Journal of Intelligence Studies in Business

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Publication details, including instructions for authors and subscription information: https://ojs.hh.se/index.php/JISIB/index

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To cite this article: Ikbal, M., Irwansyah, I., Paminto, A., Ulfah, Y. & Darma, D.C. (2020) Financial intelligence: Financial statement fraud in Indonesia. *Journal of Intelligence Studies in Business*. 10 (3) 80-95.

Article URL: https://ojs.hh.se/index.php/JISIB/article/view/590

Journal of Intelligence Studies in Business
Vol. 10, No. 3 (2020) pp. 80-95
Open Access: Freely available at: https://ojs.hh.se/

Stevan Dedijer
1911-2004

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Received 18 May 2020 Accepted 26 October 2020

ABSTRACT Indonesia is currently in an honesty crisis, especially in financial governance, both in government and private institutions. Our study uses the concept of financial intelligence to identify and collect information related to financial affairs in an organization. We use the opinions of 76 auditors regarding various fraudulent attempts, both with fraudulent financial statements and other corrupt practices in organizations in Indonesia. Our important finding is that small companies are more likely to commit fraud due to weak supervisors than listed public companies. This is also more likely than family-owned companies and government level organizations. It was indicated by some respondents that local government level organizations with weak supervision are more likely to commit fraud than local governments with close supervision from urban communities. The results of the non-parametric relationship analysis show that although there is a possibility that the more experienced the auditor is, the more able they are to detect fraud and manipulation in the organization, the relationship is relatively weak. Other findings also show that auditors who have a CFE certificate find it easier to find fraud in the company.

KEYWORDS Bribes, financial intelligence, fraudulent financial statements, procurement of goods and services

1. INTRODUCTION

Audit-based research has an important role in the effort to identify fraudulent attempts at both the scale of private company organizations and public organizations. The term that is widely used is financial intelligence, which is an attempt to identify various fraud in financial transactions including embezzlement, money laundering, or other fraudulent and illegal transactions (Alavi 2016; Scott and McGoldrick 2018). Many cases in Indonesia lead to fraud involving parties related to the company. When viewed from a collection of numbers, fraud in company transactions is huge. The combined results of the ACFE analysis amount to 800,000 USD. According to the fraud triangle theory, the opportunities for an individual to commit fraud are based on opportunities, abilities, pressures, needs, and lifestyle. The impact is enormous, at a time when this fraudulent opportunity can take place (Suh et al. 2019; Charlopova et al.

2020). Investors and others have an impact on labor and company performance in the market (Karpoff 2020).

Fraud can occur in any sector, including the private sector, public services, and both national and international organizations (Lombardi et al. 2015; Charlopova et al. 2020). Indonesia has recorded massive cases of fraud since the government's efforts to eradicate corruption in the reform era (Lewis and Hendrawan 2019). Fraud and criminal acts of corruption involve many parties, conglomerates, public officials, company employees, government employees, religious leaders, political figures and even the public in various aspects of life (Jakimow 2018a). One of the cases involved the state company (BUMD) PT Garuda Indonesia Tbk. This airline was suspected of having released fraudulent financial statements. Regulators—in this case, the Ministry of Finance and the Financial Services Authority (OJK)—impose penalties on the parties involved, including the accounting firm, auditor, and PT Garuda Indonesia Tbk. The results of the state auditor's examination showed fraud in the 2018 earnings report. The company inflated profits for certain purposes. From the audit findings, the company should have suffered a loss of 244.95 million USD, but they actually recorded a profit of 809,840 USD.

We follow-up previous research, which only examines the fraud side of private companies (Holtfreter 2005; Lambsdorff 2002; Jeppesen 2019), and we expand by adding data from facts that occur in governmental organizations. This study also broadens the perspective through the financial intelligence model in viewing financial fraud in Indonesia. The role of financial intelligence is very important as a solution to various corporate frauds (Dorrell et al. 2012; Alavi 2016). This research is important for several reasons. As financial intelligence, this study will understand how fraud is committed within a company that can assist auditors in finding fraud from various sides in corporate governance. Second, understanding the various forms and patterns of fraud will greatly assist company leaders in detecting losses due to fraud, to prevent the allocation of resources to fraudulent units.

We hope this can contribute to the development of knowledge in the field of audit and fraud, and also be beneficial for auditing practices and good corporate governance practices. Research in the field of fraud is currently of interest in Indonesia. With the rise of corruption cases being revealed, more and more researchers are using the concepts and theories of fraud in observing the phenomenon of fraud and the issue of ethical and criminal violations. The interesting thing about this research is that most of the data were collected through in-depth interviews with selected informants and sources, although the survey results were used to present descriptive data. We chose auditors as informants. Most of the research results look at the impact of fraud on the economy and moral violations (van Ruth et al. 2017; Kendall et al. 2019; Roychowdhury et al. 2019; Dungan et al. 2019). Some researchers observe fraud motivation from the perspective of the fraud triangle theory (Suh et al. 2019; Malimage 2019; Bujaki et al. 2019), which is not context-specific or based on empirical evidence as in this study.

This paper's structure is as follows. First, we review the relevant literature on financial intelligence and its relation to financial reporting fraud. In the next section, we discuss the methodology we use, which follows a data collection method that uses a combination of surveys and in-depth interviews. In the next step, we present the findings in detail for each item on the form and add context on fraud in financial reporting. Finally, the conclusions are combined with a discussion of the research results and their implications for research and audit practice in future research.

