

UNIVERSITI TEKNOLOGI MARA

**ENHANCING AUDITOR'S FRAUD RISK
ASSESSMENT COMPETENCY THROUGH
FORENSIC ACCOUNTING TRAINING**

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ABSTRACT

The Fraud Risk Assessment (FRA) plays a significant role in any financial audit activities of any organisation. The auditor's opinion may influence organisations in various aspects, such as decision-making, performing financial transactions, and organisational culture. Therefore, auditors in Indonesia must follow the technical guidance and applicable audit standards on FRA. Generally, this study aims to investigate FRA practice at the Supreme Audit Board (SAB) of the Republic of Indonesia, the challenges faced by the auditors in carrying out FRA, the impact of auditor's competency in preparing FRA, and the roles of professional training in FRA Processes. This study determined the sample purposively. Data was collected through interviews with auditors, focus group discussions with training institution staff and trainers, curriculum and other documentation, and non-participatory observation. This study found that SAB auditors did not conduct FRA at the audit planning stage because they lacked understanding in preparing the Fraud Risk Assessment Matrix (FRAM). Other challenges in implementing FRA is time pressure and financial budget. They have to finish annual financial statement audit within only 2 (two) months. Also, their budgets and human resources are limited. Furthermore, this study found that auditors with forensic accounting education backgrounds performed better FRA than those who did not. It was also found that the Supreme Audit Board Training Centre, known as Badan Pendidikan dan Pelatihan (Badiklat) SAB, did not provide training on preparing the FRAM. *Badiklat SAB* also has no forensic accounting curriculum to develop auditor's technical and investigative skills, including non-financial measurement. They also did not have trainers/educators with forensic accounting education qualifications. Practically and theoretically, this study contributes to the auditor's forensic accounting competency development. This study leads to another in-depth study of several critical processes identified for fraud prevention and detection practices—for example, education issues about fraud, anti-fraud systems, and forensic accounting techniques in auditing. Future research can investigate the relationship between FRA practices and investigative audits with forensic accounting knowledge variables as moderating.

Keyword: Fraud Risk Assessment, Audit Standard, Forensic Accounting, Public Sector Audit, Supreme Audit Board.

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CHAPTER ONE

INTRODUCTION

1.0 Research Background

The auditing profession has a significant role in enhancing the public accountability system. The auditor's opinion becomes a referral point for stakeholders as a basis for their decisions. The audit process must comply with audit standards set by the professional standards board to ensure the quality of the audit report is excellent and reliable. Audit standards and regulations are set to overcome audit failures and improve audit quality (Knechel, 2016).

The Republic of Indonesia Supreme Audit Board (SAB) is a state institution in the Indonesian constitutional system that has the authority to inspect the management and responsibilities of state finances. The International Organization of Supreme Audit Institutions (INTOSAI) has set compliance with audit standards as a mandatory requirement for state financial auditors, namely the International Standards of Supreme Audit Institutions (ISSAI). ISSAI 1240 explains auditors' tasks and responsibilities related to fraud when auditing financial statements that require auditors to conduct the Fraud Risk Assessment (FRA).

This study departs from the perception that each auditor has the same obligations and social responsibilities, even though they have different competencies. This assumption motivates the author to explore the possible fundamental problems experienced by auditors in conducting audits. Therefore, this chapter provides facts about several types of fraud. This chapter also assumes that auditors' incapability in detecting financial statements fraud due to lack of competency is one of the possible causes of the increasing number of corruption cases.

A preliminary study was carried out, and non-scheduled interviews were conducted with several auditors and academics. The non-scheduled interviewees from an academic, especially most Indonesian Public Sector Accounting Lecturers