

The Role Of Forensic Accountants In Fraud Disclosure In Indonesia

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Abstract

This research is designed to employ qualitative research method with the Association of Certified Fraud Examiners as data source. The data is collected using documentation technique, which means the data comes from the books that have discussed the duties and responsibilities of a forensic accountant. Forensic accounting is a development of accounting disciplines that is still relatively new. The current availability of the profession is less than 10%, and has very good prospects in the future. This is what motivates the author to introduce and explain to readers, especially accounting graduates, about the expansion of the new profession from the development of accounting science. The fraud which frequently happens in state-owned institutions is the reason for the emergence of forensic accounting profession in Indonesia. Fraud itself is one of the problems that continues to occur until now. There is no institution or company institution that can really be free from fraud possibility. Fraud perpetrators are also present at all levels, both in the upper and lower classes of employees. Eradication of fraud in corruption is an opportunity as well as a challenge for them.

Keywords: *Forensic Accountant, Fraud, Institution.*

I. INTRODUCTION

The crime of fraud has occurred in all aspects of life in this country. This can be seen from the massive cases of corruption and embezzlement of funds by various parties for their personal interests, which can harm their company and the government. Fraud itself is one of the problems that continue to occur until now. No institution or company institution can really be free from the possibility of fraud. Its perpetrators are also present at all levels, both in the upper and lower classes of employees. Therefore, the entire community needs to improve the personal data security system to reduce fraud possibility

The discipline of forensic accounting is evolving with increasing crime rates, corruption, poorly functioning policymakers, and weak security systems. Forensic accountants need expertise and knowledge in addition to accounting knowledge to carry out their duties Prabowo, (2013). Disciplines that must be mastered to be a forensic account include accounting, auditing and law.

Forensic accountants have been known in the accounting profession a few years ago primarily

Forensic Accounting Diagram



since a major financial scandal in the world (such as Enron, WorldCom, Global Crossing, etc.) occurred during 2000-2002 resulting in perception change/view toward accounting profession. Forensic accountants began to be used in Indonesia after the financial crisis in 1997. Up to now, the forensic accounting approach is widely used by the Supreme Audit Agency, the Corruption Eradication Commission, the Center for Financial Transaction Reports and Analysis, the Financial and Development Supervisory Agency, the World Bank, and other offices of Public Accounting in Indonesia. The efforts and methods taken are strategies that the government has implemented to create anti-fraud controls to reduce fraud potential. But, in fact, no corporate entity is immune to this threat. The endless frauds create an increasing demand for services in fraud investigations. Therefore, forensic accountants are indispensable.

In Indonesia, several major cases have been successfully uncovered thanks to the role of forensic accountants. One of them is the Bank Century case where PWC with its sophisticated software was able to show complex cash flow in the form of a light diagram (sunburst). PWC as the forensic accountant who uncovered the case used the follow the money method and in-depth review with state officials and businessmen involved in the case. Another big case currently happening in Indonesia is the illegal investment fraud case through binary option revealed after the investigation conducted by the Criminal Investigation Agency of the Indonesian National Police (Badan Reserse Kriminal/Bareskrim Polri) working together with forensic accountants from Financial Transaction Reports and Analysis Centre (Pusat Pelaporan dan Analisis Transaksi Keuangan/PPATK) to uncover the flow of funds of the fraud suspects, influencer Indra Kenz and Doni Salaman. www.tempo.co.id (21 Maret 2022).

The development of forensic accountants in Indonesia is quite advanced. But, when compared to several other countries, Indonesia is still left-behind. On one side, Australia is currently

preparing Forensic Accounting Standards, while Canada and the United States already have standard standards. On another side, Indonesia does not yet have adequate standards. So far, not many corruption cases have been revealed due to the ability of forensic accountants. However, forensic accounting is a development of accounting disciplines that are still relatively new in Indonesia and have excellent prospects in solving corruption crimes in Indonesia.

The importance of forensic accounting in combating fraud such as money laundering and corruption has been seen in several forensic accounting studies. The application of the mindset and expertise of forensic accounting is very important to prevent, detect and respond to fraud in the performance of the task of assessing the risk of fraud in the public sector. The demand for forensic accounting services has increased over the last few years. Thus, it is expected that firms and law firms will develop internally forensic accounting capabilities rather than relying exclusively on third parties Henning and Misuraca ,(2013).

