

# The Black Box of Fraudulent Financial Statements: Do Digital Audit Procedures Matter?

Dian Widiyati<sup>1</sup>, Lim Hendra<sup>2</sup>, Zefanya Putra<sup>2</sup>

<sup>1</sup>Pamulang University, Indonesia

<sup>2</sup>STEI Indonesia, Indonesia

<sup>2</sup>School of Electrical Engineering and Informatics, Bandung Institute of Technology, Indonesia

## ARTICLE INFO

## ABSTRACT

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**Introduction:** Fraud in financial statements is a serious and complex issue in modern accounting and auditing. Although financial statements should reflect an entity's true financial condition, management often manipulates them to mislead stakeholders.

**Objectives:** This study aims to examine the phenomenon of fraudulent financial statements and assess the extent to which audit procedures are able to detect fraud hidden behind the company's financial statements. This phenomenon is known as the black box of fraud, where financial manipulation is carried out systematically and disguised through seemingly legitimate accounting procedures.

**Methods:** This study uses a descriptive qualitative approach with a case study method on several large companies in Indonesia.

**Results:** The results show that the majority of fraud cases are rooted in weak internal controls, collusion between internal and external parties, and auditors' failure to implement professional skepticism and critical audit procedures. Fraud occurs through various means, including asset mark-ups, premature recognition of income, and undisclosed affiliate transactions. From the accounting side, this manipulation violates the principles of fair value, faithful representation, and full disclosure.

**Conclusions:** This study confirms that the effectiveness of audit procedures is not only determined by compliance with standards, but also by the auditor's ability to assess the economic substance behind each transaction. Strengthening risk-based audit procedures, using data analytics, and increasing auditor independence and integrity are key in penetrating complex fraud "black boxes". Thus, this research makes a theoretical and practical contribution to the accounting profession and regulators in improving audit reliability and public trust in financial statements.

**Keywords:** fraud, financial statement, digitalization, audit procedures

## INTRODUCTION

The phenomenon of cheating in financial statements has become one of the most complex and damaging issues in the modern world of accounting and auditing (Campa et al., 2025). Financial statements should be an honest and reliable representation of an entity's financial position and performance (Dashkevich et al., 2024; Sembiring et al., 2025). However, in practice, financial statements can be manipulated by management to create a misleading picture of the real situation. This kind of fraud is known as fraudulent financial reporting, which is an act that is done deliberately to deceive users of financial statements through omission, falsification, or misleading presentation of economic transactions and events. Major cases such as Enron, WorldCom, Toshiba, and Jiwaseraya in Indonesia are clear evidence that manipulation of financial statements can destroy a company's reputation, lower public trust, and shake national economic stability.

Fraudulent financial statements can appear in various forms: premature revenue recognition, cost manipulation, inflating assets through unreasonable valuations, and concealment of liabilities (Adejumo & Ogburie, 2025; Kassem &

Omoteso, 2024; Sørensen, 2025). From an accounting perspective, this practice directly violates the principles of fair value measurement and faithful representation as stipulated in the Financial Accounting Standards (SAK). This means that Jiwasraya's financial statements no longer reflect the actual economic conditions and have misled stakeholders.

The main problem in fraud cases like this lies not only in the malicious intentions of individuals, but also in systemic failures in the audit process. In modern audit theory, there are three layers of defense that are supposed to prevent fraud: management's internal control, internal audit function, and external audit by independent parties. However, in reality, many major fraud cases actually occur when these three layers fail to function effectively. Auditors, both internal and external, often face limitations in identifying fraud signals due to management pressure, limited audit evidence, and overconfidence in standard audit procedures that are not always able to penetrate fraud concealment (Adejumo & Ogburie, 2025; Kassem & Omoteso, 2024; Oyedotun et al., 2025).

It is in this context that the urgency of research on "The Black Box of Fraudulent Financial Statements: Do Digital Audit Procedures Matter?" becomes relevant. This study not only examines how fraud occurs and develops in the company environment, but also assesses the extent to which the audit procedures applied are able to catch indications of fraud. By understanding the relationship between fraud and audit procedures, it is hoped that weaknesses can be found in the audit process that have caused auditors to fail to detect manipulation of financial statements.

