

The Role of Internal Audit and the Implementation of Good Corporate Governance in Fraud Prevention

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ABSTRACT

The background of this research is that there are still many cases of fraud that occur either in the company or in the central/regional government. This study aims to determine whether and how much internal audit and the implementation of GCG play a role in preventing fraud at the West Java Provincial Inspectorate. The independent variable is internal audit and the implementation of GCG, while the dependent variable is fraud prevention. The research method uses the verification method. The research population is internal auditors, totaling 35 people at the Inspectorate of West Java Province. The sampling technique used non-probability sampling technique with saturated sample technique, so the sample amounted to 35 internal auditors at the West Java Provincial Inspectorate. The data analysis method used multiple linear regression analysis. The results of the study show that internal audit and the implementation of GCG have a positive and significant role in preventing fraud. In addition, the role of internal audit and the implementation of GCG in fraud prevention is 48.2%.

Keywords: Internal Audit, Good Corporate Governance, and Fraud Prevention.

INTRODUCTION

Fraud is one of the problems that often occurs in every institution/institution. Every institution/institution has the risk of possible fraud. Fraud in institutions/institutions can be carried out by individuals or groups in all functions of positions and organizational divisions. Fraud is an important factor that must be considered by every institution/institution by increasing awareness, vigilance, and concern for the possibility of fraud. (ACFE, 2019). Below will be presented the results of the fraud survey in Indonesia conducted by ACFE in 2019 as follows:



Sumber: Data diolah, 2019

Figure 1 Fraud Survey in Indonesia in 2019

Based on a survey conducted by ACFE in 2019 on 239 respondents, it shows that fraud that often occurs and causes the biggest losses in Indonesia is corruption with a presentation of 64.4% or chosen by 154 respondents. The next type of fraud is misappropriation of state and company assets/wealth with a presentation of 28.9% or 69 respondents selected, while financial statement fraud is 6.7% or chosen by 16 respondents. ICW researcher Wana Almsyah said that during the first semester period (1 January - 31 June 2020) there were 169 corruption cases. Wana also said that there were 139 cases of either new corruption cases or those that were being developed, as well as hand arrest operations. The case that occurred involved 372 suspects which resulted in state losses of Rp. 18.1 trillion.

Internal audit is an important function needed in every institution/institution, this is because internal audit is an assessment activity carried out without any element of interest or cannot be influenced and objectively aimed at providing added value and increasing the effectiveness and efficiency of operational activities. The assessment activities are carried out systematically and disciplined in evaluating risk management, internal control, and governance processes to assist institutions/institutions in achieving their goals (IIA, 2011). In addition to internal audit, the implementation of good governance is also an important factor in every institution/institution in improving governance in order to prevent fraud. The implementation of good governance can run well with the commitment of all parties, the government and the community. Good governance can run well with good coordination and integrity, professionalism, work ethic, and high morale (LAN and BPKP, 2000).

LITERATURE REVIEW

Internal Audit

The Institute of Internal Auditor (IIA) in Redding et al (2013:2) states that internal audit is an assessment activity that is carried out systematically without any element of interest or cannot be influenced, and is objective, which aims to provide added value and increase effectiveness and efficiency. operational activities. The assessment activities are carried out in a systematic and disciplined manner in evaluating risk management, internal control, and governance processes to assist institutions/institutions in achieving their objectives. According to Hery (2010:73) states that the internal audit indicators are as follows:

1. Independence
2. Professional Ability
 - a. Knowledge and ability
 - b. Supervision
 - c. Professional Accuracy
3. Scope of Work
 - a. Information Reliability
 - b. Conformity with policies, plans, procedures, and statutory provisions
 - c. Asset Protection
 - d. Resource Usage
 - e. Achievement of objectives
4. Implementation of Inspection Activities
 - a. Inspection activity planning
 - b. Testing and Evaluation
 - c. Inspection Result Report
 - d. Follow-up Examination

Good Corporate Governance (GCG)

The Forum for Corporate Governance in Indonesia (FCGI) in Agoes and Ardana (2017:101) states that good corporate governance is a set of systems that regulate the rights and obligations of internal and external stakeholders. According to Agoes and Ardana (2017:103), good corporate governance indicators are based on the principles of corporate governance as follows:

1. Fairness
2. Transparency

3. Accountability
4. Responsibility
5. Independence

Fraud Prevention

Fraud prevention is an activity carried out by an organization to prevent or minimize the risk of fraud effectively at low costs (Karyono, 2013:87). According to Tunggal (2016: 59) states that the indicators in preventing fraud are as follows:

1. Honest culture and high ethics
 - a. Setting the tone at the top
 - b. Creating a positive work environment
 - c. Hiring and promoting the right employees
 - d. Training
 - e. Confirmation
2. Management's responsibility to evaluate fraud prevention
3. Supervision by the Audit Committee

