Financial Intelligence: Financial Statement Fraud in Indonesia

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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, then also in family-owned companies, government level, indicating that some respondents, local government level with supervision the weak 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 will be the more able to detect fraud and manipulation in the organization, the relationship is relatively weak. Other findings also show that all auditors who have a CFE certificate find it easier to find fraud in the company.

Keywords: *Financial Intelligence, fraudulent financial statements, procurement of goods and services, bribes*

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 frauds in financial transactions including embezzlement, money laundering, or other fraudulent and illegal transactions (Cross, 2016; Scott, & 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 the US $ 800,000. 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, Nicolaides, & Trafford, 2019; Charlopova, Andon, & Free, 2020). Not only investors but also have an impact on labor and company performance in the market (Karpoff, 2020).

Fraud can occur in any sector, both the private sector, public services, both national and international organizations (Lombardi, et al., 2019; Charlopova, et al., 2020). Indonesia has recorded massive cases of fraud since the government's efforts to eradicate corruption in the reform era (Lewis, & 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 are also involved in fraud in various aspects of life (Jakimow, 2018). One of the cases involved the state company (BUMD) PT Garuda Indonesia Tbk., An airline that was suspected of having committed fraudulent financial statements. Regulators, in this case, the Ministry of Finance and the Financial Services Authority (OJK), impose penalties on the parties involved, both 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 is inflating profits for certain purposes. From the audit findings, it should have been that the company suffered a loss of USD 244.95 million, but they recorded a profit of USD 809.84 thousand.

We follow-up to the previous research, which only examines the fraud side of private companies (Holtfreter, 2005; Lambsdorff, 2002; Jeppesen, 2019), we expand by adding data from facts that occur in government 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; Cross, 2016). This research is important for several reasons. As part of a form of 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 that can contribute to the development of knowledge in the field of audit and fraud, as well as be beneficial for auditing practices and good corporate governance practices. Research in the field of fraud is currently an interesting concern 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 from selected informants and sources, although the survey results were used to present descriptive data. We chose Auditor as an informant. 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, Shroff, & Verdi, 2019; Dungan, Young, & Waytz, 2019.), or some researchers observe fraud motivation from the perspective of the fraud triangle theory (Suh, et al., 2019; Malimage, 2019; Bujaki, Lento, & Sayed, 2019), not context-specific or based on empirical evidence as in this study.

Structure and body are as follows: First, we review the relevant literature on Financial Intelligence and its relation to financial reporting fraud. In the next section, we discuss how the methodology we use, as 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 of the form and context of fraud in financial reporting. Finally, the conclusions are extracted with a discussion of the research results and their implications for research and audit practice in other research in the future.

2. Theoretical Framework

Financial Intelligence

The concept of Financial Intelligence (FININT) is an effort to identify and collect information related to financial affairs in an organization (Cross, 2016; Scott, & McGoldrick, 2018). In addition to being used by the Police Department in Australia and several European and American, Finint also applies to Legal and Audit Researchers. The use of FININT 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; Cross, 2016). The existence of this Financial Intelligence 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; Cross, 2016; McGoldrick, 2018).

The use of financial intelligence to identify suspects or victims in cases of fraud in corporate financial statements is an important change for auditors in detecting corruption and fraud (Rudner, 2006; Cross, 2016). Generally, in previous cases, the auditor or the police investigated after the case was reported, however by using FININT, 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, recognition from individuals that they are victims of fraud, and the stigma and shame associated with this (Rudner, 2006; Thony, 1996).

