

# Technical, Moral Competencies and Communication Skills for Sustainability of Accounting Profession

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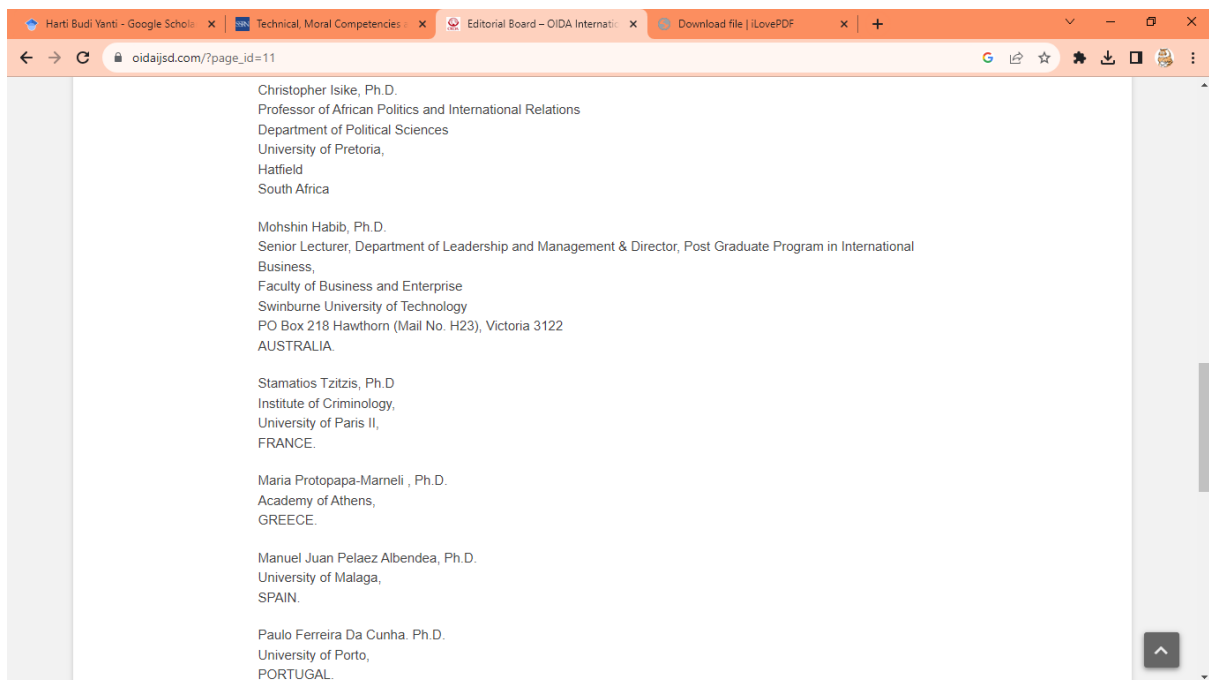
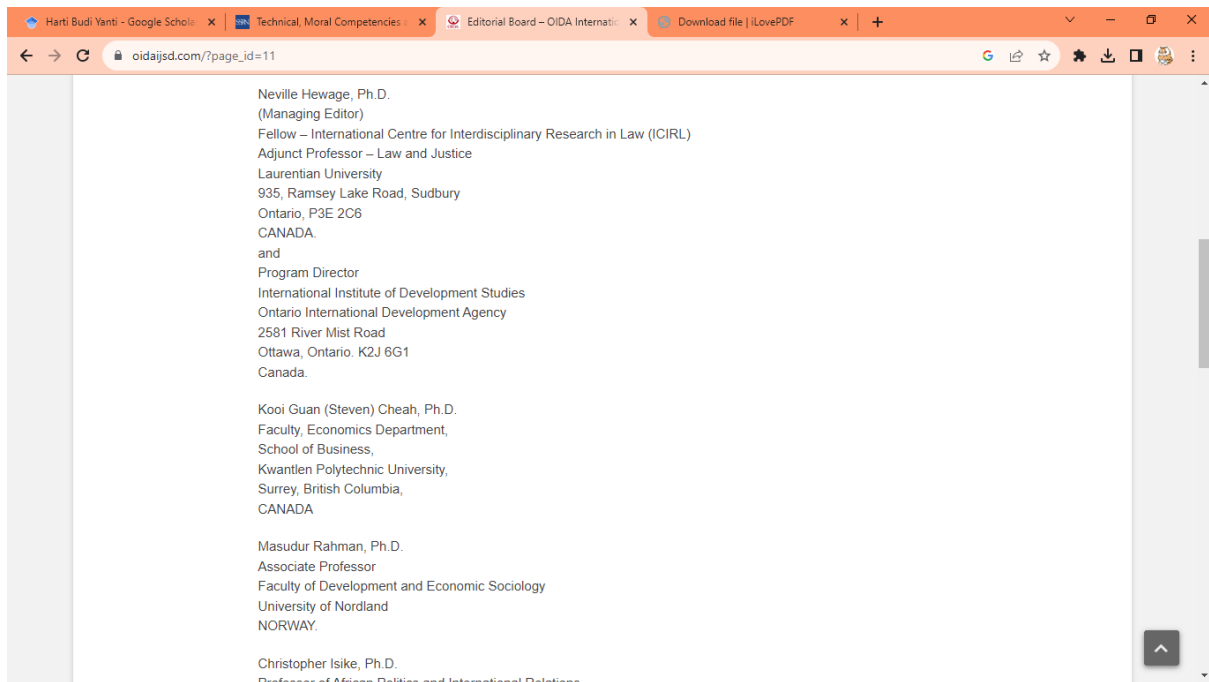
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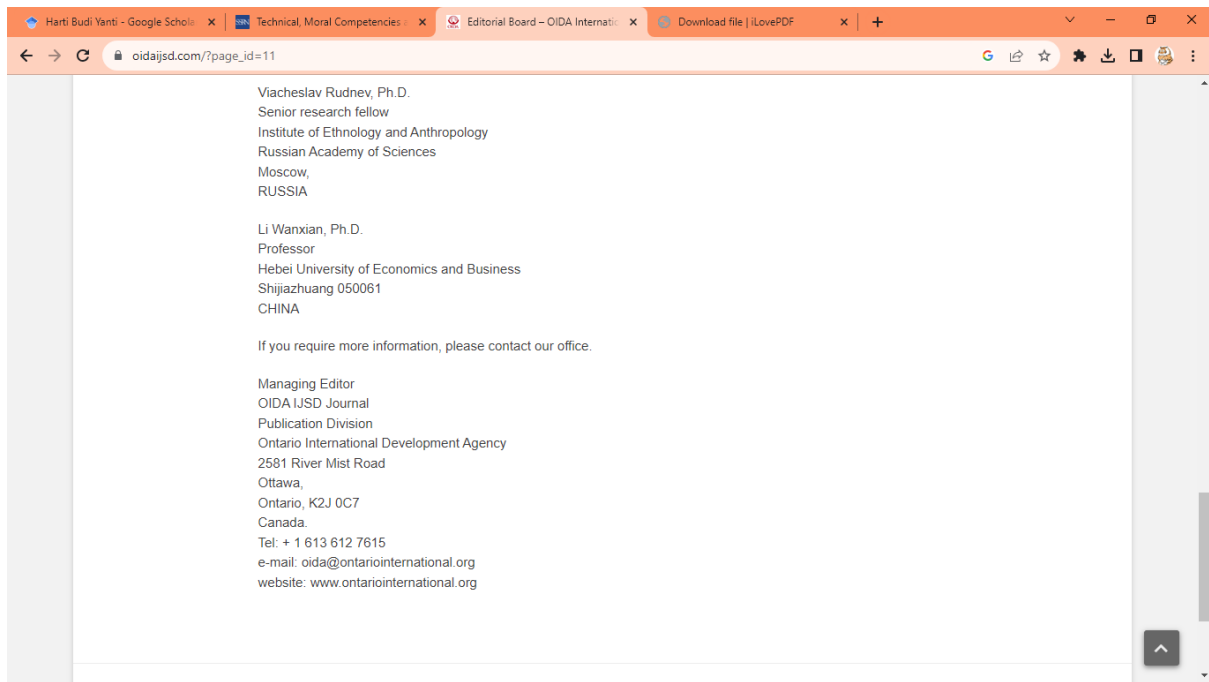
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### Technical, Moral Competencies and Communication Skills for Sustainability of Accounting Profession

