AUDITOR'S SKEPTICISM, FORENSIC ACCOUNTING, INVESTIGATION AUDIT AND FRAUD DISCLOSURE OF CORRUPTION CASES

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Abstract

This study aims to develop a fraud disclosure model for corruption cases in the local government environment in Sulawesi through forensic accounting and investigative audits with internal auditor skepticism as moderating. Forensic accounting and investigative auditing are a series of relationships in the examination of fraud. Fraud becomes the main object that is fought in forensic accounting and is proven in investigative audits. This research was conducted by distributing questionnaires to all auditors at Finance and Development Supervisory Agency or *Badan Pengawasan Keuangan dan Pembangunan (BPKP)*, Audit Board of the Republic of Indonesia or *Badan Pemeriksa Keuangan (BPK)*, and internal auditors at Social Security Agency or *Badan Penyelenggara Jaminan Sosial Kesehatan* (*BPJS Kesehatan*) throughout Indonesia. The number of respondents whose opinions can be used for this study amounted to 118 questionnaires. The results showed that forensic accounting can reduce the level of disclosure of fraud. The results of other research studies also show that good investigative audit practices by auditors can reduce the level of fraud disclosure. Auditor skepticism in auditing practices can strengthen the forensic accounting relationship which results in a reduced level of fraud disclosure and investigative audit relationships which results in a reduced level of fraud disclosure.

Keywords: Forensic Accounting, Investigation Audit, Fraud, Corruption, Auditor Skepticism

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1. INTRODUCTION

The government's efforts to resolve corruption cases through investigators require experts in the economic field to investigate allegations of corruption. Achsin (2010) stated that a forensic accounting visa is a form of accounting that has legal criteria that are useful for the litigation process in court. In line with that, Sayyid (2015) revealed that forensic accounting and investigative auditing are a series of relationships in the examination of fraud. There are two things that become urgent in disclosing fraud in corruption cases in local governments, namely fraud-oriented systems audit (FOSA) and corruption-

oriented system audit (COSA) in identifying the potential or risk of fraud. Forensic accounting and investigative auditing are a series of relationships in the examination of fraud. Fraud becomes the main object that is fought in forensic accounting and is proven in investigative audits.

The successful implementation of forensic accounting and investigative auditing cannot be separated from the role of the auditor as a profession that is steeped in these two fields of knowledge. The auditors in carrying out their duties are required not only to follow audit procedures but also to be accompanied by an attitude of professional skepticism. Beasley, Carcello, and Hermanson (2001) found that the low professional skepticism of auditors ranks third as the cause of auditor failure to detect fraud. The auditor's low professional skepticism leads the auditor to fail to collect sufficient evidence and information, on the other hand, evidence and information are the auditor's breath in revealing fraud. This failure subsequently resulted in the failure of the auditor in assessing fraud risk.

This study aims to analyze the fraud disclosure model of corruption cases in relation to forensic accounting and investigative audits with auditor skepticism as moderating. The contribution of this research can be divided into theoretical and practical contributions. Empirically, this study examines the fraud model within the agency theory framework. This study is to minimize corrupt practices and explain the possibility of corruption committed by agents in an effort to enrich themselves and encourage the emergence of the need for audit services with a specific purpose. Along with the demands of society for eradicating corruption, audit services are no longer limited to supervision of financial reports issued periodically by agents but are used more deeply to detect fraud committed by agents. In this case, this study empirically includes this audit service in the form of an investigative audit. Furthermore, the contribution of this research is in analyzing the important role of auditor skepticism and forensic accounting in prevention efforts but also in the disclosure of corruption. Practically, this study can contribute to the strengthening of the audit system through several additions to the applied framework. In addition, institutional strengthening and performance targets for each auditor also need to be carried out based on the disclosure of corruption and fraud cases.

This study is divided into several sections. The first section is an introduction that discusses the relevance of the research and an explanation of the problem and research formulation. The second section is a theoretical review and hypotheses development which discusses the justification of the research from the theoretical side taken from various previous studies. The third section is the research methodology, explaining the design and techniques used in the analysis. The fourth section is the results. A discussion that presents important findings in relation to the research questions and hypotheses proposed is presented in the fifth section. The last section is the conclusion and direction for future research.

