Journal of Economics, Finance and Management Studies

ISSN (print): 2644-0490, ISSN (online): 2644-0504

Volume 09 Issue 01 January 2026

Article DOI: 10.47191/jefms/v9-i1-26, Impact Factor: 8.317

Page No: 291-296

Investigative Audit Practices and Their Influence on Proofing Fraud in Indonesia

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ABSTRACT: This study aims to analyze the effect of investigative audit practices on the effectiveness of fraud detection and substantiation in Public Accounting Firms (PAFs) in Indonesia. Investigative auditing is viewed as an audit approach that focuses on uncovering and substantiating fraud through specialized examination techniques, such as forensic analysis, evidence gathering, and the evaluation of fraud indicators. The study employs a quantitative research approach using a survey method administered to auditors working in Indonesian PAFs. The data were analyzed using linear regression to examine the relationship between investigative audit practices and proofing fraud. The results indicate that investigative audit practices have a positive and significant effect on proofing fraud. These findings suggest that more effective implementation of investigative auditing enhances auditors' ability to identify and substantiate fraudulent activities. This study provides practical implications for PAFs by emphasizing the importance of strengthening auditor competencies and reinforcing the role of investigative auditing as a critical instrument in fraud prevention and mitigation.

KEYWORDS: Investigative Auditing, Fraud, Auditor, Public Accounting Firms

I. INTRODUCTION

Fraud remains a serious issue in financial reporting and auditing practices in Indonesia. Numerous cases of financial statement manipulation, asset misappropriation, and corrupt practices involving both private and public sector entities demonstrate that fraud not only results in financial losses but also undermines public trust in the accounting and auditing profession. In this context, Public Accounting Firms (PAFs) play a strategic role as independent parties expected to objectively and professionally detect and substantiate fraudulent activities. However, in practice, conventional financial statement audits are often insufficiently effective in uncovering fraud that is complex, structured, and intentionally concealed (Tümmler & Quick, 2025).

The primary issue lies in the limitations of general audits in identifying and substantiating fraud. Auditing standards are fundamentally designed to provide reasonable assurance regarding the fairness of financial statements, rather than to specifically detect fraud. As a result, many fraud cases are only revealed after causing significant harm or through legal investigation processes. This condition has led to growing criticism of the effectiveness of external auditors—particularly PAFs—in preventing and addressing fraud. Stakeholders and regulators increasingly expect auditors to move beyond a compliance-oriented approach and to develop investigative capabilities in responding to increasingly complex fraud risks (Campa et.al, 2025).

Investigative auditing has emerged as a relevant approach to address these challenges. Investigative auditing is a specialized form of audit that focuses on the systematic collection, analysis, and evaluation of fraud-related evidence for substantiation purposes. Investigative audit practices involve the use of specialized techniques such as forensic auditing, data analytics, in-depth interviews, tracing suspicious transactions, and identifying fraud red flags. Within the context of PAFs, investigative auditing has become increasingly important in response to the growing demand for fraud investigation services from clients, regulators, and law enforcement agencies. Nevertheless, the implementation of investigative auditing in Indonesian PAFs continues to face several challenges, including limitations in auditor competencies, differing perceptions regarding auditors' responsibilities for fraud, and the lack of uniform standards and practices for investigative auditing (Sitorus et.al, 2025).

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The research problem of this study arises from the gap between expectations and the actual role of auditors in proofing fraud. On the one hand, investigative auditing is believed to enhance the effectiveness of proofing fraud; on the other hand, not all Public Accounting Firms (PAFs) have optimally implemented investigative audit practices. Moreover, there remains academic debate regarding the extent to which investigative audit practices genuinely influence auditors' ability to substantiate fraud, particularly within the context of professional practice in Indonesia (Sudarmadi, 2023). From the perspective of prior research, most studies on fraud and auditing have predominantly focused on individual auditor factors, such as competence, professional skepticism, experience, and ethics, or on the use of fraud red flags in fraud detection. Studies that specifically examine investigative audit practices as a primary variable and link them to proofing fraud remain relatively limited, especially within the context of Indonesian PAFs. In addition, many previous studies have positioned fraud detection as the primary outcome, rather than proofing fraud, which requires the strength and quality of audit evidence (Raji & Buolamwini, 2022). This condition indicates the existence of a research gap in terms of both variable focus and empirical context.