Audit procedures should ideally be able to be an early detection tool for such fraud. In practice, auditors must carry out audit stages ranging from planning, risk assessment, to substantive testing with high professional skepticism. However, in many cases, auditors get caught up in procedural compliance—the tendency to focus on fulfilling procedural formalities without really assessing the economic substance of the transaction. As a result, when fraud is carried out in a structured manner and supported by documents that appear legitimate, auditors have difficulty distinguishing between normal and fabricated transactions. In these conditions, the auditor's ability to think critically and apply professional skepticism is the main distinguishing factor between an effective audit and an audit that fails to detect fraud.

In addition, the role of technology and data analytics is also an important element in strengthening the effectiveness of audits. The data-driven approach allows auditors to analyze transaction patterns in large volumes to detect anomalies that are not easily visible through manual examinations (Gkegkas et al., 2025; Oyedotun et al., 2025; Senturk, 2025; Sliunina et al., 2024). The integration between conventional audits and data-based audits is one way to penetrate the fraud "black box" that has been covering the truth of financial statements.

Thus, the discussion in this article focuses on an in-depth understanding of the black box of fraudulent financial statements and the significance of audit procedures in detecting such fraud. The Jiwasraya case and several other fraud cases are an important reflection that the figures in the financial statements do not always reflect the actual economic reality. Auditors are required to go beyond compliance with standards, by developing a more critical, adaptive, and risk-based approach to auditing. Only in this way, the auditor profession can restore public confidence in financial statements and maintain the integrity of the accounting world in the midst of modern business complexity.

## METHODS

This study uses a descriptive qualitative approach with a case study method to explore in depth the process and mechanism of fraudulent financial statements and the role of audit procedures in revealing or preventing them. This approach was chosen because the research focuses on understanding phenomena contextually, not just measuring the relationships between variables. Thus, this study allows researchers to trace how fraud practices occur in the real world, what are the factors that trigger them, how the financial statement engineering process is carried out, and the extent to which auditors can detect it through the application of appropriate audit procedures.

The design of this study uses a multiple-case study model by comparing several major cases in Indonesia, such as Jiwasraya, Asabri, Garuda Indonesia, Wanaartha Life, Indosurya Cooperative, Investree, First Travel, Pandawa Group, Travel Umrah Abu Tours. This multi-case approach allows researchers to draw more comprehensive

conclusions regarding the effectiveness of audit procedures in various industry contexts and organizational structures.

The types and sources of data in this study come from secondary data obtained through searching official websites and trusted news portals such as the Financial Services Authority (OJK), the Indonesia Stock Exchange (IDX), the Ministry of SOEs, and national media sites such as Kompas, Tempo, and Kontan. The data collected includes financial statements, case chronology, investigation results, and official statements related to fraud practices. All of the data was then analyzed qualitatively to identify fraud patterns, weaknesses in internal control, and the relevance of audit procedures in detecting indications of financial statement manipulation.

Data collection techniques are carried out through documentation and literature studies. The documentation method is used to collect empirical evidence related to the process of fraud, such as the chronology of events, internal and external audit reports, and the results of forensic investigations. Meanwhile, the literature study is used to understand relevant theories, including fraud triangle theory (pressure, opportunity, rationalization), auditing theory, and the concept of internal control framework. Through the combination of these two techniques, the research seeks to build a chronological narrative that explains the relationship between the weaknesses of the accounting system, the weak supervision of auditors, and the emergence of the practice of manipulating financial statements.

## **RESULTS**

### ***Jiwasraya 2019: Manipulation of Fictitious Financial and Investment Statements***

PT Asuransi Jiwasraya (Persero) is one of Indonesia's oldest life insurance companies, established in 1859 under the name *Nederlandsch Indische Levensverzekering en Liffrente Maatschappij van 1859*. After nationalization post-independence, it became a state-owned enterprise known as PT Asuransi Jiwasraya. For decades, Jiwasraya maintained a strong reputation as a major insurance provider, managing vast funds from various insurance and investment products. However, this image collapsed in 2019 when Indonesia's largest financial scandal in the insurance sector was exposed—revealing manipulation of financial statements, fictitious investments, and asset mark-ups, with state losses exceeding Rp 16.8 trillion.