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#### Abstract

This study examined about affect of technical, moral competencies and communications skills toward auditors' fraud detection capabilities. There are two independent variables i.e. technical competence and communication skill, and one of dependent variable i.e fraud detection capabilities that used in the research model. Moral competence was treated as moderating variable. The research data was obtained from 342 public accountants

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# Technical, Moral Competencies and Communication Skills for Sustainability of Accounting Profession

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**Abstract:** This study examined about affect of technical, moral competencies and communications skills toward auditors' fraud detection capabilities. There are two independent variables i.e. technical competence and communication skill, and one of dependent variable i.e. fraud detection capabilities that used in the research model. Moral competence was treated as moderating variable. The research data was obtained from 342 public accountants (external auditors), who came from 13 public accountant firm in Jakarta, Indonesia. Sampling method is convenience sampling. From the statistical testing using Smart Partial Least Square (PLS) 3.2, it shown that technical competence and communication skills have positive effect to the auditors' fraud detection capabilities. But this study could not prove that moral competence as a moderating variable.

**Keywords:** technical competence, moral competence, communications skills, auditors' fraud detection capabilities

## Preface

Why moral competence is important for the accounting profession? Moral competence is important because of accountants are moral agents who are expected to practice and maintain their independence from all sorts of pressures that they faced. When accountants did audit assignment, they will get pressure from clients, their public accounting firm professional organizations, government, public and their self. Public societies want honest, independent and integrity accountants. Public Accountant Firms wants auditors adhere to the leadership of the firm and professional organizations. Clients want the accountants to follow their desire, while the personal temptation from accountant his/herself raises moral dilemmas involved throughout their professional practice.

Accountants also face a complex working environment that full of diverse and intrigue. Client mischievous, manipulative fraud perpetrators, scheme of financial statement fraud schemes that become more sophisticated and refined, time constraints, lack of knowledge and low of fraud detection capabilities of the auditor had been lowering public confidence toward the credibility, integrity and independence of public accountants.

Fraud detection task is a new task for the public accountants. It was start from the Enron case, a corporate crime that was driven by a reputable public accounting firm, thus encouraged emersion of Sarbanes Oxley Act. This act requires public accountants to detect fraudulent financial statements. In Indonesia, many fraudulent cases that involved auditors had encouraged the issuance of Government Regulation No. 17/2008 about public accountant services renewed by PP No.20/2015 about public accounting practice which requires public accountants to detect fraudulent financial statements. Accounting is a profession that works on the basis of society trust. Audit practice without paper work, giving opinions without paperwork, selling accountant signature are examples of the violation practice by public accountants. These indecent practices occur because of the high moral hazard of the auditor, auditee demand, weak supervision, limited audit standards, until unfair allocation mechanism of "business cake" in public accounting services (Hadibroto, 2015). Gati (2013) wrote that the role of the accounting profession fosters corruption in Indonesia. Accountants are the providers, engineers and auditors of government financial statements or private. What would happen if the moral competence of public accountants Indonesia is low? Will it impact to the accounting profession sustanaibility?

This study planned to provide empirical evidence on three things, i.e (1) the effect of the technical competence on the fraud detection capability, (2) the effect of communication skills to the ability of fraud detection and (3) the influence of moral competence in relation of the technical competence with fraud detection capabilities.

## **Literature Review and Hypothesis**

### **Technical competence and Fraud Detection Capabilities**

Technical competence is the accumulated knowledge and practicing experiences as an auditor as described in the Indonesian National Qualifications Framework (KKNI) enshrined in the rule of Minister of Education and Culture of the Republic of Indonesia No. 73 /2013. The accumulation of knowledge acquired through formal education and certification, advanced professional education, seminars, symposia, workshops, briefing from the supervisor and training that relevant to the field of profession. Education and training have proved a positive influence on the auditor's expertise, based on empirical evidence by Bonner and Walker (1994), Fullerton and Durtschi (2004).

Practical experience gained through audit and fraud detection experiences, length of work as auditor, showing the accumulation of auditors' work experiences. The experiences gained while working as an auditor indicates the number of audits, diversity and complexity of inspection tasks in a variety of companies and industries. Junior auditor with tenure under two years old have the task of evaluating internal control, perform substantive tests, make confirmation to the client's customers, prepare audit reporting and other administrative work. Characteristics task for novice auditors are simple task, repetitive and do not require complex analysis and consideration. The longer a practicing auditor as auditor, task complexity, assignment and type of industry requires higher and more capability in analysis and a comprehensive knowledge in order to produce qualified audit (Utami, 2009; Nasution and Fitriany; 2012). An auditor with high working hour and experience found fraud will be more sensitive in detecting fraud than auditors with low working hours (Battacharya; 1994). Experience is an important factor that affects the auditor's ability to detect fraud. Experience will give lessons to the types and kinds of cheating ever discovered auditor (Hammersley, 2011; Battacharya, 1994). Experience has shown the level of expertise of a professional. Shanteau (1992) explained the difference in performance between expert, novice and naïve. This level of expertise honed through work experience. Experts showed their best performance when the problem specifically, in accordance with their competence. Based on the above explanation, the first hypothesis is:

H<sub>a1</sub> : Technical competence has a positive effect on the auditor's fraud detection capability

### **Communication Skills and Fraud Detection Capabilities**

Communication skills will color all auditor activity. Andersen (2012) mentions one of the characteristics of successful auditor is to have good communication skills, both orally and in writing. The auditor will conduct communication to discuss and make an agreement about the risks and internal controls with top managers and audit committee. Auditors conduct interviews with clients to gather information and relevant audit evidence. Furthermore, the auditor shall report the audit findings and present recommendations to the audit committee and the manager, recommending internal control improvements. Auditors are not only able to audit but also understand business processes various organizations, regulatory laws that are relevant to the company and communication skills. Communication skills have become one of the main keys to launch an audit tasks and reduce the time wasted due to lack of communication. Golen and White (1983) described some of the obstacles faced by the auditor throughout the assignment is the unsympathetic attitude of his client because it considers the annual audit is overtime and evaluation that produces anxiety, uncertainty and threats to its future in the company. Auditors also face uncooperative attitude and ignore the auditor. Auditors will also face defensive, reluctant to change to reject the findings and recommendations especially if audit results do not match expectations of its clients.