Framework

The Role of Internal Audit in Fraud Prevention

Fraud is one of the risks faced by every institution/institution. Fraud can be done by implementing prevention programs such as the implementation of internal controls that can prevent or reduce the risk of fraud. Management in this case is responsible for the implementation of internal control. While the internal auditor is responsible for preventing fraud by evaluating and verifying the adequacy of the effectiveness of the internal control system, assessing the extent to which potential risks have been identified. (KOPAI, 2004:65). The existence of these risks requires internal auditors to develop preventive measures to prevent fraud (Amrizal, 2014:11). One way to increase the effectiveness of fraud prevention is by increasing the implementation of internal audits. Internal audit is an assessment activity that is carried out systematically without any element of interest or cannot be influenced, as well as objectives that aim to provide added value and increase the effectiveness and efficiency of operational activities by evaluating risk management, internal control, and governance processes (Redding et al. 2013:2). Internal audit is one of the main evaluators of the activities of the organization. Internal audit has a significant effect on fraud prevention, where a better internal audit will increase fraud prevention (Maliawan et al, 2017).

The Role of Good Corporate Governance Implementation in Fraud Prevention

Good corporate governance is implemented to prevent fraud in every institution/institution. This is because GCG is a form of regulation that is applied in preventing an unlawful act within the institution/institution. Good corporate governance can be done by eliminating the factors driving the occurrence of fraud by applying the principles of GCG, namely transparency, accountability, fairness, integrity, and participation. Good corporate governance has a positive effect on fraud prevention (Soleman, 2013). The GCG structure recognizes two governance mechanisms, namely internal governance and external governance. Each of these internal and external governance can function properly so that fraud can be prevented/reduced (Anugerah, 2014). Preventive actions taken by institutions/agencies through the implementation of GCG can minimize the risk of fraud by making efforts to detect it quickly and well by the institution/institution. Good corporate governance has a significant effect on fraud prevention (Sanusi, Sarah Fadilah 2019).

The following below will describe the framework chart as a form of research flow of thought, namely:

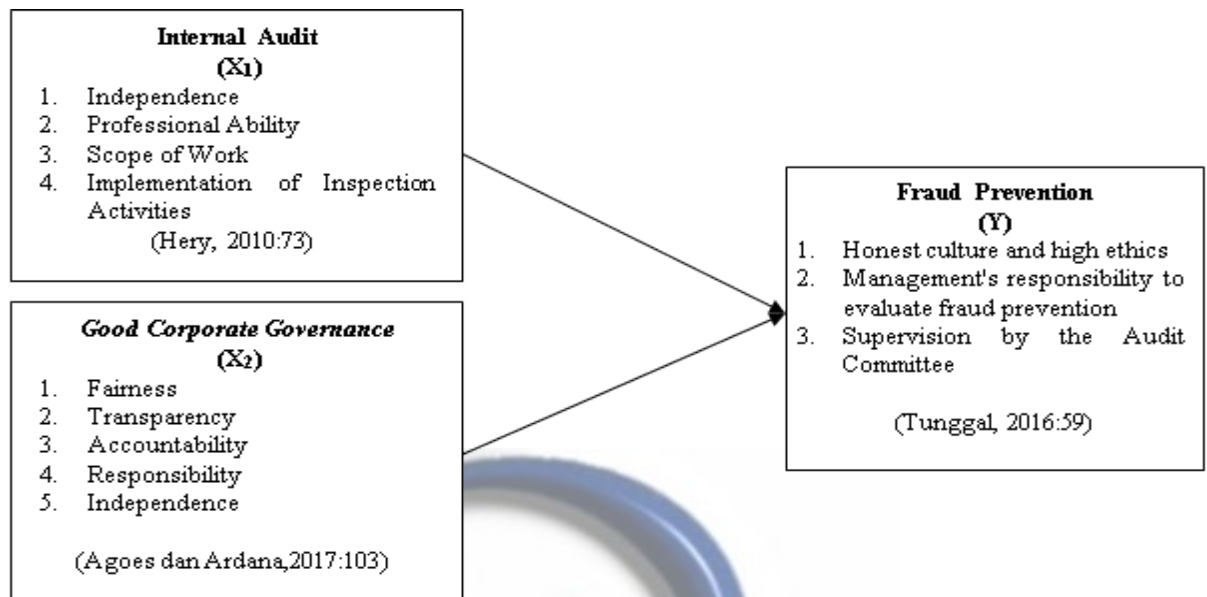


Figure 1.1 Framework

Research Hypothesis :

H1: Internal audit has a positive role in preventing fraud.

H2: The implementation of GCG has a positive role in preventing fraud.

H3 : Internal audit and the implementation of GCG have a positive role in preventing fraud

RESEARCH METHODOLOGY

This type of research uses verification research methods with quantitative research types. The research population is the internal auditor at the Inspectorate of West Java Province, amounting to 35 internal auditor. The sampling technique used a non-probability sampling technique with a saturated sample technique, so that the sample amounted to 35 internal auditors at the Inspectorate of West Java Province. The types and sources of data are primary. Data collection techniques using a questionnaire. The independent variable is internal audit and the implementation of GCG, while the dependent variable is fraud prevention. Methods of data analysis using multiple linear regression analysis.

