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Forensic Audit In Disclosure Of Fraud Financial Reports : Literature Study

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ABSTRAK

Tujuan dari penelitian ini adalah untuk mengetahui hal mendasar terjadinya fraud dalam lingkungan perusahaan. Proses penelitian ini dilakukan secara observasional dan eksploratif dengan menggunakan teknik tinjauan pustaka yang bertujuan untuk mengkaji audit forensik secara sistematis untuk mengidentifikasi kecurangan. Untuk tujuan ini, literasi digital dicapai dengan menggunakan database elektronik. Ruang lingkup penelitian ini mencakup semua makalah penelitian dan studi yang berkaitan dengan bidang audit forensik untuk deteksi penipuan. Pemilihan sampel dilakukan dalam beberapa langkah. Pertama, perlu dilakukan observasi dan analisis berbagai sumber informasi yang berkaitan dengan penelitian. Kedua dengan mengumpulkan dan menerapkan metode portofolio literature yang sesuai dan relevan dengan topik penelitian serupa dalam bentuk karya akademis dalam bentuk jurnal, esai, berita, buku atau sumber lain. Digital ini tentang mempromosikan literasi. Hasil penelitian adalah pelaku ekonomi tidak boleh menipu atau memanipulasi laporan keuangan dan akuntan perusahaan harus benar – benar mematuhi prinsip dan standar etika. Jika keuangan suatu perusahaan tidak baik maka langkah awal yang dilakukan adalah mengungkapkannya ke pihak yang berkepentingan karena jika melakukan manipulasi itu akan menyebabkan kerugian besar dan merugikan banyak orang

ABSTRACT

The aim of this research is to find out the basics of fraud in the company environment. This research process was carried out observationally and exploratively using literature review techniques which aim to systematically examine forensic audits to identify fraud. For this purpose, digital literacy is achieved using electronic databases. The scope of this research includes all research papers and studies related to the field of forensic auditing for fraud detection. Sample selection was carried out in several steps. First, it is necessary to observe and analyze various sources of information related to the research. Second, by collecting and applying literature portfolio methods that are appropriate and relevant to similar research topics in the form of academic works in the form of journals, essays, news, books or other sources, digital is about promoting literacy. The research results are that economic actors must not cheat or manipulate financial reports, and company accountants must strictly comply with ethical principles and standards. If a company's finances are not good, the first step to take is to disclose it to interested parties because if they manipulate it, it will cause big losses and harm many people.

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1. INTRODUCTION

Although the term Fraud is still unfamiliar to most ordinary people, this term has long been recognized by economic practitioners and academics. Fraud is an economic threat that can threaten the sustainability of companies, countries, and even the world. This situation is certainly a challenge for today's modern economy. In addition, fraud does not recognize national borders and can occur anywhere and anytime if not detected early. Then, all of a sudden, fraud is discovered which results in considerable financial losses. Surprisingly, fraud can also influence the creation of new rules in the business and economic world [1].

Fraud and corruption detection can be assisted by auditors conducting investigations. Therefore, an expert is needed to detect fraud. This audit is carried out when there is a proper basis for knowing what, how, who, and other questions that the auditor believes are relevant to detecting fraud incidents [2]. Therefore, the theory used in this study is the fraud triangle theory approach. This theory is generally accepted as part of the process of identifying and assessing fraud risk. The basic concept of fraud theory is that fraud is supported by three factors: pressure, opportunity, and justification [3].

Public trust in users of financial statements in the accounting industry is very high. The public and users of financial statements expect the audit profession to be able to evaluate freely and fairly the information presented by management in the financial statements [4] In this case, accountants need to realize that their role involves public trust and users of financial statements. The sustainability of the profession will be maintained when accountants are able to maintain the trust of the public and users of the financial statements submitted, especially through accountability [5].

The most historic fraud case in the world was the Enron scandal of 2001. This fraud case had a huge impact not only on the United States but also on the global economy. At the time, Enron falsified its financial statements by hiding massive debts, deliberately misclassifying around \$8 billion of these debts as energy futures contracts, including Mariner Inc. This also included subsidiary revenues worth between \$185 million and \$366 million. The Indonesian financial reporting incident occurred in June 2021, where PT Asaburi committed financial management and investment fund fraud resulting in state losses of IDR 22.78 trillion between 2012 and 2019.