The formulation of the problem is in line with the objectives, namely "What is the role of forensic accountants in disclosing fraud in Indonesia?". This research aims to inform that there is a new professional development for accounting graduates

II. LITERATURE REVIEW

Fraud

Fraud is an intended action that can cause harm to such party without being aware of it and provide benefits for the perpetrators. Fraud is given different names in everyday terms, such as theft, extortion, embezzlement, forgery, and others. It generally occurs because of pressure to commit fraud or encouragement to take advantage of current opportunities, and there is a rationalization (generally accepted) for these actions. There are two kinds of misstatements, namely errors and fraud. Fraud is translated as cheating in accordance with Statement of Auditing Standards (PSA) No. 70.

Fraud (cheating) is a general understanding that includes a variety of ways that can be used by human ingenuity, which is used to take advantage of others through improper actions. To be clear, the definition of fraud according to the Association of Certified Fraud Examiner (ACFE) is: "Fraud is an intentional untruth or dishonest scheme used to take deliberate and unfair advantage of another person or group of people in included any mean, such cheats another."

With the understanding above, it can be concluded that fraud is concerned with the benefits that someone gets by presenting something that is not following the actual situation. It includes elements of surprise/unexpectedness, deceit, cunning, and dishonesty that harm others.

Fraud Diamond

Fraud diamond is a term used to describe four conditions that cause someone to commit fraud in a company. The fraud diamond theory is quite popular to reveal the reasons for fraud in business. Fraud diamond analysis has four stages to detect the cause of fraud in a worker. These stages are incentive, opportunity, capability and rationalization. The four stages of the fraud diamond are interrelated. An explanation of the stages of the fraud diamond is as follows:



Incentive : Reasons that can cause an employee to steal from a company, such as personal debts, greed, drug abuse, etc. From a management perspective, the CEO has full power in running the organization thereby resulting in actions being undertaken without being questioned.

Opportunity: The opportunity for an employee to commit fraud. Opportunities to commit fraud are usually caused by several things, including: control from the company is still weak, SOPs that are running are not conducive, the existence of multiple jobs in an employee, and the work situation is not conducive.

Capability: Knowledge of systems and the ability to manipulate others. From a staff member perspective, being the only person highly knowledgeable about a key financial system for example and knowing that tracing all activity can be easily altered is a good avenue for fraudulent actions to take place. From a management perspective, the ability to use financial systems to inappropriately manipulate numbers is also a good example of capability.

Rationalization: When a fraudulent act has been detected, usually the perpetrator will give a rational reason as a form of self-defence. This rationalization occurs to make the error that occurs is a reasonable action to take.

Fraud Tree

According to Tuanakotta, (2012) in his book, it is written that the Association of Certified Fraud Examiners (ACFE) is a professional organization that aims to eradicate fraud. ACFE classifies fraud in the form of three main branches followed by more specific branches, known as the “Fraud Tree”.

The ACFE divides Fraud into 3 (three) types or typologies based on actions, namely:

Asset Misappropriation;

Asset misappropriation includes misuse/theft of assets or property of the company or other parties. This is the easiest form of fraud to detect because it is tangible or can be measured/calculated (defined value).

Fraudulent Statement;

Fraudulent statements include actions taken by officials or executives of a company or government agency to cover up the actual financial condition by carrying out financial engineering in the presentation of its financial statements to gain profits or may be analogous to the term window dressing.

Corruption.

This type of fraud is the most difficult to detect because it involves cooperation with other parties such as bribery and corruption. This is the most common type in developing countries where law enforcement and awareness of good governance are weak, so the integrity factor is still questionable. This type of fraud often cannot be detected because the parties working together enjoy the benefits (symbiosis mutualism). This includes abuse of authority/conflict of interest, bribery, illegal receipts (illegal gratuities), and economic extortion.

Forensic Accountants

According to Handoyono, (2016), Forensic accountants are registered and certified accountants who have obtained additional education or certification as a fraud examiner or as a forensic accountant. The forensic accountants will utilize their knowledge in accounting, auditing and law, investigation and criminology to disclose fraud, find evidence, and present the evidence to court, if needed.

Forensic accounting services can be used in the public and private sectors in Indonesia. The utilization of forensic accounting services in the public sector is more prominent than the private sector due to greater number of cases. Another reason is the tendency to resolve private sector disputes out of court Tuanakotta, (2014).

Forensic accounting is a variety of accounting and investigation techniques used to find financial fraud. Forensic accounting requires accounting, auditing, and investigative skills in examining the finances of individuals or businesses. Forensic accounting provides accounting analysis suitable for use in legal proceedings and is often used in cases of fraud and embezzlement in court. In the public sector (government), the stages in the forensic accounting series are divided among several institutions. There are institutions that carry out financial audits, government internal control institutions, court institutions, and institutions that fight crime in general and corruption in particular, such as PPATK, KPK, and other non- governmental organizations Zimbelman, (2014).

