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## **The Effect of Internal Audit on The Prevention of Fraud**

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### **ABSTRACT**

*This study aims to determine the effect of internal audits on fraud prevention. The formulations in this study are has the internal audit at the Selaawi Garut Unit Bank (BRI) adequately, does internal audit affect the prevention of fraud in the bank (BRI) Selaawi Garut Unit. The research method in this study is to use quantitative methods. The object of research is internal audit and fraud prevention. The dependent variable is Fraud Prevention, while the independent variable is Internal Audit. The research population is all employees who work at Bank BRI Unit Selaawi Garut, as many as 31 people. Samples were taken randomly from as many as 31 people. Data analysis used simple linear regression. The results showed that Internal Audit affected Fraud Prevention. Furthermore, the internal audit department personnel must enhance the caliber of their analytical procedures in the context of fraud auditing, preliminary surveys, program audits, and auditor team selection. This finding will enable future researchers to replicate the study by incorporating additional variables.*

*Keywords: Internal Audit, Fraud Prevention*

### **INTRODUCTION**

Bank is a business that collects funds from the public in the form of savings and distributes them to the public in the form of credit or distributes them to the public in the form of credit or the form of other services to improve the standard of living of the people at large. (Lim et al., 2020; Rahmah & Kamilah, 2022; Sidharta & Affandi, 2016) This financial institution provides facilities for parties with more and fewer funds, facilitates payment transactions, and seeks profits. According to Behrend & Eulerich (2019), fraud occurs partly because of pressure, opportunities to commit fraud, weaknesses in systems and procedures, and the existence of justification for these fraudulent acts. Therefore, it is usually challenging to spot cheating. Cheating is usually due to chance or because of something intentional. Thus, management must be careful of the possibility of fraud in the company it manages.

According to Roussy & Perron (2018), fraud prevention or fraud detection is an effort to obtain sufficient early indications of fraud while at the same time knowing and narrowing the space for the perpetrators of fraud (by the time the perpetrators realize the practice, it is too late to dodge). Usually, it is not easy to find fraud; fraud is usually due to an accident or intentional. Thus, management needs to be careful of the possibility of fraud in the company

it is managing. According to Kagias et al., (2022), the many cases of fraud that have occurred recently in the banking world are of particular concern to the government and society. Fraud generally occurs because of pressure to commit fraud or encouragement to take advantage of existing opportunities.

According to *kompas.com*, one of the phenomena that occurred was a case of Fraud, namely a case where a former BRI Supervisor with a case of alleged corruption caused a loss of around 2.1 billion in government finances. The suspect transferred the operational fund book of the Siau unit BRI office to an account, and his colleagues, the suspect, used the money for his interests.

As per the Internal Audit Professional Standards, an internal audit is a consulting and assurance activity that is both independent and objective. Its primary aim is to enhance an organization's operations and provide additional value. Khairunisa et al., (2023); Mialasmaya & Rusjiana, (2019) define an internal audit as an assessment conducted by the internal audit department of a company's financial statements and accounting records, as well as adherence to top management policies and compliance with government regulations and provisions of relevant professional associations. According to DeZoort & Harrison (2018), pressure causes fraud, opportunities to commit fraud, and weaknesses in systems and procedures, and there is justification for the fraud. Therefore, it is usually challenging to spot cheating. Cheating is usually due to chance or because of something intentional. Thus, management must be careful of the possibility of fraud in the company it manages. Hazami-Amman (2019), fraud prevention is all efforts to deter potential perpetrators, narrow the space for movement, and identify activities with a high risk of fraud. Fraud prevention aims to: Prevention: prevent fraud. Deference: denying the presence of potential perpetrators. Description: Make it difficult for the fraud perpetrators to move. Recertification: identifying high-risk activities and internal control weaknesses. Civil action prosecution: charges against perpetrators who have committed fraud. Based on the description above, the causes of fraud tend to increase, so all parties within the organization must make prevention efforts, both managers and employees.

An internal audit is responsible for assisting fraud prevention by testing the adequacy and effectiveness of the internal control system. (Al-Akra et al., 2016; Alzeban & Gwilliam, 2014; Oussii & Boulila Taktak, 2018) In addition, an internal audit can evaluate and identify the magnitude of the potential risk. The relationship between internal audit and fraud prevention is contained in the Internal Audit Professional Standard 1210 SPAI. According to Alazzabi et al., (2023), fraud is the fraud that implies a deliberate deviation and unlawful act or an illegal act for a specific purpose, for example, to deceive or mislead other parties, which is carried out by people both from within and outside the organization. In addition, the purpose of fraud is to dishonestly take advantage of opportunities that directly or indirectly harm other parties.

