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The Role of Internal Audit Effectiveness and Internal Control on Fraud Prevention (Case Study of PT. Tapan Nadenggan)

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ABSTRACT

This study aims to describe the role of internal audit effectiveness and internal control on fraud prevention. The data collection technique used in this research is using a questionnaire or questionnaire. The questionnaire was given to the manager and head of administration. The data analysis used in this research is a qualitative analysis technique that uses statistical analysis tools. The results of the test show that the variable coefficient value of internal audit effectiveness and internal control has an effect on fraud prevention. Based on the research conducted, several limitations were found, it is recommended that further research development is expected to add other variables to be able to see the factors that influence auditor decision making and it is advisable to expand the population and sample to be studied.

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INTRODUCTION

Fraud is still a problem in various sectors in Indonesia, be it private, non-private companies, even within the government. The Association of Certified Fraud Examiners (ACFE) Global in 2019 shows that the most detrimental fraud in Indonesia is 69.9% corruption, 9.2% fraud in financial statements and 20.9% misuse of state and company assets / wealth. It is reflected in the survey that corruption takes the highest percentage in the most costly fraud in Indonesia.

Fraud is a mistake that is done intentionally. In the scope of accounting, the concept of fraud is a deviation from accounting procedures that should be applied in an entity. These deviations will have an impact on the financial statements presented by the company. The Statement of Auditing Standards in Norbarani (2012) defines fraud as a deliberate act to produce material misstatements in financial statements which are the subject of an audit. Material misstatements in the financial statements will mislead stakeholders or users of financial statements because the information in the financial statements does not reflect the actual condition of the company.

One of the problems that arise is the possibility of fraud. The existence of fraud that appears in the company is the cause of inconsistency and negligence of functions within the company. In addition, another reason that causes humans to commit fraud according to (Zimbelmen, 2016) is inseparable from the three concepts of Triangel Fraud, namely pressure, opportunity, and rationalization.

The phenomenon that occurs where a Manager at PT Tapan Nadenggan South Kalimantan Region has interests and busyness and tasks that must be given responsibility to subordinates given the breadth and complexity of his leadership, beyond his main duties. Besides his busyness building relationships, a manager certainly has duties and responsibilities that must be done. For this reason, the Manager needs to give responsibility and authority to subordinates to carry out tasks, so therefore he must pay attention and see who deserves the responsibility so that the duties of a Manager become light and not misused.

In running its business, PT Tapan Nadenggan must carry out the procurement of goods and services in the form of equipment needed to launch activities, but to carry out the procurement of goods and services there are third parties (vendors) involved in it. To expedite the work and financial process, the third party provides percentages to the relevant officials, thus

to gain profit, the third party reduces the specifications and technical specifications of goods and services so that repeated procurement is often carried out which results in company losses.

Internal control is a process used by organizations to regulate and supervise internal activities in accordance with organizational objectives. The purpose of internal control is to ensure that internal activities are carried out effectively and efficiently and meet applicable standards (Naibaho, 2013). Internal control includes several components such as policies and procedures, namely the organization must have clear policies and procedures governing internal activities, Physical control, namely the organization must regulate access to important resources such as money and confidential documents to limit opportunities for fraud, Monitoring system, namely the organization must have a monitoring system that can detect potential fraud and provide appropriate action, and Reporting mechanism, namely the organization must create a reporting mechanism that is easy to use (Maisaroh, 2019).

LITERATURE REVIEW

Definition of Audit

The definition of auditing according to Hery (2016) is as a systematic process for obtaining and objectively evaluating evidence related to assertions about economic actions and events, in order to determine the level of compliance between assertions and predetermined criteria, and communicating the results to interested parties.

Definition of Internal Audit

Sukrisno Agoes (2017) says that internal audit is a check carried out by the company's internal audit division, starting from the company's financial statements and accounting records or compliance with government regulations (for example regulations in the fields of taxation, industry, investment, and others) and the provisions of the applicable professional association (financial accounting standards).