Fraudulent Financial Statements

The output of the transaction identification and recording process is Financial Statements, and this will involve many parties, especially experts in accounting, even to assess the reasonableness of using External Audit services so that the presentation of financial statements is reasonable (Chychyla, Leone, & Minutti-Meza, 2019; El- Helaly, Ntim, & Soliman, 2020). Many cases of fraud in financial reports are in the form of deliberate misstatement, inflating numbers, manipulation of income which have multiple purposes (Zager, Malis, & Novak, 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). Various fraudulent ways to manipulate financial statements, including (1) unreasonable revenue recognition (2) hidden costs for certain purposes (3) asset valuation that is not by IFRS (West & Bhattacharya, 2016; Chychyla, et al., 2020). Misappropriation of organizational assets and misstatement in revenue recognition is the most common way for fraudulent behavior, including (1) revenue that is recognized but fictitious, (2) premature income that is currently recognized (3) incorrect income when adjusted (Zager, Malis, & Novak, 2016; Habib, et al., 2018; West & Bhattacharya, 2016). However, creating fictitious sales appears to be the most common method of manipulating income (El-Helaly, Georgiou, & Lowe, 2018; Zager, et al., 2016). Various ways of manipulating income, reviewed in various literature, are presented in Table 1.

Table 1.

Summary of the various modes of recognition of illegal income

Num.	Technique	Source
1	There is a sales discount, but it is not recorded	Rezaee (2005), Coenen (2009), Albrecht (2006),
2	Consignment sales are recorded as a normal	Rezaee (2005), Coenen (2009), Albrecht (2006),
3	Shift sales from a future period to the current period	Coenen (2009), Hopwood et al. (2008)
4	Early acknowledgment of legitimate sales	Coenen (2009)
5	Create a sales order invoice but the goods are shipped in the next period (bill and hold)	Lord (2010), Coenen (2009),
6	Hide the sales returns and deductions to increase sales and net income	Elder et al. (2010),
7	Minimizing the allowance for doubtful accounts, so that the debt burden is reduced	Rezaee (2005), Albrecht (2006), Coenen (2009), Elder et al. (2010)
8	Bad debts that are not written off	Rezaee (2005), Albrecht (2006), Coenen (2009), Elder et al. (2010)
9	Recognizes credit sales at the end of the accounting period, even though they have not been ordered, but the goods have been shipped.	Hopwood et al. (2008)
10	Part or all of the goods have not been delivered, but are recorded as sales.	Coenen (2009)
11	Does not record the goods return transactions	Lord (2010)
12	The customer returned the item but it was not recorded	Rezaee (2005), Albrecht (2006), Coenen (2009), Elder et al. (2010)
13	Manipulate cash receipts from the consumer and manipulate as if the transfer from the Bank is a cash receiver	Rezaee (2005), Albrecht (2006), Coenen (2009), Elder et al. (2010)
14	Entering into additional agreements that change the terms of the previous agreement that do not qualify as sales under accounting principles	Lord (2010), Elder et al. (2010)
15	Transferring income between accounting periods, by determining the inappropriate cut-off period	Lord (2010)
16	Returned goods are recognized after the period ends	Hopwood et al. (2008), Rezaee (2005), Albrecht (2006), Coenen (2009)
17	Transferring the write-off of uncollectible accounts to the next period	Hopwood et al. (2008), Rezaee (2005), Albrecht (2006), Coenen (2009)

Num.	Technique	Source
18	Fictitious sales transactions discontinued at the end of the accounting period	Rezaee (2005), Albrecht (2006), Coenen (2009)
19	Sales and delivery documents are required	Hopwood et al. (2008)
20	Decrease the note on a percentage of misstatements on settlement	Coenen (2009), Hopwood et al. (2008)
21	Record gross income, not net income	Rezaee (2005), Albrecht (2006), Coenen (2009), Elder et al. (2010)
22	Record invalid earnings or shipments	Lord (2010), Elder et al. (2010), Hopwood et al. (2008)
23	Exaggerating Real sales	Rezaee (2005), Albrecht (2006), Coenen (2009), Elder et al. (2010)

In addition to income, assets are objects that can be manipulated in financial statements. Efforts to manipulate asset values to increase the value of assets on the balance sheet, so that certain ratios will be as large as the fraudsters desire (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 restates 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.
An improper way of valuing assets

