

## The Development of Auditor Competence in Detecting Fraud in the Public Sector

Yuliana Veronica<sup>1</sup>, Yoremia Lestari Ginting<sup>2</sup>

Mulawarman University, Samarinda, Indonesia.

 Corresponding author: ginting.yoremia@feb.unmul.ac.id

### Article history

Received 2025-11-21 | Accepted 2025-12-20 | Published 2025-12-31

### Abstract

Auditors are not expected to be forensic specialist while have responsibilities related to evaluate risk of fraud. Lack of fraud detection has become a criticism to auditor skill in public sector. This study aims to investigate the development of auditor competence in detecting fraud in the public sector, with a case study at Inspectorate of Malinau Regency. The study employs a qualitative descriptive method as its research approach. Data was gathered through in-depth interviews with experienced auditors, and documentation as secondary data. The findings highlight competence development through ongoing professional education has improved auditors' abilities in three main aspect which is fraud analysis, technical proficiency in auditing, and problem-solving. However, this study also identifies the implementation faces constraints including limited technological proficiency, high workload, and short training duration. The results contribute theoretically to the development of public sector auditor competence and offer practical recommendations for the Government Internal Supervisory Apparatus (APIP) in designing effective and sustainable competency development programs.

**Keywords:** Competence Development; Auditor; Fraud Detection; Public Sector; Auditing.

This is an open-access article under the CC-BY-SA license.



Copyright @ 2025 Yuliana Veronica, Yoremia Lestari Ginting

## INTRODUCTION

Fraud is a serious issue demanding special attention, particularly in the public sector. According to the Association of Certified Fraud Examiners (ACFE, 2022), corruption stands as the most common type of fraud worldwide. A survey by Transparency International ranks Indonesia at 115 out of 180 countries in the Corruption Perception Index, with a score of 34 on a scale from 0 (highly corrupt) to 100 (very clean). The prevalence of corruption underscores the need for better transparency, accountability, and oversight in managing public funds (Muhajir, 2019). Corruption can undermine economic development by reducing domestic investment, discourage foreign investment, encouraging unnecessary government expenditures, and shifting budgetary allocations away from essential areas such as education, health, and infrastructure maintenance toward less effective (Wei, 1999).

The Regency/City Inspectorate, as an the Government Internal Supervisory Apparatus (APIP), reports directly to the regent/mayor. It monitors Regional Apparatuses activities funded by the Regional Revenue and Expenditure Budget (APBD) and reviews local government finances before they are submitted to the Indonesian Supreme Audit Institution (BPK RI). The Inspectorate works with the BPK to ensure financial statement accuracy and prevent errors and fraud (Kuntadi, 2019). Crucial steps in fraud prevention and detection must begin with appropriate investment in enhancing competencies, particularly technical expertise, interpersonal skills, and ethical understanding (Rahmarta et al., 2024). The absence of proper supervision or training contributes directly to auditor deficiencies to understand the client's business, inadequate fraud analytics capabilities, and a fundamental failure to perceive critical fraud cues (Klienman et al., 2020). Welltrained auditors are better at finding fraud (Bierstaker et al., 2012). Auditors require professional training to enhance their knowledge and refine the skills necessary for conducting audit procedures effectively (Elfia & NR, 2022).

The Malinau Regency Inspectorate, as an APIP, follows Ministry of Home Affairs Regulation No. 19 of 2023, which requires auditors to train for 120 hours each year across 10 areas, like public service oversight, supervision of Region-Owned Enterprises (BUMD), regional financial oversight, performance audit, risk-based planning and supervision, audit of village financial management, investigative audits, examination of minimum service standards implementation, Certified Government Chief Audit Executive (CGCAE), and other certification programs in the supervision field. In 2022, Malinau Regency APIP auditors only worked in two areas: regional financial oversight and village financial management.

The efforts of the Malinau Regency Inspectorate in detecting fraud continue to face challenges related to human resource competency. The Inspectorate's internal report (2023) identified that one the root cause of recurring audit findings and indications of material losses is the auditors' lack of competence in developing findings. This condition is exacerbated by the limited scope of capacity building.

