha of each indicator used in a variable. “A construct or variable is reliable if the Cronbach's Alpha is more than 0.700” (Nunnally, 1994 in Ghozali 2011).

Sekaran (2003) stated that *Cronbach Alpha (α)* statistic test is used to test the reliability. The criteria of the test are using the value of the α .

1. If the α is less than 0.6, the questionnaire is unreliable,
2. if the α is between 0.6 and 07, the questionnaire is moderate,
3. if the α is between 0.7 and 08, the questionnaire is good, and
4. if the α is more than 0.8, the questionnaire is very reliable.

3.5.4. Hypothesis Test

H1 hypothesis testing using analysis of one-sample t-tests while the H2 to H3 using analysis Independent samples t-test using SPSS tools 20.0 (Statistical Package for Social Science). This test is intended to determine is there to audit procedures that are perceived by the auditors of the most effective in exposing fraud and will be the influence of experience or sex of the differences in these perceptions.