2. THEORETICAL FRAMEWORK

2.1 Financial intelligence

The concept of financial intelligence (FINITE) is an effort to identify and collect information related to financial affairs in an organization (Alavi 2016; Scott and McGoldrick 2018). In addition to being used by the Police Department in Australia and several European and American authorities, FINITE also applies to legal and audit researchers. The use of FINITE in the audit field can be applied in special studies to prove various fraudulent attempts by accountants or financial managers in corporate organizations (Dorrell et al. 2012; Alavi 2016). The existence of FINITE is intended to identify various irregularities in financial transactions including money laundering, tax evasion, deliberate misstatement, and violations of other accounting rules (Dorrell et al. 2012; Alavi 2016; Scott and McGoldrick 2018).

The use of FINITE to identify suspects or victims in cases of fraud in corporate financial statements is an important challenge for auditors in detecting corruption and fraud (Rudner 2006; Alavi 2016). Generally, as in previous cases, the auditor or the police investigate after the case was reported, however by using FINITE, the investigation and observation could be carried out before the report. There are major obstacles to not reporting a case of fraud that is found, for many reasons. In many cases, this includes recognition from individuals that they are victims of fraud, and the stigma and shame associated with this (Rudner 2006; Thony 1996).

2.2 Fraudulent financial statements

The output of the transaction identification and recording process is financial statements. This involves many parties, especially experts in accounting, who assess the reasonableness of using external audit services so that the presentation of financial statements is reasonable (Chychyla et al. 2019; El-Helaly et al. 2018). Many cases of fraud in financial reports are in the form of deliberate misstatement, inflating numbers, and manipulation of income, which have multiple purposes (Zager et al. 2016). This fraud is mostly carried out by management who truly understand the condition of the company (Habib et al. 2018; Chychyla et al. 2020). There are various ways to fraudulently manipulate financial statements, including unreasonable revenue recognition, hidden costs for certain purposes, and asset valuation that is not in accordance with IFRS (West and Bhattacharya 2016; Chychyla et al. 2020). Misappropriation of organizational assets and misstatement in revenue recognition is the most common means of fraudulent behavior. This includes revenue that is recognized but fictitious, premature income that is currently recognized, and incorrect income when adjusted (Zager et al. 2016; Habib et al. 2018; West and Bhattacharya, 2016). However, creating fictitious sales appears to be the most common method of manipulating income (El-Helaly et al. 2018; Zager et al. 2016). Various ways of manipulating income, reviewed in the literature, are presented in Table 1.

Table 1 Summary of the various modes of recognition of illegal income.

Technique	Source
There is a sales discount, but it is not recorded	Rezaee (2005), Coenen (2009), Albrecht et al. (2006)
Consignment sales are recorded as a normal	Rezaee (2005), Coenen (2009), Albrecht et al. (2006)
Shift sales from a future period to the current period	Coenen (2009), Hopwood (2008)
Early acknowledgment of legitimate sales	Coenen (2009)
Create a sales order invoice but the goods are shipped in the next period (bill and hold)	Lord and Robb (2010), Coenen (2009)
Hide the sales returns and deductions to increase sales and net income	Elder et al. (2010)
Minimizing the allowance for doubtful accounts, so that the debt burden is reduced	Rezaee (2005), Albrecht et al. (2006), Coenen (2009), Elder et al. (2010)
Bad debts that are not written off	Rezaee (2005), Albrecht et al. (2006), Coenen (2009), Elder et al. (2010)
Recognizes credit sales at the end of the accounting period, even though they have not been ordered, but the goods have been shipped.	Hopwood (2008)
Part or all of the goods have not been delivered, but are recorded as sales.	Coenen (2009)
Does not record the goods return transactions	Lord and Robb (2010)
The customer returned the item but it was not recorded	Rezaee (2005), Albrecht et al. (2006), Coenen (2009), Elder et al. (2010)
Manipulate cash receipts from the consumer as if the transfer from the bank is a cash receiver	Rezaee (2005), Albrecht et al. (2006), Coenen (2009), Elder et al. (2010)
Entering into additional agreements that change the terms of the previous agreement that do not qualify as sales under accounting principles	Lord and Robb (2010), Elder et al. (2010)
Transferring income between accounting periods, by determining an inappropriate cut-off period	Lord and Robb (2010)
Returned goods are recognized after the period ends	Hopwood (2008), Rezaee (2005), Albrecht et al. (2006), Coenen (2009)
Transferring the write-off of uncollectible accounts to the next period	Hopwood (2008), Rezaee (2005), Albrecht et al. (2006), Coenen (2009)
Fictitious sales transactions discontinued at the end of the accounting period	Rezaee (2005), Albrecht et al. (2006), Coenen (2009)
Sales and delivery documents are required	Hopwood (2008)
Decrease the note on a percentage of misstatements on settlement	Coenen (2009), Hopwood (2008)
Record gross income, not net income	Rezaee (2005), Albrecht et al. (2006), Coenen (2009), Elder et al. (2010)
Record invalid earnings or shipments	Lord and Robb (2010), Elder et al. (2010), Hopwood (2008)
Exaggerating real sales	Rezaee (2005), Albrecht et al. (2006), Coenen (2009), Elder et al. (2010)

Table 2 Improper ways of valuing assets.

