

Investigation Audit Analysis of Fraudulent Financial Reporting

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ABSTRACT

Investigative audit is an important instrument in detecting and exposing financial reporting fraud, including indications of corruption. This audit process includes planning, collecting evidence, analyzing findings, and reporting results comprehensively. This study examines the application of investigative audit techniques, such as reverse proof and in-depth analysis of the modus operandi, causes of deviations, and impacts of violations. The results of the literature study indicate that investigative audits are effective in exposing fraud if carried out with the right method, supported by valid evidence, and the involvement of professional auditors. However, time pressure can affect the auditor's accuracy, thus affecting the quality of findings. Therefore, time management and auditor competency development are key factors in increasing the effectiveness of investigative audits. This study confirms that investigative audits not only play a role in detecting fraud but also support asset protection and improvement of the organization's internal systems

INTRODUCTION

Financial statements are the result of the accounting process used as a communication tool to convey financial information to various stakeholders, including owners, investors, creditors, and the government. This report is prepared based on the Financial Accounting Standards (SAK) applicable in Indonesia, with the aim of providing a fair picture of the company's financial position, performance, and cash flow. In the audit process, the auditor has the responsibility to identify and communicate material misstatements found during the audit to management, and to request correction of these errors. If management refuses to make corrections, the auditor is required to understand the reasons for the refusal and consider them in the final evaluation of the fairness of the financial statements.

Investigative audit, as part of the forensic audit discipline, is an in-depth examination process aimed at uncovering and detecting fraud or irregularities in financial statements. This audit requires a special approach, procedures, and techniques that are different from general audits, because it focuses on collecting relevant evidence to uncover financial crimes. Investigative auditors are required to have competencies that include an in-depth understanding of accounting, auditing, and legal aspects related to fraud, especially those that can harm certain parties, including the government.

Fraud in financial reporting, which is often intended to mislead users of the report, is a major challenge in the world of accounting and auditing. Therefore, investigative audits are a very important instrument to detect and reveal such fraudulent practices, as well as provide recommendations to prevent similar incidents from happening again in the future. Through this study, it will be analyzed how investigative audits can be applied effectively to identify and reveal financial reporting fraud, as well as its contribution to improving the integrity of financial reporting in Indonesia.

LITERATURE REVIEW

Investigation Audit

Investigative audit is an audit process with a scope that focuses on areas suspected of containing irregularities, abuse of authority, or indications of fraud. This audit is specific and is not limited by a certain time, but rather adjusts to the need to trace deviations in depth. The main purpose of an investigative audit is to uncover facts, add insight from previous audit findings, and verify complaints or information obtained from the public.

Investigative audits are designed systematically and measurably to detect fraud that occurs. This process is oriented towards collecting relevant, sufficient, and reliable evidence to ensure the truth of the initial suspicions that arise. As part of management control, investigative audits are often conducted in conjunction with other audits such as financial audits and compliance audits. The role of investigative audits is not only limited to uncovering fraud, but also providing strategic recommendations to prevent similar incidents in the future.

Disclosure of Financial Reporting Fraud

Disclosure in financial statements is the presentation of additional information that complements the main financial statements, either in the form of footnotes, appendices, or other supplements. This information provides an explanation of the financial position, operating performance, and factors that affect the financial health of the company. Disclosure includes quantitative information, such as inventory value details, and qualitative information, such as information related to lawsuits the company is facing.

In the context of financial reporting fraud, disclosure plays a critical role in providing transparency and increasing the trust of financial reporting users. Fraud itself is defined as an intentional unauthorized act to mislead interested parties, either by individuals within the organization or external parties. This act can include manipulation of financial data, concealment of material information, or presentation of misleading information for a specific purpose.

Adequate disclosure of financial reporting fraud is the responsibility of auditors, including investigative auditors, to ensure that users of financial reports receive honest and reliable information to support decision-making, whether by investors, creditors or regulators.

METHODOLOGY

This study uses a quantitative approach to analyze investigative audits of financial statement fraud. The data used are secondary data obtained from relevant literature, such as scientific journals, books, and audited financial statements. The research process is carried out through several stages. First, identifying variables related to financial statement fraud based on previous theories and research. Second, collecting relevant quantitative data from reliable sources. Third, conducting statistical analysis to test the relationship between variables, including using regression methods or descriptive analysis to understand the patterns of fraud detected. This approach aims to provide measurable and objective results related to the application of investigative audits in detecting and preventing financial statement fraud.

RESULT AND DISCUSSION

Investigative audit is one of the main pillars in detecting and exposing financial statement fraud. This process involves systematically collecting, analyzing, and evaluating evidence to identify indications of fraud. The success of an investigative audit is highly dependent on the application of appropriate techniques, such as the principle of reverse proof and identification of the existence of fraud, which help auditors prove the existence of violations. Based on previous research, investigative audits have been shown to have a significant impact on fraud disclosure. Achyarsyah and Rani (2020) found that the quality of investigative audit techniques contributes to auditor effectiveness, especially through the application of appropriate methods. Pamungkas and Jaeni (2022) showed the positive influence of investigative audits in exposing corruption, as handled by BPKP. Putri and Wahyundaru (2020) emphasized that this process helps auditors produce an objective analysis of evidence of fraud, while Esnawati and Primasari (2022) emphasized the importance of the principle of a thorough audit to ensure that early findings of fraud can be identified. However, research by Andini, Amiruddin, and Pontoh (2021) showed that time pressure can reduce the effectiveness of auditors in identifying fraud signals.

The investigative audit process begins with careful planning, including determining the objectives, methods, and implementation schedule. Auditors collect evidence through interviews, document examinations, data analysis, and direct observation. Analysis techniques are directed at uncovering hidden facts and the root causes of violations, while maintaining the principle of presumption of innocence and confidentiality of reports, especially if the audit results will be used in legal proceedings. Findings from investigative audits usually form the basis for follow-up both internally and externally. Internally, findings are presented to management for procedural improvements or administrative actions, while externally, results that meet the criteria for corruption will be forwarded to law enforcement officers for further investigation. For example, the Internal Audit Agency can coordinate with law enforcement officers to ensure the validity of findings and determine the necessary legal steps, including protecting state assets and demanding compensation in accordance with regulations as stipulated in PP No. 30 of 2019.

From the various findings, it can be concluded that investigative audits play an important role in detecting and exposing financial statement fraud. Its effectiveness is highly dependent on the quality of the method, the auditor's skills, and the time available. With proper implementation, investigative audits not only help uncover facts, but also support law enforcement and the overall protection of organizational assets.

CONCLUSION AND RECOMMENDATION

Investigative audit is an important tool in detecting and exposing fraud in financial statements. Its success is greatly influenced by the application of appropriate techniques, such as reverse proof and thorough analysis of evidence. Previous studies have shown that investigative audit has a significant impact on fraud disclosure, especially in the context of financial statements and corruption cases. However, its effectiveness can be affected by time pressure and auditor quality. A systematic and professional investigative audit process not only helps identify violations, but also supports law enforcement efforts, internal system improvements, and the protection of organizational assets. Therefore, it is important to increase auditor capacity and ensure adequate time for its implementation.

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