



# The Role of Forensic Accounting in Improving Audit Quality

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**Abstract.** The aim of this research was to describe the role of forensic accounting in improving audit quality. The population in this study was auditors who worked as government accountants and public accountants in Makassar, and who had conducted audit assignments for 5 years with a minimum position of team leader. The research method used was descriptive qualitative with a phenomenological approach, consisting of intuition, analysis, and description stages, and the overall result was a phenomenological description. The data collection techniques used were questionnaires and interviews. The data obtained were processed and explained by referring to the literature study that the researcher had conducted. The researcher analyzed the suitability between the criteria and implementation practices that had been carried out by the research object. This analysis concerned the concept of early fraud detection in audit assignments, with what had been practiced by auditors as the object of research. The research results showed that to improve audit quality in general audit, auditors must be able to detect fraud as required in auditing standards. Auditors can use an approach in forensic accounting, namely the Fraud Oriented System Audit (FOSA) approach with a study focus not only on financial statement fraud to find material misstatements but also a study focused on illegal taking of assets and The Corruption Oriented System Audit (COSA) approach, although limited to detecting "signals" of fraud. This will then be followed up with further audit procedures through investigative audits. In detecting fraud "signals," auditors can use techniques in forensic accounting.

**Keywords:** Audit Quality, Forensik Accounting, Fraud Oriented System Audit

## 1 Introduction

The world had been shocked by various financial cases that have harmed many parties, such as the cases of Enron, WorldCom, and Global Crossing. It didn't just happen globally, in Indonesia we had been shocked by the disclosure of various cases such as the cases BLBI, Bali Bank, Century Bank which had dragged many parties. The latest case published on [1], The five biggest financial scandals, with losses reaching thousands of trillions of rupiah, such as the cases of Adani Group was suspected of carrying out money laundering, theft of taxpayer funds and corruption, with a total of around US\$ 17 billion or the equivalent of IDR 252 trillion, cases of misappropriation of funds Koperasi Simpan Pinjam (KSP) Indosurya with the embezzlement value reaching IDR

106 trillion, cases of Wanaartha Life (WAL) recorded failure to pay policy claims of up to IDR 15 trillion, cases of PT Asuransi Jiwasraya which caused losses to the state amounting to IDR 16.8 trillion, and cases of PT Asabri had caused losses to the state of up to IDR 23 trillion. This is the case in the government sector as stated by Rahmatulla[2] that there were Ministries/Institutions or regional governments that have received unqualified opinions (WTP), but corruption still occurs in these Ministries/Institutions or regional governments.

The occurrence of these financial cases made the public question the quality of the financial audit (general audit) that was carried out in every year. The company is required to be audited every year as regulated in The Company Law Number 40 of 2007 in article 68[3]. Likewise in the public sector, that the financial reports of central and regional governments, ministries and institutions, must be audited by Republic of Indonesia Financial Audit Agency (BPK-RI) as regulated in articles 32 and 33 of Law Number 17 of 2003[4] and the Law Number 15 of 2004 [5].

According to Ref.[6] general audit is a general examination of financial reports carried out by an independent Public Accounting Firm (KAP) with the aim of providing an opinion regarding the fairness of the financial statements as a whole, although the purpose of a general audit is to provide an opinion regarding the fairness of the financial statements, its implementation must be follow the Auditing Standards issued by the Institute of Accountants Public Indonesian[7], that in relation to financial reporting, the auditor is obliged to test whether an act containing fraud results in a misstatement in financial reporting. These provisions are also regulated in the Republic of Indonesia Financial Audit Agency Regulation Number 1 of 2017 concerning State Financial Audit Standards. As mentioned in International Standards on Auditing (ISA) part 240 that the auditor's responsibility to consider fraud in an audit of financial statements in paragraph 6 defines fraud as deliberate actions by members of company management, parties who play a role in governance, companies, employees or third parties who commit lies, fraud or corruption to obtain unfair or illegal benefits.