Based on this gap, the present study offers novelty by positioning investigative audit practices as a key determinant of proofing fraud in Indonesian PAFs. This study not only emphasizes the ability to detect indications of fraud but also focuses on auditors' effectiveness in collecting and evaluating evidence that supports professional proofing fraud. Furthermore, this study provides an empirical contribution by examining investigative audit practices within the Indonesian PAF context, which is characterized by distinct regulatory frameworks, organizational cultures, and levels of audit maturity compared to other countries. Accordingly, this study is expected to enrich the auditing and fraud literature and to offer practical implications for PAFs in enhancing audit quality and strengthening the strategic role of auditors in fraud management.

II. LITERATURE REVIEW

2.1. Fraud Triangle Theory

Fraud Triangle Theory, originally proposed by Cressey, conceptualizes fraud as a behavior driven by the convergence of three interrelated factors: pressure, opportunity, and rationalization (Sánchez et al., 2021). Pressure represents various demands or incentives—both financial and non-financial—that encourage individuals to engage in fraudulent acts, including economic hardship, organizational performance demands, or personal motivations. Opportunity emerges when deficiencies in internal control systems, weak oversight, or asymmetric information create conditions that enable fraud to be committed and concealed. Rationalization refers to the psychological process through which perpetrators justify unethical actions, allowing them to reconcile fraudulent behavior with personal values. Within the auditing discipline, this theory serves as an essential framework for evaluating fraud risk (Button et al, 2023). Auditors apply the Fraud Triangle to identify risk indicators associated with each component, thereby improving their understanding of potential fraud schemes. In investigative and forensic auditing contexts, the Fraud Triangle supports a systematic approach to analyzing fraudulent conduct and directing evidence-gathering procedures. As such, the theory reinforces the importance of investigative audit practices in strengthening fraud detection and substantiation (Baatwah et al, 2021).

2.2. Forensic Auditing Theory

Forensic Auditing Theory integrates accounting, auditing, and investigative techniques to identify, analyze, and substantiate fraudulent activities for professional and legal purposes. Unlike conventional financial statement audits that aim to provide reasonable assurance, forensic auditing emphasizes the systematic collection and evaluation of evidence capable of supporting proofing fraud (Romero et.al, 2024). This approach expands traditional auditing by incorporating forensic analysis, legal considerations, and investigative methodologies. The theory is closely linked to agency theory and fraud theory. Agency theory explains how information asymmetry and conflicting interests between principals and agents create opportunities for fraud, positioning forensic auditing as a monitoring mechanism to reduce agency costs (Ganapathy, 2024). Fraud theory, particularly the Fraud Triangle, provides a framework for identifying conditions that facilitate fraud, including pressure, opportunity, and rationalization. Forensic auditing applies this framework through the identification of red flags and anomalies. Furthermore, forensic auditing theory highlights the importance of professional skepticism, analytical skills, and evidentiary competence. In Public Accounting Firms, it serves as a theoretical foundation for enhancing investigative audit practices and strengthening proofing fraud effectiveness (Sembiring & Widuri, 2023).

An investigative audit is a special form of examination conducted with the primary objective of uncovering, tracing, and proving indications of fraud, irregularities, or violations of the law that have the potential to cause losses to an organization or the state. Unlike financial audits or compliance audits, which are routine and preventative in nature, investigative audits are reactive and focused on specific cases that show signs or suspicions of fraud. Therefore, investigative audits require a more in-depth, systematic, and evidence-oriented approach (Newman et.al, 2023). Investigative audits aim not only to uncover administrative errors but also emphasize the collection and analysis of legally admissible evidence. Evidence gathered in investigative audits must meet the requirements of relevance, sufficiency, and reliability to be used in law enforcement processes, whether at the inquiry, trial, or trial stage. In practice, investigative audits combine audit principles, forensic audit techniques, and investigative methods such as in-depth interviews, fund flow tracing, document analysis, and the use of information technology (Gupta et.a, 2023). In the context of the Indonesian public sector, investigative audits play a strategic role as an instrument of accountability and transparency in state finances. This audit is often used by auditing institutions and law enforcement officials to support the investigation of corruption and other financial fraud. Thus, an investigative audit can be understood as a law enforcement-oriented audit process that prioritizes proving fraud as its primary objective.

Various previous studies have shown that investigative audit practices play a significant role in increasing the effectiveness of fraud detection and prosecution, both in the public and private sectors. Research consistently confirms that investigative audits are capable of uncovering fraud patterns undetected through conventional audits due to their more in-depth and investigative-oriented approach (Suppiah & Arumugam, 2023). Several studies have found that the use of investigative audit techniques such as data analysis, fund flow tracing, and forensic document examination positively impacts the quality of fraud evidence produced. Evidence obtained through investigative audits is considered stronger, more relevant, and more legally accountable, thus increasing the chances of success in court. Other studies also indicate that the competencies of investigative auditors, including experience, professional skepticism, and an understanding of fraud modus operandi, contribute significantly to the success of investigative audits (Omucheyi et.al, 2025). In the context of the Indonesian public sector, research reveals that investigative audits conducted by audit institutions and government internal oversight agencies play a crucial role in supporting the handling of corruption and state financial misappropriation cases. Investigative audits serve not only as a detection tool but also as a means of providing preliminary evidence to strengthen the investigation and inquiry process. In addition, several studies emphasize that the existence of investigative audits also provides a deterrent effect, because it increases the perception of risk for potential perpetrators (Hossain et al, 2025).

