Fraud Detection Of Financial Reporting

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Abstract: This paper aims to see how an auditor can detect fraudulent fraud in financial statements with the development of applicable rules standards. From some previous research on ways and things that affect fraud in financial statements, the authors conclude that there are several things that are fundamental factors affecting an auditor to detect fraud in financial statements.

Index Terms: Fraud, Fraud Detection, Auditor, Financial Reporting.

1 INTRODUCTION

Indonesia is known as one of the most corrupt countries in the world. In preparing the financial statements, the IFRS standard has been used. In examining the preparation of financial reporting, an audit process is designed to provide a belief that financial statements do not occur material misstatement and also provide adequate confidence in management accountability for company assets. When there is material supply in the financial statements, the information becomes invalid to be used as a basis for decision making, because analysis is not based on actual information. The increasing number of accounting scandal cases in the world caused various parties to speculate that management had cheated financial statements (Skousen et al., 2009). Two types of misstatements in financial statements are errors and fraud. According to Siti Thoyibatun (2009) financial reporting fraud is a deliberate act or omission that results in material misstatement that misleads the financial statements. Financial reporting fraud is a certain amount of negligence or deliberate misuse or disclosure in financial reporting to deceive users of financial statements.

2 LITERATURE REVIEW

Arens (2005: 310) is a fraudulent financial reporting intentional misstatement of omission of amounts or disclosure with the intent to deceive users. Most cases of fraudulent financial reporting involve the intentional misstatement of amounts not disclusures. For example, the world is reported to have capitalized as fixed assets, billions of dollars that should have been expensed. Ommission of amounts is less common, but a company can everstate income by omitting accounts payable and other liabilities. Although less frequent, several notables cases of fraudulent financial reporting involved adequate disclosure. For example, the enron central issue in the case is whether the company has adequately disclosed obligations to affiliated known as special purpose entities. According to Robert Cockerall (Ernst & Young auditor) in his paper "fundamental forensic accounting: opportunities, objectives/objects of fraud, indicators, methods and consequences of fraud. Motivation and opportunity have the same meaning as the previous definition.

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Salehi and Azary (2008) suggest that fraud involves misuse of resources and improper reporting of the use of management resources, so that to prevent audit failures the auditor's ability to detect management fraud is needed. Fraud includes all surprises, tricks, cunning and disguises, as well as every unfair way in which other parties are deceived. Fraud in financial statements is usually in the form of intentional misstatement or omission both in the amount and disclosure of posts in financial reporting to mislead users of financial statement information. According to SAS No.99, financial statement fraud can be done by:

a) Manipulation, forgery or changes in accounting records, supporting documents from the financial statements prepared.
b) Accidental errors or omissions in significant information on financial statements.
c) Conduct intentional misuse of principles relating to the number, classification, manner of presentation or disclosure.

By their nature, fraud can be categorized into:

1) Financial reporting that contains fraud, which arises from improper revenue recognition, overstatement of assets, or lack of liability.
2) Misappropriation of assets, including fraud, payroll fraud, theft of external parties.
3) Financial irregularities by management.
4) Fraud through avoidance of burden, eg tax fraud, regulating income to avoid taxes.
5) Expenditures or emergence of improper obligations such as bribery.

Broadly speaking, there are three fraud risk factors related to fraud in financial reporting (Kenyon, Will, 2006):

a) Management characteristics related to management capabilities, pressures, attitudes and behavior towards internal control and financial reporting processes.
b) Industrial characteristics related to economic conditions and applicable regulations.
c) Operational characteristics and financial stability which include the nature and complexity of the company's transactions and the company's financial condition.

According to Ferdian & Na'im (2006), fraud in financial statements can be related to the actions presented below:

1) Manipulation, forgery or changes in accounting records or supporting documents which are the sources of data for the presentation of financial statements.
2) Deep representation or omission from financial

statements, events, transactions or other significant information.

3) Wrong intentional application of accounting principles relating to the amount, classification, manner of presentation or disclosure.

Fraud Triangle Theory

According to Arens et al. (2011), that there are three conditions that will lead to fraudulent financial statements and missapproval assets. These three conditions are called tringle fraud. The three conditions that influence cheating in the fraud triangle theory are as follows (Romney & Steinbart, 2015):

a. Pressure. Pressure is a situation where management or other employees feel incentives or pressure to commit fraud.
b. Chance. Opportunities are opportunities to commit fraud or situations that open up opportunities for management/employees to commit fraud.
c. Rationalization. Rationalization can be interpreted as the presence or emergence of attitudes, characters, or a series of ethical values that allow management or employees to take dishonest actions.

Loebbecke et al (1989) cheating is more difficult to detect because it usually involves concealment. The concealment is related to accounting records and related documents, and this also relates to the fraudulent response at the request of the auditor in carrying out the audit. Johnson et al (1991) states that there are three tactics used by managers to trick auditors. The first tactic is to make misleading descriptions to cause the auditor to produce incorrect expectations so that they fail to recognize inconsistencies.

3 RESEARCH METHODOLOGY

In this financial statement fraud research the author uses the literature research method. This research is a type of descriptive research, which describes the characteristics of a phenomenon that can be used as a basis for making decisions to solve problems.

4 RESULT AND DISCUSSION

According to Maylia Prmono Sari (2013) found that the higher the value of the audit report (rationalization), the higher the probability of a company to commit fraud. According to Yuvita Avrie Diany (2014) found a positive and significant relationship between pressure and opportunity with fraudulent report fraud. According to Tri Ramaraya (2008) there are several factors that cause fraud detection failures, namely:

1. Characteristics of fraud
   According to Loebbecke et al (2010), cheating is more difficult to detect because it usually involves concealment. This concealment is related to accounting records and related documents, and this also relates to the fraudulent response at the request of the auditor in carrying out the audit.
2. Auditing standards regarding fraud detection. SAS No. 99 is designed to expand audit procedures relating to material shortages in financial statements. SAS reminds auditors to overcome natural tendencies such as overconfidence in client representation and bias and audit approaches with skepticism and questioning thoughts.
3. The audit work environment that reduces audit quality. The pressures of the work environment can be divided into several things explained below, namely competition pressure on fees, time pressure and relations between auditor-auditee relationships.
4. Audit methods and procedures that are not effective in detecting fraud.

5 CONCLUSION

Fraudulent is a misstatement or intentional disappearance of the amount or disclosure in the financial statements. The trigger of fraud is partly due to greed, need, pressure, opportunity and rational. Fraud is a serious problem, so public accountants must take comprehensive steps in the prevention and detection of fraud. For fraud detection in financial statements, a lot of research has been done with non-uniform results, where there are studies that support previous research, and there are also studies that do not support previous research. The initial step in detecting fraud is derived from information or instructions from various parties such as employees, partners and consumers.

The detection of financial statement fraud is influenced by:

1) characteristics of fraud.
2) Standards for auditing fraud detection
3) The audit work environment that reduces audit quality. (1) competition pressure on fees; (2) time pressure; (3) relations between auditor-auditee relationships.

Fraudulent financial reporting can occur at any time and in any company. According to SAS No. 99 and SPAP, public accountants (independent auditors) are responsible for detecting fraud in general audits of the company's financial statements. Based on a review of various studies that have been conducted, there are four major causative factors identified through this research. First, the characteristics of the occurrence of fraud so that the detection process is difficult. Second, auditing standards are not sufficient to support the detection that is appropriate. Third, the audit work environment can reduce audit quality and the four existing audit methods and procedures are not effective enough to detect fraud.

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