

CHAPTER I

INTRODUCTION

1.1. Background

In the era of digital transformation, the evolution of companies significantly influences and shapes the progress of society. This situation forces the company's management to heighten its vigilance and closely monitor all activities taking place within the company. Criminals are using technological development to do fraud. It is easy for criminals to scam victims around the world. Researchers would like to focus on how fraudsters combine online and offline methods to do various ways to commit fraud that have taken a lot of victims. The evolution of technology has great impact on the characteristic of fraud in terms of perpetrators, victims and third parties. According to Sayyid (2014), fraud is a planned thing and conducted by individuals or a group that would benefit from the other party who may be harmed. An act of fraud can be said to be detrimental to the other party and even many parties. From this understanding, it can also be seen that cheating can be done by anyone, anywhere and can use anything.

Independent auditors have an important role for various parties, especially those who have to make internal and external decisions for the company. The main role of an auditor is to examine and evaluate the financial records, statements, and internal control systems of an organization to determine their accuracy and compliance with applicable accounting and regulatory standards. The Financial Accounting Standards Board (FASB) states that two characteristics must be present in financial statements: reliability and relevance. In the era of digital transformation,

auditor needs to ensure that the technology aligns with the legal standard and maintaining compliance with data protection regulations. To increase the confidence of users of financial reports regarding the sentiment and relevance of the financial statements, the presence of public accounting services as a third-party company ensures that company reports are reliable and relevant. The large number of cases involving several Public Accounting Firms and large companies in Indonesia has caused the confidence of users of financial statements to decrease. This case was none other than due to an error or negligence committed by the independent auditor and public accountant, which was not in accordance with the applicable standards, the Public Accountant Professional Standards (Adhariani & Suryanto, 2018).

The code of ethics is always expected to be implemented by the Public Accountant in carrying out their daily duties and responsibilities. Ethical judgment considerations now days involve protecting individuals privacy, addressing biases in the data and algorithms to ensure fair treatment and prevent the unjust targeting certain individuals or groups (Wood, 2021). However, several financial scandals committed by various large companies in Indonesia involving public accountants as independent parties tasked with auditing company financial statements have recently been in the public spotlight, resulting in questionable auditor compliance and ethical judgment. According to Transparency International in 2020, countries Indonesia is ranked 102 out of 180 countries for the level of corruption, even though the year 2019 Indonesia was ranked 85th. This means the level of corruption in the country Indonesia is experiencing a rapid increase from year to year (Maulaa, 2021). An example of corruption case that occurred in Indonesia is the Jiwasraya

case in 2020. PT Jiwasraya is entangled in a corruption case whose losses reach tens of trillions of rupiah, even the CPC mentioned that the loss in this case was the biggest loss for the country. The Chairman of the Audit Board (BPK) also stated that the case Jiwasraya belongs to a large scale and requires caution in handling it (Yolanda, 2020). In addition, in Indonesia there are also many cases of fraud in reports finance. PT Garuda Indonesia (GIAA) is one of the companies entangled with the case of fraud in financial statements.

PT Garuda Indonesia reports profit of US\$ 809 thousands in the 2018 financial statements where in fact PT. Garuda Indonesia is facing losses. Apparently in 2018 PT Garuda Indonesia (GIAA) has recognized revenue from Mahata which is actually the income has not been received in 2018 and also the revaluation of assets carried out can increase the profit obtained by GIAA. Its financial statement has been independently audited with an unqualified opinion (Pratiwi, 2019). There no information proceeded by the independent auditor about this material matters. Obviously, this situation indicates that the auditors may be careless to deal with the critical information during the audit process. It raises a question about auditor's capability to access the information.

The case is in line with the release from Financial Services Information Sharing and Analysis Centre (FS-ISAC) that Indonesia is currently also among the 10 countries in the world that vulnerable to cybercrime. FS-ISAC released on the second quarter of 2020 shows that Indonesia was ranked 9th for cybercrime risk. This state a serious alarm for the auditors during the audit process. Responding to this alert, the auditors need to enhance with all aspect about digital technology and its transformation (Prabowo & Simpson, 2011).

The rise in cybercrime is driven, among other things, by the fact that criminal prosecution continues to be a priority. On the other hand, the cybercrime detection and prevention aspect are suboptimal. The challenge of digitally covering up criminal trails is at odds to the willingness in using digital forensics. According to Prawira (2020), the demand for digital forensics professionals does not match the curricula's willingness to train digital forensics professionals. Primary accounting teaching should include a forensic accounting curriculum. Before providing services, it is critical that forensic accountants receive professional education and training in forensic accounting (Sugianto and Jiantari, 2014; Fanani and Gunawan, 2020; Prabowo, 2015). According to the National Accreditation Board, Indonesia has eight accredited digital forensics labs. The majority of them are members of the Indonesian National Police (Achmad, 2020). In terms of government agencies, only the General Tax Service is ready in terms of organizational structure, resources, and personnel. Financial and Development Oversight already has a digital forensics department, but no accredited digital forensics expert.lab. As the government's external auditor, the Supreme Audit Authority is armed with digital forensic tools and software. However, the department of the Supreme Audit Authority responsible for digital forensic investigations is still a separate task force (Purnama, 2021).

