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Limitations of External Audit in Detecting Fraud: eFishery Case

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ABSTRACT
This article analyzes auditors' failure to identify financial statement manipulation by highlighting audit scope, professional skepticism, and the concepts of reasonable assurance and the expectation gap in the eFishery case. This qualitative research uses a case study, analyzing data sourced from investigative news, public reports, and academic literature. The findings indicate that auditors received only summary Excel files without access to the core accounting system or independent evidence, limiting procedures to aggregate figures and failing to uncover systematic earnings manipulation. This failure is understood as a structural consequence of the audit mandate, not professional negligence. This study closes the research gap on fraud by greedy CEOs and governance of Indonesian startups, and recommends strengthening access to audit evidence, data-driven audit technology, and governance oversight.

Keywords:
External Audit, Fraud, Professional Skepticism, Efishery.

INTRODUCTION

The development of startups in Indonesia over the past decade has shown a significant surge, along with the increase in internet users, the adoption of digital technology, and the support of an increasingly organized business ecosystem. Startups are not just small companies or technology businesses, but rather organizations designed to create new products or services in situations full of uncertainty (Ries, 2011). Another view comes from the book Zero to One, which describes startups as the largest group that can be convinced to carry out plans to build a different future. Startups are the embodiment of innovation from "zero" to something completely new, not just copying or improving what already exists (Thiel & Masters, 2014). In Indonesia, this growth is also driven by various factors such as the number of internet users which has exceeded 220 million people and the internet penetration rate reaching 79.5% by 2024, increased venture capital investment, government support through the 1000 Digital Startups program, and digital transformation in very diverse strategic sectors, ranging from financial technology (fintech), e-commerce, logistics,

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edutech, healthtech, agritech, to renewable energy, which reflects the breadth of innovation opportunities in the domestic market.

Indonesia had more than 2,400 startups in 2023, ranking it sixth in the world for the largest number of startups. However, many startups fail and ultimately go bankrupt. According to data from #1000StartupDigital, 50% of startups fail before reaching their fifth year. A report from CB Insights (2023) and research by Akter & Iqbal (2020) explain that six main reasons for startup failure in Indonesia. These reasons are rigid business models, lack of market understanding, low founder and team quality, internal conflict, environmental factors such as regulations and infrastructure, and financial issues. Financial problems can include running out of funds or mismanaging budgets. Several failures, such as those of Investree, TaniHub, and eFishery, demonstrate the importance of flexible business models and strong founder qualities. Conversely, the success stories of Gojek and Tokopedia demonstrate that innovation, risk diversification, and sound financial management are crucial for survival in a constantly changing market.

One phenomenon that is gaining increasing attention is the increasing number of startups involved in fraud scandals. According to the ACFE 2024 Report to the Nations (ACFE, 2024), losses due to occupational fraud globally are estimated to reach 5% of organizational revenue annually, equivalent to more than USD 5 trillion. Of the 1,921 cases analyzed, financial statement fraud only accounted for 5% of cases, but had the largest median loss, at USD 766,000 per case, and often lasted up to 18 months before being detected. The ACFE 2024 also found that more than half of fraud cases were caused by weak internal controls (32%) or overriding existing controls (19%). This fact is particularly relevant for startups, which generally lack a strong and structured internal control system.

This phenomenon is represented in the case of eFishery, an Indonesian agritech startup specializing in aquaculture technology. Founded in 2013 by Gibran Huzaifah, Muhammad Ihsan, Akhirulsyah, and Chrisna Aditya, the company aimed to leverage technological innovation to increase the productivity and efficiency of fish and shrimp farming. Thanks to its innovation and growth strategy, eFishery grew rapidly and achieved unicorn status in 2023, backed by major international investors such as Temasek, SoftBank Vision Fund, and Northstar Group. However, in late 2024, eFishery was implicated in allegations of financial statement manipulation and sales data inflation, including the recording of fictitious transactions used to inflate its valuation in the eyes of investors. These practices created a performance picture that deviated from the actual situation and were uncovered not through an external audit process, but through internal investigations and external findings. The impact not only resulted in significant financial losses but also drastically damaged the company's reputation in the eyes of the public and investors.