The scandal stemmed from Jiwasraya's 2017 financial statements, which reported a net profit of Rp 360.3 billion, despite the company actually suffering heavy losses from unhealthy and speculative investments. Management inflated the value of investment assets beyond their fair value and recognized unrealized income, violating prudential principles and PSAK standards. Funds were placed in high-risk stocks and mutual funds managed by certain investment managers with links to internal parties. Many of these investments were fictitious or had no real economic value, resulting in severe financial distortion.

The roots of the problem date back to around 2008, when Jiwasraya began adopting risky investment strategies to meet short-term liabilities. Between 2013 and 2017, management intensified these practices through “window dressing” schemes—purchasing stocks whose values were manipulated via cross-transactions among securities firms and investment managers. Even when market prices fell, Jiwasraya continued recording inflated values, making the company appear stable. By late 2018, the scheme unraveled when Jiwasraya failed to pay policy claims exceeding Rp 12.4 trillion. Investigations by the Attorney General's Office, OJK, and BPK uncovered extensive manipulation and investment irregularities.

From an accounting perspective, the Jiwasraya case represents a severe breach of fair presentation principles in financial reporting. The company deliberately engineered profits and asset values, violating PSAK 55 and PSAK 71 concerning fair value measurement and impairment recognition. From an auditing standpoint, auditors should have detected red flags through analytical and substantive procedures, particularly regarding unusually high investment returns. The failure to identify these manipulations reflected weak audit procedures, insufficient internal control, and potential managerial interference—ultimately eroding public trust in financial reporting and audit integrity.

### ***Asabri 2020: Fraudulent Stock Investment and State Losses of IDR 22.7 trillion***

PT Asuransi Sosial Angkatan Bersenjata Republik Indonesia (Asabri) is a state-owned enterprise (BUMN) established in 1971 to manage social insurance and pension funds for TNI, Polri, and Ministry of Defense civil

servants. Asabri plays a vital role in providing financial protection for military and defense personnel, managing substantial public funds that require transparency and good governance. However, in 2020, a massive corruption scandal involving Asabri's executives and several business figures shocked the public, causing estimated state losses of around Rp22.78 trillion—one of Indonesia's largest financial scandals.

The case centered on fraudulent investment practices and asset mark-ups. Management, in collusion with investment managers and entrepreneurs, invested heavily in high-risk and illiquid stocks, many of which were “fried stocks” with artificially inflated prices. Through collusion, Asabri officials directed company funds toward certain manipulated stocks, generating fictitious profits while concealing significant losses. Investigations revealed that officials received bribes and kickbacks to allocate investments to predetermined shares at inflated prices, creating misleading financial statements.

Between 2012 and 2019, Asabri invested in companies with weak fundamentals and close links to corrupt actors. When stock values eventually collapsed, the company suffered enormous losses. In 2020, the Attorney General's Office named several suspects, including former President Directors Major General (Ret.) Adam R. Damiri and Lt. Gen. (Ret.) Sonny Widjaja, alongside businessmen Benny Tjokrosaputro and Heru Hidayat, who allegedly orchestrated fictitious investment schemes. From an accounting perspective, this case highlights serious violations of fair value measurement and disclosure principles in financial reporting. Asabri's financial statements ignored investment risks and related-party transactions, undermining transparency. From an auditing standpoint, weak internal controls and poor audit procedures allowed manipulation to persist. Independent auditors should have detected discrepancies between recorded values and market prices through analytical reviews, substantive testing, and external confirmations—procedures that, if properly implemented, could have revealed the fraud earlier.

### ***Garuda Indonesia 2018–2021: Manipulation of financial statements (admit revenue before realization) Restatement of financial statements***

PT Garuda Indonesia (Persero) Tbk (GIAA) is Indonesia's national airline, majority-owned by the government and listed on the Indonesia Stock Exchange since 2011. As a public company, it must comply with PSAK standards and OJK supervision. Despite its strategic importance, Garuda had long faced financial pressures from high operating costs, mounting debt, and intense industry competition before a major financial statement manipulation case surfaced in 2019. The scandal originated from Garuda's 2018 financial statements, which reported a profit of USD 809,000—contradicting a USD 216.5 million loss the year before. The irregularity was linked to a cooperation agreement with PT Mahata Aero Teknologi (Mahata) for inflight WiFi services worth USD 239.94 million. Although Garuda had not received most of the payment, management recognized the entire amount as revenue in 2018, violating accrual and realization principles. Two commissioners, Chairal Tanjung and Dony Oskaria, refused to sign the financial report, citing concerns over improper revenue recognition.