2. THEORETICAL REVIEW AND HYPOTHESES DEVELOPMENT

2.1. Agency theory and forensic accounting

Agency theory basically describes the relationship between the power holder (principal) and the executor (agent) (Linder & Foss, 2015; Tan, 2014). Husen (2014) stated that corruption is an action chosen by rational agents with the aim of optimizing personal or group goals. The demand for audit services arises from agency theory through the supervisory function of resource management (finance) as well as the implementation of some of the policies entrusted by the principal to the agent in achieving the goals that have been set (Halim, 2015; Ologbenla, 2021). The possibility of corruption committed by agents in an effort to enrich themselves encourages the emergence of the need for audit services with a specific purpose. Along with public demands for eradicating corruption, audit services are no longer limited to supervision of financial reports periodically issued by agents but are used more deeply to detect fraud committed by agents (Aksoy & Uzay, 2021; Keong, 2020). This audit service can be in the form of an investigative audit (Alissa, Capkun, Jeanjean, & Suca, 2014).

Moreover, the cognitive dissonance theory in this study is used to explain the effect of auditors' professional skepticism in disclosing fraud in corruption cases. Festinger and Thibaut (1951) stated dissonance is defined as the existence of an inconsistency. Cognitive dissonance refers to any inconsistency that is perceived by a person towards two or more attitudes, or to behavior with attitudes (Oudeyer, Gottlieb, & Lopes, 2016). Noviyanti (2008) stated this theory helps explain how the auditor's attitude of skepticism occurs if there is cognitive dissonance when detecting fraud. Suryani (2015) explained that cognitive dissonance occurs when the auditor is faced with the demands of a code of ethics or professional standards that require the auditor to be skeptical, while the auditor must make decisions related to a detection that contains risks. Therefore, the auditor will seek alignment by trying to maintain the skepticism by reducing information that can increase dissonance so as to collect adequate audit evidence and not easily accept an explanation from the auditee as the basis for the internal auditor's ability to detect fraud. This is also related to forensic accounting (Yang & Lee, 2020).

Tuanakotta (2010) stated forensic accounting is the application of disciplines in a broad sense, including auditing, to legal issues to resolve the law inside or outside the court. Priantara (2013) states that it is difficult to answer the question of whether forensic auditing is the same as forensic accounting because forensic accounting has now evolved to carry out auditing work. Priantara (2013) states that it is difficult to answer the question of whether forensic auditing is the same as forensic accounting because forensic accounting has now evolved to carry out auditing work. Forensic accounting, which is defined as a fraud examination by The Association of Certified Fraud Examiners (ACFE), has the same meaning as a forensic audit. This is due to the fact

that forensic accounting work uses auditing science which is specifically aimed at litigation. Tuanakotta (2010) introduced the terms fraud-oriented systems audit (FOSA) and corruption-oriented system audit (COSA) in identifying the potential or risk of fraud. The term FOSA is used in the broadest sense to identify potential fraud in general, while the term COSA is used for system studies that aim to identify potential corruption specifically. The steps for implementing FOSA or COSA are analyzing the potential or risk of fraud, and assessing the risk or potential for fraud. Tuanakotta (2010) explains the most important legal concepts in determining the presence or absence of losses and if so, how the concept of calculation is called the "forensic accounting triangle".

Losses along with earning management are the first point in the forensic accounting triangle (Ramírez-Orellana, Martínez-Romero, & Mariño-Garrido, 2017). The basis is Article 1365 of the Indonesian Criminal Code which reads that every act that violates the law and causes harm to others, obliges the person who caused the loss because of the mistake to replace the loss. Law No. 1 of 2004 concerning the State Treasury Article 1, point 22, states that the definition of state losses is a real and definite reduction in money, securities, and goods as a result of unlawful acts, either intentionally or negligently. A second point is an unlawful act. Without an unlawful act, no one can be sued for compensation. The third point is the relationship between losses and unlawful acts or there is a causal relationship between losses and unlawful acts. Unlawful acts and causality are the domain of legal experts and practitioners. The calculation of the amount of loss is the domain of forensic accountants. In gathering evidence and evidence to establish a causal relationship, forensic accountants can assist legal experts and practitioners.

2.2. Investigative audit, auditor professional skepticism on fraud

Bastian (2003) explains the notion of an investigative audit, namely inspection activities with a certain scope, the period is not limited, more specifically on areas of responsibility that are suspected of containing inefficiency or indications of abuse of authority, with audit results in the form of recommendations for follow-up depending on the degree of authority deviation found. ACFE (as cited in Tuanakotta, 2010) mentions three axioms in the investigation or examination of fraud. The first step in an investigative audit is to develop a predication. Tuanakotta (2010) describes predication as the entirety of events, circumstances at the time of the event, and all related matters that lead a person who is sufficiently trained and experienced with adequate prudence, to the conclusion that fraud has, is, or will take place. When starting an investigation, a new examiner has a guess on the basis of the predication described above. This situation is no different from a scientist who makes a "guess" on the basis of the observations of various facts, then tests this "allegation". Like a hypothesis that must be tested by scientists, fraud examiners create theories about

how fraud occurs, hereinafter referred to as fraud theory. This theory is nothing but fiction or an estimate that must be proven (Tuanakotta, 2010).