From an audit perspective, the scope of the external audit was limited, with the auditors obtaining data only in Excel files from management-provided working papers, without direct access to the internal accounting system. This limitation significantly limited the auditors' ability to perform adequate audit procedures, including direct verification of source data. PwC, a leading public accounting firm, was accused of conducting an audit and issuing a qualified opinion, which led to public scrutiny for its opinion. In response to these allegations, PwC issued an official statement confirming that it had never issued an independent audit report for any of the entities within the eFishery group. This situation highlights two important points: first, that the limited scope of the audit can reduce the chances of fraud detection; second, that the fast-growing and complex nature of startups often creates loopholes that can be exploited to commit fraud.

The eFishery case clearly demonstrates that limited audit scope and weak internal control systems can contribute to significant fraud. This article is an exploratory study that examines the methods and patterns of financial statement manipulation in the eFishery case, examines the factors that prevented auditors from detecting fraud, and identifies the steps auditors should have taken to address the characteristics of technology-based startups. Previous research on the eFishery case has been conducted by Aditya & Musyarri (2025), Agustin et al. (2025), Azhari et al. (2025), Khairani et al. (2026). Previous research focused more on examining the legal side (Azhari et al., 2025; Aditya & Musyarri, 2025) and the professional ethics side (Agustin et al., 2025; Khairani et al., 2026). This research focuses on examining a comprehensive evaluation of fraud mechanisms, audit system failures, and the formulation of strategic solutions for startup audits. This analysis is expected to provide recommendations for strengthening governance and reducing the risk of fraud in the Indonesian startup ecosystem.

LITERATURE REVIEW AND HYPHOTESIS DEVELOPMENT

Hexagon Fraud Theory

The Fraud Hexagon Theory is a development of the Fraud Triangle (Cressey, 1953), Fraud Diamond (Wolfe & Hermanson, 2004), and Fraud Pentagon (Crowe Horwath, 2011), until finally Vousinas (2019) added the element of collusion as the sixth dimension. This model views fraud as not only driven by pressure, opportunity, rationalization, ability, and ego, but also collusion as a factor enabling large-scale fraud. Recent research confirms the relevance of this model in various contexts. Jannah et al. (2021) found that external pressure, rationalization through changes in public accounting firms, ability through changes in directors, and collusion as measured by market performance significantly influenced fraudulent reporting in the manufacturing sector, while opportunity and ego had no effect. Hioda & Urumsah (2025) in state-owned enterprises confirmed financial stability, profit targets, external pressure, and political connections as dominant factors, while auditor changes were insignificant. Alyani et al. (2023)

also found that pressure, capability, and rationalization were significant in the healthcare sector, while opportunity, arrogance, and collusion were not. These divergent findings demonstrate that the Fraud Hexagon is a comprehensive yet adaptable framework to industry and governance contexts. In practice, the eFishery case demonstrates all elements of this theory: valuation pressure (pressure), weak internal controls (opportunity), technical expertise (capability), justification for business continuity (rationalization), overconfidence (ego), and internal collaboration in falsifying reports (collusion). Consistent with Moroney et al.'s (2017) view that audits provide only reasonable assurance, not absolute truth, the Fraud Hexagon serves as an important analytical framework for understanding fraud mechanisms and formulating more effective prevention and detection strategies.

Audit Expectation Gap Theory

The Audit Expectation Gap (AEG) is a concept that explains the gap between what the public expects of an auditor and what is actually the auditor's responsibility according to professional standards. Liggio (1974) first introduced this term, while Porter (1993) later divided it into two main dimensions: the reasonableness gap and the performance gap. The reasonableness gap arises because the public often assumes that auditors are tasked with ensuring that financial statements are free from errors and fraud, even though auditing standards only require auditors to provide reasonable assurance regarding the fairness of the presentation of the statements. Meanwhile, a performance gap arises when auditors fail to meet established professional standards, for example due to a weak application of professional skepticism or a failure to adequately address audit risks. This gap is also closely related to the "expectation gap" between the auditor's ability to detect material misstatements and the public's belief that auditors should always be able to detect fraud (Arens et al., 2017). Thus, the AEG can be used to explain why the audit failure in the eFishery case was not solely due to the auditor's incompetence, but also a reflection of the gap in public expectations that persists to this day.

Auditor's Responsibility vs Management's Responsibility

The Audit Expectation Gap (AEG) describes the gap between public expectations of the auditor's role and the actual responsibilities imposed on them by professional standards. Liggio (1974) introduced this term, while Porter (1993) elaborated it into the reasonableness gap and the performance gap. Management is solely responsible for the preparation of financial statements, maintenance of internal controls, and prevention and detection of fraud (Arens et al., 2017). Auditors, on the other hand, are only obligated to provide an independent opinion on the fairness of the financial statements based on standard procedures, with a reasonable assurance level, not absolute assurance that the statements are free from misstatement or fraud. This fundamental distinction is often overlooked by the public, who consider auditors solely responsible for the accuracy of the financial statements.