Following public scrutiny, the OJK and IDX investigated and concluded that the revenue recognition did not comply with PSAK standards. Garuda was fined Rp 100 million and required to restate its 2018 financial statements, revealing significant losses. Directors and the external auditor also faced individual sanctions, including a one-year suspension of the auditor's license. The case severely damaged Garuda's reputation, eroded investor trust, and triggered a sharp decline in its stock value. From an accounting perspective, the case illustrates a clear violation of PSAK 72 on revenue recognition. Recognizing unearned income misrepresented Garuda's financial condition and reflected weak internal controls, poor governance, and ethical lapses. From an auditing standpoint, the failure to detect these misstatements showed insufficient professional skepticism and inadequate substantive testing—especially regarding contract terms, payment schedules, and cash flow analysis—allowing financial manipulation to go undetected.

### ***Wanaartha Life 2022: Clear public fundraising without permission, policy default of Rp 15 trillion ±, thousands of customer victims***

PT Asuransi Jiwa Adisarana Wanaartha (Wanaartha Life) is a national life insurance company founded in 1974 and headquartered in Jakarta. Initially, it focused on conventional life protection and long-term investment products. Over time, Wanaartha Life expanded into unit-linked insurance, offering investment-linked policies with promises of high returns. Despite its image as a profitable and trusted insurer, the company engaged in non-transparent

financial practices that violated legal and accounting standards, culminating in a major financial crisis in 2022. The scandal began when the Financial Services Authority (OJK) discovered that Wanaartha Life had been collecting public funds through unapproved investment products and violating fund management regulations. The company sold insurance policies promising unusually high returns but failed to record many of these policies in its official accounting system. Consequently, there was a significant gap between the number of policies reported to regulators and those actually sold. This manipulation led to severe financial distress, resulting in the company's inability to fulfill its policy obligations, with losses reaching approximately IDR 15 trillion and affecting thousands of policyholders.

Between 2015 and 2018, Wanaartha Life aggressively marketed investment-based insurance with returns far exceeding market averages. However, much of the premium income was not properly recorded in financial statements and was instead used in non-transparent ways. In 2019, the OJK detected inconsistencies between reported financial data and actual policy records. Further investigation confirmed serious governance and accounting violations. The crisis peaked in 2022 when OJK revoked Wanaartha Life's operating license after it defaulted on payments.

From an accounting perspective, this case reflects violations of fundamental principles such as reliability, transparency, and fair presentation. The deliberate omission of premium revenues distorted the company's true financial condition. Weak internal control systems and ineffective audits further enabled fraudulent activities. From an auditing standpoint, auditors should have identified anomalies during planning and analytical review stages by examining trends in premium growth, cash flows, and claims. Substantive testing, including direct confirmation with policyholders and financial institutions, could have exposed unrecorded transactions. The auditor's failure to detect these irregularities indicates deficiencies in professional skepticism, independence, and audit quality—factors that contributed to the collapse of public trust in Wanaartha Life.

### ***Indosurya Cooperative 2020: Ponzi scheme under the guise of a savings and loan cooperative worth Rp 106 trillion, 23,000 victims***

Koperasi Simpan Pinjam (KSP) Indosurya Cipta was established around 2012 as a savings and loan cooperative among members. Over time, however, it began collecting funds from the public with the lure of unusually high interest rates, far exceeding bank averages. This promise of quick profits attracted thousands of investors nationwide. In reality, KSP Indosurya operated a Ponzi-like scheme—using new members' deposits to pay old members—without any legitimate business activity. The case eventually became one of Indonesia's largest financial frauds, with losses reaching approximately Rp106 trillion and involving over 23,000 victims.

The scandal surfaced in 2020 when members were unable to withdraw their funds. Investigations revealed that deposits were not used for cooperative lending activities but diverted to affiliated companies controlled by the founder. The cooperative's operations violated legal and cooperative principles, functioning more like an unlicensed bank. Following police reports, authorities named several executives, including the founder, as suspects. Court proceedings later resulted in convictions for fraud, embezzlement, and money laundering. The case highlighted weak supervision of non-bank financial institutions and the urgent need for stronger regulation.