Audit techniques are ways that the auditor takes to obtain evidence by comparing the actual situation with the situation that should be. The result of the audit technique is audit evidence. The techniques used in investigative audits are the same as audit techniques in financial audits (Masdar, Furqan, Masruddin, & Meldawaty, 2021; Abdullah, Furqan, Yamin, & Oktora, 2020). The only difference is that it is applied more intensely in investigative auditing. Bastian (2003) stated an auditor in planning and carrying out an investigative audit uses professional skepticism and applies the principle of presumption of innocence. According to Larimbi (2013), traits that can describe the professional skepticism possessed by an auditor include questioning thoughts, suspension of judgment, search for knowledge, interpersonal understanding, autonomy over oneself, and self-esteem.

Priantara (2013) mentions the notion of fraud as a fraudulent practice or irregularity. According to Wolfe and Hermanson (2004), the occurrence of fraud is due to four elements that are known as diamond theory, namely incentive, opportunity, rationalization, and capability. Tuanakotta (2010) states that in a sociological approach, the definition of corruption that is commonly used is the abuse of official authority for personal gain. Referring to the fraud tree, the branch of corruption is described in four branches, namely conflict of interest, bribery, illegal gratuities and extortion. Corruption based on the understanding of Article 2 of Law No. 31 of 1999, which has been amended by Law No. 20 of 2001, is an act against the law, with the intention of enriching oneself/another person (individual or a corporation) which can directly or indirectly harm the country's finances or economy, which from a material point of view, the act is seen as an act that is contrary to the values of social justice.

Priantara (2013) describes the scope of work of anti-fraud professional practitioners based on four pillars. The first is prevention and proactive action, which includes risk identification, control, and management of fraud risk. The second is detection, proactive action, which includes alert function for early detection of fraud indications. The third is investigation, reactive action, which includes complete disclosure of indications of fraud. The fourth is legal settlement and recovery of losses, reactive action which includes civil, criminal or settlement in accordance with legal provisions. Moreover, Priantara (2013) and Zahra, Abdullah, Kahar, Din, and Nurfalah (2021) state that indications of fraud can be detected from symptoms or signs namely anomaly of transaction evidence documentation, accounting anomaly, internal control structure weaknesses, including no segregation of duties and adequate security for assets, anomalies from analytical procedures, luxurious lifestyles, unusual behavior, and complaints (Pattawe et al., 2021). Priantara (2013) suggest follow-up for fraud investigations, namely exposure (case titles), handling findings with indications of criminal acts and witnesses/giving expert testimony.

2.3. Hypotheses development

Forensic accounting besides being able to play a role in prevention efforts but also in the disclosure of corruption or detective strategies (Wiratmaja, 2010). According to Kumaat (2011), there are at least three reasons why a forensic audit is needed. First, is the possibility of fraud spreading to other scopes (data, actors, locations, modes) or having a systemic impact. Both frauds lead to severe sanctions for which formal legal requirements must be met adequately (Din, Munawarah, Ghozali, Achmad, & Karim, 2022). The three consequent frauds are brought to law, especially those proposed by the perpetrators, both based on the labor law and civil/criminal law.

Several studies confirm the relationship between forensic accounting and the disclosure of fraud in corruption cases (Fauzan, Purnamasari, & Gunawan, 2015; Mukoro, Yamusa, & Faboyede, 2013; Okoye & Gbegi, 2013; Dada, 2014). These studies state that there is a positive and significant relationship between eradicating corruption through the application of forensic accounting. Based on the description above, the research hypothesis is proposed as follows:

H1: Forensic accounting affects the disclosure of fraud in corruption cases.

An investigative only begins if there is a proper basis, which is known as predication in an investigation. Furthermore, Tuanakotta (2010) explained that on that basis, an investigator devised what, how, who and other questions that are suspected were relevant to the disclosure of the case, then build a theory of fraud.

