INTERNAL AUDIT INFLUENCE TO FRAUD PREVENTION
(A case study at PT. PINDAD, Bandung- Indonesia)

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ABSTRACT

A fraud may happen in small problem or large problem, and make suffer losses an enterprise, that’s why needs an internal audit. An internal audit is an evaluation function in enterprise to evaluate organizations activity. Implemented of adequate internal audit could be prevention of a fraud. The research implemented on PT. PINDAD, Bandung, Indonesia. The aim of research are to understanding how the implementation of internal audit, how to fraud prevention, and how the internal audit influence for fraud prevention. In this paper, The Author implemented case study approach with analytics descriptive method. The conclusion of the research is internal audit is adequate with 89%, fraud prevention is adequate with 87% and coefficient of internal audit influence for fraud prevention is 0.791, that’s mean the relationship is in strong category. Test result with t test shown t_{calc} (3.662) > t_{table} (2.306), that’s mean indicate to reject Ho, that shows positive relationship between internal audit influence to fraud prevention.

KEY WORDS: Internal Audit and Fraud Prevention.

I. INTRODUCTION

In globalization era, especially in economics, has been made economics competition. The competition made companies mostly brain storming in regulation and using of resources to superior the competitors for efficient and effectively.

The companies must be survival and superior of sharp competition, needs effort more efficient and effectively to increase companies performance, included best management in companies assets to optimized companies aims.

In a row of increasing and more complex of companies operation, top management have to built a good communications with all of management level for a good performance review, because misscommunication between Top Management and Lower Management level could be make fraud actions.

The fraud could be happen by various reasons such as pressure, opportunity, weak of system and procedure and acceptance of the fraud.

The fraud is not easy to be found. The fraud could be found by coincidentally or audit. The fraud can be happen from small scale to large scale. Usually employee or management ignoring small scale fraud, but if it’s continually to do, may made the companies significant lost. That’s reasons why the management needs attentions for fraud possibility.

The fraud could be happen at PT. PINDAD in Purchasing section, Financial section, Production section, Inventory section and needs more attention to all of section.

To eliminate fraud possibility, need an Internal Audit. Internal Audit jobs is to evaluate system and procedures have been built and make sure implemented well and systemized trough supervision, reviewing, and investigation for the task delegated to all of working unit.

An adequate Internal Audit could be help Management to secure companies assets and important document such as financial data and others, and one important things is to anticipate fraud possibility in the future.

Based on analyzing above, show to us how important influence of Internal Audit to fraud prevention. The aim of the research is need to know how fraud prevention and Internal Audit influence to fraud prevention at PT. PINDAD.

II. LITERATURE REVIEW

2.1 Internal Audit definition

HiroTugiman wrote (2006:1) Internal Audit is independent appraise function in an organization to test and evaluate organization activity has realized.

2.2 Professional Internal Audit PracticeNorm

Tugiman wrote (2006:16) Internal Audit Practice are:


2.3 Fraud definition

Fraud definition as per Alison (2004:1) : Fraud is deception to make a lost one party with no consciousness and give an advantage to deception party

Deception is illegal action of deceit and done by anyone for advantage to make a lost an organization by insiders or outsiders.

2.4 Fraud prevention components :

1. To built honestly culture, open mind and to assists giving : a. Honest employee recruitment, b. To create positive working environment and c. To fix attitude regulation and ethic code.

III. RESEARCH METHOD

Research method used as descriptive research method with case study approach.

3.1 Variable Utilising

Variables used are:

1. Independent variables:
   - Internal audit, symbolized by X (X Variable). Indicators using are: a. The independence, b. Professional ability, c. Working scope, d. Implementation of audit and Internal audit section management

2. Dependent variables:
   - Fraud prevention variables symbolized by Y (Y variable). The indicators using are:
     a. To built honestly culture, opened mind, and assist giving
     b. To built of internal controlling system

3.2 Population and sample

Populations in this research are PT. PINDAD (Persero) Internal Inspection Unit with 10 people. Technique sampling used is saturated sampling. Sugiono (2010:122) wrote: saturated sampling is sample determine technique if all of population used as sample, and this research all of population used are 10 people.

3.3 Plan of hypothesis test

Hypothesis determination

Hypothesis determination in this research depends on variable influence of Independent Variable to depend variable, and this research using hypothesis test zero (H₀) and alternatives hypothesis (H₁).

Hypothesis determine in this research are:

H₀ = Internal Audit doesn’t have significant influence to fraud prevention.
H₁ = Internal Audit have significant to fraud prevention.

