

Influence of Internal Audit on Fraud Prevention (Case Study at Pos Indonesia Co. Ltd.)

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Abstract

The purpose of this study was to determine how the influence of internal audit on the prevention of fraud case study at Pos Indonesia Co. Ltd. Bandung Headquarters. The factors tested in this study were Internal Audit (Independence and Objectivity, Proficiency and Due professional) careas the independent variable, while Fraud Prevention as the dependent variable. The type of research used is descriptive explanatory research. The population in this study were 30 people. The sampling technique used in this study is non-probability sampling with saturated sampling technique, so the number of samples in this study was 30 people. While the analytical method used in this study is simple linear regression analysis at a significance level of 5% using the SPSS Ver 25 program. Based on the results of the study, it shows that internal audit has a significant effect on fraud prevention. The magnitude of the influence of internal audit in contributing to fraud prevention is 47.4%. This means that the more independent and objective, as well as having the professional skills and accuracy of an internal auditor in carrying out their duties, the internal audit can run well, and be able to prevent fraud.

Keywords: Internal Audit, Fraud, Fraud Prevention, Audit, Pos Indonesia.

INTRODUCTION

The fierce increasing competition within the current period of globalization coincides with the implementation of the Asean Economic Community in 2015 where companies must follow the rapid market development has implications for business behavior (Suci, Asmara, & Mulatsih, 2016). The rapid development of this company certainly has a positive and negative impact. To avoid or minimize negative impacts such as falsification of financial statements carried out by individuals or groups in the company, for that in the management of the company, an internal audit is need (Al-Shaheen, Bai, Smith, Imre, & Uman, 2020). The results of the internal audit examination are useful to provide an opinion containing adequate information so that it can

provide analysis, assessment, recommendations or suggestions to management to make decisions in the future, so that the effectiveness assessment of a control system is needed to fraud prevention (Handoyo & Bayunitri, 2021). For this reason, in its implementation, internal auditors must have an independent attitude, objective, professional skills and accuracy (Christina, Rahayudhy, & Nurmeilita, 2021).

Research from the Association of Certified Fraud Examiners (ACFE) Global appears that every year an ordinary of 5% of the organization income falls casualty to extortion (Aulia, 2021). This happened to the state-owned company, namely Pos Indonesia Co. Ltd. where there is a deviation of funds in the expenditure of additional costs for the

distribution of Social Protection Cards amounting to Rp 2.4 billion and irregularities in the distribution of bonuses to the Board of Directors and Commissars amounting to Rp 5.3 billion by selling asset within the shape of share in Mantap Bank amounting to Rp 324.61 billion (Movanita & Galih, 2017). Fraud cases also occurred in several SOEs, namely Garuda Indonesia Co. Ltd. (2018) (Nursyamsi & Rezkisari, 2022), Waskita Co. Ltd. (2018) (Pratama & Suhendi, 2020), Asabri Co. Ltd. (2012-2019) (Ayyubi, 2021).

The above phenomenon shows that the development of the company makes management difficult in carrying out supervision, and to overcome the potential emergence of fraud in budgetary explanations, internal audit plays an perative part in mitigating the occurrence of fraud that will harm the company.

LITERATURE REVIEW

Employee Performance Review

Internal Audit

Internal Audit is an independent activity, objective belief, and consultation designed to add value and enhance the operating activities of an organization. This internal audit helps organizations achieve their goals by taking a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes (Auditors, 2015).

Internal auditors must be able to contribute to risk governance and management by assessing the ampleness of controls set up to mitigate such risks to an worthy level (The Institute of Internal Auditor, 2017). The objectives, powers and responsibilities of the internal audit activity must be formally characterized in the internal audit charter, and must be consistent with the Internal Audit Mission and the elements required in the Professional Practice Framework (The Institute of Internal Auditor, 2017). Internal auditors are responsible for planning and carrying out inspection tasks, which must be approved and reviewed or

reviewed by the supervisor (Tugiman, 2006). Internal Audit has three ideal roles, namely there is (a) The Role of Business Risk-Based Data Analysis/Review, (b) the Role of Accelerators/Drivers of The Realization of Inherent Supervision and (c) the Role of Adjusters/Adhesives of Business Strategies (Kumaat, 2011).