An effective communicator will be able to remove these barriers and foster trust between clients and auditors by maintaining modesty. Auditors should apply communication procedures as required in auditing standards, such as discussions, brainstorming, consultation and review with supervisors, managers and partners as a means to finalize ideas and decisions to be taken. Thus communication practices, capable of preventing the auditor in formulating professional judgment accordance with the wishes of its clients (Vinciguerra, 2003). Auditors face an ethical dilemma, between following the wishes of his clients or to follow his conscience and adhere to the professional standard. If the auditor selects fulfill the wishes of his client, there will be win-win solution for the auditor, the firm and its clients, but violates the rules of the profession and harm the public interest. Conversely, if the auditor be

objective and independent, the worst case is a client will react unsympathetic and uncooperative, closing access to information, audit documents and other things.

This situation can be avoided if the auditor has high communication skills so that he will be able to access information from a variety of sources and overcome a variety of barriers of communication with his client, the audit committee and management. Practice communication through discussions, brainstorming, exchange of ideas will boost audit quality, in particular fraud detection capabilities. Based on this exposure, the second hypothesis is formulated as follows:

**Ha<sub>2</sub>:** Communication skill has positive effect on auditors on fraud detection capabilities

### **Technical competence, Moral and Fraud Detection Capabilities**

Auditors are faced with a variety and complex information, events and indications. Auditor's technical competence become a source of reference to unravel the problem, identify the important and relevant information, reconstruct the pieces of information to steer the conclusion source of potential fraud, motivations, methods used by the perpetrator of fraud as well as the impact of losses caused. Activities near the end of the accounting period as the initiation of a work program near end of the year, sudden investment decisions, contract changes, marketing programs should also be an indication that should be proven it's truthfulness in various ways and various resources. Human nature is a lover of the truth. Men were born in the best possible and bring goodness and honesty in life. In detail, someone with morals has character fear of God, uphold honesty, integrity, keeping promises, loyalty, loyal and obedient, fair and responsible (Hudiab, et.al; 2002). Moral character is built upon his love to God and to all creatures on earth.

In the context of the auditor, honesty related with the credibility in the presentation of the facts, the truth, and openness in revealing issues. The attitude of integrity demonstrated a firm stance with the principle, not wishy washy, have a definite purpose and strive to improve themselves continually. Keeping promises and fulfill the commitment that he made either in writing or verbally, trying to carry out its responsibility well. Other characters are shown loyalty by not using the data obtained during the audit to testify and against his own client. Fair attitude shown by giving all of the rights. Justice is achieved only if the auditor's open-minded, willing to listen and to accept, forgive mistakes, treat each individual (both boss, colleagues or subordinates) reasonably. Do not take advantage of others for his own benefit. Provide public services as a form of responsibility to his homeland, comply with the law and fully supports the implementation of the right of democratic rights for all people. He will try to do the best when get responsibility both as individuals and professionals and will work persistently and efficiently. He will maintain his competency by enhancing the capabilities and skills to obtained higher quality.

In line with the public accounting profession code of ethics drawn up by the Indonesian Public Accountants Institute, practitioner public accountants must practice the principles of integrity, objectivity, competence and attitude of austerity principle and prudence of professional, principles of confidentiality, as well as the principles of professional conduct. Integrity principle has meaning assertiveness, honest in professional practice. The principle of objectivity implies being fair, impartial and avoid anything that could give rise to subjective attitude to think and act professionally. As a human being, we have responsibility to learn in the entire life to be able to give more benefit to the all creature in the world. Responsibility to lifelong learning will elevating competence and it can be gained through advanced education and professional training, seminars, workshops and more. As a form of accountability profession, practitioners practicing public accountants must be carefully and cautiously, so client will be satisfied. Implementation attitude of trust is to maintain the confidentiality of information provided by the client, even when the engagement ended. Furthermore, the practitioner accountant showing obedience to the laws, regulations and legislation and avoid any action that could discredit the profession.

Expertise that should be inherent in the practitioner accountant are technical competence, soft skills and moral competence such as that contained in the accounting education purposes. Technical skills reflect the quality of logic and intellectual. Soft skills reflect emotional intelligence. Moral competence reflects quality of ethical and values that adopted and believes in running a professional practice and daily life.

The task of fraud detection is not a regular task. This task requires the accumulation of sufficient knowledge and experience as well as special training to carry it out. The task is unstructured, with the high complexity of tasks. This kind of task requires the ability to identify and define the problem, a variety of alternative formulation, information retrieval, and analysis of complex calculations, development of arguments at every stage. All practitioners

accountant in any competency level can do so in accordance with their capacity, especially with its moral competence.

Intellectual intelligence supported by the moral competence will emerge wisely; sincerely accountant that believes all of his work is dedicated to worship God. Devotion to God created the impetus for the work to optimize and practice all of the skills the profession for the benefit of all parties. Based on the above explanation, the third research hypothesis is:

**Ha<sub>3</sub>:** Moral competence strengthening the influence of the technical competence to the fraud detection capability

## Research Methods

The research data was obtained from 342 public accountants (external auditors), who came from 13 public accountant firm in Jakarta, Indonesia. Jakarta was chosen because most of the firms operate in Jakarta.

Technical competency is skill to understand and to perform work activities related to the field of accounting. Technical competence is measured by the level of formal education, professional training which have been followed, professional certification, frequencies audit the financial statement since became an auditor, frequency detecting fraud during work as an auditor, job position in organization structure at Public Accounting Firm and tenure practicing as an auditor. Respondents' answers are added together and then divided into junior, *pratama*, *muda*, *madya* and *ahli* auditor.

Communication skill is defined as delivering skills both verbally and written messages, ideas or thoughts to others person so the person understand. This variable was measured using an instrument developed by Cormier adopted by Desrosiers (2015) and 19 statements using five-point Likert scale. Choice answers originated from (1) to (5) (never to always).

Moral competence is defined as the ability to apply moral principles in action, speech and achievement purposes. This variable was measured by using the instrument of accession moral judgment test (MJT) developed by Lind (2008), contains two scenarios of ethical dilemmas, moral quality of the arguments and statements agree (disagree) against the ethical dilemma. Moral competence is expressed in the form C-score with a range of values from 1-100. The higher the index C-score, shows the moral considerations that are in the stage of "mature" and parallel with stage 5 or 6 the concept of moral orientation Kohlberg (1981).

Fraud detection capability is a skill auditor to uncover indications of fraud occurrence during the audit process. This variable is measured with the instrument developed by Fullerton and Dutschi (2004), containing 19 statements with a range of answers 5 points Likert scale.