From an accounting perspective, KSP Indosurya's financial reporting showed serious irregularities. Liabilities to members were understated, while assets were misrepresented due to undisclosed related-party investments. Income and expenses were fabricated to conceal fund shortfalls caused by interest payments to old members, violating key accounting principles of reliability and fair presentation. Weak internal controls—such as lack of segregation of duties and ineffective audits—further enabled manipulation. Auditors should have detected red flags through fraud risk assessments, external confirmations, and cash flow tracing. Analytical procedures and feasibility reviews could reveal inconsistencies between reported performance and actual operations. If liquidity problems or defaults were evident, auditors were obligated to assess going concern issues and disclose such risks, ensuring transparency and public protection.

### ***Investree 2024–2025: Illegal and fraudulent fundraising through unlicensed entities ± IDR 2.7 trillion, Fugitive CEO of Interpol, license revoked by OJK***

PT Investree Radhika Jaya (Investree) was initially recognized as a reputable peer-to-peer lending fintech platform that supported micro, small, and medium enterprises. However, between 2024 and 2025, the company faced public scrutiny following revelations of illegal fundraising and alleged fraud through unlicensed entities, resulting in estimated public losses of around IDR 2.7 trillion. Authorities discovered that Investree conducted fundraising not only through officially registered channels but also via affiliated companies used to divert and disguise fund flows. These operations mimicked legitimate investment offerings under the Investree brand but were carried out without regulatory oversight. When liquidity deteriorated and loan portfolio quality declined, discrepancies between financial reports and actual conditions became evident. Consequently, in October 2024, the Financial Services Authority (OJK) revoked Investree's business license due to serious violations of fintech lending rules and corporate governance principles.

Investigations revealed that substantial funds were diverted to unrelated parties, including companies lacking financial licenses. The involvement of top executives, including the former CEO, became apparent—culminating in their designation as suspects and inclusion on the Interpol red notice list. The case unfolded through several key stages: unauthorized investment offerings, escalating investor complaints, OJK audit findings of financial irregularities, business license revocation, and subsequent legal actions against those responsible. This case exemplifies a major governance and oversight failure within Indonesia's fintech industry.

From an accounting perspective, the Investree case highlights violations of transparency, accountability, and reliability principles in financial reporting. Forensic accounting plays a crucial role in tracing fund flows and uncovering concealed transactions. Weak internal controls and poor audit systems further enabled the misconduct. Through effective risk assessment, substantive testing, and forensic auditing, such irregularities could have been detected earlier. Ultimately, the case underscores the need for ethical governance, strong regulatory supervision, and auditor vigilance to ensure financial integrity.

### ***First Travel 2017 Embezzlement of Umrah funds of Rp 905 billion, 63,000 pilgrims suffered losses***

First Travel was a Hajj and Umrah travel agency founded in 2009 by Andika Surachman and Anniesa Hasibuan in Depok, West Java. The company became popular for offering low-cost Umrah packages at around IDR 14 million—far below the prevailing market rate of IDR 20–25 million. Supported by aggressive marketing and social media promotions, First Travel quickly gained public trust and attracted tens of thousands of pilgrims. However, this growth concealed serious financial irregularities. By 2017, it was revealed that the company had embezzled approximately IDR 905 billion, defrauding around 63,000 pilgrims.

The case surfaced after multiple complaints regarding delayed pilgrimages, despite full payment. First Travel repeatedly cited administrative problems while continuing to recruit new participants—a classic Ponzi scheme pattern. Funds from new customers were used to cover prior obligations, while large sums were diverted to finance luxury purchases, such as houses, cars, and jewelry, and even to fund fashion shows abroad. Following reports and an internal audit by the Ministry of Religious Affairs, the Criminal Investigation Unit of the National Police launched a probe, ultimately naming Andika and Anniesa as suspects for fraud and embezzlement.