International Profesional Practice Framework or International Standard of Internal Audit Professional Practice is an official guideline for internal audit practices in order to maintain the quality of work results (The Institute of Internal Auditor, 2017). Like a professional standard, this standard continues to be adjusted to the development of the profession. This Standard consists of (1) Attribute Standards governing the objectives, authorities, and responsibilities, Independence, and objectivity, proficiency, professional accuracy, Continuous professional development, Insurance and Quality Improvement Program Requirements, Insurance program reporting and Quality Improvement, (2) Perfomance standars consisting of Management of Internal Audit Activities, Nature of Work, Assignment Planning, Implementation of Assignments, Communication of Assignment Results, Development Monitoring (The Institute of Internal Auditor, 2017). Independence may be a condition in which inside internal auditors are free from circumstances that may debilitate their capacity and exercises to able to carry out their obligations unbiasedly (The Institute of Internal Auditor, 2017).

Objectivity is an fair-minded mental state of mind that permits internal auditors to carry out their duties in such a way that they have confidence in their work and without compromise in quality (Pitt, 2014). Proficiency is the knowledge, aptitudes, and other competencies required in carrying out their obligations and duties (IIA, 2009). Proficiency is responsibility of the of the internal audit departement and internal auditor (IIA, 2009). Due Professional Accuracy is a precision and expertise that must be possessed where an internal auditor must be quite careful (reasonably prudent) and competent (Al-Sukker, Ross, Abdel-Qader, & Al-Akra, 2018).

Being professionally careful does not mean that there will be no mistakes. Internal audits must: (a) have knowledge, expertise, and various disciplines needed to be brought out the responsibility of the examination professionally. (b) may provide assurance or certainty that the technical and educational internal examiners are appropriate for the examiner to be implemented (Soh & Martinov-Bennie, 2011).

Fraud Prevention

Fraud is an aberration and illegal act, which is done intentionally for certain purposes such as cheating or giving a misappropriation deceive to other parties, carried out by individuals both from inside and from exterior the organization (Wells, 2011). An act of cheating will occur if driven by a pressure and the need of a person with an environmental record also allows to act. The driving factors for fraud are: (1) Fraud Triangle Theory (opportunity rationalization pressure), (2) GONE Theory, there are four driving factors for someone to commit fraud, namely: greed, need, exposur), and opportunity. (3) Monopoly theory, fraud occurs due to the factors of power and monopoly that are not accompanied by accountability (Krambia-Kapardis, 2016).

There are various ways that can be done in preventing fraud namely Preventing fraud according to triangle fraud theory (a) Reducing Situational "Pressure" that allows fraud, (b) Reducing the "Opportunity" of fraud, (c) Reducing the "justification" of cheating by strengthening the personal integrity of employees. With the prevention of fraud applied by the company can minimize the action of the chance of fraud, because all acts of fraud can be detected quickly (Karyono, 2002).

Research Hypothesis

(Ho): There's no significant effect of internal audit on fraud prevention.

(Ha): There's a significant effect of internal audit on fraud prevention.

RESEARCH METHODS

This study uses an explanatory approach that aims to connect or explain between two variables and aims to prove a hypothesis or test a theory (Bowen, Rose, & Pilkington, 2017). The number of research samples was 30 people with the sampling criteria, namely internal audit at Pos Indonesia Co. Ltd. The data collection procedure uses a questionnaire with a sampling method using non-probability sampling with saturated sampling techniques. a technique of taking data or samples so that all the data that are likely to be selected as samples are not equally large. Based on the researcher's policy in determining the sample elements to be used (Sugiyono, 2016). This study uses the Statistical Package for the Social Sciences (SPSS) with heteroscedasticity test and simple linear regression analysis, while the development and testing of hypotheses uses partial test and coefficient of determination test (R²). The research analysis technique uses an inferential statistical analysis approach where the analysis used to analyze the data is a summary of all methods related to the analysis of some of the data and then arrives at forecasting or drawing conclusions about the entire parent data (population).

RESULTS AND DISCUSSION

Research Result

Descriptive Statistical Analysis

Internal Audit Measurement is measured using 3 indicators developed into 16 statement instruments. The results of the recapitulation of respondents' responses showed 78.2% of respondents expressed strongly agree, 21.8% agreed, 1.2% agreed, 1.4% disagreed. So it was concluded that the respondents' responses about the Internal Audit can be said to be very good with an average score of 4.68% which is at intervals of 4.21 - 5.00. (See figure 4.1).