Consequently, when an audit fails to detect fraud, as in the eFishery case, the public tends to blame the auditor without realizing that the primary responsibility lies with management. Thus, the AEG and the differential responsibilities theory complement each other in explaining why audit failures are more often perceived as auditor weaknesses rather than as a consequence of the audit's limitations.

Reasonable Assurance Concept

Reasonable assurance is a fundamental concept in external auditing, explaining that auditors do not provide absolute assurance, but rather a reasonable level of confidence in the fairness of the presentation of financial statements. Arens et al. (2017) explain that audit limitations, such as the use of sampling methods, time and cost constraints, and the existence of subjective accounting estimates, make it impossible for auditors to examine all transactions or detect all forms of misstatement. Therefore, the auditor's opinion should be understood as the result of professional judgment regarding the fairness of the statements, not a statement that the financial statements are completely free from error or fraud. This view is in line with international auditing standards (ISA) 200 (IAASB (2008), which emphasize that although auditors design procedures to identify material misstatements, there is always a risk that some misstatements will go undetected. Gray et al. (2019) add that audit limitations also stem from weaknesses in the company's internal control system. Although auditors evaluate the effectiveness of controls, management practices such as override or collusion can intentionally conceal fraud, making it difficult to detect. This indicates that audits inherently carry risks that cannot be completely eliminated. However, many users of financial statements still consider the auditor's opinion to be a complete guarantee. Therefore, when fraud is uncovered after the audit is completed, the public often views it as a total failure of the auditor. However, under the reasonable assurance framework, auditors are only required to provide a reasonable level of assurance, not absolute assurance. Therefore, this concept is relevant to explaining why the auditor's failure to detect fraud in the eFishery case was not solely due to negligence but also reflected inherent limitations of the external audit process.

Fraud Risk Assessment and Auditor's Opinion

The Audit Risk Assessment and Auditor's Opinion explain the auditor's central role in assessing fraud risk and expressing an opinion on the fairness of the financial statements. Fraud risk is a primary concern because international standards such as ISA 240 (IAPI, 2021) emphasize the auditor's responsibility to identify fraud risk factors through an understanding of the fraud triangle or more advanced models, and to perform procedures to adequately respond to these risks. Failure to detect fraud is often caused by weaknesses in the application of professional skepticism, limited audit evidence, or the presence of management collusion that is difficult to uncover, leading to public criticism of the audit's

effectiveness. However, although the auditor has the responsibility to evaluate fraud risk, the final outcome of the audit process is expressed in the form of an opinion that focuses on the fairness of the presentation of the financial statements, not an absolute guarantee of freedom from fraud. The literature explains that audit opinions are divided into unmodified opinions, qualified opinions, adverse opinions, and disclaimers of opinion, each of which reflects the level of materiality and the impact of misstatements on the financial statements. The addition of an explanatory paragraph, for example regarding going concern, further clarifies relevant risk information for users of financial statements. Thus, the relationship between fraud risk and audit opinion is inherent: the fraud risk assessment determines the depth and breadth of procedures that affect detection risk, while the accumulated audit evidence will form the basis for the auditor in deciding the most appropriate opinion. This theory demonstrates the limits of audits in providing reasonable assurance, while also highlighting the expectation gap between the public's expectation of auditors as fraud detectors and the reality that audit opinions place more emphasis on the fair presentation of financial statements.

Audit Risk Model and Professional Skepticism as Foundations of Audit Quality

The Audit Risk Model (ARM) explains that audit risk is a function of inherent risk, control risk, and detection risk. This model serves as a conceptual framework for planning an audit, assessing the risk of material misstatement, and determining appropriate procedures to maintain the overall risk at an acceptable level. The ARM also emphasizes that audits can only provide reasonable assurance, not absolute assurance, so limitations are inherent in every engagement. The effectiveness of the ARM is reflected in how auditors adjust their strategies when the risk profile changes, for example when internal controls are weak or transaction complexity is high. However, the application of the ARM cannot be separated from the Professional Skepticism Theory, which emphasizes the auditor's obligation to be critical, question the evidence received, and remain alert to potential misstatements and fraud. Professional skepticism reflects an objective and evaluative mental attitude, which serves as a safeguard against weaknesses in routine audit procedures. The literature suggests that a lack of skepticism can increase detection risk because auditors tend to accept management explanations without adequate testing. Thus, the ARM provides a structure for understanding and measuring risk, while Professional Skepticism provides a behavioral dimension that determines the quality of the auditor's response to that risk. The integration of the two forms the main foundation in maintaining audit quality, reducing the risk of material misstatement, and strengthening the reliability of the opinion provided by the auditor to stakeholders.