The relationship between internal audit and prevention is contained in the Internal Audit Professional Standards. Alazzabi et al., (2023) research show that internal control and internal audit affect preventing fraud. The higher the implementation of internal control and internal audit, the higher the fraud prevention. Based on the background and identification of

the problem, the formulation of the problem in this study is as follows how is the internal audit carried out at the BRI Unit Selaawi Garut Bank, how to prevent fraud at the BRI Unit Selaawi Garut Bank and what is the influence of internal audit on preventing fraud at the BRI Unit Selaawi Garut Bank.

## **METHOD**

This type of research in this study uses quantitative methods. The data collection technique in this study was direct observation and distribution of questionnaires to Bank BRI Unit Selaawi Garut. In addition, to obtain more diverse information, library. The present investigation encompasses the entire workforce of Bank BRI in the Selaawi Unit, comprising 15 individuals, and the Limbangan Unit, comprising 16 individuals.

In statistical terms, a sample refers to a representative subset of the population with a proportionate amount of its defining characteristics. The process of selecting a sample from a population must be executed with great care to ensure that the resulting sample is a valid representation of a suitable source, taking into account the inherent qualities and attributes of the population. An ideal sample is characterized by minimal deviation from uncertainty and negligible impact on the overall population in the event of errors.

The researcher employed a data and information collection method for their final project that involved directly collecting data from the research object. This method achieves by distributing questionnaires directly to the selected respondents. The objective of the questionnaires distributed to the participants is to assess the impact of internal audits on preventing fraudulent activities at Bank Rakyat Indonesia (BRI) in the Selaawi division located in Garut. The data collection methodology through a questionnaire entails providing a predetermined set of written inquiries to the participants, who expect to provide their responses.

The study's operational variables encompass internal audit, which pertains to the scrutiny carried out by the company's internal audit department concerning the organization's financial reports and accounting records, in addition to adherence to the top management's policies, government regulations, and relevant professional regulations. The internal audit is measured through four dimensions: Independence, Professional Competence, Scope of Work, and Management of the Internal Audit Department.

Besides internal audits, fraud prevention is another variable considered in this study. Fraudulent activities attribute to many factors, such as external pressure, opportunities, deficiencies in systems and procedures, and the rationalization of such illicit actions. Therefore, the parameters for evaluating fraud prevention encompass Fraud Detection Requirements, Fraud Scope, and Audit Approaches.

The present study employs descriptive statistical analysis and simple linear regression analysis as the primary data analysis methods. Descriptive analysis is a statistical technique furnishing a comprehensive summary or portrayal of data using measures such as mean, maximum, minimum, standard deviation, variance, sum, range, kurtosis, and skewness. In addition, quantitative data validity is evaluated through the implementation of validity and

reliability assessments, which evaluate the veracity of the statements contained within the questionnaire participants have completed. Reliability testing aims to assess the degree of consistency in measurement outcomes when a given phenomenon is measured multiple times using the same measuring instrument. The present investigation employs Cronbach's alpha as a measure of reliability, with a Cronbach's alpha ( $\alpha$ ) value exceeding 0.6 indicative of reliability.

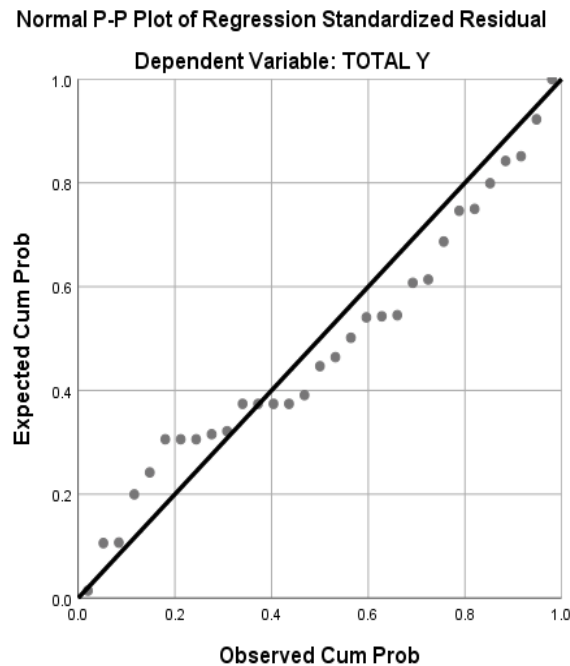
Normality testing was conducted on the data in this study. Normality tests are employed to ascertain whether the independent variable, dependent variable, or both in a regression model conform to a normal distribution or deviate from it. The objective of conducting a normality test is to assess the distributional characteristics of the data under analysis.

The present study employs descriptive statistical analysis and simple linear regression analysis as the primary methods for data analysis. In addition, the present study employs Statistical Product Service Solutions (SPSS) to conduct panel data regression analysis. The present study elucidates the impact of internal audits on preventing fraudulent activities at Bank Rakyat Indonesia (BRI) in the Selaawi unit, Garut.