Internal Audit Role

The role of internal auditors according to (Suginam, 2017) can be categorized into 3 types, namely:

- 1) Watchdog, includes inspection, observation, counting and assessment activities that have the purpose of ensuring compliance with established regulations.
- 2) Consultants, as consultants, are expected to share benefits in the form of advice in managing organizational resources so that they can ease the burden on management.
- 3) Catalyst, the role of internal auditors as catalysts is related to quality assurance, so that auditors are expected to provide guidance to managers to recognize potentials that can pose a threat to the achievement of organizational goals.

Definition of Internal Control

Internal control is a process used by organizations to regulate and supervise internal activities in accordance with organizational objectives. The purpose of internal control is to ensure that internal activities are carried out effectively and efficiently and meet applicable standards (Naibaho, A. T, 2013).

Components of Internal Control

According to (Agoes, 2017: 160) there are 5 components of COSO internal control, namely:

- (1) The Control Environment is the foundation of the internal control structure that affects the structure of activities and their risk assessment.
- (2) Risk Assessment is the recognition and analysis of risks that are relevant to the achievement of objectives and serves as a guide to determine how the company will manage the identified risks.
- (3) Control Activities are policies and procedures that help ensure actions are taken to address risks and management directives are carried out.
- (4) Information and Communication is the recording, processing and exchange of information in a form and time that enables people to carry out their obligations.
- (5) Monitoring activity is the process of determining the quality of internal control performance over time.

Limitations of Internal Control

The limitations of the internal control system put forward by Susanto (2008) include:

- (1) Errors arise when employees make poor judgments or are distracted during work.
- (2) Collusion Collusion occurs when two or more employees conspire to commit theft (corruption) where they work.
- (3) Management Deviations Management deviations occur because the managers of an organization have more authority than ordinary employees, the control process is effective at the lower management level, ineffective at the upper level.
- (4) Benefits and costs The costs of internal control should not exceed the benefits generated.

Definition of Fraud

Fraud or fraud according to Amin Widjaja Tunggal (2016: 1) is "as a broad legal concept, fraud describes any deliberate attempt at deception, which is intended to take assets or rights of another person or party.

Fraud Prevention

Prevention of fraud or fraud according to Alrecht (Priantara, 2013: 184-186) are

- (1) Work culture is an opportunity or opportunity that can be exploited by the perpetrator. The initial stage of fraud prevention is to eliminate opportunities to commit fraud by building and implementing risk management, internal control and honest corporate governance.
- (2) Internal control and governance, including:
Implement good internal controls to prevent and detect fraud. Encourage third parties to comply with company policies including those related to business relationships that are free of corruption, collusion, nepotism. Monitor and get to know employees, especially deviant behavior, so that they can early nurture these employees. Punishment, fear of perpetrators and potential perpetrators of clear and firm punishment hinders dishonest and fraudulent actions. Meanwhile, according to childs and Bishop (Priantara, 2013, 188-190).

METHODS

This research uses qualitative descriptive research methods with case study procedures. According to (Sugiyono, 2017) qualitative methods are used to obtain in-depth data and contain meaning which is the actual data, therefore qualitative research does not emphasize generalization, but rather emphasizes meaning.

This study collected primary data using data collection techniques, distributing questionnaires to ten respondents and interviews with key informants to find out more in-depth information about dimensions that were in the low category. Interviews were conducted with the farm manager and the head of administration of PT Tapan Nadenggan, the head of administration is the party who is directly involved in implementing the internal control system, the farm manager's representative as the quality control group is the party who is the party who plays a role in governance. The questionnaire contained fourteen questions related to internal audit effectiveness, seventeen questions related to internal control, and twelve questions related to fraud prevention.

In this study, the authors used data collection instruments in the form of observation, interview, and questionnaire.

There are several qualitative data analysis models that are commonly used. The model used by researchers is the Miles and Huberman Model, as follows:

Data Collection

Data collection was carried out by means of observation, interviews, and documentation or a combination of the three (triangulation). Collection is carried out for months so that the data obtained will be a lot. In the early stages everything seen, heard, documented.