Num.	Concealment Techniques and Methods	Source and quoted from:
1	Inventory manipulation of goods in the warehouse	Wells (2005), Coenen (2008), Albrecht (2006)
2	Inflation The unit cost used to increase the value of the inventory	Wells (2005), Coenen (2008), Albrecht (2006)
3	Obsolete inventory or other assets are not recorded according to impairment value or collection issues	Wells (2005), Coenen (2008), Albrecht (2006)
4	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 (2006)
5	It is not appropriate to capitalize on the inventory and the cost of the beginning inventory	Wells (2005), Coenen (2008), Albrecht (2006)
6	Should increase the discount on sales or the cost of inventory should not be reduced	Wells (2005), Coenen (2008), Albrecht (2006)
7	Creating false records for the amount of inventory on hand to conceal it by fake shipments	Wells (2005), Coenen (2008), Albrecht (2006)
8	Obsolete and slow-moving inventories are recorded as misstatements	Jones (2011)
9	The method for valuing inventory is changed according to the importance	Jones (2011)
10	The production overhead amount included in the inventory count is misstated	Jones (2011)
11	Inaccurate Inventory recognition during the delivery process	Lord (2010)
12	Obsolete or unsold inventory is recognized	Lord (2010)
13	Inventory items are overbooked, without eliminating obsolete or there is no provision for inventories whose value is reduced	Lord (2010), Coenen (2009)

Num.	Concealment Techniques and Methods	Source and quoted from:
14	The existence of illegal accounting of receivables	Albrecht (2006), Wells (2005), Coenen (2008)
15	Accounts receivable from bad debts are not written off	Albrecht (2006), Wells (2005), Coenen (2008)
16	Accounts receivable added unilaterally	Albrecht (2006), Wells (2005), Coenen (2008)
17	There are several fictitious assets ordered to influence the total asset account on the balance sheet	Albrecht (2006), Wells (2005), Coenen (2008)
18	The depreciation cost of an asset is increased by increasing or decreasing its useful life	Jones (2011), Albrecht (2006)
19	Depreciation is not recorded properly	Albrecht (2006), Wells (2005), Coenen (2008)
20	The market price of fixed assets is recorded at a higher rate, supported by an asset valuation document	Albrecht (2006), Wells (2005), Coenen (2008)
21	The cost of acquiring assets is increased by cooperating with other parties	Albrecht (2006), Wells (2005), Coenen (2008)
22	Intentionally misrepresenting securities information with the help of other parties	Albrecht (2006), Wells (2005), Coenen (2008)
23	Manipulating the return of goods or purchases of goods in the previous period are recorded repeatedly	Albrecht (2006), Wells (2005), Coenen (2008)
24	Increase the value of fixed assets	Albrecht (2006), Wells (2005), Coenen (2008)
25	There is an impairment of assets that are not recorded correctly	Albrecht (2006), Wells (2005), Coenen (2008)
26	Manipulation of the estimated fair market value of assets	Albrecht (2006), Wells (2005), Coenen (2008)
27	Backup manipulated	Albrecht (2006), Wells (2005), Coenen (2008)
28	Inaccurate investment appraisal by way of wrong investment classification	Coenen (2009)
29	Amounts attributable to the merger or acquisition are not recorded correctly	Jones (2011), Coenen (2009)

Apart from income, the easy part 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 on various ways to hide organizational obligations and expenses in table 3:

Table 3.
Various modes of manipulating against liability and expense

Num.	Concealment Techniques and Methods	Source and quoted from:
1	Improperly recorded current and long-term debt	Sterling (2002), Coenen (2008, 2009), Wells (2005), AICPA (2007)
2	There is no documentation of the Agreement and repurchase commitment	Sterling (2002), Coenen (2008, 2009), Wells (2005), AICPA (2007)
3	Contingent payables are carried at excessively lower than fair value	Sterling (2002), Coenen (2008, 2009), Wells (2005), AICPA (2007)
4	Enlarge financial ratios by inconsistently presenting long-term debt with current debt	Sterling (2002), Coenen (2008, 2009), Wells (2005), AICPA (2007)
5	Purchases of goods that are recorded fairly or materials are not recorded	Sterling (2002), Coenen (2008, 2009), Wells (2005), AICPA (2007)
6	Purchase returns and purchase discounts returned to the seller	Sterling (2002), Coenen (2008, 2009), Wells (2005), AICPA (2007)

Num.	Concealment Techniques and Methods	Source and quoted from:
7	The cost of booking goods is not recorded	Sterling (2002), Coenen (2008, 2009), Wells (2005), AICPA (2007)
8	Manipulating gross profit by attempting to change the cost of sales item to another account such as other operating expenses.	Sterling (2002), Coenen (2008, 2009), Wells (2005), AICPA (2007)
9	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)
10	There are discounts, returns, and sales discounts, but these are not recorded as reduced costs	Sterling (2002), Coenen (2008, 2009), Wells (2005), AICPA (2007)
11	Hiding expenses by manipulating the number of smaller expenses	Sterling (2002), Coenen (2008, 2009), Wells (2005), AICPA (2007)
12	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)
13	The number of certain liabilities was not recorded correctly, including service payables or contingent payables	Sterling (2002), Coenen (2009)
14	Bring up obligations that should not exist	Sterling (2002), Coenen (2008, 2009), Wells (2005), AICPA (2007)
15	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)
16	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)

Fraud in the government budget, not only fraudulent financial statements but many aspects that can be manipulated. Starting from 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 some opinions of experts on various ways to manipulate state money and abuse of office are summarized in table 4:

Table 4.
Ways of fraud on Government organizations

Num.	Concealment Techniques and Methods	Source and quoted from:
Purchase and Procurement of Goods or Services		
1	Mark-up price of goods	Miroslav, et al., (2014), Ameyaw, et al., (2012)
2	Purchase of Fictional items	Mamedova, et al., (2017)
3	Making Roads and Bridges in the Forest but Fictional	Graafland & van Liedekerke (2011).
4	Physical Infrastructure Development but not finished	Graafland & van Liedekerke (2011).
5	Purchase of goods one unit, but recorded two or more units	Ameyaw, et al., (2012), Mamedova, et al., (2017)
6	Purchase of goods for personal use, but paid for with government money	Ameyaw, et al., (2012), Mamedova, et al., (2017)
7	Physical Infrastructure Development that is not important	Graafland & van Liedekerke (2011).
8	The existing Physical Infrastructure Development was rebuilt	Graafland & van Liedekerke (2011).
9	Waste of purchasing goods	Miroslav, et al., (2014), Ameyaw, et al., (2012), Mamedova, et al., (2017)