IV. RESULT AND DISCUSSION

4.1 Validity test

Validity test result using software SPSS 16 (statistical product and service solutions), every variables are variable validity test result implementation of Internal Audit and Effectiveness of Fraud Prevention, all of author question to respondent are suitable to continue, because have value up to 0.300 (SaifuddinAzwar 2007: 158)

4.2 Reliability test

Reliability test result using Software SPSS 16, every variables reliability test result to all items are reliable because value of reliability coefficient Split half >0.700 are 0.986 and 0.921, and all of reliability variable are confirmed.

4.3 Internal Audit Implementation at PT. PINDAD

The result of research shown that Internal Audit at PT. PINDAD is reliable. Supported by component practice internal audit norm as below: Independent, Professional ability, working scope, implementation of audit activity, and Internal audit section management. Respond of respondent about internal audit (variable X) with 25 question to 10 (ten) respondenthat implementation of internal audit over all at PT. PINDAD confirmed as reliable. Proven by average value respond of respondent are 89% in interval of 84% to 100%, that value in reliable categorie.

4.4 Effectiveness of Fraud Prevention PT. PINDAD

Research result shown that fraud prevention of PT. PINDAD is effective. Proven by Internal Audit practice norm as below: 1) to built honestly culture, open mind and assists giving. 2) To built Internal control system Respond of respondent about fraud prevention effectiveness (Variable Y) with 25 questions to 10 (ten) respondenthat fraud prevention at PT. PINDAD can be confirmed as very effective. Proven by average respond of respondent are 87% interval of 84%-100%. And found smallest percentage category are 83% about honestly and open mind, this is can be accepted because human factor is very difficult to measured of honestly level, even fraud prevention already effective.

4.5 Influence of Internal Audit to Fraud Prevention at PT. PINDAD

Hypothesis determination in this research depends on variable influence of Independent Variable to depend variable, and this research using hypothesis test zero (H₀) and alternatives hypothesis (H₁).

4.5.1 Coefficient and Correlation Test

Based on the calculation, taken value of 0,791 at co efficient relation rank of Spearman, shown between Internal Audit (variable X) and Fraud prevention (variable Y) have strong relation, because in interval of 0,600-0,799. Positive marks shown that relation have in a same direction between Internal audit with fraud prevention, and this indicate much better internal audit will make fraud prevention much better also co efficient co relation rank of Spearman, can be calculated with formula:

$$r_s = \frac{\sum x^2 + \sum y^2 - \sum dt^2}{2\sqrt{\sum x^2 \sum y^2}}$$
Based on the calculation above, Internal audit influence to fraud prevention at PT. PINDAD are 62.6% and the rest of 37.4% influence by others factor, we are not discuss in this paper.

Coefficient determination, can be calculated with formula:

\[ K_d = r^2 \times 100\% \]

\[ = 0.791^2 \times 100\% \]

\[ = 62.6\% \]

4.5.3 Hypothetic test

To know if any relation between Internal Audit to fraud prevention, we shall proven with hypothetic above are:

\[ H_0 = \text{Internal audit not influence to fraud prevention} \]

\[ H_1 = \text{Internal audit influence to fraud prevention} \]

Based on hypothesis t test analyzing, taken value of \( t_{\text{account}} > t_{\text{table}}(3.662 > 2.306) \), with criteria test \( H_0 \) rejected and \( H_1 \) accepted, that’s mean hypothetic of internal audit have significant influence to fraud prevension, and hypothetic has been accepted.

Hypothetic test, can be calculated with formula:

\[ t_{\text{hitung}} = \frac{r_s \sqrt{n - 2}}{\sqrt{1 - r_s^2}} \]

\[ = 0.792 \sqrt{10 - 2} \]

\[ = 2.238 \]

\[ = 0.611 \]

\[ = 3.662 \]

5. CONCLUSION

Based on result of research, we have conclusion as below:

1. Implementation of Internal Audit at PT.PINDAD categorized reliable. The respond of respondent proven that Implementation Internal audit at PT. PINDAD in very reliable and supported by achievement of Independence, Professional ability, scope of works, implementation Audit activity and Internal audit section management.

2. Effectiveness of fraud prevention at PT. PINDAD in category very effective. The respond proven that fraud prevention effectiveness in very effective category and support by Honestly culture, open mind and assists giving and to built Internal control system.

3. Influence between implementation of internal audit and fraud prevention at PT. PINDAD:

a. Based on Spearman analyzing, this value shown that between Internal audit and fraud prevention have strong relation. Positive marks shown have relation in same direction between Internal audit with fraud prevention.

b. Based on Coefficient determination, influence of internal audit to fraud prevention at PT. PINDAD
c. Based on hypothetic t test analyzing, that’s mean hypothetic of internal audit have significant influence to fraud prevension, and hypothetic has been accepted.

REFERENCES