COSO Framework and GCG as Governance Mechanisms

The COSO Internal Control Integrated Framework provides a comprehensive foundation for ensuring the effectiveness of internal control, with five main elements: control environment, risk assessment, control activities, information and communication, and monitoring activities. COSO (2024) emphasizes that good internal control not only supports the reliability of financial reporting but also serves as a fraud prevention and detection mechanism by integrating risk management and ongoing monitoring activities. From a corporate governance perspective, the principles of Good Corporate Governance (GCG) which include transparency, accountability, responsibility, independence, and fairness constitute a macro framework that guides management behavior to align with stakeholder interests. Arens et al. (2017) emphasize that the effectiveness of internal control is an integral part of GCG implementation, as the board of directors, commissioners, and audit committee have direct responsibility for ensuring the integrity of financial reporting and preventing fraud. Thus, COSO provides instruments at the company's operational level, while GCG forms an oversight framework at the governance level. The integration of the two complements each other in strengthening protection against the risks of fraud and material misstatement. Weaknesses in the implementation of the COSO framework and GCG principles can explain the audit failure in the eFishery case, where weak internal controls and governance oversight gave management room to carry out manipulations that were difficult for auditors to detect.

RESEARCH METHOD

This research uses an exploratory qualitative approach with a case study method. This approach was chosen to deeply understand the complex phenomenon of external audit limitations in detecting fraud in the technology-based startup ecosystem, using the case of eFishery as the primary unit of analysis. This study utilizes secondary data as the primary source. Secondary data was chosen because of its historical accessibility and encompasses perspectives from various stakeholders (media investigations, public reports, and academic reviews). The secondary data used in this study are as follows:

a. Investigative News: Articles from credible media outlets regarding the chronology of the eFishery crisis and fraud disclosure reports.
b. Public Reports: Official documents, company announcements, or investor statements relevant to auditing or governance.
c. Academic Literature: Journals and reference books (particularly the theory of Arens et al. (2017)) regarding auditing standards, reasonable assurance, and the expectation gap.

This study focuses on the limitations of auditors who rely solely on internal financial reports in Excel spreadsheets without system access, in line with Arens et al.'s (2017) view that the

scope of an audit is determined by the evidence provided by the client. Therefore, the analysis was conducted to confirm that auditors only provide reasonable assurance on the fairness of the financial statements, not absolute assurance on the accuracy of all transactions. To ensure the validity of the research, data source triangulation was used. This was done by comparing data from media investigative reports with applicable auditing standards to avoid subjective bias from one party.

RESULTS AND DISCUSSION

Reliance on Client-Prepared Excel Files

The study found that eFishery's auditors relied heavily on internal financial reports prepared by management in summary form, rather than on complete transaction data. According to the FTI Consulting report, eFishery even prepared two separate sets of financial reports: internal reports showing losses and external reports formatted to show substantial profits, which were then used for the benefit of the public and investors (Table 1). This situation suggests that auditors only obtained documents fully controlled by management, without access to individual transaction details, invoices, cash receipts, or third-party contracts. Thus, the audit could only assess the reasonableness of the figures presented in the summary reports, in accordance with standards that emphasize reasonable assurance, but did not allow auditors to ensure the validity of the transactions as a whole. This complete reliance on client documents limited the auditor's ability to detect potential financial statement manipulation. This finding aligns with research by Hurtt (2010), which found that auditors with low levels of skepticism tend to place too much faith in management representations (including internal documents) and fail to perform cross-confirmation. Furthermore, International Standard on Auditing 500 (IAASB, 2009) states that relying on client spreadsheets is a low-assurance practice.

System Access

In addition to document limitations, auditors also lack direct access to the company's core accounting system, which essentially serves as the central repository for all transactions. This lack of access prevents auditors from conducting detailed searches or drill-downs into individual transactions and from testing the integrity of the data recorded in the company's accounting software. This significantly limits auditors' ability to detect unusual transaction patterns, such as double revenue recognition practices, transaction diversions, or records lacking economic substance. Auditors ultimately rely solely on Excel files prepared by management, which tend to present data in summary form and lack detailed transaction records. This limitation increases the risk of hidden, undiscovered material misstatements, making system access weaknesses a significant factor in auditors' failure to detect fraud.

