THE EFFECT OF INTERNAL AUDIT AGAINST FRAUD PREVENTION
(Case Study in PT. Asuransi Jasa Indonesia)

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ABSTRACT

This study aims to determine the effect of internal audit on fraud prevention. The object of this research was conducted at PT Asuransi Jasa Indonesia. This type of research is quantitative research. The population in this study amounted to 30 people. The data collected is by distributing questionnaires with correlation data analysis, coefficient of determination, and hypothesis testing t. This study uses SPSS 22 tools for windows. that the implementation of internal audit at PT Asuransi Jasa Indonesia is good enough. In addition, the results of the correlation test indicate that the application of internal audit at PT. Indonesian Insurance Services are quite strong. Hypothesis test results also indicate that internal audit affects fraud prevention at PT Asuransi Jasa Indonesia (fraud)

Keywords: internal audit, fraud prevention.

INTRODUCTION

The development of the business world is rapidly increasing now requires resilience amid the fierce competition. One way to create resilience and competitiveness for companies is to use an internal auditor. Internal audit is an assessment, carried out by company supervisors who are trained in accuracy, trustworthiness, efficiency and usefulness of company records (accounting), as well as internal controls contained in the company. The aim is to assist management in carrying out its responsibilities by providing analysis, evaluation, suggestions and audited activities (Drogalas, Pazarskis, Anagnostopoulou & Papachristou, 2017)

In carrying out company activities, there is a risk of fraud. Intentional intentional actions by one or more individuals between management, employees, or third parties. Fraud can also be seen as a deliberate presentation, concealment, or truth that is misused for the purpose of fraud or manipulation that harms the organization which also includes...
embezzlement, theft or any attempt to steal or obtain illegally, and misuse or pay for an organization's assets. (Oluwagbemiga, 2017)

Fraud in Indonesia is developing very quickly and widely. The term fraud in the business environment has a more specific meaning, namely deliberate lies, untruthful reporting of company assets, or manipulating fraudulent data for the benefit of those who carry out such manipulation. In accounting literature, fraud is also commonly known as white collar crime, embezzlement of money, and is against the rules. In Indonesia the term fraud or accounting fraud is better known as corruption. In corruption, actions that are often taken include manipulating records, omitting documents, and mark-ups that are detrimental to the company's finances. This action is a form of accounting fraud. (Kabuye, Nkundabanyanga, Opiso & Nakabuye, 2017). Not much different from what happened in the USA, fraud in Indonesia is developing very quickly and widely and as if it has been entrenched. The term fraud in the business environment has a more specific meaning, namely intentional lies, untruthful reporting of company assets, or manipulating fraudulent data for the benefit of those who carry out such manipulation. In accounting literature, fraud is also commonly known as white collar crime, embezzlement of money, and is against the rules. In Indonesia the term fraud or accounting fraud is better known as corruption. In corruption, actions that are often taken include manipulating records, omitting documents, and mark-ups that are detrimental to the company's finances. This action is a form of accounting fraud. (Kabuye, Nkundabanyanga, Opiso & Nakabuye, 2017)

According to the BPK chairman at the time that the problem in Indonesia, corruption was a problem that was quite difficult to solve. This is because the practice of corruption not only involves the ranks of bureaucrats in government agencies, but also politicians, authorities, and entrepreneurs. Therefore, the BPK has paid considerable attention to efforts to prevent and eradicate corruption. This is in line with BPK's vision as a credible state financial audit institution by adhering to the basic values of independence, integrity and professionalism, to play an active role in fostering the realization of accountable and transparent state financial governance. One of BPK's missions is also in line with BPK's concern, which is to play an active role in detecting and preventing all forms of abuse and misappropriation of state finances. Prevention strategies, as reflected in the BPK mission, are felt to be more effective in tackling this corruption problem. (www.bpk.go.id)

The Internal Auditor Section also has a function to monitor the existing control system. Internal auditors must carry out checks, assessments, and look for facts or evidence to be recommended further to management for further action. One of the findings that can be found by the Internal Auditor is the discovery of fraud. Usually the factors that because fraud is due to pressure, opportunities to commit fraud, weaknesses in systems and procedures as well as the justification for this fraud. (Siregar & Tenoyo, 2015).