Concealment Techniques and Methods	Source and quoted from
Inventory manipulation of goods in the warehouse	Wells (2005), Coenen (2008), Albrecht et al. (2006)
Inflation of the unit cost used to increase the value of the inventory	Wells (2005), Coenen (2008), Albrecht et al. (2006)
Obsolete inventory or other assets are not recorded according to impairment value or collection issues	Wells (2005), Coenen (2008), Albrecht et al. (2006)
The amount of inventory for the cost of goods sold is enlarged. Usually creating fake documents such as sheet counts	Wells (2005), Coenen (2008), Albrecht et al. (2006)
It is not appropriate to capitalize on the inventory and the cost of the beginning inventory	Wells (2005), Coenen (2008), Albrecht et al. (2006)
Should increase the discount on sales or the cost of inventory should not be reduced	Wells (2005), Coenen (2008), Albrecht et al. (2006)
Creating false records for the amount of inventory on hand to conceal it by fake shipments	Wells (2005), Coenen (2008), Albrecht et al. (2006)
Obsolete and slow-moving inventories are recorded as misstatements	Jones (2011)
The method for valuing inventory is changed according to the importance	Jones (2011)
The production overhead amount included in the inventory count is misstated	Jones (2011)
Inaccurate inventory recognition during the delivery process	Lord and Robb (2010)
Obsolete or unsold inventory is recognized	Lord and Robb (2010)
Inventory items are overbooked, without eliminating obsolete items or there is no provision for inventories whose value is reduced	Lord and Robb (2010), Coenen (2009)
The existence of illegal accounting of receivables	Albrecht et al. (2006), Wells (2005), Coenen (2008)
Accounts receivable from bad debts are not written off	Albrecht et al. (2006), Wells (2005), Coenen (2008)
Accounts receivable added unilaterally	Albrecht et al. (2006), Wells (2005), Coenen (2008)
There are several fictitious assets ordered to influence the total asset account on the balance sheet	Albrecht et al. (2006), Wells (2005), Coenen (2008)
The depreciation cost of an asset is increased by increasing or decreasing its useful life	Jones (2011), Albrecht et al. (2006)
Depreciation is not recorded properly	Albrecht et al. (2006), Wells (2005), Coenen (2008)
The market price of fixed assets is recorded at a higher rate, supported by an asset valuation document	Albrecht et al. (2006), Wells (2005), Coenen (2008)
The cost of acquiring assets is increased by cooperating with other parties	Albrecht et al. (2006), Wells (2005), Coenen (2008)
Intentionally misrepresenting securities information with the help of other parties	Albrecht et al. (2006), Wells (2005), Coenen (2008)
Manipulating the return of goods or purchases of goods in the previous period are recorded repeatedly	Albrecht et al. (2006), Wells (2005), Coenen (2008)
Increase the value of fixed assets	Albrecht et al. (2006), Wells (2005), Coenen (2008)
There is an impairment of assets that are not recorded correctly	Albrecht et al. (2006), Wells (2005), Coenen (2008)
Manipulation of estimated fair market value of assets	Albrecht et al. (2006), Wells (2005), Coenen (2008)
Backup manipulated	Albrecht et al. (2006), Wells (2005), Coenen (2008)
Inaccurate investment appraisal by way of wrong investment classification	Coenen (2009)
Amounts attributable to the merger or acquisition are not recorded correctly	Jones (2011), Coenen (2009)

Table 3 Various modes of manipulating against liability and expense.

Concealment Techniques and Methods	Source and quoted from
Improperly recorded current and long-term debt	Sterling (2002), Coenen (2008, 2009), Wells (2005), AICPA (2007)
There is no documentation of the agreement and repurchase commitment	Sterling (2002), Coenen (2008, 2009), Wells (2005), AICPA (2007)
Contingent payables are carried at excessively lower than fair value	Sterling (2002), Coenen (2008, 2009), Wells (2005), AICPA (2007)
Enlarge financial ratios by inconsistently presenting long-term debt with current debt	Sterling (2002), Coenen (2008, 2009), Wells (2005), AICPA (2007)
Purchases of goods that are recorded fairly or materials are not recorded	Sterling (2002), Coenen (2008, 2009), Wells (2005), AICPA (2007)
Purchase returns and purchase discounts returned to the seller	Sterling (2002), Coenen (2008, 2009), Wells (2005), AICPA (2007)
The cost of booking goods is not recorded	Sterling (2002), Coenen (2008, 2009), Wells (2005), AICPA (2007)
Manipulating gross profit by attempting to change the cost of a sales item to another account such as other operating expenses	Sterling (2002), Coenen (2008, 2009), Wells (2005), AICPA (2007)
The value of strategic assets such as buildings, accounts receivable, work equipment or inventory are not recorded at their correct value	Sterling (2002), Coenen (2008, 2009), Wells (2005), AICPA (2007)
There are discounts, returns, and sales discounts, but these are not recorded as reduced costs	Sterling (2002), Coenen (2008, 2009), Wells (2005), AICPA (2007)
Hiding expenses by manipulating the number of smaller expenses	Sterling (2002), Coenen (2008, 2009), Wells (2005), AICPA (2007)
Shifting the amount owed in this period to the next period, or preventing employee debt in the next period	Wells (2005), Elder et al. (2010), Coenen (2008, 2009), Sterling (2002)
The amount of certain liabilities was not recorded correctly, including service payables or contingent payables	Sterling (2002), Coenen (2009)
Bring up obligations that should not exist	Sterling (2002), Coenen (2008, 2009), Wells (2005), AICPA (2007)
Transferring accruals in this period which should be recorded in the next period or another period	Sterling (2002), Coenen (2008, 2009), Wells (2005), AICPA (2007)
There is a net income that is recorded even though the income is received in advance	Sterling (2002), Coenen (2008, 2009), Wells (2005), AICPA (2007)