This study aims to explore the development of auditor competencies in detecting fraud in the public sector, with a case study at the Malinau Regency Inspectorate. Employing a descriptive qualitative approach, the research seeks to gain a deeper understanding of how auditor competencies can be enhanced to effectively prevent and detect fraud.

## Literature Review

Public sector auditing is a systematic and objective process to verify the accuracy and completeness of financial information in public organizations' reports, conducted by competent and independent auditors to assess compliance with generally accepted accounting principles (GAAP) and provide assurance on financial accountability, transparency, and efficiency (Assakaf et al., 2018). In Indonesia, governed by Law No. 15 of 2004 on the Examination of State Financial Management and Accountability, public sector auditing encompasses financial audits, performance audits, and audits with specific purposes, primarily executed by the BPK to oversee state financial management and accountability.

Internal government oversight bodies, known as APIP, play a crucial role in supporting BPK's functions. These include the Financial and Development Supervisory Agency (BPKP), Inspectorate General (Itjen) at ministries, Provincial Inspectorates, and Regency/City Inspectorates, which conduct internal audits, reviews, evaluations, and monitoring of activities funded by state budgets (Government Regulation No. 60 of 2008; Presidential Regulation No. 54 of 2010). Ministry of Home Affairs Regulation No. 19 of 2023 emphasizes capacity building for APIP through continuous professional education, including training in public service oversight, supervision of BUMD, regional financial oversight, performance audit, risk-based planning and supervision, audit of village financial management, investigative audits, examination of minimum service standards implementation, Certified Government Chief Audit Executive (CGCAE), and other certification programs in the supervision field. For instance, auditors at the Malinau Inspectorate must complete at least 120 hours of such education annually to enhance audit quality.

This study uses Agency Theory to better understand the setting in which public sector auditors work. The theory describes the basic conflict in relationships between principals (such as the public or central government) and agents (such as government managers), who may not always act in the principal's best interest. This situation is often complicated by unequal access to information and different goals, which can lead to fraud and poor management. In this system, internal auditors act as a watchdog, helping to close information gaps and make sure agents are acting as they should. Although this study mainly looks at how auditors develop their skills, Agency Theory helps explain why good auditing matters and how weak auditor skills can harm governance, create extra costs, and weaken public trust. Therefore, improving auditors' abilities supports the larger goal of reducing problems in how public funds is managed.

Fraud in the public sector involves deceptive acts to gain undue advantages, encompassing false financial disclosures, financial scams, and fraudulent misselling (Reurink, 2018). ACFE classifies fraud into asset misappropriation, fraudulent financial statements, and corruption, including conflicts of interest and bribery (ACFE, 2022). Cressey's fraud triangle identifies pressure, opportunity, and rationalization as root causes, where weak internal controls create opportunities for misconduct (Albrecht, 2012; Fitri et al., 2019; Natalia et al., 2022). Prevention and early detection are vital, with internal auditors reviewing work plans and budgets to mitigate risks (Nusantara et al., 2020). Indicators of fraud include accounting anomalies, internal control weaknesses, analytical irregularities, and extravagant lifestyles (Albrecht, 2012).

Auditor competence develops through Dreyfus and Dreyfus's stages: from novice reliance on rules to expert intuitive decision-making, requiring knowledge, skills, and experience in accounting standards, governance systems, and professional development (Dreyfus & Dreyfus, 1986; Peuranda et al., 2019). Continuous professional education is essential for auditors to maintain capabilities, fostering critical thinking, fraud detection skills, and analytical abilities (Arens et al., 2015; Syafruddin & Sahur, 2022). Training addresses deficiencies in fraud risk understanding and enhances detection, as evidenced by studies showing trained auditors outperform untrained ones in identifying irregularities (Bierstaker et al., 2012; Elfia & NR, 2022; Gizta et al., 2019; Juniansyah & Fachriyah, 2019; Klienman et al., 2020).

Beyond technical skills and analytical abilities, the competence of auditors in fraud detection is fundamentally underpinned by professional ethics. The IESBA's International Code of Ethics for Professional Accountants emphasizes the principles of integrity, objectivity, and professional skepticism. These principles compel auditors to maintain an inquisitive mindset, question evidence, and remain alert to conditions that may indicate possible fraud. Therefore, competence development programs must integrate ethical reinforcement to ensure auditors are not only skilled but also morally courageous to pursue fraud indicators.