Table 1. Comparison of Internal and External Financial Reports of eFishery

Report Type	Profit Reported	Key Characteristics	Implication for Audit Scope
Internal	Loss of IDR 578 billion	Disclosed only for management; reflects true performance	Auditors are not given the opportunity to test transaction details.
External	Profit of IDR 261 billion	Prepared for investors; formatted summary financials	Auditors rely on summary reports, not raw data

Source: Data Processed

Table 2. Audit Procedures in eFishery Case

Procedure Type	Implication for Fraud Detection
Substantive test (summary)	Just verify the summary numbers
External confirmation	No validation with third parties
Trend analysis (multi-period)	No revenue increase anomalies detected
CAATs / Data Analytics	No abnormal transaction patterns revealed

Source: Data Processed

Table 3. Professional Skepticism in eFishery Audit Context

Dimension	Expected in Audit (Theory)	Reality in eFishery Case
Source of Evidence	Diverse (internal + external)	Only from management (Excel files)
Cross-Verification	Third party confirmation (bank, vendor, customer)	Not done due to limited access
Access to Corroborative Evidence	Critical questions + follow-up evidence	Questions are still answered with data from management
Level of Professional Skepticism	Retained throughout the audit	Seems limited, more due to structural constraints

Source: Data Processed

Audit Procedures

The audit procedures performed in the eFishery case exhibited significant limitations, as the auditors performed only simple substantive tests on summary figures in an Excel file prepared by management, without examining transaction details (Table 2). The audit focused on the consistency of the income statement and balance sheet, but did not include additional procedures that are typically standard practice, such as confirming cash balances with the bank, verifying receivables with key customers, or reconciling payables with suppliers. Furthermore, the auditors did not perform cross-period trend analysis to assess the reasonableness of the drastic revenue increase, nor did they use computer-assisted

audit techniques (CAATs) to examine recurring transaction patterns and detect outliers. This resulted in an audit that was largely administrative in nature, focusing solely on comparing and reconciling figures, without examining the underlying economic substance of the records. As a result, manipulation practices such as pre-realization revenue recognition, recording fictitious sales, or fabricating figures through affiliates could not be identified. In other words, these procedural limitations explain why the auditors failed to detect management's systematic revenue inflation, as the narrow scope of the audit did not allow for in-depth testing of the validity of the actual transactions. This situation supports the findings of Moroney et al. (2017) that audit procedures rely on client-provided evidence and cannot uncover all fraud. This finding supports previous research by Sudarmadi (2023), who stated that effective audit procedures can uncover potential fraud and provide guidance for necessary improvements in internal control.

Professional Skepticism

The application of professional skepticism in the eFishery audit cannot be classified as low, but rather limited by the audit scope, which only included Excel files provided by management (Table 3). Auditors are fundamentally required to consistently question the reasonableness of evidence and seek alternative comparisons. However, in this case, all data is sourced from a single source, thus severely limiting opportunities for cross-checking. For example, auditors lacked access to confirm accounts receivable balances with customers, trace payment receipts, or verify revenue contracts with third parties as the basis for recording. This situation makes auditor skepticism appear weakened, even though these limitations are more structural than individual. Even when auditors attempted to raise critical questions, the answers