Norman, Rose & Rose (2010) states that the Internal Auditor's main role is to eliminate the causes of fraud. Fraud prevention is easier to do than to overcome it if the fraud has occurred. Internal auditors are responsible for helping to prevent fraud through
the examination and evaluation of the adequacy of the effectiveness of internal control, equivalent to the level of potential risk in various segments of the organization. Another thing that causes efforts to prevent fraud is loss considerations. Meanwhile, according to Westhausen (2017) fraud is very likely to occur. Prevention alone is inadequate; Internal Auditors must understand how to detect frauds that occur early. Internal auditors should have enough understanding about fraud to be able to identify any indication that fraud might have occurred.

Internal audit also arises because of the increasingly complex organizational needs due to the large number of members of the company. Internal auditors are appointed to audit management performance with applicable procedures because they have audit and accounting knowledge. In addition, there are other internal audit activities, namely testing and assessing the effectiveness and success of the internal control system in a company. Internal audit helps the organization to achieve its objectives, through a systematic and orderly approach to evaluate and improve the effectiveness of risk management, control and governance processes. Where internal has the main role in fighting fraud, one of which is fraud prevention. (Klamut, 2018)

Internal audit aims to assist the leadership of the company (management) in carrying out its responsibilities by providing analysis, assessment, advice, and commentary on audited activities and finding irregularities, both as a result of deliberate or unintentional misstatement. According to the report "2002 Report to the Nation on Occupational Fraud and Abuses" states that the activities of the Internal Auditor can reduce 35% of fraud. This is where the importance of the role of an Internal Auditor, with the duties and authority possessed by the Internal Auditor, can play a role in the detection and prevention of fraud in the institution where he works. (Kabuye, Nkundabanyanga, Opiso & Nakabuye, 2017)

Drogalas, Pazarskis, Anagnostopoulou & Papachristou (2017) research results show that internal audit affects fraud prevention. In line with this, the results of Drogalas, Pazarskis, Anagnostopoulou & Papachristou (2017) internal audit research have an effect on fraud prevention and have a strong relationship. This is because the elements of internal audit which include independence, responsibility and authority of the audit, professional capabilities, the scope of the audit, and the implementation of audit activities have been applied adequately. In addition, the elements of prevention of fraud have been carried out effectively with indicators for preventing misstatements of reports, preventing the existence of assets that are embezzled or manipulated, and apply indications of fraud prevention.

Based on the background description above, the authors are interested in conducting research on the influence of internal audit on fraud prevention.

Formulation of the problem, based on the background description above, the researcher formulated the research problem as how is the Internal Audit conducted at PT Asuransi Jasa Indonesia; how to prevent fraud at PT Asuransi Jasa Indonesia and how does Internal Audit influence fraud prevention at PT Asuransi Jasa Indonesia.
THEORETICAL FRAMEWORK AND HYPOTHESES

The research method used in this research is the descriptive analysis method because, in addition to wanting to get a picture of professional competition, affective commitment, and job satisfaction, it also wants to get a picture of the influence of the determining research variables.

Internal audits are independent and objective insurance and consultancy activities designed to add value and enhance the organization's operations. Internal audits help the organization achieve its objectives through a systematic and regular approach in evaluating and increasing the effectiveness of the risk management, control and governance processes. The Institute of Internal Auditors (IIA) (2017: 4) in Global Perspectives and insights.

In addition, the objectives, authorities and responsibilities of internal audit activities must be formally defined in an internal audit charter, and must be in accordance with the Internal Audit Mission and the elements required in the Professional Practice Framework (Principle Principles for Professional Practice in Internal Audit, the Code of Ethics, Internal Audit Standards and Definitions).

An internal audit charter is an official document that defines the objectives, authority and responsibilities of internal audit activities. The internal audit charter establishes the position of internal audit activities within the organization, including the nature of the functional reporting relationship of the Head of Internal Audit to the Board; give authority to access records, personnel and physical property related to the assignment; and defines the scope of internal audit activities. Final approval for the internal audit charter rests with the Board. (SPAI 2017: 1)

The Internal Audit function is only positioned in matters around Financial / Finance alone. Or rather backup the Finance / Accounting department at the end of the process, namely as a post-transaction controller (in a more honest expression, as a "dirty dishwasher" in a series of business activities). (Raiborn, Butler, Martin & Pizzini, 2017)

The effectiveness of internal audit services can also be measured through (Reding, Sobel, Anderson, Head, Ramamoorti, Samasick & Ridlle, 2013):

1. Independence & Objectivity
2. Expertise
3. Professional Accuracy

Where independence is independence is a condition that is free from situations that can threaten the ability of the internal auditor's activities to be able to carry out his responsibilities impartially. Whereas objectivity is an impartial mental attitude that allows internal auditors to carry out tasks in such a way that they have confidence in their work and are uncompromising in quality. (SPAI, 2017)