Some previous research on forensic audits of fraud conducted by [7] said that business actors should not deceive or manipulate financial reports, and company accountants must strictly adhere to their ethical principles and standards. Another study conducted by [2] said that this fraud continues to pose a serious threat to the global economy. Various ways are taken to prevent, disclose and minimize further losses. There are various techniques that can be used to detect fraud, including auditing techniques, taxation techniques, money tracing, computer forensics, and concealment techniques [7].

Forensic accounting requires financial expertise, knowledge of fraud, and a thorough knowledge and understanding of business realities and the functioning of the legal system. To

detect fraud, a forensic accountant must have a solid foundation in accounting and auditing, an overview of human and organizational behavior, knowledge of aspects that facilitate fraud, knowledge of legislation, knowledge of criminology and victims, internal must have an understanding of controls [1].

Forensic science (commonly abbreviated as forensic science) is an elaboration of various sciences that are important to the legal system and are used to answer questions that may be related to a crime. But in addition to its relationship with the law, forensic science generally includes matters and methods that are scientific in nature, as well as rules based on the facts of various cases to identify physical evidence (bodies, corpses, etc.). More simply understood, forensic science is the science of examining and collecting physical evidence found at crime scenes and submitted in court. Forensic medicine comes from the Greek word "forensic" which means "argument" or "argument". It is a discipline designed to support the process of upholding justice through the process of applying science [7].

Fraud or deception means dishonesty, abuse of trust, obligation towards one party, and taking advantage of another person or party to one's own detriment. Here are some definitions of fraud [5]. Presented by Donald R. Cressey after conducting research for his doctoral dissertation in 1950. Cressey proposed the fraud triangle hypothesis to explain why people commit fraud. Cressey identified three factors that drive fraud: pressure, opportunity, and rationalization. a) Pressure is a compulsion that causes a person to commit an act of fraud, such as increasing debt or bills, a luxurious lifestyle, drug addiction, feelings of financial helplessness, or greed. There are two forms of pressure, namely the direct form is the real life circumstances faced by the perpetrator, such as the habit of gambling frequently, attending parties or clubs, or having financial problems. Then the indirect form is the opinion formed by the perpetrator that encourages administrative malpractice. b) Opportunities These opportunities are usually caused by weak internal controls of the organization, lack of supervision, and/or exploitation of the lack of procedures, controls, processes, and early detection of potential fraud to implement initiatives. Lack of authority, lack of discipline, weak access to information, lack of verification mechanisms, and apathy. c) Rationalization: A person who commits a wrongdoing seeks justification for his or her wrongdoing. Generally, people who commit fraud do not believe that what they are doing is fraud, but feel that it is their right or it is a common thing because they follow others around them. For example, lying is not considered cheating because many people who lie are not punished [5].

The causes of fraud are the same as the triangle of fraud theory. And this scale theory is a continuation of the theory of the triangle of fraud which is the scale of this theory. This scale explains that the likelihood of fraud can be assessed by assessing the intensity of pressure, opportunity, and individual integrity. High pressure, great opportunity, and low personal integrity increase the risk of fraud. Conversely, low pressure, low opportunity, and high personal integrity mean a low risk of fraud. The purpose of this theory is to measure the likelihood of ethics, trust, and responsibility violations. This theory applies to a wide range of violations, including violations that result in accounting fraud. According to this theory, the source of pressure is the estimated sales and profits of the business [8] The specific characteristics according to the fraud scale theory are: a. Living beyond one's means b. Strong profit motive c. According to this theory, high personal debt can be caused by too much trust

in employees and weak control from superiors. Fraud most often occurs when (i) situational pressure is very high, (ii) personal integrity is low, and (iii) the likelihood of fraud is high [9].