The position in forensic accounting is often referred to as forensic accountants, who analyze, interpret, and summarize complex financial and business issues. Accountants may be employed by insurance companies, banks, police, government agencies, or public accounting firms. They compile financial evidence, manage the information collected, and communicate their findings in the form of reports or presentations.

Along with giving witness in court, a forensic accountant may be asked to prepare visual aids to support trial evidence. For business investigations, forensic accounting requires the use of traceability funds, asset identification, asset recovery, and due diligence reviews.

The Scopes of Forensic Accountants

According to Nyoman, (2018), there are various types in the scopes of forensic accountants and are usually grouped by type of legal process. Here are some common examples:

Tax Avoidance or Fraud

Some individuals and businesses claim false information about their financial situation to avoid paying taxes. Forensic accountants track income to determine the extent of tax fraud committed. They can also use the data to prove that the accused company did not commit tax fraud.

Securities Fraud

When stockbrokers or organizations make false claims about information that investors use to make decisions, they are committing securities fraud. Forensic accountants work to help investors avoid these scams and uncover companies involved in securities fraud.

Money Laundering

Money laundering makes it difficult for forensic accountants to trace illegal money. Strong analytical and accounting skills are required for them to solve these crimes and find the original source of funds.

Disputes in Family and Marriage

Fraud can also occur in families and marriages. Whether hiding money or using relationships to steal funds, forensic accountants help resolve these situations. While these crimes usually occur on a smaller scale than scandals with larger corporations, family and marital disputes can still be very damaging.

Economic Loss of Business and Bankruptcy

When a business suffers a severe economic loss or bankruptcy, forensic accountants can play a valuable role in the recovery process. They sometimes find evidence of fraud that can help a business regain its footing.

Hidden or Misappropriated Assets

Misappropriated assets may appear to be embezzlement, fraud, or theft. Individuals or businesses may also hide their assets, intentionally leaving them off the balance sheet so as not to be owned by other individuals or entities. Financial accountants work to uncover these discrepancies and hold people and companies accountable for their finances.

Insurance Claim

False insurance claims are a common way for individuals to profit from lies involving the protection of their assets, for example, false claims such as theft or a house fire. Forensic accountants carefully look at the facts surrounding these claims to determine their validity.

Forensic Accounting Stages and Procedures

Forensic accounting audits require a different type of handling than financial statement audits. Each situation requires a unique protocol. This process involves an initial investigation, a report of information, and final litigation. The information below explores forensic accounting investigations and the importance of the special skills of forensic accountants while conducting research to make claims.

Investigation

Forensic accountants usually initiate investigations and collect evidence when fraud suspicion is established. They may interview staff at a company to get more information and try to find the individual behind the scam. Using the information gathered, they begin to make hypotheses about what happened and create a follow-up plan to continue assessing the business. Once this step has reached completion, they determine what further action is required and convey this information to the company.

Reporting

After forensic accounting professionals collect information/data and develop a case, they present a summary of their findings. Using this information, they determine how the fraud occurred and who played a role. Then, they determine how to handle the case and suggest the next steps the company should take. Additionally, they may recommend some ways to prevent these incidents in the future by improving/strengthening internal security. After submitting their report, the forensic accountants prepare for their role in the litigation related to the case.

Litigation

The final step of the forensic accountant process is as an expert witness in the court related to the case. Accountants present their findings as evidence in court and testify against violators. Accountants explain any evidence and interpret financial documents in understandable terms, presenting how they identify the subject. This means that they need not only to seek evidence but also to use sensible rhetoric in court. Once this step is complete, the court will make a final decision on the situation. They play an important role during this process.

PREVIOUS RESEARCH

Previous research by Wiratmaja (2013) conducted study entitled “Akuntansi Forensik dalam Upaya Pembuktian di Pengadilan” (Forensic Accounting for Evidence in Court). The result of this research showed that forensic accounting is a formulation that can be developed as a preventive, detective, and persuasive strategy through the forensic accounting procedure implementation and investigative audits that are litigation support to produce findings and evidence that can be used in the decision-making process in court.

Jumansyah (2015) stated that forensic accounting can help resolve legal cases by helping the law enforcers to calculate and disclose the cost of fraud, detect the causes of fraud, find early clues to the occurrence of fraud, and detect the approximate time that fraud can be revealed and discriminate against fraud uncovered through clues or by chance.