RESULTS AND DISCUSSION

Results

Table 1 Multiple Linear Regression

Model	Coefficient
(Constant)	46,094
Internal Audit	0,262
Implementation of GCG	0,358

Source: SPSS Output Results

$$Y = 46,094 + 0,262 X_1 + 0,358 X_2$$

Source table 1 above, from the regression equation shows that internal audit and the implementation of GCG have a positive influence on fraud prevention. This means that the higher the internal audit and the implementation of GCG, the higher the fraud prevention, and vice versa.

Table 2 Partial Hypothesis Testing

Model	T Value	Prob Value	Result
Internal Audit	4,218>1,694	0,000<0,05	H ₁ Accepted
Implementation of GCG	5,258>1,694	0,000<0,05	H ₂ Accepted

Source: SPSS Output Results

Source in table 2 above, from the results of partial hypothesis testing show that internal audit and the implementation of GCG have significant role in preventing fraud.

Table 3 Simultaneous Hypothesis Testing

Model	F Value	Prob Value	Result
Internal Audit and Implementation of GCG	11,747>3,29	0,000<0,05	H ₃ Accepted

Source: SPSS Output Results

Source in table 3 above, from the results of simultaneous hypothesis testing show that internal audit and the implementation of GCG have significant role in preventing fraud.

Table 4 Simultaneous Determination Coefficient Testing

Information	Value	Percentage
R-squared	0,482	48,2%

Source: SPSS Output Results

Source in table 4 above, it shows that the magnitude of the role of internal audit and the implementation of GCG in fraud prevention is 48.2%.

Discussion

The Role of Internal Audit in Fraud Prevention

The results show that internal audit has a positive and significant role in preventing fraud. Deficiency is one of the risks faced by every institution/institution. Fraud can be done by implementing prevention programs such as the implementation of internal controls that can prevent or reduce the risk of fraud. Management in this case is responsible for the implementation of internal control. While the internal auditor is responsible for preventing fraud by evaluating and verifying the adequacy of the effectiveness of the internal control system, assessing the extent to which potential risks have been identified. (KOPAI, 2004:65). The existence of these risks requires internal auditors to develop preventive measures to prevent fraud (Amrizal, 2014:11). One way to increase the effectiveness of fraud prevention is by increasing the implementation of internal audits. Internal audit is an assessment activity that is carried out systematically without any element of interest or cannot be influenced, as well as objectives that aim to provide added value and increase the effectiveness and efficiency of operational activities by evaluating risk management, internal control, and governance processes (Redding et al. 2013:2). Internal audit is one of the main evaluators of the activities of the organization. Internal audit has a significant effect on fraud prevention, where a better internal audit will increase fraud prevention (Maliawan et al, 2017).

The Role of Good Corporate Governance Implementation in Fraud Prevention

The results show that the implementation of GCG has a positive and significant role in preventing fraud. The results of this study are supported by the theoretical basis in the previous explanation which interprets that GCG is applied to prevent fraud in every institution/institution. This is because GCG is a form of regulation that is applied in preventing an unlawful act within the institution/institution. Good corporate governance can be done by eliminating the factors driving the occurrence of fraud by applying the principles of GCG, namely transparency, accountability, fairness, integrity, and participation. Good corporate governance has a positive

effect on fraud prevention (Soleman, 2013). The GCG structure recognizes two governance mechanisms, namely internal governance and external governance. Each of these internal and external governance can function properly so that fraud can be prevented/reduced (Rita Anugerah, 2014). Preventive actions taken by institutions/agencies through the implementation of GCG can minimize the risk of fraud by making efforts to detect it quickly and well by the institution/institution. Good corporate governance has a significant effect on fraud prevention (Sanusi et al, 2019)

CONCLUSIONS AND SUGGESTIONS

Conclusions

1. Internal audit has a positive and significant role in preventing fraud at the Inspectorate of West Java Province.
2. The implementation of GCG has a positive and significant role in preventing fraud at the Inspectorate of West Java Province.
3. Internal audit and the implementation of GCG have a significant role in preventing fraud at the Inspectorate of West Java Province. The magnitude of the role of internal audit and the implementation of GCG in fraud prevention is 48.2%

Suggestions

1. The West Java Inspectorate must be able to maintain or improve the Internal Audit that has been implemented by the West Java Inspectorate in Fraud Prevention, by always prioritizing Independence, prioritizing Professional Capability, the best or maximum Scope of Work Implementation of Examination Activities.
2. The West Java Inspectorate must be able to maintain or improve the implementation of Good Corporate Governance that has been implemented by the West Java Inspectorate in Fraud Prevention, by means of high transparency, prioritizing Independence and Justice, and must be brave to take responsibility for everything.
3. Future researchers are expected to be able to use other factors that might increase fraud prevention in an organization such as internal control, risk management, and so on. In addition, It is hoped that future researchers can also use other research subjects such as private companies/BUMN and so on.

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