## **METHOD**

This study employed a descriptive qualitative method to gain a holistic understanding of perceptions, meanings, and experiences related to the implementation of competency development for public sector auditors, particularly at the Malinau Regency Inspectorate as part of the APIP. This approach allowed for in-depth exploration of real-life phenomena through semi-structured interviews, yielding rich and detailed insights.

The Malinau Regency Inspectorate was selected as the case study site due to its representative challenges in public sector auditing within Indonesia's regional governance context. The sample of auditors from this institution is characterized by a constrained exposure to the broad spectrum of mandatory training areas, as evidenced by their limited scope of work in only two competency fields in 2022 against the ten required. Furthermore, this limitation is directly linked to performance concerns in fraud detection, as highlighted in the Inspectorate's internal report (2023) which cites auditors' lack of competence as a root cause for recurring findings and material loss indications. This context makes it a pertinent setting to investigate the development and hurdles of competency enhancement programs.

Data were collected from primary and secondary sources. Primary data came from in-depth interviews with five auditors at the Malinau Regency Inspectorate who had participated in continuous professional education, including training in fraud control plans and investigative audits. Secondary data were obtained from documents such as policy documents, strategic plans (renstra), and competency maps to support and complement the primary data. Data collection techniques included interviews and document analysis. Interviews involved face-to-face discussions with auditors to gather oral information on their experiences post-training, particularly regarding improved fraud detection. Document analysis reviewed relevant policies and plans to reinforce interview findings. Data analysis followed three stages: data reduction, data display, and conclusion drawing and verification, utilizing NVIVO 12 Plus software for coding, thematic identification, and visualization of qualitative data. The research was conducted at the Malinau Regency Inspectorate, located in Malinau Kota, North Kalimantan, in May 2025, following approval from the institution. To ensure data validity, triangulation was applied across data sources (interviews and documents) and methods (interviews and document analysis).

## **RESULTS AND DISCUSSION**

### **Inspectorate Role as The Auditor in Public Sector**

The Malinau Regency Inspectorate functions as APIP playing a pivotal role in maintaining accountability and transparency in the management of public funds. As stipulated in Malinau Regent Regulation No. 42 of 2016 (Articles 2,4, and 5), the inspectorate is an auxiliary element reporting to the Regent through the Regional Secretary, task with supervision and guidance over the execution of regional government affairs and delegated tasks, including district and village administration.

The Inspectorate's primary functions encompass:

Formulating technical policies for supervision;

Conducting internal supervision over performance and finance through audit, review, evaluation, monitoring, and other supervisory activities;

Performing special-purpose audit assigned by the Regent.

This established role is crucial for financial oversight, especially given the high risk of corruption globally and in Indonesia, as highlighted by the ACFE (2022) and the Corruption Perception Index (Transparency International). The Inspectorate's task directly support the function of BPK RI by monitoring regional finances and preventing errors and fraud, aligning with the mandate for robust financial financial accountability (Assakaf et al., 2018; Kuntadi, 2019). The presence of APIP, including the Regency Inspectorate, is mandated to perform internal audits and reviews (Government Regulation No. 60 of 2008), acting as the first line of defense against the vulnerabilities presented by Cressey's Fraud

Triangle (pressure, opportunity, rationalization). The internal report (2023) identifying the auditors' lack of competence in developing findings as root cause of recurring material losses underscores the critical need for effective internal oversight and the competence development.

### **Developing Auditor Competence: Fraud Analysis and Problem Solving**

The competency development of auditors at the Malinau Regency Inspectorate, as mandated by Ministry of Home Affairs Regulation No. 19 of 2023, focuses on continuous professional education through training, workshops, and certifications to enhance fraud detection in the public sector. From 2022 to 2025, auditors participated in nine training programs, including computer-based auditing, investigative auditing, performance auditing, local government financial reporting (LKPD), state loss calculation, anti-corruption outreach, Work Plan and Budget (RKA) review, Fraud Risk Management Professional certification, and Fraud Control Plan workshops. These initiatives addressed four of the ten competency areas specified in the regulation, with gaps remaining in public service oversight, local government-owned enterprise supervision, minimum service standard examinations, and Certified Government Chief Audit Executive certification, largely due to budget limitations. Based on the regulation, Ms. Rensi Jalung, an Irbansus auditor, noted the mandatory nature of investigative training:

“Because we are in Irbansus, we have to undergo training, such as investigation and fraud risk.” (personal interview, 2025)

This specialization ensures auditors are equipped for complex fraud cases. Similarly, Ms. Herce Juari described how investigative training deepened her knowledge:

“Yes, it adds knowledge about investigation, what it's like.” (personal interview, 2025)

“Yes, from the training, we can learn, from the cases that have happened, we can know what to do going forward. So, for the cases we encountered, we can solve the problems.” (personal interview, 2025)

These insights show how training bridges theory and practice in fraud investigations. Additionally, the Fraud Risk Management Professional (FRMP) certification provides specialized expertise. Ms. Natalani shared her experience:

“Oh, to get the certificate, to deepen knowledge about fraud. So, we attend the training, then we have a competency test. We are interviewed and asked if we are competent in detecting fraud. After that, we have a written exam. Then, it's assessed by BPKP to see if we are worthy of this certification. ... So, it adds a title, but it's a certification. More like specialized expertise, specifically for fraud.” (personal interview, 2025)

This certification validates skills through rigorous evaluation, enhancing auditors' ability to handle fraud investigations. Workshops, such as the Fraud Control Plan, offer strategic frameworks for prevention. Ms. Antung Nursehat remarked on its online delivery and preventive focus:

“It seems like this, if I have it, it's the Zoom system.” (personal interview, 2025)

“It's the same for our oversight. We get socialize. From fraud control, what we can get.” (personal interview, 2025)

These programs collectively build competence in fraud analysis, aligning with Dreyfus and Dreyfus's (1986) model of skill progression to expertise. Prior studies, such as Elfia and NR (2022), confirm that specialized training positively impacts fraud detection, while Natalia et al. (2022) highlight its role in bolstering auditor competencies.

Interviews also underscored the benefits of these trainings, including enhanced fraud analysis, technical guidelines, and problem-solving skills. Ms. Natalani detailed the analytical gains:

“So, there are ways to detect fraud, how to control it, how to overcome it. It's very detailed in the training. So, the knowledge is more extensive, more specific about fraud.” (personal interview, 2025)

Ms. Septinawati echoed this, noting the analytical tools provided:

“... where fraud might be found, ways to delve deeper, analyze events it's all in our training.” (personal interview, 2025)

For technical guidance, Ms. Septinawati described how trainings offer clear frameworks:

“So, from the workflow of the review, the rules used, the working papers, the reports. It was all conveyed during our training. So, when we conducted the review in March last year, the training was very helpful. Because there are guidelines we have to follow. So, yes, very helpful.” (personal interview, 2025)

And Ms. Antung Nursehat added:

“Here we already know the stages, we understand better because there are many things we have to do, starting from the balance sheet, LO [statement of operation], the way it works, about the budget we have to check.” (personal interview, 2025)

These benefits support Arens et al.'s (2014) emphasis on professional education for auditor effectiveness. In problem-solving, Ms. Herce Juari highlighted case-based learning:

“Yes, from the training, we can learn, from the cases that have happened, we can know what to do going forward. So, for the cases we encountered, we can solve the problems.” (personal interview, 2025).

These competency gains translate into improved fraud detection when interpreted through the IESBA International Code of Ethics for Professional Accountants. The Code's requirement for professional competence and due care ensures auditors maintain up-to-date technical knowledge and apply it diligently; its emphasis on integrity, objectivity, and professional skepticism requires auditors to question anomalies and resist bias conditions necessary for identifying fraud. Thus, competence becomes operationalized into effective fraud detection only when ethical obligations guide its application.

Overall, these trainings have progressed auditors to advanced competencies, with significant improvements in fraud-related skills, though gaps in some areas persist due to resource constraints.

### **The Integration of Experience in Auditor Competence Development**

Competence development extends beyond formal training to include hands-on experience, which auditors integrate with their education for better case handling. Ms. Natalani stressed this synergy:

“Yes, from the training, we can learn, from the cases that have happened, we can know what to do going forward. So, for the cases we encountered, we can solve the problems.”