Num.	Concealment Techniques and Methods	Source and quoted from:
10	Purchase of goods that do not match specifications	Miroslav, et al., (2014), Ameyaw, et al., (2012), Mamedova, et al., (2017)
Financial Statement Manipulation		
1	Lots of transaction evidence Original but untrue	Kuhn, & Siciliani, (2013).
2	Activity reports but no service activities	Othman, et al., (2015)
3	Fictional Official Travel Report	Kemp, (2010).
4	Fake payroll signature	Othman, et al., (2015), Kemp (2010).
5	Purchase reports are not real	Mamedova, et al., (2017),
6	Unreasonable Asset Report	Mamedova, et al., (2017),
7	State Money Reporting Fraud in Insurance Investments	Kose, Gokturk, & Kilic, (2015).
8	Misstatement of Regional Company Assets	Ameyaw, et al., (2012), Mamedova, et al., (2017)
9	Deliberate misstatement of state revenue	Ameyaw, et al., (2012), Mamedova, et al., (2017)
Manipulation on Official Trip Expenses		
1	Extending the period of official travel, even though it is less	Othman, et al., (2015), Kemp (2010).
2	Adding personnel for official travel, even though it is fictitious	Glancy & Yadav (2011). Othman, et al., (2015), Kemp (2010).
3	Take someone else on a trip, but at state expense	Glancy & Yadav (2011), Othman, et al., (2015), Kemp (2010).
4	Create a fake hotel bill	Glancy & Yadav (2011), Othman, et al., (2015), Kemp (2010).
5	Creating fake travel ticket invoices	Glancy & Yadav (2011), Othman, et al., (2015), Kemp (2010).
6	Creating a Fake Travel Certificate	Glancy & Yadav (2011), Othman, et al., (2015), Kemp (2010).
Manipulation of Granting Business Licenses		
1	Asking entrepreneurs for a certain amount of money for the cost of obtaining a permit, even though it is illegal	Ferry & Lehman (2018)
2	Give additional permits to entrepreneurs for illegal additional land	Meehan & Tacconi (2017), Ferry & Lehman (2018)
3	Charging illegal fees for environmental permits	Meehan & Tacconi (2017), Ferry & Lehman (2018)
4	Receiving money from companies that violate the environment	Meehan & Tacconi (2017), Ferry & Lehman (2018)
5	Receiving bribes from companies that have experienced work accidents, so that they are not prosecuted	Meehan & Tacconi (2017), Ferry & Lehman (2018)
6	Receiving money from entrepreneurs for social purposes, but illegal	Meehan & Tacconi (2017), Ferry & Lehman (2018)
Cheating on the Use of Natural Resources		
1	Granting forest utilization permits on prohibited land	Huang & Liu (2014), Dincer, & Fredriksson, (2018).
2	Granting forest utilization permits, by cutting trees and destroying forests	Huang & Liu (2014), Dincer, & Fredriksson, (2018).
3	Received a certain amount of money, to obtain mining business permits that destroy the environment	Huang & Liu (2014), Dincer, & Fredriksson, (2018).
4	Give permits to use prohibited natural resources (timber)	Huang & Liu (2014), Dincer, & Fredriksson, (2018).
Fraud by a Legal Officer		
1	Police and prosecutors help fugitive state fugitives to escape	Michel (2016), Gottschalk, & Rundmo, (2014), Ragatz, et al., (2012)

Num.	Concealment Techniques and Methods	Source and quoted from:
2	The police and prosecutors received a certain amount of money to lighten the case	Michel (2016), Gottschalk, & Rundmo, (2014), Ragatz, et al., (2012)
3	The judge lightly decided the defendant, by receiving a sum of money	Michel (2016), Gottschalk, & Rundmo, (2014), Ragatz, et al., (2012)
4	A court officer arranges civil proceedings and wins either party	Michel (2016), Gottschalk, & Rundmo, (2014), Ragatz, et al., (2012)
5	Court officials arrange the placement of prosecutors, judges, and other officers to receive leniency	Michel (2016), Gottschalk, & Rundmo, (2014), Ragatz, et al., (2012)

Efforts to uncover illegal transactions usually include the following, including hiding obligations, shifting transactions in the next period, transactions with related parties, and changes in accounting policies (Charlopova, et al., 2020; Cross, 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, Gordan, Reed, & Louwers, (2007) revealed that there are several weaknesses in the audit, 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 to influence financial policies issued by investors or report users (Kuhn, & Siciliani, 2013; Lombardi, et al., 2019; Roychowdhury, et al., 2019).