This is supported by Sayyid (2015) and Susilowati (2014) on the implementation of an investigative audit by the Supreme Audit Agency (*Badan Pemeriksa Keuangan — BPK*) related to the case of procurement of logistics for the implementation of elections in 2004 at the General Elections Commission (*Komisi Pemilihan Umum — KPU*). The results of the study show that starting with preparing predications, reviewing predications, preparing investigative audit plans, and submitting investigative audit reports to the authorities (Iqbal, Furqan, Kahar, Sudirman, & Muliati, 2020). The relationship between investigative audits and disclosure of fraud in corruption cases is also shown in Fauzan et al. (2015) who concludes that investigative audits have a very good effect on fraud disclosure. Based on the description above, the research hypothesis is proposed as follows:

H2: Investigative audits affect the disclosure of fraud in corruption cases.

Many factors cause the auditor's inability to detect fraud. These factors can come from the internal side or from the external side. Pramudyastuti (2014) states that one of the causes of the auditor's inability to detect fraud in the financial statements is the lack of skepticism possessed by the auditor. This is supported by Beasley et al. (2001) who state that the third order of causes of audit failure is an inadequate level of professional skepticism, of the 45 audit cases studied as many as 27 cases (60%) of which occurred because the auditors did not apply the level of professional skepticism that adequate.

Susanti (2011) suggested that the professional skepticism of auditors has a significant effect on fraud detection. Umri and Islahuddin (2015) show that the attitude of professional skepticism of auditors both simultaneously with other variables or partially affects the detection of fraud. Based on the description above, the research hypotheses are proposed as follows:

H3: Auditor skepticism can strengthen the influence of forensic accounting on the disclosure of fraud in corruption cases.

H4: Auditor skepticism can strengthen the effect of investigative audits on the disclosure of fraud in corruption cases.

3. RESEARCH METHODOLOGY

The population in this study were auditors at the Supreme Audit Agency (*Badan Pemeriksa Keuangan — BPK*) and internal auditors at the Financial and Development Supervisory Agency (*Badan Pengawasan Keuangan dan Pembangunan — BPKP*) throughout Indonesia. The research was conducted by distributing questionnaires to the target population electronically by sending a google form link containing a list of questions to auditors at the BPK and internal auditors at the BPKP throughout Indonesia.

The number of questionnaires that have been sent to the target population via the google form link is 300 questionnaires. Of the 300 questionnaires distributed, a total of 125 responses were willing to fill out the questionnaire, with a response rate of 41.67%. The total number of questionnaires that can be used for processing is only 118 questionnaires.

This study has the aim of making a fraud disclosure model for corruption cases in relation to forensic accounting and investigative audits with auditor skepticism as moderating. To analyze the model, two stages of analysis will be carried out, namely model analysis to measure whether the model is good or not with the structural equation model (SEM) using WarpPLS 7.0. After that, the analysis continued with the analysis of the influence of the model by using hypothesis testing using WarpPLS 7.0.

4. RESULTS

4.1. Confirmatory factor analysis/outer model

Evaluation of the measurement model or outer model with reflexive constructs in PLS can be started by looking at the value of the reliability indicator, namely the magnitude of the variance of the indicator or item to explain the latent construct and composite reliability to measure the overall construct reliability. The measure used to measure the reliability of these indicators is by looking at the loading factor value of each construct indicator.

The rule that is commonly used to assess the loading factor is that it must be greater than 0.7 for confirmatory research and the loading factor value between 0.6–0.7 is still acceptable for exploratory research (Ghozali & Latan, 2014). Meanwhile, for the construct and measurement scale development stage or research instrument

development, a loading factor value of 0.4–0.5 is considered sufficient (Hair et al., 2021). For the value of composite reliability, the rule of thumb that is commonly used to assess construct reliability must be greater than 0.7 for confirmatory research and a value of 0.6–0.7 is still acceptable for exploratory research (Ghozali & Latan, 2014; Zahra, Rohman, Chariri, & Karim, 2017).

In addition to looking at indicators of reliability and composite reliability, evaluation of the measurement model with reflexive constructs

is also carried out by testing the average variance extracted (AVE) and comparing the square root of AVE with the correlation between constructs in the model. The recommended AVE value should be greater than 0.50 that means that 50% or more of the variance of the indicator can be explained. The results of data processing for reliability can be seen in Table 1.

Table 1. Reliability

Construct	Criteria	Composite reliability	Cronbach's alpha	Information
FraudDc	> 0.70	0.939	0.924	Reliable
Invstgs	> 0.70	0.859	0.807	Reliable
Forensics	> 0.70	0.84	0.769	Reliable
Skeptical	> 0.70	0.868	0.817	Reliable

Source: Research data processed, 2021.