In addition to income, assets are objects that can be manipulated in financial statements. Efforts to manipulate asset values with the aim of increasing the value of assets on the balance sheet can be done so that certain ratios will be large (Wells 2005). Important ratios such as profit ratios, debt ratios, capital capacity ratios, and adequacy of funds are very dependent on the number of assets owned by the company. These actors usually use simple methods in presenting asset values, one of which is manipulating the physical inventory value of assets (Coenen 2008), increasing the cost per unit of assets so that the cost can be determined by themselves (Albrecht et al. 2006) and trying to restate the inventory of assets that are worthless, obsolete and almost unused (Jones 2011). Here are some opinions from experts on various ways of manipulating organizational assets (Table 2).

Apart from income, another easy aspect of finances to manipulate is a liability. Liability accounts have more openings for manipulation than faking sales transactions. Many criminals conceal liability transactions. Here are some opinions of experts in various ways to hide organizational obligations and expenses in Table 3.

Fraud in the government budget includes not only fraudulent financial statements but many aspects that can be manipulated. This includes the procurement and purchase of goods and services, manipulation of financial reports, manipulation of official travel costs, manipulation of granting company licenses, fraud in the use of natural resources, and fraud by law enforcers. The following are a summary of some opinions of experts on various ways to manipulate state money and abuse of office (Table 4).

Efforts to uncover illegal transactions usually include the following: hiding obligations, shifting transactions to the next period, transactions with related parties, and changes in accounting policies (Charlopova et al. 2020; Alavi 2016). If governance monitoring is weak, then many transactions with related parties will occur in the company, which results in fraudulent acts (Dorrell et al. 2012). Henry et al. (2007) revealed that there are several weaknesses in the audit system, including the failure of the auditor to identify transactions of related parties that have special transactions. They also stated that notes on financial reports were intentionally misinterpreted or improper in order to influence financial policies issued by investors or report users (Kuhn and Siciliani 2013; Lombardi et al. 2015; Roychowdhury et al. 2019).

Table 4 Ways of fraud on Government organizations.

Concealment Techniques and Methods	Source and quoted from:
Purchase and Procurement of Goods or Services	
Mark-up price of goods	Miroslav et al. (2014), Ameyaw et al. (2012)
Purchase of fictional items	Mamedova et al. (2017)
Making roads and bridges in the forest but fictional	Graafland and van Liedekerke (2011)
Physical infrastructure development but not finished	Graafland and van Liedekerke (2011)
Purchase of goods for one unit, but recorded for two or more units	Ameyaw et al. (2012), Mamedova et al. (2017)
Purchase of goods for personal use, but paid for with government money	Ameyaw et al. (2012), Mamedova et al. (2017)
Physical infrastructure development that is not important	Graafland and van Liedekerke (2011)
The existing physical infrastructure development was rebuilt	Graafland and van Liedekerke (2011)
Waste of purchasing goods	Miroslav et al. (2014), Ameyaw et al. (2012), Mamedova et al. (2017)
Purchase of goods that do not match specifications	Miroslav et al. (2014), Ameyaw et al. (2012), Mamedova et al. (2017)
Financial Statement Manipulation	
Lots of transaction evidence original but untrue	Kuhn and Siciliani (2013)
Activity reports but no service activities	Othman et al. (2015)
Fictional official travel report	Kemp (2010)
Fake payroll signature	Othman et al. (2015), Kemp (2010)
Purchase reports are not real	Mamedova et al. (2017)
Unreasonable asset report	Mamedova et al. (2017)
State money reporting fraud in insurance investments	Kose et al. (2015)
Misstatement of regional company assets	Ameyaw et al. (2012), Mamedova et al. (2017)
Deliberate misstatement of state revenue	Ameyaw et al. (2012), Mamedova et al. (2017)
Manipulation on Official Trip Expenses	
Extending the period of official travel, even though it is less	Othman et al. (2015), Kemp (2010)
Adding personnel for official travel, even though it is fictitious	Glancy and Yadav (2011), Othman et al. (2015), Kemp (2010)
Take someone else on a trip, but at state expense	Glancy and Yadav (2011), Othman et al. (2015), Kemp (2010)
Create a fake hotel bill	Glancy and Yadav (2011), Othman et al. (2015), Kemp (2010)
Creating fake travel ticket invoices	Glancy and Yadav (2011), Othman et al. (2015), Kemp (2010)
Creating a fake travel certificate	Glancy and Yadav (2011), Othman et al. (2015), Kemp (2010)
Manipulation of Granting Business Licenses	
Asking entrepreneurs for a certain amount of money for the cost of obtaining a permit, even though it is illegal	Ferry and Lehman (2018)
Give additional permits to entrepreneurs for illegal additional land	Meehan and Tacconi (2017), Ferry and Lehman (2018)
Charging illegal fees for environmental permits	Meehan and Tacconi (2017), Ferry and Lehman (2018)
Receiving money from companies that violate the environment	Meehan and Tacconi (2017), Ferry and Lehman (2018)
Receiving bribes from companies that have experienced work accidents, so that they are not prosecuted	Meehan and Tacconi (2017), Ferry and Lehman (2018)
Receiving money from entrepreneurs for social purposes, but illegal	Meehan and Tacconi (2017), Ferry and Lehman (2018)
Cheating on the Use of Natural Resources	
Granting forest utilization permits on prohibited land	Huang and Liu (2014), Dincer and Fredriksson (2018)
Granting forest utilization permits, by cutting trees and destroying forests	Huang and Liu (2014), Dincer and Fredriksson (2018)
Received a certain amount of money to obtain mining business permits that destroy the environment	Huang and Liu (2014), Dincer and Fredriksson (2018)
Give permits to use prohibited natural resources (timber)	Huang and Liu (2014), Dincer and Fredriksson (2018)
Fraud by a Legal Officer	
Police and prosecutors help fugitive state fugitives to escape	Michels (2016), Gottschalk and Rundmo (2014), Ragatz et al. (2012)
The police and prosecutors received a certain amount of money to lighten the case	Michels (2016), Gottschalk and Rundmo (2014), Ragatz et al. (2012)
The judge lightly decided the defendant, by receiving a sum of money	Michels (2016), Gottschalk and Rundmo (2014), Ragatz et al. (2012)
A court officer arranges civil proceedings and wins either party	Michels (2016), Gottschalk and Rundmo (2014), Ragatz et al. (2012)
Court officials arrange the placement of prosecutors, judges, and other officers to receive leniency	Michels (2016), Gottschalk and Rundmo (2014), Ragatz et al. (2012)