The Diamond Theory is an extension of the fraud triangle. Rogue Diamond theory is a theory that shows the relationship between four elements: incentive, opportunity, rationalization, and ability. Fraud occurs because of four factors: a. Incentives are encouragement that arises because of the demands or pressures that a person experiences. Incentives can lead to dishonest behavior such as greed which leads to pressure to meet needs. b. Opportunity is an opportunity that arises because of the weakness of an organization's or company's internal controls in preventing and detecting fraud. Opportunities can come from power over an organization, or from fraudsters and cheaters who know the weaknesses of the existing system. c. Rationalization is a condition in which fraudsters and cheaters try to justify their actions in order to get rich quickly. d. Capacity It is a person's personal character and capacity that lead to dishonest behavior, such as greed and greed. Capacity It is a person's personal character and capacity that makes fraud possible [10].

The latest theory that looks deeper into the factors that cause fraud is Crowe's Fraud Pentagon Theory. This theory was proposed by Crow Howarth in 2011. The Fraud Pentagon Theory is an extension of the Fraud Triangle theory previously proposed by Cressey. In this theory, Howarth adds two more elements of fraud [7]. These are competition and arrogance. The competence described by "Fraud" has a similar meaning to the skills previously described in the "Fraud Diamond Theory". Competence or competence is the ability of employees to override internal controls, develop concealment strategies, and control social situations for personal gain. Crowe said arrogance is an attitude of superiority over one's own rights and a feeling that internal controls and company policies do not apply to a person [11].

The question in this study is what are the things that underlie fraud and the sanctions received. The purpose of this study is to determine the basic things that cause fraud in the corporate environment. The benefit of this research is to provide an understanding of the company and the community the importance of avoiding fraud that can have a negative impact on the company and the public.

2. METHODS

This research process was conducted in an observational and exploratory manner using the literature review technique which aims to systematically review forensic auditing to identify fraud. For this purpose, digital literacy was achieved using electronic databases. The scope of this research includes all research papers and studies related to the field of forensic auditing for fraud detection.

The sample selection was done in several steps. First, it is necessary to observe and analyze various sources of information related to the research. Second, by collecting and applying appropriate and relevant literature portfolio methods to similar research topics in the form of academic works in the form of journals, essays, news, books or other sources, digital It is about promoting literacy. The goal is to combine results. Analysis of preliminary evaluations and new contemporary research and findings with the same title and topic [4]. The third recognizes different variables with related topics. The fourth is to create a framework that utilizes variables from previous research and other relevant theories. This

level aims to create a framework of insights and data that are more relevant to the research topic.

3. RESULTS AND DISCUSSION

Fraud means intentionally misrepresenting the truth, distorting the law, or misstating facts in word or deed in order to obtain something of value at the expense of others. Making accusations (accusing someone of a crime), concealing something that should be disclosed, accepting a wrongful act or thing, and acting according to the wrong law (black people's law) Error in planning bad deeds to others).

According to G. Jack Bologna, Robert J. Lindquist, and Joseph T. Wells, fraud is a criminal deception intended to provide financial gain to the perpetrator of the fraud. Meanwhile, Tommy W. According to Singleton and Aaron, fraud is an act that involves deception, trickery, dishonesty, and unreasonable/unreasonable means of deceiving others for one's own benefit and thereby causing harm to others [12]. Editor-in-chief of the Journal of Forensic Accounting, stated: any legal or judicial proceeding or administrative review process; The role of forensic testing is also to provide evidence before the law. Therefore, the main function of forensic audit itself is to conduct an investigative audit of a criminal offense. [13].

To summarize, fraud is a variety of human means planned and carried out by individuals or groups with the aim of obtaining personal gain or advantage from others in an improper manner that can cause harm to others. In other words, fraud is a deliberate deception that aims to deprive others of their property rights. As shown by research [14] based on the analysis and use of forensic accounting knowledge partially or simultaneously has a very positive and significant effect on fraud detection. This provides evidence and evidence that the application of forensic auditing is faster and better in detecting fraud [14]. Fraudulent reporting involves intentional reporting errors that make a company appear to be in better financial condition than it actually is, ultimately misleading stakeholders such as shareholders, investors, and creditors. The most common reporting fraud is the "inflation" of revenue and inventory, or what is commonly referred to as revenue maximization, revenue smoothing, and revenue management patterns [15].