Similarly, Ms. Herce Juari noted how prior experiences prepare them for duties:

“Yes, from the training, we can learn, from the cases that have happened, we can know what to do going forward.”

This integration accelerates skill application, aligning with Dreyfus and Dreyfus's (1986) stages, where practical exposure moves auditors toward expertise in fraud detection.

### **Challenges in Developing Auditor Capacities**

Despite advancements, auditors encounter challenges in capacity building, including technological barriers, heavy workloads, and short training durations. Ms. Rensi Jalung described tech-related difficulties:

“It's hard, tough, because maybe I'm not tech-savvy... If we use applications, this is still new; maybe if I understand or just regular Excel, it might be okay. But it's to the application.”

Workload issues were highlighted by Ms. Septinawati:

“... there are several tasks assigned. One requirement to become an anti-corruption educator, but with our office conditions, so until now, I haven't completed it.”

Short durations also hinder mastery, as Ms. Rensi Jalung explained:

“Because the training is only five days, and not even full, I think. The use of IT computers, so we have to be fast; if we're a bit late, we're automatically behind. Unless it's like college, maybe one semester could work. It's a bit hard.”

These obstacles, while present, do not overshadow the overall gains, but addressing them could optimize future development. In summary, continuous professional education has enhanced auditors' fraud detection abilities, yet administrative and technical hurdles remain to be fully overcome for sustained impact.

## CONCLUSION

The competency development of auditors at the Malinau Regency Inspectorate, implemented through continuous professional education programs under Ministry of Home Affairs Regulation No. 19 of 2023, has successfully enhanced auditors' abilities in three key areas: improved fraud analysis for identifying and managing fraud indicators, proficiency in technical audit guidelines as standardized frameworks for task execution, and strengthened problem-solving skills. However, implementation faces significant challenges, including limited digital technology proficiency, high workloads, and short training durations for complex material. The integration of experimental learning with formal training emerges as a critical factor in developing expert-level competencies supporting progression model proposed by Dreyfus and Dreyfus (1986).

Recommendations include developing information technology training programs to address technological limitations, adjusting training schedules to align with auditors' workloads for better learning effectiveness, and providing post-training mentoring to ensure knowledge implementation. Future researchers are encouraged to investigate the specific effectiveness of each training type in enhancing auditors' fraud detection capabilities.

This research contributes to the existing literature on public sector auditor competence in three primary ways. First, it offers empirical evidence drawn from an Indonesian regional inspectorate, documenting how the Dreyfus model of skill progression operates within fraud detection training programs. Second, the study identifies previously underexplored obstacles including limited technological proficiency and competing workloads that can disrupt the practical delivery of continuous professional education, thereby introducing real-world constraints into discussions of competence development. Third, by revealing the discrepancy between the comprehensive competency areas mandated by policy and the limited training actually delivered due to resource limitations, the study extends scholarly conversations on implementation gaps in public sector capacity building, particularly within decentralized governance contexts such as Indonesia's.

## REFERENCES

- ACFE. (2022). Occupational Fraud 2022: A Report To The Nations. In Association of Certified Fraud Examiners.
- Albrecht, W. S. (2012). *Fraud Examination* (4th ed.). Canada SouthWestern Cengage Learning.
- Arens, A. A., Elder, R. J., Beasley, M. S., & Hogan, C. E. (2015). *Auditing and Assurance Service* (12th ed.). Erlangga.
- Assakaf, E., Samsudin, R. S., & Othman, Z. (2018). Public Sector Auditing and Corruption : A Literature Review. June. <https://doi.org/10.5296/ajfa.v10i1.13029>