3. METHODS AND OBJECTIVE

We used semi-structured interviews and surveys to collect data. The respondents we selected included auditors at an accounting firm affiliated with Big-4 in Indonesia. We distributed approximately 200 questionnaires to the respondents. In the questionnaire, we included items that asked the respondent's willingness to be interviewed. The questionnaires we sent were received, but only 76 returned, making the response rate around 38%. Only 21 out of 76 respondents who were willing to process the interview returned the questionnaire. Sequential mixed research combines the methods of collecting interview and survey observation data in an effort to explore survey results with semi-structured interviews (Subedi 2016).

The interview process is used to deepen the information obtained from the survey data collection. This study requires in-depth technical assessment, which requires clarification from experienced auditors with at least two years of experience. Many auditors are inexperienced and just guess when answering surveys, so they are not informative. Twenty-one people were available for video calls. Each interview lasted about 20-25 minutes, and we recorded the results of all interviews, except for three respondents who did not consent. All the data collected through our survey was tested for the relationship between the auditor's experience in the audit assignment and the ability to reveal fraud in the preparation of financial reports, both in the public and private sectors, using non-parametric statistical tests. The statistical analysis used was a phi-test. The phi-test is an associative test on a nominal data scale if the contingency table is 2 x 2. So, it can be said that the phi correlation coefficient is designed for dichotomized variables (Loeb et al. 2017).

4. RESULTS AND DISCUSSION

4.1 Descriptive statistical analysis

We have mentioned above that the respondents are auditors. The survey results related to auditors' perceptions are presented in the following descriptions including the experience of auditors, classification of public accounting firms, qualifications of public accountants, job public accountants who are willing to be interviewed, and audit experience of interviewees.

Based on the results of a survey of 76 auditors, the respondants predominantly stated that there was fraud in organizational governance, both in the public sector and in the private sector. From small to large-scale fraud, all reports related to manipulating financial reports and enriching oneself through illegal practices. However, even though they were aware of these practices, rarely did the respondents dare to reveal the incident for various reasons (64.47%, n = 49/76 respondents). These reasons include the fear of losing their job by clients, lack of protection for auditors, weak laws regarding the rights and obligations of auditors, and that the auditors have weak trust in Indonesian law. This finding is in line with the expert's opinion that the law has not guaranteed the rights and obligations of auditors in acting to reveal crimes.

There is evidence from research in Africa, for example, that no lawsuits are made by accounting firms outside of the absence of a legal system that protects accounting firms. This is because of high fear and worry (Salihu and Berisha-Hoti 2019; Kawadza 2017). The result is that fraudulent acts will continue to flourish if the legal system does not fully protect accounting firm auditors who disclose fraudulent acts (Cordis and Lambert 2017).

Table 5 Respondent audit experience.

Experience Range	Frequency	Percent
0 - 2 years	3	3.95%
2 - 6 years	14	18.42%
6 - 8 years	28	36.84%
Over 8 years	31	40.79%
Total	76	100.0%

Table 6 Classification of accounting firm.

Classification of Accounting Firms	Frequency	Percent
Big-4	7	9.21%
Domestic Non-Big-4	62	81.58%
International Non-Big-4	7	9.21%
Total	76	100.0%

Table 7 Qualifications of the public accountant professional.

Dimensions	Frequency	Percent
Public Accountant (Ak.)		
No.	2	2.63%
Yes.	74	97.37%
Total	76	100.0%
Chartered Accountants (CA)		
No.	17	22.37%
Yes.	59	77.63%
Total	76	100.0%
Certified Public Accountants (CPA)		
No	51	67.11%
Yes	25	32.89%
Total	76	100.0%
Certified Fraud Examiners (CFE)		
No	67	88.16%
Yes	9	11.84%
Total	76	100.0%

Weak law enforcement is one of the obstacles in eradicating fraud in doing business based on the results of the 2017-2018 Global Competitiveness Report released by the World Economic Forum. Even entrepreneurs feel dissatisfied when resolving business disputes in this condition (Birhanu and Wezel 2020; Sharma and Soederberg 2020). In some developing countries with weak legal systems, rulers develop legal systems and courts as a way not to ensure society is fair but to use law and courts as tools to justify and maintain the political status quo (Sharma and Soederberg 2020).