Skills here Internal auditors must have the knowledge, skills and other competencies needed to carry out their duties and responsibilities. Internal audit activities, collectively, must possess or obtain knowledge, skills and other competencies needed to carry out their responsibilities. (SPAI, 2017)
While professional accuracy Internal auditors must use the accuracy and expertise as expected from an internal auditor who is wise enough (reasonably prudent) and competent. (SPAI, 2017)

Fraud is any illegal action that contains fraud, concealment, or abuse of trust. Such actions are not limited to threats or violations in the form of physical force. Fraud can be committed by parties and organizations to obtain money, assets, or services to avoid payment or loss of services, or to obtain personal or business benefits (SPAI, 2017)

According to Karyono (2013) as depicted in Figure 2.1 above, there are three elements depicted in an equilateral triangle because the weights or degrees of the three elements are the same.

![Fraud triangle](image)

Picture 1. Fraud triangle

1. Pressure
   The urge to commit fraud occurs in employees (employee fraud) and by managers (management fraud) and the encouragement occurs, among others, because:
   a. Financial pressures: among other things, much debt, a lifestyle beyond financial capacity (based on the stake rather than a pole), greed, and unexpected needs.
   b. Bad habits: addicted to drugs, gambling, and strong drinkers.
   c. Pressure on the work environment: such as undervaluation of performance or performance, low salaries and not being satisfied with work.
   d. Other pressures: pressure from spouses to own luxury goods.

2. Opportunity
   Opportunities arise because of weak internal controls in preventing and detecting fraud. Opportunities can also occur due to weak sanctions and inability to assess the quality of performance.

3. Rationalization
   Frauders seek justification when:
   a. Perpetrators assume that what they have done is normal / normal for other people to do as well.
   b. The perpetrators feel meritorious for the organization and they should receive more than they receive.
   c. The perpetrator considers his purpose good is to overcome the problem and later it will be returned.

   Internal audit is an independent internal audit, which exists in an organization with the aim to test and evaluate the activities of the organization carried out. (Kumaat, 2011) The purpose of this examination is to ascertain whether there are tasks and responsibilities
given, have been carried out as they should. For this reason, internal audits need to carry out checks, assessments, and look for facts or evidence to provide recommendations to management for further action. One of the findings of the internal auditor is the discovery of fraud (Norman, Rose & Rose, 2010).

The role of the internal auditor is very large in preventing fraud and in conducting investigations if fraud has occurred. Although the internal auditor cannot guarantee that fraud will not occur, he must use the proficiency of his position carefully so that he is expected to be able to detect indications of fraud and can provide useful suggestions to management to prevent fraud (Westhausen, 2017).

Fraud is indeed not enough to be dealt only with prevention, but fraud must also be detected as early as possible. Therefore, an internal audit contribution is needed in this case. Professional expertise is the responsibility of the internal audit department and each internal auditor. And the head of internal audit in each exam must assign people who collectively or wholly have the knowledge, abilities and various disciplines needed to conduct the examination appropriately and appropriately (Chambers & Odar, 2015).

Based on research conducted by Norman, Rose & Rose (2010) shows that the more effective the role of internal audit, fraud prevention can be done. Fraud prevention can be done if the internal audit has been able to identify the possibility of fraud. Conversely, when an internal audit cannot identify the possibility of fraud, fraud will occur and cause harm to the company.

The results of the study Umar, Erlina & Fauziah (2019) also provide empirical evidence that internal audit affects fraud prevention, where a better internal audit will increase fraud prevention in Bandung District Government.

Based on the description above, the writer tries to formulate a hypothesis which is:
Ho: Internal audit influences fraud prevention
Ha: Internal audit has no effect on fraud prevention

RESEARCH METHODS

The object of research is the characteristics inherent in the research subject. These characteristics, if given a value, the value varies (different) from one individual to another. In research terminology, the object of this research is called the research variable. While the subject is a research in the terminology of the research method is the analysis unit or observation unit that will be examined. The unit of analysis is: people, organizations, events, and various other things that are of concern in research activities.

In this study the object of research is internal audit and fraud prevention. While the research subjects were PT. Insurance Services Indonesia.