Figure 1 Continuum Line Internal Audit Variable Assessment Categorization

The results of the recapitulation of respondents' responses showed 58.8% of respondents expressed strongly agree, 34.9% agreed, 4.4% agreed enough, 1.3% disagreed, and 0.2% strongly disagreed. So it was concluded that respondents' responses about fraud prevention were said to be very good with an average score of 4.51% which was at intervals of 4.21 - 5.00. (See figure 4.2).

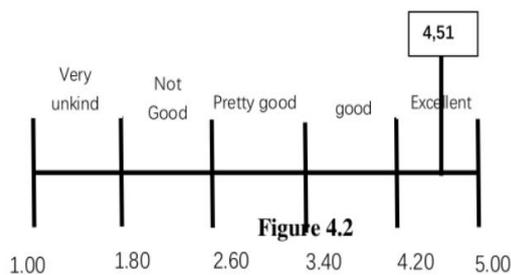


Figure 2 Continuum Line Categorization of Fraud Prevention Variable Assessment

Normality Test Result

The result of the normality test utilizing the kolmogrov smirnov test showed that the magnitude of the value of kolmogrov smirnov was 0.213 with a significant value of 0.116. The significant value generated by kolmogrov smirnov is more than or 5% (real level of research significance) i.e. (0.116>0.05), or normal-distributed residual data, in other words regression models are feasible to use because they meet the assumption of normality or normal distribution data.

The data obtained spreads around the diagonal line and follows the direction of the diagonal line or the histogram graph shows a normal distribution pattern, then the regression model fulfills the assumption of normality.

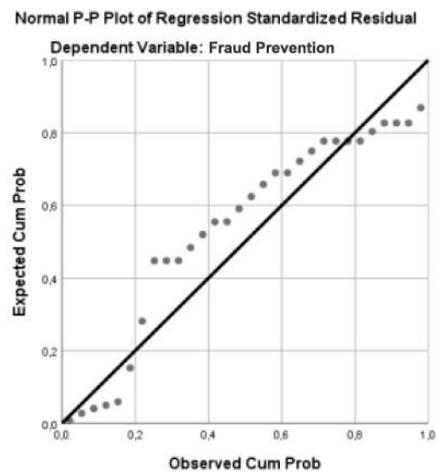


Figure 3 Normality Test

Multicollinearity Test Result

The table above shows the results that the tolerance value obtained for the internal audit variable is 1,000>0.1 and the variance inflation factor (VIF) 1,000<10. So it can be concluded that there is no multicollinearity between the independent variables in the model.

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.	Collinearity Statistics	
	B	Std. Error				Tolerance	VIF
1	(Constant)	3,767	9,872	,389	,700		
	Internal Audit	,667	,128	,702	,000	1,000	1,000

a. Dependent Variable: Fraud Prevention

Figure 4 Multicollinearity Test

Simple Linear Regression Analysis

The table above shows the result of a value of 3.767, of 0.667. then a simple linear regression equation can be formed as follows:

$$Y = 3,767 + 0.667 + e$$

If the constant is 3,767, indicating that when the Internal Audit Effect is zero (0) and there is no change, then Fraud Prevention will be worth as much as 3,767, If the variable value i.e. internal audit has a regression coefficient value of 0,667 indicates that the internal audit increments then the variable fraud prevention will increases by 0,667 times.

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3,767	9,672		,389	,700	
	Internal Audit	,667	,128	,702	5,214	,000	1,000

a. Dependent Variable: Fraud Prevention

Figure 5 Simple Linear Regression Test

Coefficient of Determination Test

The coefficient of determination test results showed that Adjusted R square of 0.474. then it can be concluded that the independent variable in this study is an internal audit (X) affecting 47.4% of variable dependents, namely Prevention (fraud) (Y). The remaining 52.6% was affected by other variables not included within the investigate factors.

Partial Hypothesis Test (t)

Based on the results of the t (partial) test in the regression model, it can be seen that the calculation > ttable which is 5,214 > 1,966, then it can be concluded that Ha is accepted, this means that partially internal audit variables have a significant effect on the fraud prevention variable at Pos Indonesia Co. Ltd. Bandung.