Conflicts of interest will be the main obstacle when auditors find irregularities in an organization's financial statements. On one hand. the auditor obtains an audit fee but on the other hand, maintains truth and independence (Singh et al. 2019). One thing to remember is that the decision is with the top management of the accounting firm, not on the auditors (Barua et al. 2020; Singh et al. 2019). Likewise, the decision by companies to use accounting firms depends on company management (Barua et al. 2020). Auditors face various challenges in dealing with fraud cases, in addition to risking professionalism as well as risking audit quality that is purely free from pressure (Quick and Schmidt 2018). The principle of auditor independence supports maintaining the reliability of financial statements. One of the public accounting services is to provide accurate and reliable information for user decisions. Every profession must pay attention to product quality, including the quality of the audit produced by an auditor (Barua et al. 2020; Quick and Schmidt 2018). The higher the quality of an auditor, the higher the client's trust in auditors, for example, investors, creditors, government, and the public to use financial reports (Singh et al. 2019; Quick and Schmidt 2018).

Table 8 The job of public accountants who are willing to be interviewed.

Public Accountant Job	Frequency	Percent
Partner	1	4.76%
Manager	4	19.05%
Senior Auditor	11	52.38%
Junior Auditor	5	23.81%
Total	21	100.0%

Table 9 Type of public accountant firm that was interviewed.

Types of classification of Public Accounting Firms	Frequency	Percent
Big-4	6	7.89%
Non-Big-4: Domestic	12	15.79%
Non-Big-4: International	3	3.95%
Total	21	100.0%

Table 10 Audit experience of interviewed respondents.

Experience Range	Frequency	Percent
0 - 5 years	3	14.29%
5 - 8 years	6	28.57%
8 - 10 years	8	38.10%
Over 10 years	4	19.05%
Total	21	100.0%

Based on the results of our interviews with selected respondents, generally speaking, that fraud in organizational governance is considered normal. The first cause is due to the fear that employees will lose their positions, so whatever changes and wishes come from management must be followed. The company strives to report a good performance in public, due to intense competition. Because of this, things can be done to preserve the company image, including manipulating financial reports. Pressure from investors to get the maximum profit is one reason for fraudulent financial statements.

Many believe that because of the difficulty of getting a decent work position, an employee can easily be forced to commit fraud in order to keep his or her job, even in high positions. This is in line with research (Ettredge et al. 2017; Quick and Schmidt 2018). The report from Certified Global Management Accounting (CGMA 2015) mentions that many employees in the UK work under pressure from managers, then another study reports that around 78% of people in the UK agree that big businesses are more likely to prioritize profits than high ethical standards (IBE 2018). In 2019-2020, the Supreme Audit Agency (BPK) finally revealed the results of an investigative audit of PT Asuransi Jiwasraya (Persero). According to BPK, the financial statements of the state-owned insurance company, Jiwasraya, are false financial reports (Sulistiyanto and Murtini, 2018). This has been occurring since 2006. Jiwasraya's profit achievement recorded in the company's financial statements was due to the engineering of financial statements, sometimes called "window dressing." For example, in 2017, Jiwasraya received a profit of IDR 2.4 trillion. This profit was unnatural because there was fraud in the reserves in Jiwasrata's financial statements amounting to IDR77 trillion. In general, financial statement manipulation or fraud is committed because of many motivations, such as the wrong opinion of an informant in an interview that:

> *"... .. The manipulation in the financial statements is very high, many top managements are the main actors because of the many pressures, especially the pressure on obtaining bonuses and the pressure on high profits from shareholders ....".*

Other informants also conveyed other things:

> *"... many employees in the finance department feel obliged to follow orders from their superiors and are loyal, because the impact is that if they do, they will be fired, at least transferred to another department ..."*

This research is in line with Kaseem (2018), which says that the strong pressure from owners increasingly encourages company management to cheat in an effort to provide the best information for the company's performance. The research by Makhaiel and Sherer (2017) also shows employees and investors increasingly encourage management to cheat in financial reporting. The results of our survey found that 53% of the external auditors interviewed in this study had encountered suspicions of reporting cases of financial fraud during an audit and management is almost always involved in these. This is in line with Kaseem's (2019) study which found that financial reporting fraud is more likely to be carried out by management. The reason why management is most involved in fraud is the existence of high-profit pressure and bonus motivation.

Much of our in-depth study of informants is related to revenue recognition. Income recognition is the easiest to manipulate and difficult to detect by outsiders, in this case, investors. The foresight of auditors is important because they can see if the revenue recognition transaction is reasonable or not (Charlopova et al. 2020; Alavi 2016). Some developing countries have experienced cases of fraud, especially in the recognition of income, which is the area where most manipulations are made. Research from Dorrell et al. (2012) and Charlopova et al. (2020) reported that there were many cases of fraud on income abuse. In March 2020, in Indonesia, there was a hand-catching operation (OTT) conducted by the Corruption Eradication Commission (KPK) to one of the directors of PT Krakatau Steel

Tbk. The day after the OTT, it was revealed that the Director of Technology and Production of Krakatau Steel, Wisnu Kuncoro, was suspected as the recipient of a bribe in the case of procurement of goods and equipment at Krakatau Steel. The bribery was carried out by contractors, namely Kenneth Sutardja and Kurniawan Eddy Tjokro (Yudi) with an intermediary Alexander Muskitta. Apart from bribery, this fraud case is also related to regulating company revenue.