Data Reduction

Data reduction is summarizing data or writing the main things in this research so that it facilitates the understanding of researchers. With the reduction of data, it can easily provide a clearer picture. In addition, it makes it easier for researchers to collect further data, and search

for it when needed. Careful and detailed notes are needed in research, because of the large amount of data obtained from the field, the data will be obtained more and more, comprehensive and a little complicated. Then the researcher will analyze the data using data reduction. Data reduction can be done by researchers, if in conducting research, data has been found that is still unfamiliar, unrecognized and the pattern is not yet known (Sugiyono, 2013).

Data Display

Data Display or can be called data presentation in qualitative research is the presentation of data in the form of brief descriptions, charts, relationships between categories, and the like. With the data display, it will be easier to present research data. Furthermore, after reducing the data, it is necessary to display the data. In qualitative research, data provision can be formed by presenting the form of charts of relationships between categories, brief descriptions and others. This can make it easier to understand events, planning the next step for what has been understood.

Inference

Data verification or can be called data conclusions is a brief and easy-to-understand description of the results of the research that has been carried out. With data verification, it can be easy to understand the essence of the research results. The fourth step in data analysis techniques is drawing conclusions / verifying data. This first conclusion is still temporary, and can change if there is other evidence that supports research to the next stage. If there is support for relevant evidence from research conducted in the field at an early stage, then researchers will continue research until they are able to draw conclusions that are more credible or reliable. 14 Conclusion in research. Qualitative research is a new finding that has never existed before. Findings can be in the form of objects that were previously dim until they became clear (Sugiyono, 2017).

RESEARCH RESULTS AND DISCUSSION

No	Dimensions	Average	%	Category
1	Factors supporting audit effectiveness internal	4,42	88,40%	Very good
2	Indicators of internal audit effectiveness	4,36	87,11%	Very good
Internal Audit Effectiveness		4,39	87,76	Very good
1	Control Environment Control)	4,20	84,00%	Very good
2	Risk Assessment	4,43	88,50%	Very good
3	Control Activities	4,07	81,33%	Good
4	Information and Communication (Information and Communication)	3,93	78,67%	Good
5	Monitoring Activities	4,20	84,00%	Very good
Internal Control		4,17	83,30%	Good
1	A culture of honesty and high ethics.	4,18	83,60%	Good
2	Management's responsibility to evaluate fraud prevention	4,05	81,00%	Good
3	Oversight by the audit committee.	4,27	85,33%	Very good
Fraud Prevention		4,17	83,31	both

The effectiveness of internal audit at PT Tapan Nadenggan is effective and very good,

- a) Supporting factors for internal audit effectiveness at PT Tapian Nadenggan are in the excellent category, this is reflected in the implementation of audits based on internal audit standards, the implementation of audits based on systematic and clear audit programs and procedures, documented audit assignment plans, Internal auditors ensure that management has established and used audit criteria and internal auditors correctly identify risks and evaluate internal control systems and the technology used to facilitate the audit process is good.
- b) Indicators of internal audit effectiveness at PT Tapian Nadenggan are in the good category, this is reflected in the findings of internal auditors who are always based on reliable documents and data as a form of professionalism of auditors and management and Internal Auditors always communicate with management from planning to audit reporting, and good communication with management regarding findings and recommendations, Internal Auditors always monitor and communicate with officials from the audited unit regarding follow-up / improvement of audit findings.