- Bierstaker, J. L., Hunton, J. E., & Thibodeau, J. C. (2012). Does fraud training help auditors identify fraud risk factors? In *Advances in Accounting Behavioral Research* (Vol. 15, Issue 2012). Emerald Group Publishing Ltd. [https://doi.org/10.1108/S1475-1488\(2012\)0000015008](https://doi.org/10.1108/S1475-1488(2012)0000015008)
- Dreyfus, H. L., & Dreyfus, S. E. (1986). *Mind over machine: The power of human intuition and expertise in the era of the computer*. Free Press.
- Elfia, O., & NR, E. (2022). Pengaruh Pelatihan Auditor, Tekanan Waktu, dan Skeptisisme Profesional terhadap Kemampuan Auditor dalam Mendeteksi Kecurangan: Studi Empiris pada BPK RI Perwakilan Provinsi Sumatera Barat. *Jurnal Eksplorasi Akuntansi*, 4(1), 178–191. <https://doi.org/10.24036/jea.v4i1.476>
- Fitri, F. A., Syukur, M., & Justisa, G. (2019). Do the fraud triangle components motivate fraud in Indonesia? *Australasian Accounting, Business and Finance Journal*, 13(4), 63–72. <https://doi.org/10.14453/aabfj.v13i4.5>
- Gizta, A. D., Augerah, R., & Andreas. (2019). Pengaruh Red Flag Dan Pelatihan Terhadap Kemampuan Auditor Mendeteksi Fraud Dengan Skeptisisme Profesional Sebagai Variabel Intervening. *Ekonomi*, 27(1), 68–81. <https://doi.org/10.52624/cash.v3i02.1108>
- Juniansyah, I., & Fachriyah, N. (2019). FAKTOR-FAKTOR YANG MEMPENGARUHI KUALITAS HASIL PEMERIKSAAN KEUANGAN NEGARA. *Jurnal Ilmiah Mahasiswa FEB*, 3(1).
- Klienman, G., Strickland, P., & Anandarajan, A. (2020). Why Do Auditors Fail to Identify Fraud? An Exploration. *Journal of Forensic and Investigative Accounting*, 12(2), 334–351.
- Kuntadi, C. (2019). *Audit Internal Sektor Publik*. Salemba Empat.
- Muhajir, I. (2019). Mewujudkan Good Governance Melalui Asas Akuntabilitas dalam Pengelolaan Keuangan Negara. *Jurnal Ilmiah Dunia Hukum*, 4(1), 1. <https://doi.org/10.35973/jidh.v4i1.1346>
- Natalia, L., Fadilla, N. N., Umar, A., Arief, M., & Widyaningsih, A. (2022). Analysis of Factors Affecting the Auditor's Ability to Detect Fraud. *International Journal Management Science and Business Journal*, 4(1), 45–66. <https://ejournal.upi.edu/index.php/msb>
- Nusantara, A. F. P., Irianto, G., & Prihatiningtias, Y. W. (2020). Fraud prevention and detection practices in the perspective of Jember Regency internal auditor. *International Journal of Research in Business and Social Science* (2147- 4478), 9(4), 377–384. <https://doi.org/10.20525/ijrbs.v9i4.775>
- Peuranda, J. H., Hasan, A., & Silfi, A. (2019). Pengaruh Independensi, Kompetensi dan Skeptisme Profesional terhadap Kemampuan Auditor dalam Mendeteksi Kecurangan dengan Pelatihan Audit Kecurangan sebagai Variabel Moderasi. *Jurnal Ekonomi*, 27(1), 1–13.
- Rahmarta, V., Pontoh, G. T., & Said, D. (2024). Kekuatan Organisasional dan Sistem dalam Pencegahan Fraud: Suatu Tinjauan System Literature Review. *Substansi: Sumber Artikel Akuntansi Auditing Dan Keuangan*, 8(1), 28–43. <https://doi.org/https://doi.org/10.31092/subs.v8i1.2604>
- Reurink, A. (2018). FINANCIAL FRAUD : A LITERATURE REVIEW. *Journal of Economic Surveys*, 32(5), 1–34. <https://doi.org/10.1111/joes.12294>
- Syafuruddin, & Sahur, A. (2022). Pengaruh Pendidikan Dan Pelatihan Terhadap Kompetensi Auditor Dilingkungan Inspektorat Kab. Takalar. *Journal of Administrative and Social Science*, 3(2), 6–12. <https://doi.org/10.55606/jass.v3i2.12>
- Wei, S.-J. (1999). Corruption in Economic Development : Beneficial Grease, Minor Annoyance, or Major Obstacle? In *The World Bank Development Research Group, Public Economics*. <http://documents.worldbank.org/curated/en/175291468765621959>