

FORENSIC ACCOUNTING AND INVESTIGATIVE AUDIT ON THE EFFECTIVENESS OF IMPLEMENTING AUDIT PROCEDURES IN FRAUD DISCLOSURE

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Abstract : Forensic accounting is a branch of accounting that focuses on investigating, disclosing, and preventing fraud and illegal activities in the business environment. Its main purpose is to identify, collect, analyze and present evidence that can be used in legal proceedings. Meanwhile, an investigative audit is an approach to auditing that is focused on investigating indications of fraud or non-compliance in the financial statements or business processes of an entity. The effectiveness of implementing audit procedures in disclosing fraud involves the application of a careful and careful methodology to identify signs or evidence of fraud in the financial statements and identify signs of fraud, the auditor uses knowledge about the mode of fraud and analysis of data to identify potential indications of fraud in transactions or financial reports, among others, by using forensic techniques. Auditors can use forensic data analysis techniques, digital examinations, and interviews to gather more in-depth and accurate evidence. Carry out segregation of duties. The auditor must examine the internal control system and ensure that there is adequate segregation of duties to prevent opportunities for fraud as well as test the substance of transactions to ensure that transactions reported in the financial statements actually occur and have a valid basis, in collaboration with the forensic team. In complex cases, the auditor needs to work with a forensic team that has special expertise in fraud analysis to detect fraud and the auditor prepares a report that provides a clear description of the fraud, along with recommendations for corrective measures and fraud prevention. The results of investigative audits are used to identify opportunities for improvement in the internal control system so that fraud can be minimized. Forensic accounting and investigative auditing have an important role in helping businesses detect, address and prevent fraud through a careful and evidence-based approach, effective audit procedures can reveal potential fraud and provide guidance for necessary improvements in internal controls.

Keywords : Forensic Accounting, Investigative Audit, Effectiveness of Executing Audit Procedures, Disclosure of Fraud.

INTRODUCTION

Background

In a complex and dynamic business environment, the risk of fraud is a serious threat that can threaten the integrity of financial statements, corporate reputation and investor confidence. Fraud can harm stakeholders, result in financial losses, and damage the company's image. Therefore, the need to identify, disclose and detect fraud is increasingly urgent, among others due to the imperfection of traditional audit procedures, not being able to effectively reveal various forms of fraud that are increasingly sophisticated and complex. Adequacy of knowledge of auditors who have knowledge and understanding of forensic accounting methods and techniques needed to detect and investigate fraudulent acts as well as difficulties in identifying fraud. Conduct interdisciplinary cooperation by collaborating between auditors and forensic accounting experts to integrate investigative

approaches to forensic accounting and investigative auditing to support disclosure of fraud so that early prevention can be carried out on the results of forensic accounting examinations and investigative audits. Fraud or what is often known as fraud is something that is now being widely discussed in Indonesia. The definition of fraud itself is a fraud that is intentionally carried out, which causes losses to other parties and provides benefits for the perpetrators of fraud and/or their groups. In accounting, there are two types of errors, namely errors and fraud. The difference between these two types of errors is only distinguished by a very thin gulf, namely whether or not there was an element of intent. Often detecting fraud is more difficult when compared to mistakes because management or employees will try to hide the effectiveness of implementing audit procedures in disclosing fraud is very important in maintaining the integrity of a company's financial information. An effective audit process will help identify signs or indicators of fraud that may be hidden in the financial statements. The following is a detailed explanation of the factors that influence the effectiveness of audit procedures in disclosing fraud.

The auditor needs to have an in-depth understanding of the business of the company being audited as well as the characteristics of the industry in which the company operates, this helps in identifying fraud risks that may be higher in certain contexts before starting the audit process, the auditor must carry out a risk analysis to identify areas which have a higher potential risk of fraud. By understanding where fraud is likely to occur, the auditor can design more specific audit procedures, by establishing relevant audit procedures, based on risk analysis, the auditor designs relevant audit procedures to test specific transactions and account balances. This process involves selecting a representative sample for testing and the use of appropriate auditing techniques as well as Substantial Testing in identifying fraud, substantial and detailed testing is essential. The auditor must conduct an in-depth examination of transactions and related documents to identify fraudulent transactions, manipulation of numbers, or embezzlement of assets. Using technology and data analysis, through examining documents and supporting evidence, the auditor needs to collect and analyze evidence that supports transactions and account balances. This includes examining invoices, contracts, receipts of payments, and other documents to ensure the legitimacy of transactions and identification of non-conformances as well as effective internal controls and effective audit procedures involving an assessment of a company's internal control systems. The auditor will assess whether the existing internal controls can prevent or detect fraud properly.