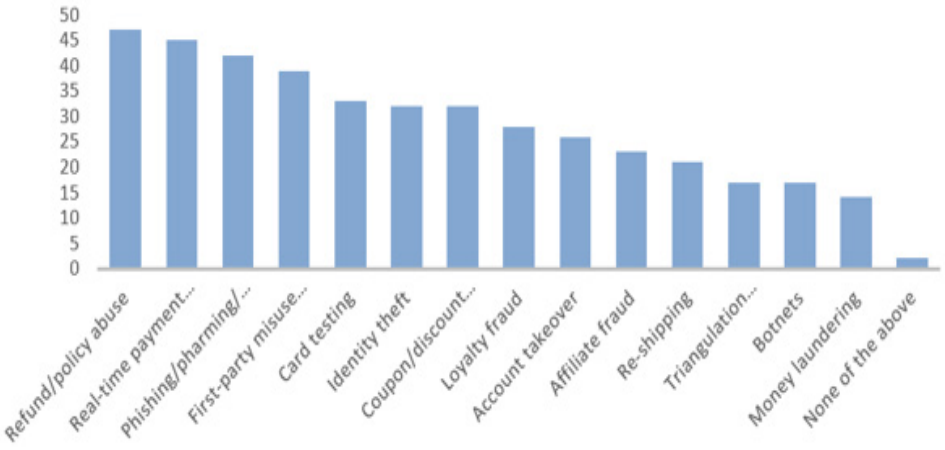


Figure 1
Main Types of E-Commerce Fraud Experienced by Merchants Worldwide 2024

Source: Data Processed

still came from management, further widening the information asymmetry. In other words, the barriers to applying professional skepticism arose not from auditor failure, but from the narrow scope of the audit, the complete control of evidence by management, and the absence of an independent mechanism to test the validity of the data obtained. Auditors' professional skepticism appears to be limited not by weak attitudes, but by structural constraints resulting from management's dominance of information, in line with Vousinas' (2019) view that collusion and ego can exacerbate fraud risks.

Fraud Detection

Fraud detection in the eFishery audit report indicates that the auditor did not find any revenue manipulation in the financial statements, not simply due to negligence, but because the audit focused on assessing the fairness of the presentation, not on proving the validity of each transaction. The auditor worked with limited evidence in the form of financial summaries in Excel files prepared by management, without access to the accounting system or more detailed supporting data. Under these circumstances, the auditor could only assess the consistency and reasonableness of the reported figures, in accordance with auditing standards that provide reasonable assurance. Management's revenue inflation was systematic and hidden behind internal data, thus not within the scope of the auditor's routine testing. This case was later identified through a forensic investigation using a different methodology. Therefore, the audit results reflect the auditor's functional limitations: providing reasonable assurance on the fairness of the statements, not a guarantee of freedom from fraud.

Comparative Industry Fraud Trends

To contextualize eFishery's fraudulent practices within the broader market landscape, Figure 1 presents data from Statista (2025) on the main types of fraud attacks targeting e-merchants worldwide. The dominance of payment fraud and account takeover schemes highlights the widespread vulnerabilities of technology-driven business models. Similar findings were reported by Mintah et al. (2025), who emphasized that socio-cultural factors and weak governance increase fraud risks for digital firms in emerging markets. In addition, Wu et al. (2025) observed that machine learning–based detection methods remain significantly limited when not supported by granular transaction data. These global trends indicate that the manipulation uncovered in eFishery is not an isolated incident but part of a broader pattern also affecting startups and digital platforms across various regions. Incorporating this industry-level evidence strengthens the interpretation of our findings and shows that limited audit access, restricted to summarized Excel files rather than integrated accounting systems, can create comparable oversight gaps internationally (Moroney et al., 2017; Arens et al., 2020).

CONCLUSIONS AND SUGGESTIONS

The auditor's failure to detect fraud at eFishery is better understood as a consequence of the limited scope of the audit rather than professional negligence. Audits essentially provide only reasonable assurance on the fairness of financial statements, not absolute assurance on the accuracy of all transactions. Internal control weaknesses and management collusion can conceal fraud, making it difficult to detect. In this case, the auditor relied entirely on Excel files prepared by management without direct access to the core accounting system or independent supporting evidence. Audit procedures rely on client-provided evidence and cannot uncover all fraud. Auditors' professional skepticism appears to be limited not by a weak attitude, but by structural constraints resulting from management's dominance of information.

These findings highlight the need for strengthened corporate governance and more adaptive oversight policies to address fraud risks in the technology startup ecosystem. The rapid growth environment and high valuation pressures exacerbate greed-based fraud at the CEO level, while the principles of good corporate governance are often ignored. An expectation gap occurs when the public expects auditors to guarantee complete truthfulness, even though the primary responsibility for preventing fraud lies with management (Porter, 1993). To reduce this gap, Indonesian capital market regulators need to promote greater transparency and strengthen auditors' professional skepticism guidelines. Furthermore, venture investors and supervisory boards should prioritize internal control mechanisms, management accountability, and financial reporting integrity over simply pursuing high valuations. This research is limited by the use of secondary data in the form of news and open publications; further studies involving interviews with auditors, regulators, or official investigative documents are needed to validate the findings. Thus, this article expands the literature on the Fraud Hexagon and the Audit Expectation Gap, while providing a practical basis for strengthening audit quality and governance in the technology startup sector.

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