It is undeniable that forensic accounting plays a major role in uncovering fraud. Forensic accounting is a system designed as a detection strategy by providing various findings and evidence of wrongdoing in a litigation format using investigative audit procedures to provide persuasive and preventive actions. This is so that different findings and evidence can be included in decision making in court [7]. According to [4], forensic accounting is known as the use of accounting principles and methods to address legal issues. Claims and reports will be considered as evidence in any court or administrative process where fraud is proven. Forensic accounting requires financial expertise, knowledge of fraud, and a thorough knowledge and understanding of business realities and the functioning of the legal system [16].

When investigating fraud, the forensic audit skills of the auditor or auditors must be competent. As shown in the research conducted by [6], in detecting fraud, we need to understand the conditions that lead to fraud and who or which parties are likely to commit fraud. This issue must be known by those in charge of detecting fraud. Because if you know

the factors that cause fraud and know who or which party is committing the fraud, you can plan better. According to [5], the most effective way to detect fraud is to use methods designed to combat criminal activity that can be applied to strategies. Advanced techniques such as information mining, statistics, and artificial intelligence are used.

The impact of forensic accounting on fraud detection has been widely studied. A study by [2] showed that forensic accounting and human resource skills have an effect on fraud prevention [2]. In his research, he concluded that forensic accounting and investigative auditing have an impact on fraud detection. In some cases, the skills of accounting and forensic investigators can have a significant impact on detecting fraud [17]. In his research found that forensic accounting does not have a positive impact on fraud detection, while investigative auditing has a positive impact on fraud detection.

Corporate fraud usually comes from two directions: internal fraud and external fraud. Internal fraud refers to fraudulent acts that occur from parties within a company. Examples of fraud originating from internal sources include corruption, misstatement, falsification of financial statements, duplicate financial statements, concealment or concealment of misappropriation of funds, lack of computing ability, and fraud committed by individual employees and management or groups of company assets for profit etc. On the other hand, external fraud refers to fraudulent acts originating from outside the company. Examples of third-party fraud include bribery, overbilling, double billing, quality fraud, such as substandard products or services, and other product transactions that differ from those previously agreed upon [18].

To detect fraud, a forensic accountant must have a strong basic knowledge of accounting and auditing, an overview of human and organizational behavior, and aspects that can cause or motivate fraud (incentives, pressures, attitudes, rationalizations, etc., opportunities). Legal and regulatory knowledge (standards of financial evidence and legal evidence), knowledge of criminology and victimization (profiling), understanding and knowledge of internal controls, and the ability to think like a thief [19].

To minimize the risk of fraud, it is important for companies to ensure that their auditors have the appropriate skills and knowledge. Continuous training and upgrading professional qualifications can help improve auditors' ability to detect and prevent fraud [20]. In addition, companies should create a work environment that promotes honesty, ethics and transparency to reduce the potential for fraud. Based on existing literature and previous research findings, forensic accounting is found to be an effective tool or means to detect criminal activities of fraud and corruption in financial management or budget management. This is because forensic accounting allows you to analyze and confirm the value of numbers and money. Forensic accounting also has investigative audit techniques with detailed audit procedures that can collect sufficient, precise, and competent evidence that can be used as forensic evidence [21]. In addition, APIP also has a certificate of competence in auditing, both investigative auditing and forensic auditing, so that it applies forensic accounting techniques in conducting investigations to detect and uncover fraud. When forensic accounting is used correctly, corruption is easier to detect, but when forensic accounting is not used correctly, disclosure is more difficult to detect [22].

4. CONCLUSION

Economic actors should not deceive or manipulate financial statements, and company accountants must strictly adhere to ethical principles and standards. If the finances of a company are not good, the first step is to disclose it to interested parties because if you manipulate it will cause great losses and harm many people. In issuing audit opinions, auditors and KAP must also be careful so that the opinions submitted do not mislead users of financial statements and can result in significant losses. Future research can add more in-depth indicators to detect fraud by examining the factors that cause fraud and the reasons for committing fraud.

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