Internal control at PT Tapian Nadenggan is effective and good,

- a) The control environment at PT Tapian Nadenggan is in the very good category, this is reflected in the rules of behavior, for example, leaders, enforcing appropriate discipline against irregularities, eliminating policies that encourage unethical behavior. Upholding integrity and ethical values is fundamental in supporting the sustainability of an effective control environment.
- b) Risk assessment is in the excellent category, this is reflected in leaders who have set higher education goals, made consistent action strategies, implemented personnel job descriptions and standard operating procedures, integrated management strategies and risk assessment plans, and identified risks from within and outside. The indicator Identifying and assessing changes that can affect internal control received the lowest score of the four indicators of the effectiveness of the internal control system so that it needs more attention from the leadership. Indicators that need to be improved are Identifying risks to achieving goals and risk analysis to determine how risks should be managed so that risks can be assessed through the management control system and the application of personnel job descriptions and standard operating procedures that are easily understood by each personnel because the organizational structure is too large and bureaucratic. Standard operating procedures should also be made simpler so that long-winded bureaucracy can be cut.
- c) Control activities are in the good category, this is reflected in the control of control of the company's main activities, policies and procedures are set in writing, periodic evaluation of control activities is carried out, reviewing company performance by comparing performance with performance benchmarks, developing human resources, physical control of assets, separation of functions where leaders must ensure that all major aspects of transactions or events are not controlled by 1 (one) person so that a check and balance mechanism occurs, accurate and timely recording of transactions.
- d) Information and communication are in the good category, this is reflected in the identification, recording and communication of information in the right form and time. PT Tapian Nadenggan already has an information and communication system in the form of a budget, financial administration and accounting system that is used to process transactions both receipts and expenditures, a processing information system in the form of a budget application, namely SAP (System Application and Product in Data processing).
- e) Supervisory activities are in the excellent category, this is reflected in the implementation of continuous monitoring, separate evaluation, and follow-up on recommendations from audits and other reviews so as to improve the accountability of accounting systems and financial management, leaders evaluate and communicate internal control deficiencies so that improvements can be made to improve quality assurance and governance.

Prevention of fraud at PT Tapian Nadenggan is effective and good,

- a) A culture of honesty and high ethics is categorized as good. Check and balance mechanisms are implemented to prevent conflicts of interest and concurrent positions

where auditors play a role in supervising the KTU through academic monitoring and evaluation activities and technical financial monitoring and evaluation.

- b) Management responsibility for evaluating fraud prevention is in the good category, this is reflected in its implementation through a description of the position, function, duties, responsibilities, and authority of each organizational element; There is a complete and clear job description and standard operating procedures for personnel in the articles of association. Responsibility needs to be improved through improvement and explanation of the position, function, responsibility, and authority of each organizational element to each element so that they are able to understand the problems that exist in the organization.
- c) Supervision by the audit committee is in the very good category, this is reflected in the long-term planning system, medium-term (strategic planning), and annual planning (Annual Activity Plan and Budget).

The Role of Internal Audit on the Prevention of Accounting Fraud (Fraud)

The role of internal auditors is very important in preventing fraud (Fraud), internal auditors are implementing the company's supervisory function. In carrying out this function, the internal auditor plays a role in ensuring that all company plans and activities run in accordance with the company's predetermined objectives by understanding the scope of the company's overall control. Internal auditors are expected to protect the company from all actions that can create losses for the company. The better the internal auditor's resources, the higher the role of internal auditors in controlling and identifying fraud prevention (Fraud) which can prevent losses for a company.

The Role of Internal Control on Fraud Prevention

Internal control has an influence on fraud prevention because internal control itself is part of corporate governance which can carry out stages in preparing fraud prevention strategies.

If internal control in a company can be implemented properly, with the company having adequate control activities such as having a control environment, having risk activities and having control activities supported by monitoring by internal auditors, it can create prevention and detection of fraud (Fraud). Internal control must be arranged so that it can prevent and detect fraud committed by individuals so that it is easily detected as early as possible so as to minimize the losses suffered by the company.

CONCLUSION

The role of internal auditors is very important in preventing fraud (Fraud), internal auditors are implementing the company's supervisory function. Internal auditors can evaluate in the form of assessments and tests related to the internal control system implemented by a company. Internal auditors also play a role in ensuring that all company plans and agendas run in accordance with company goals. An effective internal audit serves as an early detector of potential fraud, while strong internal controls reduce opportunities for fraud by implementing strict procedures and policies. In addition, both increase trust and build a strong ethical culture within the organization. Thus, the synergy between internal audit and internal control not only protects organizational assets but also improves overall performance and efficiency. The greater the effectiveness of internal control carried out by a company, the smaller the opportunity for individuals to commit fraud.

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