From an accounting standpoint, this case illustrates weak internal control and a lack of accountability in financial reporting. Customer funds were improperly treated as company income rather than liabilities, violating Indonesia's Financial Accounting Standards (SAK). This manipulation constitutes fraudulent financial reporting designed to conceal insolvency. Proper accounting should have separated customer deposits from company assets and ensured transparent fund management. Auditors could have detected these irregularities during risk assessment and control testing by identifying pricing inconsistencies and the lack of segregation of duties. Substantive testing, including cash reconciliation and analytical review, would likely reveal fund misuse. The First Travel scandal underscores the vital role of accounting integrity, internal control, and professional auditing in preventing large-scale financial fraud.

### ***Pandawa Group 2016 Community-based fraudulent investment of Rp 3 trillion, 50,000 victims***

Pandawa Group, operating under the Pandawa Mandiri Group Savings and Loan Cooperative, was a community-based investment network headquartered in Depok that gained national attention in 2016. It offered investment schemes promising unrealistically high monthly returns of 10–15%, framed as cooperative savings activities. The lure

of quick profits attracted tens of thousands of investors, and in a short period, Pandawa Group managed to raise around IDR 3 trillion from approximately 50,000 victims across Indonesia. However, this so-called success concealed the fact that Pandawa Group had no official license from the Financial Services Authority (OJK) or the Ministry of Cooperatives, making its fundraising operations illegal and fraudulent.

The scheme began aggressively promoting through social media and local meetings in 2015, inviting the public to invest with guaranteed profits and zero risk. The system resembled a pyramid or Ponzi scheme, where earlier investors were paid using the funds of new participants. As membership expanded, the inflow of funds became unsustainable, and Pandawa struggled to meet promised returns. In November 2016, the OJK's Investment Alert Task Force declared Pandawa an illegal entity and halted its operations. Following numerous complaints, authorities arrested founder Salman Nuryanto and several associates in 2017 for fraud and financial law violations, marking one of Indonesia's largest investment scandals.

From an accounting perspective, the Pandawa case underscores critical failures in financial recording, disclosure, and internal control. Collected funds should have been recognized as liabilities rather than income, but Pandawa treated them as free capital. The absence of audited statements and transparent records made fraud detection nearly impossible. A proper audit could have identified red flags early—such as unrealistic returns, lack of legitimate business activity, and missing licenses. Ultimately, this case highlights the importance of sound accounting systems, ethical governance, and independent audits in preventing large-scale financial fraud.

### ***Travel Umrah Abu Tours 2018 Umrah pilgrim fraud, not departing as promised Rp 1.8 trillion***

PT Amanah Bersama Umat, better known as Abu Tours, was an Umrah travel agency operating across major cities in Indonesia that rapidly grew through a network of agents offering low-cost Umrah packages. Thousands of prospective pilgrims were attracted by its promises of affordable prices and guaranteed departures. However, between 2017 and 2018, the company's reputation collapsed after many pilgrims who had fully paid were never sent to Mecca. The case became one of Indonesia's largest Umrah fraud scandals, with collected funds reaching approximately IDR 1.8 trillion and tens of thousands of victims suffering substantial financial losses.

The scandal unfolded when, by mid-2017, complaints increased due to repeated delays in departures. In March 2018, police named CEO Hamzah Mamba (Abu Hamzah) as a suspect for misusing pilgrims' funds. Investigations revealed that money intended for operational costs—such as airfare, accommodation, and visas—had been diverted to unproductive investments and personal expenditures. Authorities seized company assets, and in September 2018, Abu Tours was declared bankrupt. Subsequent court rulings sentenced its leaders to prison for fraud, embezzlement, and money laundering while ordering restitution for part of the misused funds.

From an accounting perspective, Abu Tours reflects severe failures in applying fundamental accounting principles and internal control systems. The company did not separate pilgrims' deposits from operational funds, causing financial misrepresentation. Proper accounting should record such deposits as liabilities or unearned revenue until services are provided. Instead, Abu Tours treated these funds as direct income, making financial statements deceptive and unreliable. An auditor could have detected the fraud through strong audit procedures and professional skepticism—by testing internal controls, tracing fund transfers, verifying contracts with Umrah service providers, and performing ratio analyses. Evidence of unexplained cash outflows, missing documentation, or irregular transactions would have signaled fraud and required further investigation and reporting to authorities.