According to Watkins [8], Audit quality is the probability that the auditor will discover and report material misstatements in the client's financial statements. Arens [9] said that audit quality is a process of ensuring that generally accepted auditing standards are followed in every audit, auditors follow specific audit quality control procedures that help meet those standards consistently on every assignment.

One way to detect material misstatements and fraud in financial reports is with forensic accounting. Tuanakotta[10] that forensic accounting is the application of accounting discipline in a broad sense, including auditing, to legal problems for legal resolution inside or outside court. Forensic accounting can be applied in both the public and private sectors. In forensic accounting there are two systems namely fraud oriented system audit approach and corruption oriented system approach which can be used to detect corruption and fraud in financial reports. Forensic accounting aims to translate complex financial transactions from data, numbers into a generally understandable form, as well as understanding what is behind the financial reports. This, of course, is intended so that everything can be detected early and become "Red Flags" (fraud signal). So that it can immediately be known that there is something wrong with the financial data presented in the financial report.

This research is intended to confirm audit quality theory through a systems approach in forensic accounting. The aim of this research is to describe the role of forensic

accounting in improving audit quality. It is hoped that the results of this research will contribute to improving audit quality in general audit assignments through a systems approach in forensic accounting.

## 2 Research Method

The data analysis method used in this research is descriptive qualitative with a phenomenological approach. Phenomenological approach according to Afiyanti[11] is research that seeks to understand the meaning of events and interactions among ordinary people in certain situations. The phenomenological approach consists of intuition, analysis and description stages, the overall result is a phenomenological description. The data collection techniques used are questionnaires and interviews. In this research, the data obtained be processed and explained by referring to the literature study that the researcher had carried out. Then the researcher analysis the suitability between the criteria and implementation practices that had been carried out by the research object. This analysis concerns the concept of early fraud detection in general audit assignments, with what had been practiced by auditors as the object of research.

The population in this study were auditors who work as government accountants and public accountants in the city of Makassar, who had carried out audit assignments for at least 5 years with a minimum position of team leader. The following sample distribution:

**Table 1.** Distribution and Number of Samples

| Auditors who work for                               | Sample |
|---|--------|
| Public accounting firm (KAP)                        | 25     |
| Audit Board of the Republic of Indonesia (BPK)      | 15     |
| Financial and Development Supervisory Agency (BPKP) | 5      |
| Regency/City Inspectorate                           | 5      |
| Total   | 50     |

## 3 Results and Discussion Conclusion

Audit quality is defined as the auditor's ability to find and report all forms of material misstatements in the audited financial statements. In this research, audit quality is only focused on the auditor's ability to detect material misstatements in the audited financial statements. According to all respondents in this study, the material misstatements can be caused by mistakes/errors and also fraud. The distinguishing factor from material misstatements caused by error and fraud is the underlying action, whether the action was intentional or unintentional which resulted in misstatements in the financial statements. Misstatements resulting from fraud lead to errors made intentionally, which aim to mislead users of financial statements. Fraud is carried out such as manipulating or changing accounting records/supporting documentation that is used as the basis for preparing financial reports, false statements/intentional omissions of events/transactions/other information contained in financial reports, these errors can be detected using

certain forensic accounting techniques. Meanwhile, material misstatements are caused by errors/mistakes, namely actions carried out unintentionally, these errors can be detected using general audit techniques. For example, wrong calculations, wrong measurements, wrong estimates and wrong interpretation of accounting standards.

### **3.1 Approaches in Forensic Accounting**

In forensic accounting there are two systems approaches namely FOSA and COSA, as expressed by Tuanakotta [10] that Fraud Oriented System Audit (FOSA) is forensic accounting that handles fraud issues in two study focuses, namely (1) Illegal taking of assets in the form of skimming (looting), lapping (theft) and kitting (embezzlement of funds). (2) Financial statement fraud takes the form of material misstatements and false financial data. Corruption Oriented System Audit (COSA) is forensic accounting that handles fraud issues with a specific study focus, namely corruption.