Table 1 shows the composite reliability value for each construct greater than 0.70 and Cronbach's alpha > 0.7. This indicates that the instrument used to measure the variables already has good reliability. Reliability reflects that the instrument used to measure the variables in this study has consistently produced the same results every time a measurement is made. There are two criteria to assess whether the outer model meets the requirements of convergent validity for reflective constructs, namely, loading must be above 0.70 and the p-value is significant (> 0.05) (Hair et al., 2021). However, a loading factor of 0.60–0.70 is still acceptable (Ghozali & Latan, 2014).

The results of the validity test showed that all construct indicators of fraud (F1, F2, F3, F4, F5, F6, F7, and F8), all indicators of forensic accounting

constructs (AF1, AF2, AF3, AF4 AF5, and AF6), all construct indicators of skepticism (S1, S2, S3, S4, S5, and S6) has a loading value greater than 0.60. However, for the investigation audit construct indicator, there are three question items (AI4, AI5, and AI6) that have a loading value below 0.6, so they must be excluded from the data to be analyzed. These results indicate that the indicators of all these variables/constructs have good convergent validity with a significance of < 0.01. Research instruments that have met the element of convergent validity indicate that the instrument is able to collect data with the same pattern to measure the same construct. To see the discriminant validity of this study, the following are the results of data processing in Table 2.

Table 2. Discriminant validity

| Construct	FraudDc	Invstgs	Forensics	Skeptical
FraudDc	0.811	-0.289	-0.077	0.344
Invstgs	-0.289	0.683	0.566	0.248
Forensics	-0.077	0.566	0.693	0.362
Skeptical	0.344	0.248	0.362	0.726

Source: Processed data, 2021.

Table 2 shows that the cross-loading value is lower than the construct loading value. The cross-loading value indicates that the discriminant validity criteria have been met. Indications of the fulfilment of discriminant validity can also be seen from the results of the AVE root value which is greater than the other correlation constructs. The results of the AVE roots in the diagonal column show that all variables have higher AVE roots than other construct correlations. The cross-loading value of the AVE root indicates that the discriminant validity of the instrument in this study is believed to be fulfilled.

4.2. Structural model analysis

The purpose of the study was to examine the moderating effect of the skepticism variable in the relationship between investigative auditing, forensic accounting, and fraud disclosure. Structural model analysis using WarpPLS 7.0 shows the results of the full structural equation model measurement as shown in Figure 1.

Figure 1. Output of WarpPLS 7.0-full model
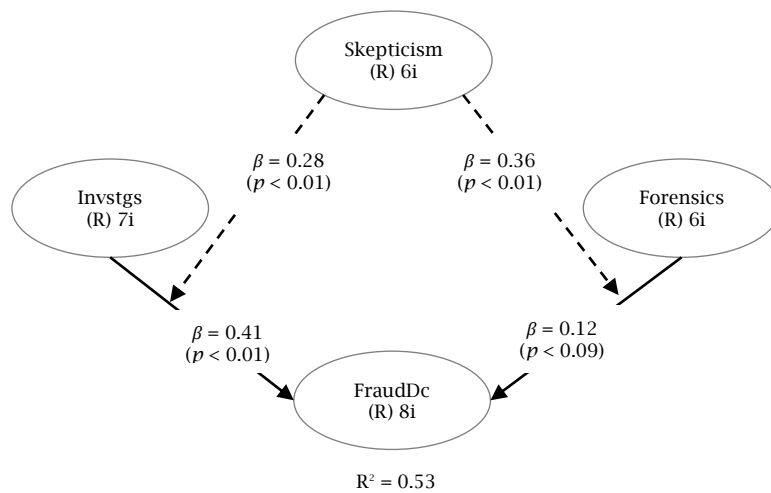
Indications of the fit model used in this study based on the output of the WarpPLS 7.0 program are the average path coefficient (APC), average R-square (ARS) and average variance inflation factor (AVIF), average adjusted R-squared (AARS), and average full collinearity VIF (AFVIF). According to Kock (2011), the criteria for the fulfilment of the goodness of fit of the first model is that the -value for all APC, ARS, and AARS must be significant at the 0.05 level (p-value < 5). The second criterion is that the AVIF and AFVIF values are not more than 5 (AVIF and AFVIF < 5). The following is the output of the fit model in Table 3.