Okoye and Gbegi (2013) conducted research entitled "Forensic Accounting: A Tool For Fraud Detection And Prevention In The Public Sector". The purpose of this study was to examine forensic accounting as a tool for fraud prevention and detection in public sector organizations. The results of the study indicate that the application of forensic accounting has a significant effect on reducing fraud cases that occur in the public sector. The application of forensic accounting can help in better fraud prevention and detection efforts in public sector organizations.

The similarity between this research and several studies that have been conducted is in the variable or the same research problem, namely forensic accountants and fraud. The difference is that previous research generally examines the influence of forensic accountants on fraud prevention by using a quantitative research design. Meanwhile, this research has a wider scope by looking at the role of forensic accountants in disclosing fraud in a country, namely Indonesia

The research design used is also different, namely qualitative research using data published

by ACFE (Association of Certified Fraud Examiners).

III. METHODS

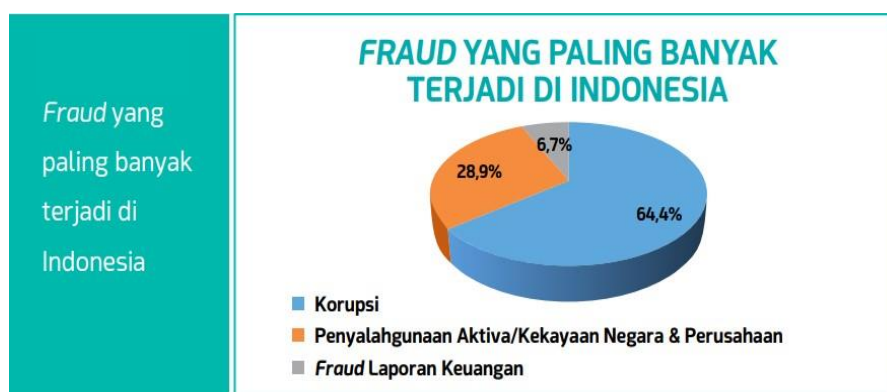
This research employed a qualitative method, a research carried out with the aim of finding and describing, and participating in explaining quality and privilege of social influence that cannot be explained using a quantitative approach Sugiyono, (2012). " Qualitative research method is a type of research that produce findings that are not obtained using statistical procedures or other methods of quantification Sayidah, (2018)

The data source in this research used secondary sources, which are data sources that can be obtained by reading, studying, and understanding through other media sourced from literature, books, and documents Sugiyono, (2012). The data used in this study were secondary data obtained through ACFE (Association of Certified Fraud Examiners).

The data collection technique used in this research was documentation, by collecting company data on the internet and also books containing the information needed in this study.

IV. RESULTS

Fraud in Indonesia

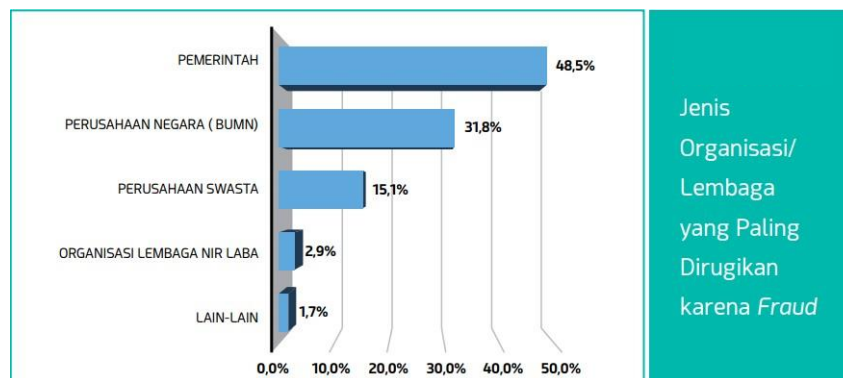


Based on the results of a survey by ACFE Indonesia to 239 certified forensic accountants of respondents, it showed that the most common fraud in Indonesia is corruption with a percentage of 64.4%, then Misuse of State and Company Assets/Wealth with a percentage of 28.9%, and Financial Report Fraud at 6.7%.

The results of this survey are different from the Report to The Nations 2018, which shows that the largest fraud occurs, namely asset abuse as much as 89%, then corruption 38%, and Financial Report Fraud 10%. One of the differences in the results of this study is indicated by the frequency of publications of corruption scandals in Indonesia, as presented by the Corruption Eradication Commission (KPK) in the recapitulation of corruption investigations which increased from 2004 to 2018 (KPK, 2018).