Another examples of fraud that have occurred in large companies can be seen in the case of Google and Facebook. Esvaldas Rimasauskas has committed fraud against his two technology giants in the United States (US): Facebook and Google. He committed a fraud totalling \$122 million in damages. Facebook \$99 million, Google \$23 million. Esvaldas initiated action using the Business Email Compromise (BEC) method. Using an email impersonating his Taiwanese

manufacturing company, Quanta Computer, he sent invoices complete with forged documents and contracts to the two companies. Facebook and Google believed the bill and sent money. However, in 2017, the crime was uncovered and Esvaldas was finally convicted. Esvaldas initiated action using the Business Email Compromise (BEC) method.

IT risk has become a focus of top management in the era of digital transformation, particularly in corporate decision-making. Because today's IT risks not only endanger IT environment, but they can also cost its entire business. It is difficult to assess the effectiveness of IT implementation in the organization due to his limited IT knowledge of top management. Top management recognizes the importance of IT audits in assessing IT implementation and ensuring that it does not pose unacceptable risks to the business. An IT-based audit involves the evaluation of an organization's information systems, applications, and infrastructure to ensure the integrity, confidentiality, and availability of data (Jans, 2020). This type of audit examines IT controls, security measures, and compliance with regulatory requirements, thus helping organizations identify and mitigate IT-related risks.

As companies transform their businesses as they do today, auditors need to have the intention to train in order to gain experience handling cases in the era of digital transformations. With the rapid development of technology in the world, information technology plays an important role in accelerating the process of detecting fraud in audit work (Spathis, 2002). Information technology also aids in crime prevention and detection, particularly in cybercrime.

Due to the case at PT Garuda Indonesia Tbk, the competence, compliance to the standard, and ethical judgment of auditors began to be questioned because auditors from well-known public accounting firms, such as big four accounting firms, do not guarantee that auditors are competent in auditing financial statements. Researchers will conduct investigation by combining four variables that is technological development, compliance, ethical judgment, and working experience to determine its impact to the capability of auditor in detecting fraud in the era of digital transformation. The importance of capability for auditors and public accounting firms also encourages researchers to identify factors influencing and improving auditor capability in detecting the indication of fraud (Gonzalez et al., 2014).

External auditors play an important role in the audit process, verifying that financial statements are accurate, dependable, and comply with applicable standards and requirements. They offer an objective assessment of an organization's financial health, which is critical for stakeholders such as investors, regulators, and the general public (Cohen et al., 2002). In the context of digital transformation, this job includes reviewing the efficacy of IT systems and controls, identifying cybercrime risks, and assuring data protection compliance.

The role of external auditors involves evaluating financial records to ensure that they accurately reflect the organization's financial situation and performance. This includes evaluating the efficiency of internal controls for preventing and detecting fraud and mistakes, as well as ensuring that the business conforms with applicable laws, rules, and standards. Providing assurance to stakeholders by

increasing their trust in the financial statements is an important component of the auditor's job.

In the current digital age, auditors also need to be aware of the risks associated with digitalization and keep up with the latest developments in technology and how they affect fraud prevention and detection. They must address biases in data and algorithms, uphold ethical standards while handling sensitive material, and examine and analyze data using digital forensic tools and procedures. For auditors to manage the intricacies of the digital revolution, they must constantly update their knowledge and abilities.

This study intends to investigate the ways in which technological development, compliance, ethical judgment, and working experience impact auditors' capability to detect fraud in the age of digital transformation. Public accounting firms and auditors can improve their procedures and the accuracy and applicability of financial reporting by being aware of these variables.

1.2. Research Questions

The existence of new digital technology and the development of digital transformation has occurred many kinds of fraud and Users of financial statements will have more trust in the information in the financial statements that agents have prepared after the report has been checked for integrity by the auditor. Therefore, the auditor must have competence, compliance, and ethical judgment. In addition, there were facts found in the case of PT Garuda Indonesia Tbk, that questioning the competence, compliance, and ethical judgment of auditors on the capability of

auditor to provide good quality audit and fraud detection. Through this study the researcher wants to identify the effect of technological development, auditor's competence, compliance, and ethical judgment to the capability of auditor, the formulation of the problem in this study is:

1. Does technological development affect the auditor's capability in detecting fraud?
2. Does the compliance of the auditor affect the auditor's capability in detecting fraud?
3. Does the ethical judgment of the auditor affect the auditor's capability in detecting fraud?
4. Does the working experience of the auditor affect the auditor's capability in detecting fraud?

1.3. Research Objectives

This study aims to provide evidence about the effect of technological development, compliance, ethical judgment, and working experience on the auditor capability to detect fraud by combining these four variables as our research model conducted on this research. In addition, this test was also carried out because it was found that there were inconsistent results from several previous studies. Compared to the earlier studies, a different subject used in this study will accurately prove these variables' effect on auditor capability to detect fraud.

1.4. Research Contributions

It is expected that this study will provide accurate insight, relevant, and usable by:

1.4.1. Policy Contribution

The results of this study are expected to provide contribution to the development of policies that address the challenges and opportunities related to fraud detection in the era of digital transformation. Hopefully, this research can give holistic approach for the Indonesian Institute of Certified Public Accountants (IAPI) that combines updated professional standards, regulatory oversight, continuous education, ethics, and technology adoption to strengthen auditors' capabilities in detecting and preventing fraud in the digital age.

1.4.2. Practical Contribution

This research can provide input to the public auditors as a way they can adapt to the changes of digital information and optimize the capability of auditor to indicate fraud. Auditors can also find out how to prepare for the incoming fraud. Moreover, in today's rapidly evolving digital era, auditors have a unique opportunity to make a practical contribution by embracing technology and enhancing their digital skills. Hopefully, this research can provide auditor to have the intention to train in IT-audit.