Data collection techniques used in this study are field research and library research. The data collection methods are techniques or ways that can be used by researchers to collect data. Validity test is used to measure the validity or validity of a questionnaire. A questionnaire is said to be valid if the questions on the questionnaire are able to reveal something that will be measured by the questionnaire.
The reliability testing of the questionnaire was carried out using the Internal Consistency method. The formula used in this study is Cronbach’s Alpha. Cronbach’s alpha is a reliability coefficient that shows how the parts of a set are positively correlated with each other. Data analysis method using simple linear regression analysis. The general equation of simple linear regression is \( Y = a + b X \), where:

- \( Y \): Predicted value
- \( a \): Constant or if the price \( X = 0 \)
- \( b \): Regression coefficient
- \( X \): The value of the independent variable

To analyze the data collected to express the relationship between the independent variable and the dependent variable, correlation is used. Correlation is used to see the strength of the relationship between independent and dependent variables.

The strength of the weak relationship between the variables \( X \) and \( Y \) in this study, evidenced by using Pearson Product Moment Correlation analysis.

Analysis of the coefficient of determination, in the analysis of the coefficient of determination is used to express the size of the contribution of variable \( X \) to variable \( Y \) where in this study the magnitude of the contribution of internal audit (\( X_1 \)) influences fraud prevention (\( Y \)).

**RESULTS AND DISCUSSION**

The test results for the Validity test of Variable Data \( X \) and Data \( Y \) can be seen in the following table 1.

<table>
<thead>
<tr>
<th>Data ( X )</th>
<th>R count</th>
<th>Information</th>
<th>Data ( Y )</th>
<th>R count</th>
<th>Information</th>
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<td>VAR00016</td>
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<td>Valid</td>
</tr>
</tbody>
</table>
In the test results of the validity of the above table, the calculated \( r \) value has a value greater than \( r \) table = 0.34 then declared valid. Reliability testing obtained the value of the reliability coefficient for the variable \( X \) (0.809) and \( Y \) (0.923), has a greater value > 0.60, then declared reliable.

The simple regression model above that is usually formed from the variables in can be formulated in the equation model as follows: \( Y = 25.068 + 0.808X \)

From the results of the regression equation can be interpreted as follows:

a. The value of the positive sign is 25.068, indicating that if there is no change in the internal audit variable or equal to 0 then fraud prevention is 25.068 times.

b. The internal audit variable has a positive sign regression coefficient function of 0.808, this means that if the internal audit increases by 1 unit, it will increase fraud prevention by 0.808 times.

Based on the results above, the \( r_s \) value of 0.527 is obtained, which means that internal audit has a strong enough relationship to overcome fraud in the interval 0.40-0.599.

In order to know the internal audit effect on fraud prevention. Based on the value of \( r \) square is 0.278 or 27.8%, the amount of internal audit in influencing the prevention of fraud is 27.8% and the rest can be influenced by other factors such as internal control and operational audit. This shows that internal audit plays a role in the occurrence of fraud.

Hypothesis testing

To determine \( t \) arithmetic can see that the \( t \) value is 3.280 which is then compared with the \( t \) table value. Whereas \( t \) table can be calculated as follows:

\[
Df = n-20
= 30-2 = 28
= (0.05; 28)
= 1.70113
\]

From the above calculation, it can be seen that \( t \) arithmetic 3.280 > \( t \) table 1.70113 which means that \( H_0 \) is rejected and accepted. This means that internal audit affects fraud prevention.

The results of this study are consistent with the results of previous studies conducted by Drogalas, Pazarskis, Anagnostopoulou & Papachristou (2017); Norman, Rose & Rose (2010) and Kabuye, Nkundabanyanga, Opiso & Nakabuye (2017) who explained that the more effective the role of internal audit, the prevention of fraud can be implemented. Fraud prevention can be done if the internal audit has been able to identify the possibility of fraud. Conversely, when an internal audit is not able to identify the possibility of fraud, then fraud will occur and create losses for the company.
CONCLUSION

Based on the formulation of the problem it can be concluded that the application of internal audit at PT Asuransi Jasa Indonesia is quite good. In addition, the results of the correlation test indicate that the application of internal audit at PT. Indonesian Insurance Services are quite strong. Hypothesis test results also indicate that internal audit affects fraud prevention at PT Asuransi Jasa Indonesia. Suggestions for companies to be able to increase the role of internal audit so that fraud can be reduced and can also be overcome and detect fraud to prevent fraud. Internal auditors must also be able to convince management by using evidence of fraud so that management believes what is being experienced by the company. For further researchers who want to use a similar topic, you should be able to replace the variable or add another variable to make it more broad and know other factors that can influence fraud prevention.

REFERENCES