After conducting an audit, the auditor must produce a clear and comprehensive report on their findings. This report should include indicators of fraud that have been identified, as well as recommendations for actions to be taken to address the problem.

Literature Review

Theory of Fraud

The definition of corruption according to the Asian Development Bank (ADB), namely activities involving inappropriate and unlawful behavior by public and private sector employees to enrich themselves and those closest to them. These people, continued ADB's understanding, also induce others to do these things by abusing their position. Article 3 Law No. 31 of 1999, Corruption is any person who, with the aim of benefiting himself or another person or a corporation, abuses authority, opportunities or existing facilities because of his position or position which can harm state finances or the country's economy. According to Indonesian law, corruption is categorized into 7 types, namely loss

to state finances, bribery, extortion, embezzlement in office, fraud, conflicts of interest in the procurement of goods and services, and gratuities (Law No. 31 of 1999 in conjunction with Law No. 20) of 2001 concerning the Eradication of Corruption Crimes, according to the 30 articles in it). Corruption is a form of fraud such as fraud, concealment, or breach of trust (The IIA's, 2015). The International Standards on Auditing (ISA) defines fraud as an activity carried out intentionally by someone in an organization, be it staff, managers or third parties who commit fraud for personal or group gain and violate the law.

Investigative Audits

An investigative audit is a special form of audit conducted by internal or external parties to investigate incidents or suspected non-compliance that could harm the company financially, operationally or reputationally. The role of the investigative audit within the company is very important in disclosing violations, fraud in the organization. Some of the main roles of an investigative audit within a company are to identify and uncover fraudulent acts or violations of law that can be detrimental to the company, including misuse of funds, falsification of documents, manipulation of financial reports, and others. Minimizing risks and losses by identifying non-compliant or adverse actions early, investigative audits helping companies to take corrective actions quickly can help in minimizing the financial and operational impact. Supporting investigative audit oversight and management responsibilities provides a powerful tool for the management team and the board of directors to monitor internal company activities. By identifying areas prone to fraud, companies can strengthen internal control and oversight systems and develop and improve policies and procedures: The results of an investigative audit can provide valuable insights into designing company policies and procedures.

Forensic Accounting

The forensic accounting profession was originally used by the CIA, FBI and IRS in uncovering large-scale fraud cases, while in Indonesia, the forensic accounting profession became known in the early 2000s. Forensic accountants can play a good role in aspects of prevention and investigation related to various types of fraud. It is undeniable that fraud has occurred and resulted in losses for Forensic Accounting and Investigative Audit as well as business, including owners, management and other stakeholders. Forensic accountants can play a good role in the aspects of prevention and investigation related to various types of fraud. Forensic accountants can play a good role in the aspects of prevention and investigation related to various types of Fraud. It is undeniable that fraud has occurred and resulted in business losses, including owners, management, and Forensic Accounting and Investigative Audit stakeholders, Nur Sayidah, et al.2019. Forensic accounting comes from two words, accounting and forensics. The word forensic comes from the Latin "forensic" which means collecting facts or evidence used to support an argument in court proceedings. Forensic accounting aims to detect fraud related to proving accounting facts in legal proceedings. In other words, that the scope of forensic accounting consists of accounting, law, and auditing (Tuanakotta, 2010).

The Role of Forensic Accounting

In detecting or disclosing fraud, forensic accounting plays a major role not only in gathering evidence but in finding out who the perpetrators of the fraud are. The evidence obtained will be presented to the court to serve as the basis for punishment for the suspect.