This is in line with the framing theory that there is an individual's cognitive tendency to respond to various situations based on the context and available information, causing the potential for cognitive bias to occur. Thus, along with the development of a variety of information, Indonesia is in the assessment of corruption scandals as fraud cases that are widely developing in Indonesia.

Government institutions are the most harmed organization by fraud case



The survey shows that 48,5% of respondents has claimed that the government institutions are the most harmed organization by fraud case. This can be happened because most of the exposed fraud cases by the media in Indonesia are related to fraud in government institutions. Furthermore, the other organization which also harmed by fraud are state-owned company (31,8%), private-owned company (15,1%), non-profit organization (2,9%), and other organizations (1,7%)

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The survey shows that Forensic Accountant is ranked at third position (15,1%) after Media Report and Internal Audit as media alternative for fraud detections. This result gives early indication that Forensic Accountant role is considered as an effective way to reduce loss resulted by fraud act.

V. DISCUSSION

This study aims to explore the role of forensic accountants in disclosing fraud in Indonesia. From the analysis conducted by ACFE, 2019, it can be concluded that the roles of forensic accountants in Indonesia are as follow:

1. Forensic accounting is an accounting science that is special. To have a Certified

Forensic Audit degree, they must take special education in the field of forensics/law. Accounting plays a role in uncovering fraud if it has multiple disciplines, including deductive analysis, critical thinking, unstructured problem solving, and knowledge of the law.

2. Fraud in Indonesia occurs because of incentive, opportunity, capability, and rationality to enrich oneself, others and can harm the state. The biggest loss and type of fraud in Indonesia is corruption. For 15 years, starting from 2004, the KPK has found 1135 corruption cases, but only 610 can be executed. The role of forensic accountants in helping uncover corruption cases is by being an expert witness in court, daring to speak out for the truth, and showing the cash flow that occurs.
3. There are three roles of forensic accountants i.e. prevention, detection, and investigation. The easiest prevention that can be done for the accounting profession is a control system. Detection can be done in financial reports, and investigation can be done by utilizing whistle-blowing or reports made by employees and forensic accountants at BPK, KPK, BPKP, and KPK who have reported a case to court. For the company itself, there are several ways that can be done to prevent fraud, including forming individuals in which there is trust to prevent conflicts of interest, establishing a work support system that includes an integrated system, and establishing a monitoring system that includes self-assessment control.
4. There is no special institution that oversees forensic accountants because this profession is needed if there is a request or a case that must be resolved. If an institution such as KAP, BPK, BPKP, and KPK requires a forensic accountant to audit a financial report, the task will stop at the financial report, but if it has been forwarded to legal channels, law enforcement officers (APH) will ask the forensic accountant to speak up. In addition to reporting in writing and in great detail, reports also need to be presented if the forensic accountants are needed as expert witnesses in the trial of their case. Usually, this report is also not widely published. Only certain parties and institutions are allowed to access it. So, the role of forensic accounting science in Indonesia depends on the position of a forensic accountant assignment.
5. In 2019 Indonesia was ranked 89th for the most corruption-free country out of 180 countries. This figure has increased compared to 2018 at position 96. This increase is due to the attention given to the role of forensic accountants, although they do not fully play a role but are quite helpful in disclosing fraud. Forensic accountants will play an active role if a fraud is in accordance with the domain of forensic accounting science, such as checking in financial reports and in every documented transaction. However, without documents and reports, a forensic accountant does not play a role in uncovering fraud.

VI. CONCLUSION

It can be concluded that forensic accountants have a role in disclosing fraud in Indonesia but not as a major role in disclosing fraud. Forensic accountants will take a role if they are in accordance with their scientific field, such as checking in financial reports and in every documented transaction. However, without documents and reports, a forensic accountant does not play a role in uncovering fraud.. They should further improve their abilities and study other disciplines and are expected to be more confident and courageous in giving statements for the sake of truth.

VII. LIMITATION

The limitation of this study is that it did not conduct research directly on the sources, namely forensic accountants. This research entirely employed data from the research conducted by ACFE Indonesia. The implication for future research is that future research should improve the way to uncover fraud through forensic accounting science by conducting direct observations independently and extending the observation period because the longer the observation period, the better the results. In addition to extending the observation period, it is better to use all factors in the fraud diamond, such as incentive, opportunity, capability, and rationalization factors, as well as updating documents that support research.

For further researchers who are interested in the forensic accounting profession, it is advisable to conduct a study on a special case, regardless of fraud type. Then, the observation technique also needs to be done to avoid the weaknesses in the study. Therefore, researchers will understand much more and get more satisfying results

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