This study examined the effect of technical competence, communication skills and moral competence of the auditor fraud detection capabilities. The data obtained will be processed using statistical tools Smart Partial Least Square (PLS) 3.2. The theoretical model was tested are presented below:

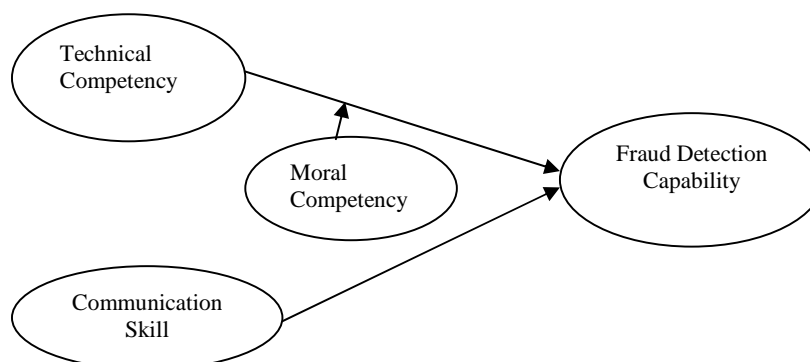


Figure 1: Research Model



**Research result****Respondents demographic**

From the table 1, it showed that women respondents are more than men. Education level of respondents dominated in Bachelor Degree (Strata 1), most are not certified, more than half of respondents are never learned audit fraud, most of respondent have a position at the level of senior auditor, the audit frequency 8 to 15 times and have experience of detecting fraud is less than 7 times , with tenure as auditor 2 to 4 years. In detail, the demographic data of respondents are presented in Table 1 below

**Table 1 : Respondents Demographic**

No	Faktor demografi	Frekuensi	%	No	Faktor demografi	Frekuensi	%
1	<b>Gender</b>			6	<b>Audit Frequency</b>		
	Man	140	41		< 7 times	100	29
	Woman	202	59		8 - 15 times	105	31
		342	100		6 – 25 times	81	24
2	<b>Pendidikan</b>				> 25 times	56	16
	Diploma (D3)	10	2,9			342	100
	Bachelor (S1)	252	73,7	7	<b>Fraud Detection Frequency</b>		
	Accounting				< 7 times	100	29
	Profession (PPAK)	56	16,4		8 - 15 times	105	31
	Master (S2)	23	6,7		6 - 25 times	81	24
	Doctorate (S3)	1	0,3		> 25 times	56	16
		342	100			342	100
3	<b>Certification</b>			8	<b>Tenure</b>		
	Not Certified	283	83		< 2 years	108	32
	Certified	59	17		2 - 4 years	145	42
		342	100		> 4 - 6 years	39	11
4	<b>Audit Forensic Training</b>				> 6 - 8 years	38	11
	Never	149	44		> 8 years	12	4
	Ever	193	56			342	100
		342	100				
5	<b>Position in Public Accounting Firm</b>						
	Junior	65	19				
	Medior	55	16				
	Senior	148	43				
	Supervisor	47	14				
	Manager	19	6				
	Associate/Partner	8	2				
		342	100				

Source: Authors based on extracted data

### Outer measurement models

Measurements outer variable models have fulfilled validity and reliability requirement. AVE figures in most of the variables is less than 0.5, it can be caused by huge number of indicators that are used in the measurement of the variables. The measurement results are presented in table 2.

**Table 2 : Outer Model Measurement**

No	Variabel	Loading Factors	AVE	CR	Cronbach Alpha
1	Kompetensi Teknis	0,3 - 0,8	0,44	0,811	0,754
2	Komunikasi	0,6 -0,7	0,407	0,92	0,914
3	Kompetensi Moral	1	1	1	1
	KM*KT	1	1	1	1
4	Kemampuan Deteksi Kecurangan	0,3 - 0,7	0,338	0,872	0,843
	Nilai yang disarankan	0,4 - 0,7	0,5	0,7	0,6
	Kesimpulan	Valid	Validitas rendah	Reliabel	Reliabel

Source: Authors based on extracted data

### Inner measurement models

Tests reveal the structural model fit of the model and research hypotheses are denoted with R2 and adjusted R2. Value of R2 in this study show figures 0.210 and adjusted R2 is 0.194.

**Table 3: Inner Model Measurement**

	Hipotesis (direction)	Path Coeficient	Sample Mean	Stan Dev	T Stat	P Values	Conclusion
Technical C -> Detection skill	H <sub>1</sub> (+)	0,152	0,155	0,051	2,945	0,003	Significant
Communicatio -> Detection Skill	H <sub>2</sub> (+)	0,159	0,183	0,071	2,233	0,026	Significant
Moral -> Detection Skill		0,068	0,068	0,049	1,371	0,171	
Moral*Technical -> Detection Skill	H <sub>3</sub> (+)	0,057	0,047	0,048	1,187	0,236	Not significant

Source: Authors based on extracted data

### Hypothesis Testing and Results

#### Hypothesis 1

The first hypothesis testing results show that technical competence positive have positive effect on fraud detection capabilities. Respondents of this research are dominated by the auditor pratama, muda with 8 to 25 times experience of auditing the financial statements throughout his career, length of work (tenure) as an auditor are 2 to 6 years, had the opportunity to detect fraudulent 7 to 15 times. The group auditor's education level S1, and S2 PPAk, and have position as a senior auditor. A senior auditor has a duty to plan, carry out and complete one or more audits. Senior auditors also supervise junior and medior auditors and review their work. Knowledge and experience of t pratama and muda auditor is higher than junior auditor.

Accumulated knowledge and experience of auditing practices and fraud detection practices will form knowledge and sharp sensitivity to the occurrence of irregularities in the financial statements. The fraud detection capability for group pratama and muda auditor shown higher than the others group. Pratama and muda auditors have position as senior auditor with working experiences for 2 to 4 years. This fact supports the empirical results that the technical ability have positive effect on fraud detection capabilities. The more the technical competence, the better the detection performance of an auditor. The results of this study confirmed the results of research that have been done by Utami (2009), Battacharya (1994), Bonner & Lewis (1990), Hammersley (2011). These studies showed that the experience of audit financial statements, tenor, experience of detecting fraud, level of education and certification and level positions in Public Accounting Firm as an indicator of technical competence have positive effect on the auditor's fraud detection capabilities.

### **Hypothesis 2**

These results indicate that the second hypothesis was successfully supported, so it can be concluded, communication skill has positive influence on fraud detection capabilities. Profile of respondents of this study, demonstrate the level of communication skills and fraud detection performance is highest in the group of muda auditors with the amount of 5% of 342 auditors. As senior auditors, they became head of the team in the field assignment. They also will be the spokesperson for the audit team with his client. The need to communicate effectively and informative will make auditor task run smoothly. The results of this study confirmed that communication skills are needed by auditors in their work.

### **Hypothesis 3**

Based on the results tests, this study provides empirical evidence of moral competence does not strengthen the relationship between technical competence and fraud detection capabilities. Moral competence of auditors who were respondents in this study were from a low of 10 to 56, the level of moral competence are varies from moderate (medium) to higher. Sixty one percent (61%) of auditors have high moral competence. However, based on this study, the moral competence does not affect fraud detection capabilities. There are two possible explanations for this result. The first possibility, the accountant does not use his moral competence to work profession because this type of work is very procedural and highly technical in nature so that the likelihood of conflict smaller as long as the ethical code of conduct and technical standards are adhered to. The second possibility, the auditor does not apply moral values in everyday life and professional life.