3. Methods

We used semi-structured interviews and surveys to collect data. The respondents we selected included auditors at Accounting Firm affiliated with Big-4 in Indonesia. We distributed approximately 200 questionnaires to the respondents. In the questionnaire items, we included items that asked the respondent's willingness to be willing to be interviewed. The questionnaires we sent were received, but only 76 returned, the response rate was around 38%. Only 21 out of 76 respondents who were willing to process the interview returned the questionnaire. Sequential mixed research is fairly ideal research, which combines the methods of collecting interview and survey observation data, 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 technical in-depth, which requires clarification from experienced auditors, at least two years of screened auditors. Many auditors are inexperienced in just guessing when answering surveys, so they are not informative. Twenty-one people are available to do with videocall calls and zoom meeting apps. Each interview lasted about 20-25 minutes, and we recorded the results of interviews except for 3 respondents who were not willing. All the data that has been collected through a survey is then 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.

Table 4.

Respondent Audit Experience

Experience Range	Frequency	Percent
0 - 2 years	3	3,95%
35 years old	14	18,42%
6 - 8 years	28	36,84%
Over 8 years	31	40,79%
Total	76	

Table 5.
Classification of Accounting Firm

Classification of Accounting Firms	Frequency	Percent
Big-4	7	9,21%
Domestic Non-Big-4	62	81,58%
Internasional Non-Big-4	7	9,21%
Total	76	

Table 6.
Qualifications of the Public Accountant Professional

	Frequency	Percent
Public Accountant (Ak.)		
No.	2	2,63%
Yes.	74	97,37%
Total	76	
Chartered Accountants (CA)		
No.	17	22,37%
Yes.	59	77,63%
Total	76	
Certified Public Accountants (CPA)		
No	51	67,11%
Yes	25	32,89%
Total	76	
Certified Fraud Examiners (CFE)		
No	67	88,16%
Yes	9	11,84%
Total	76	

Table 7.
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	

Table 8.
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	

Table 9.
Audit experience of interviewed respondents

Experience Range	Frequency	Percent
24 years old	3	14,29%
5 - 8 years	6	28,57%
8 - 10 years	8	38,10%
Over 10 years	4	19,05%
Total	21	

Based on the results of a survey of 76 auditors predominantly stated that there was fraud in organizational governance, both in the public sector and in the private sector. From the smallest to large-scale fraud, both related to manipulating financial reports and enriching oneself through illegal practices. However, even though they knew, rarely did anyone dares to reveal the incident for various reasons (64.47%, n = 49 76 respondents). These reasons include (a) fear of losing their job by clients (b) lack of protection for auditors (c) weak laws regarding the rights and obligations of auditors (d) 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 plenty of evidence from research in Africa, for example, that there are no lawsuits made by Accounting Firm, apart from the absence of a legal system that protects Accounting Firms, also because of high fear and worry (Salihu, 2019; Kawadza, 2017). The result is that fraudulent acts will continue to flourish if this legal system has not fully protected Accounting Firm auditors who disclose fraudulent acts (Cordis, & Lambert, 2017). 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 (Gedefaw Birhanu, & Wezel, 2020; Sharma, & 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, & Soederberg, 2020).

Conflicts of interest will be the main obstacle when auditors find irregularities in the organization's financial statements. One side of the auditor obtains an audit fee but on the other hand maintains the 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, Lennox, & Raghunandan, 2020; Singh, et al., 2019). Likewise, the decision to use Accounting Firms by companies 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, & 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 the quality produced, including the quality of the audit produced by an auditor (Barua, et al., 2020; Quick, & 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, & Schmidt, 2018).

Based on the results of our interviews with selected respondents, generally speaking, that fraud in organizational governance is considered normal, for the following reasons:

1) The first cause is due to the fear that employees will lose their positions, so whatever changes and wishes of management must be followed.
2) The company strives to report a good performance in public, due to intense competition. So that all things can be done including manipulating financial reports.
3) Pressure from investors to get the maximum profit is one reason for fraudulent financial statements.