### ***Jiwasraya-Continued Case (Investment Manager) 2021–2023 Stock price engineering (mark-up), affiliate transactions Some investment managers had their licenses revoked***

Between 2019 and 2023, Jiwasraya became embroiled in a massive financial scandal due to non-transparent and manipulative investment management. The company was found to have engaged in stock price mark-ups, affiliate transactions without proper justification, and fund transfers to high-risk instruments inconsistent with its risk profile. Some investment managers colluded with Jiwasraya's internal parties to artificially inflate share values, making the company's financial performance appear strong despite serious liquidity problems. These manipulations caused losses of trillions of rupiah and Jiwasraya's failure to meet its policyholder obligations, marking the largest insurance scandal in Indonesia's history.

From 2021 to 2023, authorities deepened their investigations into the involvement of investment managers and affiliated entities. The Financial Services Authority (OJK) and the Attorney General's Office uncovered repeated stock transactions designed to cover earlier losses and exaggerate investment values. Several investment managers later lost their business licenses for violating prudential and governance principles, while courts sentenced company officials and collaborators involved in fraudulent acts. The government subsequently oversaw Jiwasraya's restructuring and recovery process.

From an accounting perspective, this case highlights violations of fair value measurement, financial statement transparency, and disclosure of related party transactions. Manipulated stock prices made Jiwasraya's financial reports unreliable, while undisclosed affiliate transactions breached accountability principles. Weak internal control and non-independent investment decisions enabled collusion and fraud. Auditors should have identified these risks through market comparison, independent confirmation of investment values, and fair value testing. Ultimately, Jiwasraya's case underscores the need for strict supervision, ethical accounting practices, and vigilant auditing in managing public funds.

### ***Audit Standards and Use of risk-based auditing applications***

The International Standard on Auditing is an audit standard that is used globally and has been adopted by the Indonesian Institute of Public Accountants on January 1, 2013. Public accountants in Indonesia still use manual work in their audit process, so it is quite difficult to apply the principle of risk-based auditing which is the main value of the International Standard on Auditing so that it affects the quality of the audit work itself (Kassem, 2022; Kassem & Omoteso, 2024). The Indonesian Institute of Public Accountants on September 17, 2024 issued Quality Management Standards 1 (SMM 1) and Quality Management Standards 2 (SMM 2) to ensure that Public Accounting Firms and Public Accountants implement quality audits in accordance with risk-based audit principles. SMM 1 regulates the responsibility of Public Accounting Firms (KAP) to design, implement, and operate a quality management system in carrying out audit or review engagements on financial statements or other insurance engagements or related service engagements.

This SMM 1 applies to all KAP that executes an audit or review engagement on financial statements or other insurance undertakings or related service undertakings (i.e., if the KAP executes any of these engagements, this SMM applies and the quality management system established under the provisions of this SMM allows for consistent performance by the KAP of all such engagements). The Quality Management Toolkit set out in SMM 1 aims to provide a series of illustrative documentation that can assist KAP in designing and implementing responses to address and mitigate identified quality risks, as regulated by Quality Management Standards (SMM) 1. SMM 2 regulates the appointment and eligibility of the engagement quality reviewer and the responsibility of the engagement quality reviewer related to the implementation and documentation of the engagement quality review. SMM 2 applies to all alliances where an alliance quality review is required to be carried out in accordance with SMM 1.

With the issuance of this SMM, Public Accounting Firms are expected to improve the quality of their audits so that they can detect fraud that occurs in the Companies that are audited by implementing risk-based audits that are more appropriate and relevant for each Company that is being audited by the Public Accounting Firm. The implementation of this SMM will be two blades for Public Accounting Firms if they do not respond well because the addition of regulations implemented will be an additional cost if not responded effectively and efficiently by Public Accounting Firms. To implement this SMM, public accountants and public accounting firms must be able to use technology that implements risk-based audit applications to maintain the quality of their audits so that the regulatory corridors regulated in audit standards and quality management standards can be implemented as well as possible.

### ***Software auditing applications using risk-based auditing***

Audit software applications are *tools* used by public accountants or public accounting firms (KAP) to assist in the audit process in accordance with established standards (Agana et al., 2025; Hasibuan & Tjakrawala, 2025; Rohmah & Jaswadi, 2024). *This tool* helps the auditor work according to the rules that have been set and regulated in the *tool* so that the auditor works according to the rules that have been set. The advantages of this application are how the audit

process is carried out in accordance with the results of the audited company's risk assessment and how this application responds to each risk that has been identified so as to reduce unprofessional audit judgment.