2.3. Hypothesis Development

Investigative auditing represents a critical mechanism in efforts to uncover and substantiate fraudulent activities. Conceptually, this approach is designed to identify indicators of irregularities, trace the underlying causes of misconduct, and systematically collect and assess reliable and relevant evidence. In contrast to conventional financial statement audits, investigative auditing concentrates on proofing fraud through a forensic-oriented approach that integrates auditing procedures, investigative techniques, and legal considerations. Accordingly, investigative auditing holds substantial potential for strengthening the evidentiary process in fraud cases (Ganapathy, 2024; Sembiring & Widuri, 2023).

From a theoretical standpoint, the influence of investigative auditing on proofing fraud can be explained through forensic auditing theory and the Fraud Triangle framework. Investigative auditing enables auditors to examine the elements of pressure, opportunity, and rationalization that drive fraudulent behavior, thereby allowing evidence-gathering activities to be more focused and methodical. The application of investigative techniques—such as forensic data analysis, tracing financial transactions, third-party confirmations, and in-depth interviews—facilitates the production of stronger, more comprehensive, and legally defensible evidence (Hossain et al, 2025; Suppiah & Arumugam, 2023).

Empirical evidence from prior studies indicates that investigative auditing practices positively affect the effectiveness of proofing fraud. Investigative audits have been shown to enhance evidence quality, accelerate fraud disclosure, and increase the likelihood that audit findings are accepted in legal proceedings. Consequently, more effective implementation of investigative auditing—reflected in auditor competence, the use of appropriate investigative techniques, and adherence to professional standards—leads to stronger proofing fraud outcomes (Omucheyi et.al, 2025; Gupta et.a, 2023; Newman et.al, 2023). Based on these theoretical arguments and empirical findings, the research hypothesis is formulated as follows:

H_1: Investigative auditing has a positive and significant effect on proofing fraud

III. RESEARCH METHODOLOGY

This study uses a quantitative approach with an explanatory research method, namely research that aims to explain the causal relationship between investigative audit variables and fraud detection. This quantitative approach was chosen because this study tests hypotheses formulated based on theory and previous research results through empirical data analysis. The population in this study were auditors who had experience in investigative audits, both those working at government audit institutions, government internal supervisory apparatus (APIP), and internal and external auditors involved in handling fraud cases in Indonesia, totaling 351 auditors.

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An investigative audit is defined as a series of specific audit procedures aimed at detecting, disclosing, and proving fraud. This variable is measured through several indicators, including (1) Use of investigative audit techniques; (2) Data analysis and transaction tracing; (3) Interviews and evidence collection; (4) Competence and experience of the investigative auditor. Proving fraud is the ability to produce strong, relevant, and legally accountable evidence to prove the occurrence of fraud. Indicators for this variable include (1) Quality of fraud evidence; (2) Sufficiency and relevance of evidence; (3) Admissibility of evidence in legal proceedings; (4) Success in disclosing fraud cases. Data were analyzed using PLS-SEM through three stages: outer model evaluation, inner model assessment, and hypothesis testing using bootstrapping to examine the significance of structural relationships. Hypothesis testing was conducted using the bootstrapping method to obtain the t-statistic and p-value. The hypothesis is accepted if the t-statistic is > 1.96 and the p-value is < 0.05 at a 5% significance level.

IV. RESULT AND DISCUSION

4.1. Outer Model Analysis

The convergent validity assessment shows that all indicators associated with the Investigative Audit and Fraud Substantiation constructs exhibit satisfactory outer loading values exceeding 0.70. Specifically, indicator loadings for the Investigative Audit construct range between 0.72 and 0.89, while those for Fraud Substantiation fall between 0.74 and 0.91. These results confirm that all indicators adequately represent their respective constructs. In addition, the Average Variance Extracted (AVE) values are 0.63 for Investigative Audit and 0.68 for Fraud Substantiation, demonstrating that each construct accounts for more than half of the variance of its indicators.

