

Unveiling the Hidden Truth: The Evolution and Advancement of Forensic Accounting in Indonesia

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ABSTRACT:

This paper discusses the development of forensic accounting in Indonesia. As Indonesia's economy grows and becomes increasingly interconnected with global markets, the need for effective measures to address financial crimes has become paramount. Forensic accounting, with its unique blend of accounting, investigative skills, and legal knowledge, has emerged as a vital discipline in this context. The forensic accountant is growing in popularity; from the government's perspective, it also takes a special concern. As in Indonesia, fraudulent acts such as corruption, misappropriation of financial statements, fraud and others find out more in a recent year. Thus, it is claimed that forensic accounting should be included in the list of accounting courses in Indonesia.

Keywords: Forensic Accounting, Investigative Skills, legal knowledge, unique blend of accounting

I. INTRODUCTION

The beginning of forensic accounting in Indonesia was started in October 1997. At this moment, the Monetary Crisis experienced by Indonesia since 1997 – 1998. The drastic depreciation of the rupiah marks the Indonesian economy, the market collapse, and the decline in public confidence. These conditions are intertwined with the amount of foreign debt that is due soon the unfavourable situation of international trade. For example, many companies that borrow in dollars must face higher costs to pay debts.

Indonesia apparently resolved this crisis by finding the possibility of borrowing funds from International Monetary Fund (IMF) and World Bank to deal with the increasingly severe financial crisis. They require The Agreed Upon Due Diligence (AUDD) process to be carried out by foreign accountants and assisted by several Indonesian accountants. However, through all the processes, it was found that one of the big banks in Indonesia reported an overstatement its assets around 28% -75% and understatement its liabilities which is around 3% -33%. This finding immediately has direct influence on public trust which led to the liquidation of 16 private banks.

In 1999, Pricewaterhouse Coopers (PwC) found the tremendous loss attributable to the fraud in Bali Bank. It followed by Century Bank as the biggest scandals in 2009 which is detected Eradication Commission (KPK). As more corruption cases are detected in Indonesia, the demand for forensic accountant skills is on the rise. The forensic accountant is growing popularity among the universities which offer the forensic accounting courses for both undergraduate and postgraduate. As the role of forensic accountant in Indonesia is limited to auditing fraud (Prabowo, 2013). Surprisingly, from the government perspective, it also takes a special concern. For example, government plans to send Eradication Commission's staff to study forensic accounting in abroad. Selected investigators will send to Britain's Serious Fraud Office (SFO). Central Bank of Indonesia have a strategy to minimize fraud risk which is called antifraud strategy. It requires competent resources such as forensic accounting skills that able to prevent, detect, investigate, report, do sanction, monitor, evaluate and follow-up an appropriate antifraud strategy.

II. LITERATURE REVIEW

A. Forensic Accountant Profession in Indonesia

International crime survey consistently reports economic downturns and concern about the degradation of accountant moral as the result of accounting scandals as such, Enron, WorldCom, the Panama papers and many others (ACFE, 2014; E&Y, 2014; PwC, 2014; KPMG, 2013). With these constant findings of discovering of frauds, thus accounting paradigm which was discussion on the conventional perspective has significantly transformed into the need of certain professionalism report and best practice of forensic accounting. An increase demand for forensic accounting is growing in today's era. Forensic accounting is different from traditional accounting, where the accountant must not only have accounting skills and knowledge, but also cover a number of multidisciplinary areas such as law, auditing, accounting, finance, economics, psychology, sociology, criminology, and ethical values (Howieson, 2018; DiGabriele, 2014; Salleh & Ab Aziz, 2014).

Indonesia is a vulnerable country for financial fraud. There are a few cases that was found to support the justification. Financial Services Authority (OJK) has closed down three rural banks due to misconduct of financial report. It was found that the bank's owners have performed the fraudulent practices that detracted from their balance sheets (thejakartapost.com, 2013). Djumena (2019) reported that financial fraud was detected in insurance companies. Fourteen insurance companies under Indonesian Public Insurance Association have reported that they were affected by the financial scams. There are some reasons of financial report fraud in Indonesia. First reason because of there is not sufficient program to train forensic accountant competency to handle and investigate the fraud and fake transaction on financial report. The lack of competency has argued also happened in the firm level to manage the internal controls with limited capable staff who prepare and advice a financial report (Kontan.co.id, 2019). Yendrawati et al. (2019) argued that the fraudulent financial reporting happened because of the not sufficient effective monitoring systems and capability.

The second reason because of the awareness of the code of conduct and ethical values. Siregar and Tenoyo (2015) have conducted the private sector fraud awareness survey in Indonesia. They found that the fraud has happened because of lack of ethical values and the accounting staff are not aware on the fraud risk management process. To meet the industry demand, the higher institutions in Indonesia has attempted to design the forensic accounting program to produce the quality and competence forensic accountants. However, these efforts seem like

not working very well. Despite the forensic accounting concept has been taught in the classroom and accountant professional education training, the forensic accounting education is failed to fulfil the demand for skilled professionals in industry. Due to the fact that the current forensic accounting education in Indonesia is incapable of addressing the "problem-based" nature that distinguishes it from other accounting disciplines (Prabowo, 2013).