In the first possibility, task characteristics for fraud detection is very technical and procedural in which auditors work based on the principle of adherence to technical standards and code of ethics. Hammersley (2011) describes fraud detection task is a difficult task. Abdol Mohammadi (1999) who developed taxonomic assignment for auditor said that the unstructured task is the kind of complex task. It is difficult to identify the problem, too many choices and requires the knowledge, skills and a comprehensive understanding and depth to make a professional judgment of quality and accurate. Fraud detection is not an easy task to accomplished by the auditor because there is concealment of accounting records and relevant documents also falsification of information and documents. All of these standards did provide guidelines, but professional judgment at each audit assignment and detection of fraud is very situational in nature. Ethical dilemmas occur when the time constraints, application skepticism attitude affects the quality and reputation of Public Accountant Firm.

The second possibility, the auditor more use of technical competence, intelligence, logic skills and soft skills in professional practice and does not apply moral competence in professional and everyday life. Ethical values are disseminated by the organization of the public accounting profession is a mere adherence to the rules of the profession, technical standards and legislation, the provisions of the law. Furthermore, when there are more stringent rules of the code of conduct of this public accounting profession, it is compulsory for practitioners accountants in Indonesia to comply with these rules while complying with the code of conduct.

Recalling the stages of moral development auditor based on the theory of cognitive moral development by Kohlberg (Emmanuels in Tetteroo (2007)), the auditor shall comply with and obey the standards and codes of conduct only if such compliance is more helpful than not in compliance. Conversely, if the benefits gained significantly more than compliant, any such violations are difficult to detect and sanction deemed insignificant, so as a rational creature, the auditor chose to disobey. Furthermore, the auditor will be obedient and submissive to the rules made by a colleague, the hood than the rules of the profession so that its existence is recognized and accepted by colleagues, Public Accountant Firm and group. The next stage of moral development is the auditor chooses to obey the rules of the profession, professional organizations and other legal obligations because of this observance provides greater benefit than adherence to a colleague, Public Accountant Firm or other groups. Such obedience expected by IAPI reflected

in codes of conduct and public accounting profession. If the moral consciousness is based on obedience to the organization alone, then the opportunistic attitude will be created.

One interesting point of the ethical standards of public accounting profession is not one sentence that requires the profession and practitioners in it for fear of God Almighty. Yanti (2012) conducted a comparative ideology of ethical and professional attributes at 4 professions, such as accountants, doctors, lawyers and engineers. Comparison is done by doing a study of the four codes of ethics of the profession. In summary, the results Yanti (2012) are presented in the following paragraphs.

Third profession (doctor, lawyers, engineers) mention about the presence of God in the code of ethics profession and the basis for the development of ethical attitudes of practitioners clearly. In the code of ethics of engineers made it clear that the work of his profession was a manifestation of worship to God. Moral values are very thick felt in three professions and making man the subject of a glorious and noble belief that there will be too when undergoing the practice of his profession. The assertion that the obligation fear of God Almighty made the expected ethical attitudes profession became clear based on the law of God and facilitate ethical decision making between good and bad based on religious norms. Compliance with laws, regulations, law is a form of devotion to God by doing good and obey all the commands and stay away from all prohibitions. Glory of the profession lies in the glory of the practitioners who make God present in every practice his profession. God has an important role to encourage ethical attitudes and behavior of its practitioners. Commitment to God produces attitudes and actions that avoid prohibited acts and provide benefits for the worlds.

On the other hand, different with the public accounting profession code of ethics, compliance practitioners is compliance with technical standards and ethical standards of the profession. Elements Belief in God Almighty is not present in the ethical standards of the public accounting profession. Continued impact is the creation of a practitioner accountant who loves material things than loving God.

### **Managerial Implication**

Technical competence and communication skills have positive effect on the auditor's fraud detection capabilities. However, moral competence does not strengthen the influence of the technical competence of the fraud detection capability. The results provide a reference for research in the field of auditing, ethics and moralities particularly determinant factors which affect moral competence and fraud detection capabilities. The study also raises the need to reorient the teaching of ethics courses that promote moral values are integrated in the course of financial accounting, information systems, accounting and auditing.

Moral competence of auditors in this study had a level of moral intermediate (medium), but did not significantly affect the ability of the auditor's fraud detection. This result indicates no moral competence that applied in activity of accounting profession. It is certainly interesting to be re-examined and disclose practice moral competence in daily activities and the activities of professional accountants. Sustainability of accounting profession is also in danger if auditors ignore moral competence in their work. They will only consider rule and principle that made by government or profession organization. Sometimes in field work there is a case that full of dilemma where there is no law or standard already cope about this dilemma matters. In this kind of case, auditors should hear to their conscience and morality to take decision. Human judgment that leads by conscience and morality will lead to the best and fair decision for human being itself.

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# Technical, Moral Competencies and Communication Skills for Sustainability of Accounting Profession

*by Harti Budi Yanti , Hasnawati Christina Dwi Astuti*

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## Technical, Moral Competencies and Communication Skills for Sustainability of Accounting Profession

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**Abstract:** This study examined about affect of technical, moral competencies and communications skills toward auditors' fraud detection capabilities. There are two independent variables i.e. technical competence and communication skill, and one of dependent variable i.e. fraud detection capabilities that used in the research model. Moral competence was treated as moderating variable. The research data was obtained from 342 public accountants (external auditors), who came from 13 public accountant firm in Jakarta, Indonesia. Sampling method is convenience sampling. From the statistical testing using Smart Partial Least Square (PLS) 3.2, it shown that technical competence and communication skills have positive effect to the auditors' fraud detection capabilities. But this study could not prove that moral competence as a moderating variable.

**Keywords:** technical competence, moral competence, communications skills, auditors' fraud detection capabilities

### Preface

Why moral competence is important for the accounting profession? Moral competence is important because of accountants are moral agents who are expected to practice and maintain their independence from all sorts of pressures that they faced. When accountants did audit assignment, they will get pressure from clients, their public accounting firm professional organizations, government, public and their self. Public societies want honest, independent and integrity accountants. Public Accountant Firms wants auditors adhere to the leadership of the firm and professional organizations. Clients want the accountants to follow their desire, while the personal temptation from accountant his/herself raises moral dilemmas involved throughout their professional practice.

Accountants also face a complex working environment that full of diverse and intrigue. Client mischievous, manipulative fraud perpetrators, scheme of financial statement fraud schemes that become more sophisticated and refined, time constraints, lack of knowledge and low of fraud detection capabilities of the auditor had been lowering public confidence toward the credibility, integrity and independence of public accountants.

Fraud detection task is a new task for the public accountants. It was start from the Enron case, a corporate crime that was driven by a reputable public accounting firm, thus encouraged emersion of Sarbanes Oxley Act. This act requires public accountants to detect fraudulent financial statements. In Indonesia, many fraudulent cases that involved auditors had encouraged the issuance of Government Regulation No. 17/2008 about public accountant services renewed by PP No.20/2015 about public accounting practice which requires public accountants to detect fraudulent financial statements. Accounting is a profession that works on the basis of society trust. Audit practice without paper work, giving opinions without paperwork, selling accountant signature are examples of the violation practice by public accountants. These indecent practices occur because of the high moral hazard of the auditor, auditee demand, weak supervision, limited audit standards, until their allocation mechanism of "business cake" in public accounting services (Hadibroto, 2015). Gati (2013) wrote that the role of the accounting profession fosters corruption in Indonesia. Accountants are the providers, engineers and auditors of government financial statements or private. What would happen if the moral competence of public accountants Indonesia is low? Will it impact to the accounting profession sustainability?