Problems

In preparing this research, problems in forensic accounting and investigative auditing related to the effectiveness of implementing audit procedures in disclosing fraud (embezzlement or fraud) are complex and important matters in the world of finance and business. These issues cover various aspects, including methodology, technology and law, here are some of the main issues that may arise:

1. Understanding fraud as one of the biggest challenges is identifying the signs of fraud which are sometimes very complicated and hidden. Auditors must have an in-depth understanding of the types of fraud that may occur, and know how to identify them in various business situations.
2. Limitations of conventional audit procedures Conventional audit procedures are not always able to detect complex or well-hidden fraud, a special and more in-depth approach is needed, such as forensic data analysis, in-depth interviews, and examination of more specific evidence.
3. Technological incompatibility Technological developments have provided great opportunities in detecting fraud through massive data analysis. However, not all companies or auditors have adequate access or understanding of this technology, which can reduce the effectiveness of fraud detection efforts.

Research Objectives

1. Understand the impact of fraud.
2. Identify signs of fraud which are sometimes very complicated.
3. Have an understanding of the types of fraud.

The research results can be used as information so that it can be used as a basis for determining employee performance and used as feedback.

Research Methods

Research Design

Research design can be defined as a framework that is systematic and can be applied in conducting research, research design can provide an outline of the steps to obtain information in answering research questions (Nurdin and Hartati, 2019: 27).

Research design is an overview of what researchers will do by designing hypotheses and operational involvement up to data analysis (Tanjung and Muliyani, 2021:26).

According to Nurdin and Hartati (2019:28) the research design includes several processes including :

- 1) Identification and selection of research problems
- 2) Selection of the conceptual framework
- 3) Formulate research problems and create hypotheses
- 4) Building an investigation or experiment
- 5) Selecting and providing definitions of variable measurements
- 6) Choose the sampling procedure and technique used
- 7) Develop tools and techniques to collect data
- 8) Make coding and hold editing and data processing
- 9) Analyzing and selecting statistical procedures

10) Reporting of research results

Variable Operationalization

According to Nasir (Rukajat 2018: 1) argues that:

Descriptive research method is a method in researching an object, a condition, a system of thought or an event in the present, which has the goal of making a systematic, factual and accurate description or picture of facts, characteristics and relationships between phenomenon being investigated

Validity and Reliability Test

Validity Test

According to Sugiyono (Rukajat, 2018: 8) explains that instrument testing can factor analysis was carried out, namely correlating factor scores with total scores. When correlation

each factor is positive and the magnitude is > 0.3, it can be concluded that the instrument is valid.

The validity formula uses the product moment correlation technique as follows :

$$r = \frac{n(\Sigma XY) - (\Sigma X)(\Sigma Y)}{\sqrt{(n\Sigma X^2 - (\Sigma X)^2)(n\Sigma Y^2 - (\Sigma Y)^2)}}$$

Information :

r = Product Moment Correlation

X = Score of question/statement items

Y = Question/statement score

Data Analysis Techniques

Data Analysis Method

Data analysis is a process carried out after data collection. Process This analysis is an important stage in research because it is used as a basis to answer research questions, test hypotheses and draw conclusions research (Solihin and Anggraini, 2020: 2)

The t test is usually used to test the significant effect between independent variables (X) on the dependent variable (Y), then the test is carried out using a test t statistics, t test formula as follows:

$$t \text{ hitung} = t \frac{r\sqrt{n-2}}{\sqrt{1-r^2}}$$

Source: Sugiyono (2021:248)

Information :

r = partial correlation

n = number of samples

Criteria for rejecting the acceptance of the H hypothesis

0 are as follows:

1. If $t \text{ count} < t \text{ table}$, then H_0 is accepted and H_a is rejected
2. If $t \text{ arithmetic} > t \text{ table}$, then H_a is accepted

CONCLUSION

Forensic accounting has an important role in uncovering fraud through a comprehensive approach and in-depth analysis of financial and operational data. By combining accounting, auditing, investigative and legal principles, forensic accounting plays a significant role in protecting the integrity of financial reports and the credibility of the business as a whole.

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