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3,767	9,672		,389	,700	
	Internal Audit	,667	,128	,702	5,214	,000	1,000

a. Dependent Variable: Fraud Prevention

Figure 6 Test Hypothesis Testing t

Discussion

Implementation of Internal Audit in Fraud Prevention at Pos Indonesia Co. Ltd. Bandung

The execution of internal audit at Pos Indonesia Co. Ltd. as a whole is in the category of excellent and meets the three criteria of the internal audit component. As for the respondent's response to the Internal Audit variable, the average dimension with the highest score value is professional accuracy while the lowest scoring value is proficiency. Independence and Objectivity have been applied very well with the highest average scoring of

4.93 and the lowest scoring average of 4.06. Proficiency has been applied very well with the highest average scoring of 4.8 and the lowest scoring average of 4.66. Due Professional care has been applied very well with the highest average scoring of 4.76 and the lowest scoring average of 4.6.

The execution of fraud enforcement at Pos Indonesia Co. Ltd. as a whole is in the category of very well and meets the three criteria of fraud prevention components. As for the respondent's response to the fraud prevention variable, it shows that the average highest scoring value is reducing the "chance" of cheating while the lowest scoring is reducing the "justification" of fraud by strengthening integrity. Reducing situational "pressure" that causes cheating has been applied very well with the highest average scoring of 4.8 and the lowest scoring average of 4.23. Reducing the "Chance" of cheating has been applied very well with the highest average scoring of 4.63 and the lowest average scoring of 4.23. Reducing the "justification" of cheating by strengthening integrity has been applied very well with the highest average scoring of 4.66 and the lowest average scoring of 4.46.

Effect of Internal Audit on Fraud Prevention

The results of descriptive analysis of the influence of internal audits that the total actual score obtained from all statements that form variables regarding the influence of internal audits shows an average result of 4.68 belongs to the category of excellent. This shows that respondent answers about the influence of internal audits are expected to prevent fraud belongs to an excellent category. This means the prevention of fraud in Pos Indonesia Co. Ltd. Bandung Headquarters has been running very well, this is indicated by the execution of the International Standard of Internal Audit Professional Practice (SIPPAI) to be specific Independence & Objectivity, Due Professional care, and Proficiency in the company that prevention What is done by Pos Indonesia Co. Ltd. is good in terms of implementing or creating honesty, ethics, and management responsibilities evaluate fraud risk and supervision of the audit committee.

Based on the comes about of the t (partial) test in the regression model, it can be seen that the calculation $t > t_{table}$ which is $5,214 > 1,966$ then it can be concluded that H_a is accepted, fraud prevention variable at Pos Indonesia Co. Ltd. Bandung. The results of the determination coefficient (Adjusted R square) test showed a figure of 0.474, then can be concluded that the independent variable in this study Internal audit (X) affected 47.4% of dependent variabels and Fraud Prevention (Y) in Pos Indonesia Co. Ltd. Bandung Headquarters. In the interim, 52.6% impacted by other factors that are not included within the variables of this study.

The results of this study are in accordance with the International Professional Practices Framework (IIA, 2016) which states that standards are applied to individual internal auditors and internal audit activities as a whole show that the excecution of internal audit has been carried out by applying audit standards where all Internal auditing is responsible for meeting standards related to individual responsibilities in terms of objectivity, proficiency, due professional care and standards related to the excecution of their work responsibilities. That the more independent and objective, have the professional ability and accuracy of an auditor in carrying out their duties, so that it has a low risk and does not cause fraud that can harm the company.

The comes about of this think about are in line with the comes about of past investigate conducted by Septiana and Widya (2016) argued that internal audits have an effect in the prevention of fraud at Pos Indonesia Co. Ltd. Bandung, this is because elements of internal audit which include independence, audit responsibility and authority, professional capabilities, scope of audits, and usage of review exercise have been actualized appropriately.

CONCLUSION AND RECOMMENDATIONS

Conclusion

The results showed that internal audit has a incorporates a noteworthy impact influence on fraud prevention at Pos Indonesia Co. Ltd. Bandung Headquarters, where all internal audits are responsible for meeting standards related to individual responsibility in terms of independence, objectivity, proficiency, due professional care and standards related to execution of his work responsibilities. So that it is more independent and objective, and has the professional ability and accuracy of an internal auditor in carrying out its duties, the implementation of internal audits can run well, and is able to prevent fraud.

Recommendations

The Company is expected to avoid conflicts of interest in planning and reporting audit results to improve the objectivity and independence of auditors, as well as improve fraud prevention by improving the identification and analysis of risks that may occur in each activity, routine and separate performance evaluations and follow-up from management on audit suggestions and discoveries, and detecting fraud abuse by verifying the document in its entirety. For the next researcher, it is expected to grow the scope of research about by including independent variables outside of this study such as risk management and other factors.

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