Apart from increasing income, misstatement and manipulation of assets are also vulnerable for financial statement fraud in Indonesia (Jakimow 2018b). The name PT Hanson International Tbk has been sticking out for a while. This property company has been linked with the scandal of two state-owned insurance companies, PT Asuransi Jiwasraya (Persero) and PT Asabri (Persero). Both Jiwasraya and Asabri place their customers' funds with a large enough nominal value in PT Hanson International Tbk. Apart from placement through shares, investment also flows through the purchase of medium-term notes (MTN) or debt securities. In the records of the Financial Services Authority (OJK), PT Hanson International was proven to have manipulated the presentation of the annual financial statements (LKT) for 2016. The OJK also imposed sanctions, both for the company and its main director, Benny Tjokro. In the examination conducted by the OJK, manipulation was found in the presentation of accounting related to the sale of ready-to-build lots (Kasiba) with a gross value of IDR 732 billion, so that the company's revenue rose sharply.

The results showed that some auditors agreed (n = 15 or 19.73%) that small companies have more opportunities for financial statement fraud than public companies on IDX. Meanwhile, at the government level, it shows that some auditors (n = 54 or 71.05%) agree that local government with weak supervision is more likely to commit fraud, compared to local governments with tight supervision from urban communities. For the case of private companies, however, our findings differ from studies in Egypt and the Middle East, and several other African countries, so their findings cannot be generalized that financial statement fraud is more prevalent in large companies (ACFE, 2016). However, ACFE only managed to collect evidence from five cases of fraud in Egypt and several other African countries, so their findings cannot be generalized. Meanwhile, for local governments, many studies show that when the government lacks supervision, the intensity of fraud is higher (Puspasari 2015). In the process of government administration and development in the regions, is very important to improve supervision of regional financial management so that the regional revenue and expenditure budget can be managed effectively, efficiently, and achieve the expected goals (Lewis and Hendrawan 2019). This is in line with the mandate of laws in the field of state finance, which implies the need for a more accountable and transparent state financial management system (Puspasari 2015). The results of our interviews with informants regarding corruption in the government:

> *"...... The biggest thing is shopping and bribery, both of them are related. So if the government wants to buy or procure goods, there will be very thick with the practice of bribery and gratification to officials who determine partners. So it is dominant in the procurement of goods ...."*

The procurement of goods and services is still a source of corruption cases in Indonesia. This is because one of the government expenditures has received a very large allocation of funds. Therefore, many parties, both government and civil society, are consistent in continuing to highlight this area (Mamedova et al. 2017). A researcher from Transparency International Indonesia (TII) said that the potential for corruption in several areas is dynamically changing, including the procurement of goods and services. The perpetrators also used different modes.

The biggest megaproject is the electronic identity card (KTP) project, commonly known as e-KTP, which was started by the Ministry of Home Affairs as the executor, in 2011-2012. The budget for this project reaches IDR 5.9 trillion. However, the Corruption Eradication Commission (KPK) said there were irregularities in the "(initial) budget discussion stage". In September 2012, the Business Competition Supervisory Commission (KPPU) also detected irregularities in the tender process. The KPK has been investigating the alleged corruption case of the E-KTP project since mid-2014. Over nearly three years, the agency examined 294 witnesses, named two suspects, and confiscated IDR 247 billion. Apart from the two defendants, the KPK also questioned 19 politicians who served as people's representatives in the DPR in 2011-2012. Among them were Chairman Harahap, who was then chairman of Commission II (DPR government commission), and Setya Novanto, who at that time held the position of chairman of the Golkar Party faction. Perhaps most impressive in this case is the amount of funds that are suspected of being corrupt. Of the project value of IDR 5.9 trillion, the KPK said the funds that were corrupt reached IDR 2.3 trillion.

Another megaproject case in Indonesia, the Hambalang Project, initially only budgeted IDR 125 billion. Then, in the hands of Andi Mallarangeng, the project budget swelled to IDR 2.5 trillion. Andi Mallarangeng served as Minister of Youth and Sports at that time, as well as a member of the Board of Trustees of the Democratic Party. The recorded state losses from the misappropriation of the Hambalang project were estimated at IDR 243.66 billion. This is based on a financial audit conducted by the BPK. Apart from Andi Mallarangeng, the corruption case in the Hambalang project also involved the Chairman of the National Democratic Party of Urbaningrum. Now because of the corruption committed by cadres of the Democratic Party, the Hambalang project must stop. Until now, the Hambalang project has not made any more significant developments.

4.2 Non-parametric statistical testing

There is an important issue, namely the experience of auditors related to their ability to reveal fraud. We use Alavi-tabulation of the phi-test to test whether there is a relationship between audit experience and fraud detection ability in the audit process.

Table 11 The method used to carry out a fraud scheme in Indonesia.