Discriminant validity was evaluated using cross-loading analysis, which indicates that each indicator loads more strongly on its intended construct than on other constructs in the model. Moreover, the square root of the AVE for each construct exceeds the inter-construct correlations, confirming adequate discriminant validity. Construct reliability was confirmed through composite reliability and Cronbach's alpha values. The composite reliability scores are 0.91 for Investigative Audit and 0.93 for Fraud Substantiation, while Cronbach's alpha values reach 0.88 and 0.90, respectively. All values surpass the recommended threshold of 0.70, indicating that the constructs demonstrate strong internal consistency.

4.2. Inner Model Analysis

The R-Square value for the Fraud Evidence variable is 0.67, indicating that 67% of the variation in Fraud Evidence can be explained by the Investigative Audit, while the remaining 33% is influenced by other variables outside the research model. This value indicates the model's explanatory power is in the strong category. The Q-Square (Stone–Geisser) calculation results show a value of 0.45, indicating that the model has good predictive relevance in predicting fraud evidence.

4.3. Hypothesis Testing

Hypothesis testing was conducted using the bootstrapping method with a 5% significance level. The results of the hypothesis testing are presented as follows:

Table 1. Bostrapping Test

Hypothesis	Path Coefficient	T-Statistic	P-Value	Explanation
investigative audit → Proofing Fraud	0,82	11,16	0,000	Acepted

Based on these results, the t-statistic value is 11.16 > 1.96 and the p-value is 0,000 < 0.05, so the research hypothesis is accepted. This indicates that investigative audits have a positive and significant effect on proving fraud. The results of this study indicate that investigative audits have a positive and significant effect on fraud detection, as indicated by the high path coefficient value and strong significance test results. This finding indicates that the more effective investigative audit practices are implemented, the greater the ability of the organization or supervisory agency to generate strong, relevant, and legally accountable fraud evidence. In other words, investigative audits serve not only as an early detection tool but also as a primary instrument in the fraud detection process. Theoretically, this study's findings align with forensic audit theory, which emphasizes the importance of an investigative approach in uncovering and proving fraud. Investigative audits enable auditors to conduct in-depth examinations of suspicious transactions, documents, and activities through specialized techniques such as data analysis, cash flow tracing, and forensic interviews. This approach allows auditors to systematically connect various pieces of evidence to form a logical and convincing chain of evidence. Furthermore, this finding also strengthens the relevance of the fraud triangle theory, where investigative audits play a role in identifying the pressures, opportunities, and rationalizations underlying fraud (Suppiah & Arumugam, 2023; Omucheyi et.al, 2025).

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Empirically, the results of this study are consistent with various previous studies that suggest that investigative audits significantly contribute to improving the quality and strength of fraud evidence. Several previous studies have found that the appropriate application of investigative audit techniques can increase the success rate of fraud disclosure and increase the likelihood of evidence being admissible in legal proceedings. This study extends these findings to the Indonesian context, characterized by a complex public financial management system and law enforcement.

Furthermore, the high R-Square value indicates that investigative audits are a dominant factor in explaining fraud evidence, although other variables outside the model also potentially influence the results. This indicates that successful fraud evidence depends not only on investigative audit procedures but also on auditor competence, regulatory support, and synergy with law enforcement officials. Therefore, strengthening investigative audit capacity needs to be carried out comprehensively through improving the quality of human resources, utilizing audit technology, and strengthening the institutional framework (Gupta et.a, 2023; Newman et.al, 2023). Overall, the results of this study confirm that investigative audits play a strategic role in supporting fraud eradication efforts and increasing accountability, particularly in the Indonesian public sector. These findings provide important implications for policy makers and practitioners to make investigative audits an integral part of the control and law enforcement system.

CONCLUSIONS

The results of this study demonstrate that the effective implementation of investigative audits plays a crucial role in improving the quality of fraud evidence. The better the investigative audit practices—through the use of investigative techniques, data analysis, and forensic evidence collection—the stronger the evidence of fraud produced. This finding aligns with forensic audit theory, which emphasizes that investigative audits serve not only as a detection tool but also as a legally valid means of proof. Furthermore, the results of this study support previous empirical findings that suggest that investigative audits increase the success of fraud disclosures and strengthen the law enforcement process, particularly in the Indonesian public sector. Practically, the results of this study emphasize the importance of strengthening investigative auditor competencies, utilizing audit technology, and providing institutional support in conducting investigative audits. Theoretically, this study adds to the literature on the role of investigative audits in proving fraud, particularly in the context of developing countries like Indonesia.

ACKNOWLEDGMENT

The author gratefully acknowledges Universitas Darmawangsa for academic support and a conducive research environment. Appreciation is also extended to all respondents and colleagues whose valuable contributions and cooperation supported the completion of this research. Any remaining limitations remain the author’s responsibility.

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