This study planned to provide empirical evidence on three things, i.e (1) the effect of the technical competence on the fraud detection capability, (2) the effect of communication skills to the ability of fraud detection and (3) the influence of moral competence in relation of the technical competence with fraud detection capabilities.

### Literature Review and Hypothesis

#### Technical competence and Fraud Detection Capabilities

Technical competence is the accumulated knowledge and practicing experiences as an auditor as described in the Indonesian National Qualifications Framework (KKNI) enshrined in the rule of Minister of Education and Culture of the Republic of Indonesia No. 73 /2013. The accumulation of knowledge acquired through formal education and certification, advanced professional education, seminars, symposia, workshops, briefing from the supervisor and training that relevant to the field of profession. Education and training have proved a positive influence on the auditor's expertise, based on empirical evidence by Bonner and Walker (1994), Fullerton and Durtschi (2004).

Practical experience gained through audit and fraud detection experiences, length of work as auditor, showing the accumulation of auditors' work experiences. The experiences gained while working as an auditor indicates the number of audits, diversity and complexity of inspection tasks in a variety of companies and industries. Junior auditor with tenure under two years old have the task of evaluating internal control, perform substantive tests, make confirmation to the client's customers, prepare audit reporting and other administrative work. Characteristics task for novice auditors are simple task, repetitive and do not require complex analysis and consideration. The longer a practicing auditor as auditor, task complexity, assignment and type of industry requires higher and more capability in analysis and a comprehensive knowledge in order to produce qualified audit (Utami, 2009; Nasution and Fitriany; 2012). An auditor with high working hour and experience found fraud will be more sensitive in detecting fraud than auditors with low working hours (Battacharya; 1994). Experience is an important factor that affects the auditor's ability to detect fraud. Experience will give lessons to the types and kinds of cheating ever discovered auditor (Hammersley, 2011; Battacharya, 1994). Experience has shown the level of expertise of a professional. Shanteau (1992) explained the difference in performance between expert, novice and naïve. This level of expertise honed through work experience. Experts showed their best performance when the problem specifically, in accordance with their competence. Based on the above explanation, the first hypothesis is:

H<sub>a1</sub> : Technical competence has a positive effect on the auditor's fraud detection capability

#### Communication Skills and Fraud Detection Capabilities

Communication skills will color all auditor activity. Andersen (2012) mentions one of the characteristics of successful auditor to have good communication skills, both orally and in writing. The auditor will conduct communication to discuss and make an agreement about the risks and internal controls with top managers and audit committee. Auditors conduct interviews with clients to gather information an relevant audit evidence. Furthermore, the auditor shall report the audit findings and present recommendations to the audit committee and the manager, recommending internal control improvements. Auditors are not only able to audit but also understand business processes various organizations, regulatory laws that are relevant to the company and communication skills. Communication skills have become one of the main keys to launch an audit tasks and reduce the time wasted due to lack of communication. Golen and White (1983) described some of the obstacles faced by the auditor throughout the assignment is the unsympathetic attitude of his client because it considers the annual audit is overtime and evaluation that produces anxiety, uncertainty and threats to its future in the company. Auditors also face uncooperative attitude and ignore the auditor. Auditors will also face defensive, reluctant to change to reject the findings and recommendations especially if audit results do not match expectations of its clients.

An effective communicator will be able to remove these barriers and foster trust between clients and auditors by maintaining modesty. Auditors should apply communication procedures as required in auditing standards, such as discussions, brainstorming, consultation and review with supervisors, managers and partners as a means to finalize ideas and decisions to be taken. Thus communication practices, capable of preventing the auditor in formulating professional judgment accordance with the wishes of its clients (Vinciguerra, 2003). Auditors face an ethical dilemma, between following the wishes of his clients or to follow his conscience and adhere to the professional standard. If the auditor selects fulfill the wishes of his client, there will be win-win solution for the auditor, the firm and its clients, but violates the rules of the profession and harm the public interest. Conversely, if the auditor be

objective and independent, the worst case is a client will react unsympathetic and uncooperative, closing access to information, audit documents and other things.

This situation can be avoided if the auditor has high communication skills so that he will be able to access information from a variety of sources and overcome a variety of barriers of communication with his client, the audit committee and management. Practice communication through discussions, brainstorming, exchange of ideas will boost audit quality, in particular fraud detection capabilities. Based on this exposure, the second hypothesis is formulated as follows:

**Ha<sub>2</sub>:** Communication skill has positive effect on auditors on fraud detection capabilities

### **Technical competence, Moral and Fraud Detection Capabilities**

Auditors are faced with a variety and complex information, events and indications. Auditor's technical competence become a source of reference to unravel the problem, identify the important and relevant information, reconstruct the pieces of information to steer the conclusion source of potential fraud, motivations, methods used by the perpetrator of fraud as well as the impact of losses caused. Activities near the end of the accounting period as the initiation of a work program near end of the year, sudden investment decisions, contract changes, marketing programs should also be an indication that should be proven it's truthfulness in various ways and various resources. Human nature is a lover of the truth. Men were born in the best possible and bring goodness and honesty in life. In detail, someone with morals has character fear of God, uphold honesty, integrity, keeping promises, loyalty, loyal and obedient, fair and responsible (Hudiab, et.al; 2002). Moral character is built upon his love to God and to all creatures on earth.

In the context of the auditor, honesty related with the credibility in the presentation of the facts, the truth, and openness in revealing issues. The attitude of integrity demonstrated a firm stance with the principle, not wishy washy, have a definite purpose and strive to improve themselves continually. Keeping promises and fulfill the commitment that he made either in writing or verbally, trying to carry out its responsibility well. Other characters are shown loyalty by not using the data obtained during the audit to testify and against his own client. Fair attitude shown by giving all of the rights. Justice is achieved only if the auditor's open-minded, willing to listen and to accept, forgive mistakes, treat each individual (both boss, colleagues or subordinates) reasonably. Do not take advantage of others for his own benefit. Provide public services as a form of responsibility to his homeland, comply with the law and fully supports the implementation of the right of democratic rights for all people. He will try to do the best when get responsibility both as individuals and professionals and will work persistently and efficiently. He will maintain his competency by enhancing the capabilities and skills to obtained higher quality.

In line with the public accounting profession code of ethics drawn up by the Indonesian Public Accountants Institute, practitioner public accountants must practice the principles of integrity, objectivity, competence and attitude of austerity principle and prudence of professional, principles of confidentiality, as well as the principles of professional conduct. Integrity principle has meaning assertiveness, honest in professional practice. The principle of objectivity implies being fair, impartial and avoid anything that could give rise to subjective attitude to think and act professionally. As a human being, we have responsibility to learn in the entire life to be able to give more benefit to the all creature in the world. Responsibility to lifelong learning will elevating competence and it can be gained through advanced education and professional training, seminars, workshops and more. As a form of accountability profession, practitioners practicing public accountants must be carefully and cautiously, so client will be satisfied. Implementation attitude of trust is to maintain the confidentiality of information provided by the client, even when the engagement ended. Furthermore, the practitioner accountant showing obedience to the laws, regulations and legislation and avoid any action that could discredit the profession.