Table 3. Measurement of model fit

Parameter	Value	Limitation	Conclusion
APC	0.292, p < 0.001	p < 0.05	Model fit
ARS	0.534, p < 0.001	p < 0.05	Model fit
AARS	0.518, p < 0.001	p < 0.05	Model fit
AVIF	1.475	Acceptable if ≤ 5, ideally ≤ 3.3	Model fit
AFVIF	1.499	Acceptable if ≤ 5, ideally ≤ 3.3	Model fit

Source: Research data processed, 2021.

Based on the output, the fit model has a value of APC = 0.292, p-value < 0.001; ARS = 0.534, p-value < 0.001; AARS = 0.518, p-value < 0.001; AVIF = 1.475 (acceptable if ≤ 5, ideally ≤ 3.3), and AFVIF = 1.499 (acceptable if ≤ 5, ideally ≤ 3.3). The WarpPLS 7.0 provisions state that the values of APC and ARS must be less than 0.05 (significant). The values of AVIF and AFVIF as indicators of multicollinearity must be less than 5. Referring to these provisions, it can be concluded that this research model is fit.

5. DISCUSSION

The first hypothesis (*H1*) states that forensic accounting has an effect on the disclosure of fraud in corruption cases. Based on the output of WarpPLS 7.0, as presented in Figure 1, it is known that the path coefficient of forensic accounting to fraud disclosure is -0.12 and is significant with a value of < 0.08, so it can be concluded that forensic accounting capability has a negative effect on fraud disclosure. Thus, the *H1* is accepted with a coefficient of determination of 0.53. The results of this study indicate that the audit process with forensic accounting can reduce the disclosure of fraud.

The second hypothesis (*H2*) states that investigative audits affect the disclosure of fraud in corruption cases. The output of WarpPLS 7.0, as presented in Figure 1, showed that the path coefficient of investigative audit to fraud disclosure is -0.41 and is significant with a p-value of < 0.01. Therefore, investigative audit capability has a negative effect on the disclosure of fraud cases. Thus, the *H2* is accepted with a coefficient of determination of 0.53. The results of this study indicate that the audit process with an investigative audit can reduce the disclosure of fraud.

The third hypothesis (*H3*) states that auditor skepticism can strengthen the influence of forensic accounting on the disclosure of fraud in corruption cases. The output of WarpPLS 7.0, as presented in Figure 1, revealed that the path coefficient of skepticism * forensic accounting to fraud disclosure is 0.36 and significant with p-value of < 0.01. Therefore, skepticism can strengthen the negative influence relationship between forensic accounting and disclosure of fraud. Thus, the *H3* is accepted with a coefficient of determination of 0.53. The results of this study indicate that skepticism can strengthen the negative influence relationship between forensic accounting and fraud disclosure.

The fourth hypothesis (*H4*) states that auditor skepticism can strengthen the effect of investigative audits on the disclosure of fraud in corruption cases. The output of WarpPLS 7.0, as presented in Figure 1, showed that the path coefficient of skepticism * investigative audit to fraud disclosure is -0.28 and is significant with a p-value of < 0.01. Therefore, skepticism can strengthen the negative influence relationship between forensic accounting

and the disclosure of fraud. Thus, the *H4* is accepted with a coefficient of determination of 0.53. The results of this study indicate that skepticism can strengthen the negative influence relationship between forensic accounting and fraud disclosure.

6. CONCLUSION

A number of research findings can be concluded in this study. The results showed a negative influence of forensic accounting variables on the level of disclosure of fraud. The results of this study indicate that good forensic accounting practices by auditors can reduce the level of fraud disclosure. There is a negative effect of investigative audit variables on the level of disclosure of fraud. The results of this study indicate that good investigative audit practices by auditors can reduce the level of fraud disclosure. There is an interaction between the variables of skepticism and forensic accounting on fraud disclosure. The results of this study indicate that auditors' skepticism in auditing

practices can strengthen the forensic accounting relationship which has consequences for reducing the level of disclosure of fraud. An interaction between the variables of skepticism and investigative audit on the disclosure of fraud is also found. The results of this study indicate that auditor skepticism in auditing practices can strengthen the investigative audit relationship which has consequences for reducing the level of fraud disclosure.

From the results of this study, the research agenda that can be carried out refers to the limitations of the results of statistical tests on the selected sample that have been described previously. The future research agenda that needs improvement is to develop existing models by considering other variables related to the disclosure of fraud in auditing practices. This can be an opportunity for research on fraud disclosure in Indonesia considering that research on fraud disclosure has not yet developed, it is still only an antecedent of fraud disclosure.

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