Based on the results of data analysis, it is known that respondents who work for public accounting firms (KAP) more focus on detecting errors in the presentation of financial reports, when seen from the approach in the forensic accounting system they use the FOSA approach with a research focus on financial reports to find material misstatements in the financial statements being audited. Auditors who work for the government (BPK, BPKP, Inspectorate) used the FOSA with a study focus on illegal asset taking, most of them believe that COSA is more often used in investigative audit assignments, although this approach can also be used in general audits. Due to limited time and resources in general audit assignments FOSA with a study focus on illegal asset taking and COSA cannot be carried out in full.

Based on the explanation above, according to the author, in general audit assignments, auditors can use the Fraud Oriented System Audit (FOSA) approach with a study focus on illegal asset taking and the Corruption Oriented System Audit (COSA) approach although it is limited to detecting "signals" fraud, which will then be followed up with further audit procedures through an investigative audit.

### **3.2 Auditor's Perception Regarding Responsibility for Finding Fraud in General Audit**

Most of the respondents who auditor work for BPK in this study thought that Examination of financial reports (general audit) is not intended to reveal any irregularities or fraud in financial management. This was also conveyed by Joko Pramono [12] that Examination of financial reports is not intended to reveal any irregularities or fraud in financial management. However, if during the examination of financial reports there are symptoms of fraud, the Financial Audit Agency (BPK) will develop further procedures.

According to the author, the above assumption is possibly the reason why an entity/agency/institution that has undergone a general audit in a certain period, obtains an unqualified opinion (WTP), but during that period there were cases of fraud/corruption

### **3.3 Auditor's Responsibility to Detect Fraud**

In the State Financial Audit Standards (SPKN) issued by the Republic of Indonesia's Financial Audit Agency (BPK-RI) in PSA 100 (General Standard) that auditors should consider non-compliance with, and fraud, PSA 200 (Field Work Standards) that the Examiner must determine the overall response if initial indications of fraud/indications of fraud are found in the audit. If an initial indication of fraud is found, the Inspector must follow up on the initial indication of fraud in accordance with the provisions and PSA 300 (Inspection Reporting Standards) that audit findings containing initial indications of fraud are presented in the audit report without explaining in detail the alleged fraud. The auditor's obligation to detect conditions and errors in financial reports in general audit assignments, the auditor's responsibility to consider fraud in an audit of financial statements (ISA) part 240. It is also regulated in the Public Accountant Professional Standards (SPAP)

According to the author, although general auditing is not intended to reveal irregularities or fraud in management financial, auditors must be able to detect symptoms of fraud, as regulated in the Professional Public Accountant Standards (SPAP) for auditing financial reports of state-owned companies (BUMN), regionally owned companies (BUMD) or private and State Financial Audit Standards (SPKN) for auditing financial reports of central and regional governments, ministries and institutions. As expressed by [13] that an audit is said to be of good quality, if the audit carried out by the auditor meets auditing provisions or standards.

### **3.4 Forensic Accounting Techniques to Detect Symptoms of Fraud**

Based on data analysis obtained from respondents who work for the government (BPK, BPKP, Inspectorate), some forensic accounting techniques can be used to detect "signals" of fraud in general audit engagements, namely critical point auditing, job sensitivity analysis, recognizing signs of fraud, tracing and reviewing suspicious transaction documents, assessing weaknesses in the internal control system, net worth method, expenditure method, financial report examination techniques, and the use of interrogation techniques and interview.

## **4 Conclusion**

Audit quality is the auditor's ability to find and report all forms of material misstatements in the audited financial statements. Although general auditing is not intended to reveal irregularities or fraud in management financial but auditors must be able to detect fraud as required in auditing standards. To improve audit quality in general audits, auditors can use techniques and two systems approach in forensic accounting namely the fraud Oriented System Audit (FOSA) approach with a study focus not only on financial statement fraud to find material misstatements, but also a study focus on illegal taking of assets and the Corruption Oriented System Audit (COSA) approach although it is limited to detecting "signals" fraud.

The limitation of this research is that researchers only observe audit quality from the aspect of the auditor's ability to detect material misstatements in financial reports. Suggestions for future research to observing audit quality from the aspect of the auditor's ability to report material misstatements in the audit report.

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