Expertise that should be inherent in the practitioner accountant are technical competence, soft skills and moral competence such as that contained in the accounting education purposes. Technical skills reflect the quality of logic and intellectual. Soft skills reflect emotional intelligence. Moral competence reflects quality of ethical and values that adopted and believes in running a professional practice and daily life.

The task of fraud detection is not a regular task. This task requires the accumulation of sufficient knowledge and experience as well as special training to carry it out. The task is unstructured, with the high complexity of tasks. This kind of task requires the ability to identify and define the problem, a variety of alternative formulation, information retrieval, and analysis of complex calculations, development of arguments at every stage. All practitioners

accountant in any competency level can do so in accordance with their capacity, especially with its moral competence.

Intellectual intelligence supported by the moral competence will emerge wisely; sincerely accountant that believes all of his work is dedicated to worship God. Devotion to God created the impetus for the work to optimize and practice all of the skills the profession for the benefit of all parties. Based on the above explanation, the third research hypothesis is:

- Ha<sub>3</sub>:** Moral competence strengthening the influence of the technical competence to the fraud detection capability

### Research Methods

The research data was obtained from 342 public accountants (external auditors), who came from 13 public accountant firm in Jakarta, Indonesia. Jakarta was chosen because most of the firms operate in Jakarta.

Technical competency is skill to understand and to perform work activities related to the field of accounting. Technical competence is measured by the level of formal education, professional training which have been followed, professional certification, frequencies audit the financial statement since became an auditor, frequency detecting fraud during work as an auditor, job position in organization structure at Public Accounting Firm and tenure practicing as an auditor. Respondents' answers are added together and then divided into junior, *pratama*, *muda*, *madya* and *ahli* auditor.

Communication skill is defined as delivering skills both verbally and written messages, ideas or thoughts to others person so the person understand. This variable was measured using an instrument developed by Cormier adopted by Desrosiers (2015) and 19 statements using five-point Likert scale. Choice answers originated from (1) to (5) (never to always).

Moral competence is defined as the ability to apply moral principles in action, speech and achievement purposes. This variable was measured by using the instrument of accession moral judgment test (MJT) developed by Lind (2008), contains two scenarios of ethical dilemmas, moral quality of the arguments and statements agree (disagree) against the ethical dilemma. Moral competence is expressed in the form C-score with a range of values from 1-100. The higher the index C-score, shows the moral considerations that are in the stage of "mature" and parallel with stage 5 or 6 the concept of moral orientation Kohlberg (1981).

Fraud detection capability is a skill auditor to uncover indications of fraud occurrence during the audit process. This variable is measured with the instrument developed by Fullerton and Dutschi (2004), containing 19 statements with a range of answers 5 points Likert scale.

This study examined the effect of technical competence, communication skills and moral competence of the auditor fraud detection capabilities. The data obtained will be processed using statistical tools Smart Partial Least Square (PLS) 3.2. The theoretical model was tested are presented below:

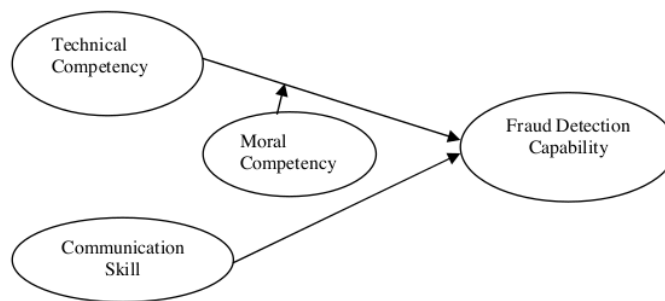


Figure 1: Research Model

**Research result****Respondents demographic**

From the table 1, it showed that women respondents are more than men. Education level of respondents dominated in Bachelor Degree (Strata 1), most are not certified, more than half of respondents are never learned audit fraud, most of respondent have a position at the level of senior auditor, the audit frequency 8 to 15 times and have experience of detecting fraud is less than 7 times, with tenure as auditor 2 to 4 years. In detail, the demographic data of respondents are presented in Table 1 below

**Table 1 : Respondents Demographic**

No	Faktor demografi	Frekuensi	%	No	Faktor demografi	Frekuensi	%
1	<b>Gender</b>			6	<b>Audit Frequency</b>		
	Man	140	41		< 7 times	100	29
	Woman	202	59		8 - 15 times	105	31
		342	100		6 – 25 times	81	24
2	<b>Pendidikan</b>				> 25 times	56	16
	Diploma (D3)	10	2,9			342	100
	Bachelor (S1)	252	73,7	7	<b>Fraud Detection Frequency</b>		
	Accounting Profession (PPAK)	56	16,4		< 7 times	100	29
	Master (S2)	23	6,7		8 - 15 times	105	31
	Doctorate (S3)	1	0,3		6 - 25 times	81	24
		342	100		> 25 times	56	16
3	<b>Certification</b>					342	100
	Not Certified	283	83	8	<b>Tenure</b>		
	Certified	59	17		< 2 years	108	32
		342	100		2 - 4 years	145	42
4	<b>Audit Forensic Training</b>				> 4 - 6 years	39	11
	Never	149	44		> 6 - 8 years	38	11
	Ever	193	56		> 8 years	12	4
		342	100			342	100
5	<b>Position in Public Accounting Firm</b>						
	Junior	65	19				
	Medior	55	16				
	Senior	148	43				
	Supervisor	47	14				
	Manager	19	6				
	Associate/Partner	8	2				
		342	100				

Source: Authors based on extracted data

### Outer measurement models

Measurements outer variable models have fulfilled validity and reliability requirement. AVE figures in most of the variables is less than 0.5, it can be caused by huge number of indicators that are used in the measurement of the variables. The measurement results are presented in table 2.

**Table 2 : Outer Model Measurement**

No	Variabel	Loading Factors	AVE	CR	Cronbach Alpha
1	Kompetensi Teknis	0,3 - 0,8	0,44	0,811	0,754
2	Komunikasi	0,6 -0,7	0,407	0,92	0,914
3	Kompetensi Moral	1	1	1	1
	KM*KT	1	1	1	1
4	Kemampuan Deteksi Kecurangan	0,3 - 0,7	0,338	0,872	0,843
	Nilai yang disarankan	0,4 - 0,7	0,5	0,7	0,6
	Kesimpulan	Valid	Validitas rendah	Reliabel	Reliabel

Source: Authors based on extracted data

### Inner measurement models

Tests reveal the structural model fit of the model and research hypotheses are denoted with R2 and adjusted R2. Value of R2 in this study show figures 0.210 and adjusted R2 is 0.194.

**Table 3: Inner Model Measurement**

	Hipotesis (direction)	Path Coefficient	Sample Mean	Stan Dev	T Stat	P Values	Conclusion
Technical C -> Detection skill	H <sub>1</sub> (+)	0,152	0,155	0,051	2,945	0,003	Significant
Communicatio -> Detection Skill	H <sub>2</sub> (+)	0,159	0,183	0,071	2,233	0,026	Significant
Moral -> Detection Skill		0,068	0,068	0,049	1,371	0,171	
Moral*Technical -> Detection Skill	H <sub>3</sub> (+)	0,057	0,047	0,048	1,187	0,236	Not significant

Source: Authors based on extracted data

### Hypothesis Testing and Results

#### Hypothesis 1

The first hypothesis testing results show that technical competence positive have positive effect on fraud detection capabilities. Respondents of this research are dominated by the auditor pratama, muda with 8 to 25 times experience of auditing the financial statements throughout his career, length of work (tenure) as an auditor are 2 to 6 years, had the opportunity to detect fraudulent 7 to 15 times. The group auditor's education level S1, and S2 PPAk, and have position as a senior auditor. A senior auditor has a duty to plan, carry out and complete one or more audits. Senior auditors also supervise junior and medior auditors and review their work. Knowledge and experience of t pratama and muda auditor is higher than junior auditor.