Currently, only large accounting firms use audit software applications to assist in the audit process in accordance with the quality management system of the public accounting firm. In the process of conducting audits in software audit applications, the main characteristics are the process of audit planning, risk assessment and response to risks that have been identified. The use of current audit software applications is very necessary to ensure the quality of audit work in accordance with applicable audit standards so that errors and shortcomings in the audit process can be minimized.

The use of audit applications and technologies by affiliates PricewaterhouseCoopers (PwC), Ernst & Young (EY), Klynveld Peat Marwick Goerdeler (KPMG) and Deloitte Touche Tohmatsu (Deloitte) – which are globally applicable and in Indonesia are implicitly adapted by their affiliated offices. Each of these large firms has made significant investments in digital audit, data analytics and artificial intelligence (AI) platforms. For example, PwC has developed an AI-based system to analyze ledgers and detect transaction anomalies, while EY uses audit management platforms such as "EY Canvas" and also "EY Helix" that combine big data analytics and AI to identify risks. Meanwhile KPMG has introduced the "Clara" platform designed for the automation of audit processes, large-scale data analysis and risk assessment, and Deloitte is integrating AI-tools such as "Argus" to process contract or legal documents quickly and accurately. The demand for greater audit efficiency and quality improvement has driven the use of software, analytics and technology in the audit process in Indonesia, particularly by Big Four affiliated KAPs. An article mentions that "the adoption of artificial intelligence in the Big Four KAP" shows that the technology is not only used in global headquarters, but also begins to be applied in local areas.

In Indonesia, although not all app brands are specifically mentioned by name, research shows that associate auditors in the Big Four KAP have used general audit software (GAS/CAATs) in their work and that the use of such technology has a positive effect on performance. For example, a study found that around 81.6% of associate auditors in Indonesia's Big Four KAP use GAS. When coupled with the global trend that the Big Four are increasingly leveraging AI and digital audit platforms, it can be concluded that their local affiliates are adapting or leveraging versions of the technology according to the local context. However, it should be noted that this technology is not a substitute for human auditors, auditors must still use professional considerations, audit standards and ethics that apply in Indonesia.

However, the application of these applications and technologies also faces challenges in the Indonesian market. Local regulations, Indonesian auditing and accounting standards and varying client conditions mean that not every engagement adopts a full level of technology. Several studies have stated that client characteristics and KAP culture influence the rate of use of GAS/CAATs. Therefore, although the Big Four in Indonesia have access to global technology, local adaptation, infrastructure, auditor competence and organizational readiness are factors that determine the success of implementation.

### CONCLUSION

The phenomenon of fraudulent financial statements revealed in various cases in Indonesia – such as Jiwasraya, Asabri, Garuda Indonesia, and Wanaartha Life – shows that the manipulation of financial statements is a form of systematic fraud involving various parties and exploiting weaknesses in the accounting and audit system. This study concludes that the effectiveness of audits is largely determined by how auditors apply audit procedures critically and adaptively to fraud risks. At the audit planning stage, auditors must conduct an in-depth risk assessment, including analysis of financial trends and comparisons with market data. At the substantive testing stage, independent confirmation, transaction tracing, and market price verification are important steps to identify irregularities. In addition, at the reporting stage, auditors need to have the courage to give a modified opinion or refuse to give an opinion if strong evidence of material misrepresentation due to fraud is found.

This study also emphasizes the importance of using audit software applications to maintain audit quality by reducing the use of audit judgement that may be biased with a more planned approach, so that every audit process carried out can be monitored by the software audit application. In addition to the use of audit software, public accounting firms must also continue to use their professional expertise well to maintain and improve the quality of their audit work.

Auditors need to develop investigative competence and critical thinking so that they are not only evidence collectors, but also guardians of the integrity of the financial system. Finally, the success of audits in uncovering fraud depends not only on technical procedures, but also on the ethics, independence, and courage of the auditor to uphold the truth despite the pressure and use of technology in the audit process by using audit software applications that use a risk-based audit approach in accordance with the current general audit standards. Thus, strong audit procedures, professional integrity, and continuous supervision are key to breaking through the "black box" of fraudulent financial statements and restoring public trust in the accounting world.

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