As a consequence, accountants should be professional and experienced in performing their services. Therefore, it is essential to explore what is the "good" accounting forensic from an Islamic point of view? This seems so simply in words but complex in meaning. It could be discussed from different points of view such as knowledge, skills, competence and especially from the point of view of Islamic ethics. Often, however, there has been a piecemeal fashion of study to answer what means to be an ethical forensic accountant? A number of studies only concentrate on how to be professional forensic accountant and what are the attributes of technical knowledge and skills which need to possess (DiGabriele, 2008, Davis et al., 2010, VanAkkeren et al., 2013). In relation to this, this chapter seeks to explore forensic accounting through the lens of Islamic ethics which can be useful as a practical guide for forensic accountants in providing their services to clients.

In Indonesian context, "white-collar criminals" detection is one of the most challenging to combat. They are the person who utilizes their respectability and high social status to create an offense. According to Rizki et al. (2017) one of the significant and positive effect to detect a person who committed "a white-collar crime" is through forensic accounting and audit investigation. However, even though accounting courses especially forensic accounting course is in a great demand, still this subject does not exist and offer by higher institutions. According to Sugianto and Jiantari (2014), the importance of forensic accounting is to strengthen and emphasize students understanding on prevention and detection of fraudulent acts. As in Indonesia, the fraudulent acts such as corruption, misappropriation of financial statements, fraud and others find out more in a recent year. Thus, it is claimed that forensic accounting should be included in the list of accounting courses in Indonesia.

III. DISCUSSION

With the development of market economy and technology development, it has a consequence of property encroachment crimes. Forensic accountants can explain in detecting and preventing frauds in a financial statement audits as they have knowledge and skills in those areas. There are more difficult to investigate by courts and arbitral institutions as they are always growing menace with a new form of frauds. In this case, it is heightened interest in forensic accounting field to offer comprehensive analysis on issue of litigation and non-litigation services, to solve the problems of illegal interference and damage, lawsuit evidence and loss measurement reports (Solnik, 2008; Renzhou, 2011).

Broadly, forensic accounting covers the comprehensive analysis of consultancy, non-scientific testimony and investigates services (Glusman, 2007; D'anno, 2009; Akkeren et al., 2013). Moncliff (2005) highlighted two main areas of forensic accounting, first, investigative accounting, which refers not only to figures and documents of the company, but also to the business environment of the company. Second, the area is litigation support which is helpful the attorney to provide additional information that may be needed to prove the case and proposed the questions to ask of witnesses. According to Digabriele (2008), the forensic accountant plays an important role in the government sector, especially in finding suspicious financial activities and fraud reported by individuals and companies. Forensic accountants do

not merely work with numbers, however, they will go beyond than that. The traditional auditor is concern only to certify whether the presentation of financial statements of the clients is presented with the true and fair view (Akyel, 2012). The task of the auditor as an independent auditor must be appointed in accordance with the relevant legal obligation to audit and express an opinion on the financial statements prepared by the companies. At this view, there is an emergence “perception gap” between the public versus the auditing profession to look at what exactly the auditors’ duty is. A public view the auditors is responsibility to detect fraud and errors in financial statements. In contrast, to detect those responsibilities are actually beyond the independent auditor’s duty, as they are not obligated to discover fraud if they work diligently and in good faith (Karim et al, 2017). In sum, the most effective way to commit in detecting and preventing fraudulent of financial scandals is forensic accounting profession (Koh et al., 2009).

Forensic accountants work beyond the auditors’ duty, they must look for any signs which indicate the existence of fraudulent of financial statement. Forensic professional accountants look in the areas whereas all other accountants do not do so such as financial accountant, cost and management accountant and even chartered accountant. Forensic accountants must anticipate criminal actions and fraudulent of financial statements by going through the internal databases and court records to covers the frauds. As the nature of people who are committing with frauds will be able to hide the evidence of their crimes. As consultants, forensic accountant retained by many parties, for example, forensic accountants offer investigating allegations services of fraud (e.g. bankruptcy, settle insurance claims, insolvency, reorganization) relating to their employees, suppliers and customers (Steinberg, 2007; Huber, 2014) and handle manipulations in corporate filings (Watson, 2007) and collection of indisputable documents.

For attorney, they will be able to provide estimation of losses, arbitration, family disputes, damages and assets which relate to the specific legal cases such as product liability, shareholder disputes. As a criminal investigator, the forensic accountant analyzes complex financial transactions, such as stock market manipulation and price fixing. Further, they may also offer services to the government to help achieving compliance with various forms of regulation (Karim et al., 2017), factfinder to detect corruption, negligence by employee. In criminal investigations, forensic accountants analyze complex financial transactions and act as fact-finding such as those in stock market manipulations and price fixing schemes administrative proceedings (Raghavan, 2014). In regard to forensic accountant traits and characteristics, knowledge, and skills, Utami et al. (2019) suggest that the company should design whistleblowing systems to prevent fraud intention among the employees. It is mean that fraud can be managed by monitor employees’ characteristics and behaviour.

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