There are many views that because of the difficulty of getting a decent work position, an employee can easily be forced to commit fraud to keep his job or even other high positions, this is in line with research (Ettredge, et al., 2017; Quick, & Schmidt, 2018). The report from Certified Global Management Accounting (CGMA, 2015) mentions that many employees in the UK work under pressure from managers while working, 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, 2016). 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 & Murtini, 2018). This condition has been occurring since 2006. Jiwasraya's profit achievement recorded in the company's financial statements occurred due to the engineering of financial statements, aka 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 IDR.77 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) that the strong pressure from owners increasingly encourages company management to cheat to provide the best information for the company's performance, as well as the research of Makhaiel & Sherer (2017). 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 the audit and management is always involved in almost all cases of fraud. This is in line with Kaseem (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 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 who can see that the revenue recognition transaction is reasonable or not (Charlopova, et al., 2020; Cross, 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 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 is 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 the suspect in the recipient of the 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 issues for financial statement fraud in Indonesia (Jakimow, 2018). 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 respondents, auditors agreed (n = 15, 19.73%) that small companies have more opportunities for financial statement fraud than public companies on IDX. Meanwhile, for the government level, it shows that some respondents, auditors (n = 54, 71.05%) agree that the level of 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, supervision of regional financial management is very important to be improved so that the regional revenue and expenditure budget can be managed effectively, efficiently, and achieve the expected goals (Lewis, & 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 items 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 or 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. For nearly three years, the agency has examined 294 witnesses, named two suspects, and confiscated IDR 247 billion. Apart from the two defendants, the KPK has 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. And the most "fantastic" in this case is the number of funds that are suspected of being corrupted. Of the project value of IDR 5.9 trillion, the KPK said the funds that were corrupted reached IDR 2.3 trillion.

Another megaproject case in Indonesia, namely 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 at that time served as Minister of Youth and Sports, 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 dragged 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 the ability to reveal fraud. We use cross-tabulation of the phi-test to prove whether there is a relationship between audit experience and fraud detection ability in the audit process.

Table 10.
The method used to carry out a fraud scheme in Indonesia

	Explanation
1	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
2	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
3	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
4	Hidden costs
	Avoid paying taxes by exaggerating expenses and costs - Does not record costs - There are expenses at the end of the period that is not recorded - There is a rental fee recorded as an asset
5	Incorrect disclosure
	Doesn't reveal: - transactions with related parties - source of funds - Director's remuneration
6	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 11.
Cross-tabulation of the relationship between audit experience and the possible ability to reveal fraud in financial statements

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

Table 12.
Phi test of the relationship between audit experience and the possible ability to reveal fraud in financial statements

Symmetric measures				
		Value	Approximate Significance	Exact Significance
Nominal by nominal	Phi Cramer's V	0,27	0,134	0,141
		0,27	0,134	0,141
Number of valid cases		76		

Phi Cramer's analysis shows that there is a chance the audit may find fraud if experienced, the relationship is relatively weak. The experience of an auditor is one of the factors that influence auditors because auditors who are more experienced can detect fraud in the financial statements (Sulistiyanto, & 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 CFE (Certified Fraud Examiners) certificate find it easier to find fraud in the company. This shows the importance of special professional education that can detect fraud in increasing 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 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 the event of fraud in carrying out audit tasks. The problem that arises is that auditors have limitations in detecting fraud (Widiyanti, 2016, Handayani, et al., 2016). Limitations owned by auditors will cause gaps between users of the auditor's services who hope that the auditor can assure that the financial statements presented do not contain misstatements and 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 auditor experience, and different 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 and Future Research

Various acts of fraud in organizations have passed around the world. The case in Indonesia, for example, mostly in companies is the recognition of income that is not 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 and 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), then also in family-owned companies and companies that prepare consolidated financial statements. Meanwhile, at the government level, it shows that some respondents, the 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.

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 certificate (Certified Fraud Examiners) find it easier to find fraud in the company. 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 each of which includes the recognition of revenues, expenses, asset capitalization with an in-depth approach to specific informants. Then the interesting thing is to explore the reasons why the 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 and 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 need is limited.

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