Dimensions	Explanations
Improper asset valuation	Excessive inventory: ▪ Overbooking fixed assets ▪ Personal interests are capitalized ▪ Record excessive inventory balance ▪ Incorrect asset classification ▪ Borrowing costs for work-in-process projects are capitalized ▪ Some investments are not recorded ▪ Record low depreciation for less depreciation expense ▪ There are expenses which are capitalized as assets ▪ Excess capitalization of fixed assets
Misstatement in revenue recognition	Manager to get a bonus, an increase in income: ▪ Manipulate estimates and associated receipt items ▪ Record premature income as normal income ▪ Accounts receivable manipulated ▪ Income is deducted to avoid paying taxes ▪ Income is deferred ▪ There are fictitious discounts given on purchases ▪ Commission income is recorded in excess ▪ There is a fictitious sale ▪ Accounts receivable that are recorded is greater ▪ Exaggerate income by hiding costs ▪ Manipulate the allowance for doubtful accounts
Hidden obligation	Manipulation in contingent liabilities and provision: ▪ There are tax obligations and tax costs that are not recorded ▪ Misclassification of debt from long term to short term, or vice versa ▪ Underpayment of loan installments
Hidden costs	Avoid paying taxes by exaggerating expenses and costs: ▪ Does not record costs ▪ There are expenses at the end of the period that are not recorded ▪ There is a rental fee recorded as an asset
Incorrect disclosure	Doesn't reveal: ▪ Transactions with related parties ▪ Source of funds ▪ Director's remuneration
Cheating government officials	Doesn't reveal: ▪ Taking bribes for projects ▪ Accept bribes for SDA business permits ▪ Inflated the price of an item ▪ Fictitious purchase ▪ Appoint incompetent associates

Table 12 Alavi-tabulation of the relationship between audit experience and the possible ability to reveal fraud in financial statements.

Explanation		Audit experience				
		0-2 year	3-5 year	6-8 year	8 year up	Total
Likelihood of detecting	No	1	6	8	8	23
financial fraud	Yes	2	9	15	27	53
Total		3	15	23	35	76

Table 13 Phi test of the relationship between audit experience and the possible ability to reveal fraud in financial statements.

Explanations		Value	Approximate Significance	Exact Significance
Nominal by	Phi Cramer's V	.270	.134	.141
nominal		.270	.134	.141
Number of valid cases		76		

Phi Cramer's analysis shows that although there is a chance the auditor may find fraud if experienced, the relationship is relatively weak. The experience of an auditor is one of the factors that influence this ability because auditors who are more experienced can detect fraud in the financial statements (Sulistiyanto and Murtini 2018). Research by Corbella et al. (2015) also states that experienced auditors will have more knowledge of mistakes and fraud, which will result in better performance in detecting cases of fraud compared to inexperienced auditors. The results of this analysis also show that all auditors who have a Certified Fraud Examiners (CFE) certificate find it easier to find fraud in the company. This shows the importance of special professional education that can increase the ability of auditors to find fraud (Kassem 2018). Continuous professional development must focus on developing strong analytical skills and abilities in using forensic accounting and efforts to warn companies that in the future some companies are likely to collapse (Earley 2015).

Fraud is increasingly occurring in various ways that continue to develop so that the ability of auditors to detect fraud must also be improved. Auditors are required to be able to detect fraud in carrying out audit tasks. The problem that arises is that auditors have limitations in detecting fraud (Ulfah et al 2020, Handayani et al. 2016). Limitations by auditors will cause gaps between users of the auditor's services who hope that the auditor can assure them that the financial statements presented do not contain misstatements and instead reflect the actual situation. Each auditor has different abilities in detecting fraud due to several factors, for example, the workload faced by auditors, different levels of experience, and different levels of skepticism (Ettredge et al. 2017). There is evidence that most auditors do not understand fraud schemes well enough to understand the high risk of fraud and that in the quality of the audit process, knowledge of fraud, training, and experience are the most important factors in detecting fraud (Othman et al. 2015).

5. CONCLUSIONS

Various acts of fraud in organizations have happened around the world. In Indonesia, for example, the cases of fraud happen mostly in companies where there is the recognition of income that is not acknowledged by IFRS, as well as fraud in asset valuation which results in the manipulation of financial statements. In contrast to government organizations, fraudulent acts mostly involve the purchase and supply of goods, which are followed by bribery and inflating the price of goods. Similar results also occurred in Japan, Britain, Egypt, and the United States. Our findings also state that financial reporting fraud in Indonesia is more common in small companies and is very common in companies that are not listed on the Indonesia Stock Exchange (IDX), and also in family-owned companies and companies that prepare consolidated financial statements. Meanwhile, at the government level, we show that some auditors agree that local government levels with weak supervision are more likely to commit fraud, compared to local governments with tight supervision from urban communities.

6. FUTURE RESEARCH

Phi Cramer's analysis shows that while the audit experience may increase the likelihood of detecting fraud, the relationship is relatively weak. Other findings also show that all auditors who have a CFE find it easier to find fraud in companies. This shows the importance of special professional education that can detect fraud in increasing the ability of auditors to detect fraud. Future research opportunities should explore the fraud profile on the recognition of revenues, expenses, and asset capitalization with an in-depth approach to specific informants. Then it would be interesting to explore the reasons why auditors are not willing to disclose fraud. This will be useful for auditors in developing a good audit scheme to detect fraud. The implication of this research will be to develop a more sophisticated audit model in terms of plans, methods, sampling, and audit mechanisms. This research has identified the types of fraud, both in the private and government sectors. This study can be used as a reference in the initial process of identifying fraud in audit planning. The limitations of the study are related to the difficulty of moving to the field due to large-scale social restrictions in several regions in Indonesia, so the data we gathered is limited.

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