Accumulated knowledge and experience of auditing practices and fraud detection practices will form knowledge and sharp sensitivity to the occurrence of irregularities in the financial statements. The fraud detection capability for group pratama and muda auditor shown higher than the others group. Pratama and muda auditors have position as senior auditor with working experiences for 2 to 4 years. This fact supports the empirical results that the technical ability have positive effect on fraud detection capabilities. The more the technical competence, the better the detection performance of an auditor. The results of this study confirmed the results of research that have been done by Utami (2009), Battacharya (1994), Bonner & Lewis (1990), Hammersley (2011). These studies showed that the experience of audit financial statements, tenor, experience of detecting fraud, level of education and certification and level positions in Public Accounting Firm as an indicator of technical competence have positive effect on the auditor's fraud detection capabilities.

### Hypothesis 2

These results indicate that the second hypothesis was successfully supported, so it can be concluded, communication skill has positive influence on fraud detection capabilities. Profile of respondents of this study, demonstrate the level of communication skills and fraud detection performance is highest in the group of muda auditors with the amount of 5% of 342 auditors. As senior auditors, they became head of the team in the field assignment. They also will be the spokesperson for the audit team with his client. The need to communicate effectively and informative will make auditor task run smoothly. The results of this study confirmed that communication skills are needed by auditors in their work.

### Hypothesis 3

Based on the results tests, this study provides empirical evidence of moral competence does not strengthen the relationship between technical competence and fraud detection capabilities. Moral competence of auditors who were respondents in this study were from a low of 10 to 56, the level of moral competence are varies from moderate (medium) to higher. Sixty one percent (61%) of auditors have high moral competence. However, based on this study, the moral competence does not affect fraud detection capabilities. There are two possible explanations for this result. The first possibility, the accountant does not use his moral competence to work profession because this type of work is very procedural and highly technical in nature so that the likelihood of conflict smaller as long as the ethical code of conduct and technical standards are adhered to. The second possibility, the auditor does not apply moral values in everyday life and professional life.

In the first possibility, task characteristics for fraud detection is very technical and procedural in which auditors work based on the principle of adherence to technical standards and code of ethics. Hammersley (2011) describes fraud detection task is a difficult task. Abdol Mohammadi (1999) who developed taxonomic assignment for auditor said that the unstructured task is the kind of complex task. It is difficult to identify the problem, too many choices and requires the knowledge, skills and a comprehensive understanding and depth to make a professional judgment of quality and accurate. Fraud detection is not an easy task to accomplished by the auditor because there is concealment of accounting records and relevant documents also falsification of information and documents. All of these standards did provide guidelines, but professional judgment at each audit assignment and detection of fraud is very situational in nature. Ethical dilemmas occur when the time constraints, application skepticism attitude affects the quality and reputation of Public Accountant Firm.

The second possibility, the auditor more use of technical competence, intelligence, logic skills and soft skills in professional practice and does not apply moral competence in professional and everyday life. Ethical values are disseminated by the organization of the public accounting profession is a mere adherence to the rules of the profession, technical standards and legislation, the provisions of the law. Furthermore, when there are more stringent rules of the code of conduct of this public accounting profession, it is compulsory for practitioners accountants in Indonesia to comply with these rules while complying with the code of conduct.

Recalling the stages of moral development auditor based on the theory of cognitive moral development by Kohlberg (Emmanuel in Tetteroo (2007)), the auditor shall comply with and obey the standards and codes of conduct only if such compliance is more helpful than not in compliance. Conversely, if the benefits gained significantly more than compliant, any such violations are difficult to detect and sanction deemed insignificant, so as a rational creature, the auditor chose to disobey. Furthermore, the auditor will be obedient and submissive to the rules made by a colleague, the hood than the rules of the profession so that its existence is recognized and accepted by colleagues, Public Accountant Firm and group. The next stage of moral development is the auditor chooses to obey the rules of the profession, professional organizations and other legal obligations because of this observance provides greater benefit than adherence to a colleague, Public Accountant Firm or other groups. Such obedience expected by IAPI reflected

in codes of conduct and public accounting profession. If the moral consciousness is based on obedience to the organization alone, then the opportunistic attitude will be created.

One interesting point of the ethical standards of public accounting profession is not one sentence that requires the profession and practitioners in it for fear of God Almighty. Yanti (2012) conducted a comparative ideology of ethical and professional attributes at 4 professions, such as accountants, doctors, lawyers and engineers. Comparison is done by doing a study of the four codes of ethics of the profession. In summary, the results Yanti (2012) are presented in the following paragraphs.

Third profession (doctor, lawyers, engineers) mention about the presence of God in the code of ethics profession and the basis for the development of ethical attitudes of practitioners clearly. In the code of ethics of engineers made it clear that the work of his profession was a manifestation of worship to God. Moral values are very thick felt in three professions and making man the subject of a glorious and noble belief that there will be too when undergoing the practice of his profession. The assertion that the obligation fear of God Almighty made the expected ethical attitudes profession became clear based on the law of God and facilitate ethical decision making between good and bad based on religious norms. Compliance with laws, regulations, law is a form of devotion to God by doing good and obey all the commands and stay away from all prohibitions. Glory of the profession lies in the glory of the practitioners who make God present in every practice his profession. God has an important role to encourage ethical attitudes and behavior of its practitioners. Commitment to God produces attitudes and actions that avoid prohibited acts and provide benefits for the worlds.

On the other hand, different with the public accounting profession code of ethics, compliance practitioners is compliance with technical standards and ethical standards of the profession. Elements Belief in God Almighty is not present in the ethical standards of the public accounting profession. Continued impact is the creation of a practitioner accountant who loves material things than loving God.

### Managerial Implication

Technical competence and communication skills have positive effect on the auditor's fraud detection capabilities. However, moral competence does not strengthen the influence of the technical competence of the fraud detection capability. The results provide a reference for research in the field of auditing, ethics and moralities particularly determinant factors which affect moral competence and fraud detection capabilities. The study also raises the need to reorient the teaching of ethics courses that promote moral values are integrated in the course of financial accounting, information systems, accounting and auditing.

Moral competence of auditors in this study had a level of moral intermediate (medium), but did not significantly affect the ability of the auditor's fraud detection. This result indicates no moral competence that applied in activity of accounting profession. It is certainly interesting to be re-examined and disclose practice moral competence in daily activities and the activities of professional accountants. Sustainability of accounting profession is also in danger if auditors ignore moral competence in their work. They will only consider rule and principle that made by government or profession organization. Sometimes in field work there is a case that full of dilemma where there is no law or standard already cope about this dilemma matters. In this kind of case, auditors should hear to their conscience and morality to take decision. Human judgment that leads by conscience and morality will lead to the best and fair decision for human being itself.

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