The regression model operates under the assumption of heteroscedasticity, which posits that the residual variances between observations are unequal. Homoscedasticity refers to the condition where the variances of residuals between different observations are equal. Various tests, including the Glejser test, Park test, White test, and scatterplot test, can be utilized to examine the presence of heteroscedasticity in the data. The scatterplot test is a straightforward approach that evaluates the dispersion of residual variances within scatterplots. The researcher employed the method of simple linear regression analysis in the processing of data.

## **RESULTS AND DISCUSSION**

Based on the validity test on the Internal Audit (X) and Fraud Prevention (Y) variables, all items in the questionnaire are valid because  $r_{count} > r_{table}$  is 0.355. This result means that each statement item meets the validity criteria and can use as a research measurement tool. Based on the reliability test on the Internal Audit variable (X), it shows a Cronbach's Alpha value of 0.963, and the fraud prevention questionnaire variable shows a Cronbach's Alpha value of 0.946. This value is more significant than 0.6. The results of this test indicate that the statement is reliable, so the questionnaire used to measure internal audit and fraud prevention variables is feasible to determine the problems under study.



**Figure 1. Normality Test**

Based on decision-making as show as figure 1, the Normal Probability Plot plots data that describes the actual data following a diagonal line. Based on the picture above, the plotting data (dots) follow a diagonal line. So, the regression model is usually distributed, so the dependent variable fulfills the normality assumption. The results of heteroscedasticity illustrate that the points spread irregularly or randomly, the points spread above and below the number 0 on the Y axis. So this shows no indication of symptoms of heteroscedasticity. The result of simple regression analysis as

$$Y = a + Bx + e, \text{ where is } Y = 5,423 + 0,493 + e$$

The equation shows that the internal audit regression coefficient (X) has a positive sign, which means that the better the internal Audit, the more objective fraud prevention will be. Then the constant value also has a positive sign of 5.423, indicating the value of internal audit objectivity if there is no fraud prevention.

If the significance level, denoted by Sig, is greater than or equal to 0.05 ( $Sig \geq 0.05$ ), then the null hypothesis ( $H_0$ ) is not rejected, and the alternative hypothesis ( $H_a$ ) is rejected, indicating that the results are not statistically significant. Suppose the probability value 0.05 is greater than or equal to the significance level ( $0.05 > Sig$ ). The null hypothesis ( $H_0$ ) is rejected, and the alternative hypothesis ( $H_a$ ) is accepted, indicating statistical significance. According to the analysis findings, the Internal Audit (X) and Fraud Prevention (Y) exhibit a value of 0.862 each. Therefore, it can be inferred that a significant and positive correlation exists between X and Y.

Based on the calculation results, the correlation value between Internal Audit (X) and Fraud Prevention (Y) is 0.862, so the coefficient of determination or R<sup>2</sup> value is 0.744, which shows the ability of the independent variable to explain the dependent variable. Therefore, the magnitude of the influence of Internal Audit (X) is 74.4 %, and the magnitude of the Fraud Prevention variable (Y) is 25.6%. Thus, the Influence of Internal Audit (X) on Fraud Prevention (Y) is 74.4%. Based on the result the tcount value is 9,172 with a Sig. 0.000 < 0.05 (α). The tcount value is 9.172 > ttable 1.699, meaning that H<sub>a</sub> is accepted, which means that Internal Audit (X) has a positive and significant effect on Fraud Prevention (Y).

Based on the respondent's research recapitulation table regarding internal Audit, the average score regarding internal Audit was 6.80 out of a total of 20 item statements. The details of the recapitulation are that the independence dimension has a score of 6.87, the dimension of professionalism has a score of 6.92, the scope of work dimension has a score of 6.62, the management dimension of the internal audit department has a score of 6.82 thus that the implementation of internal Audit the outstanding category.

Of the five dimensions, the dimension with the lowest average score is the scope of work dimension, which equals 6.62. This result shows that the company still has to fix things in the scope of work dimension.

Based on the respondent's research recapitulation table regarding fraud prevention, the average score regarding fraud prevention was 12.45 out of a total of 11 item statements. The details of the recapitulation are that the dimension of fraud detection requirements has a score of 12.49, the dimension of the scope of fraud auditing has a score of 12.52, and the dimension of the audit approach has a score of 12.36. Thus it can be concluded that the implementation of fraud prevention is included in the outstanding category. Of the three dimensions, the lowest average score is the audit approach dimension, 12.36. This result shows that things still need to be addressed in the dimensions of the audit approach.

Based on the hypothesis testing results, internal Audit affects fraud prevention at Bank BRI, Garut Selaawi Unit. For example, the internal audit variable has a coefficient value of 0.493 with a significant value of 0.000. These results indicate that a significant result of 0.000 > 0.05 means that internal Audit affects fraud prevention and strong category. The results obtained from the comparison of t-count with t-table are (t-count > t-table 9.172 > 1.699) and seen from the significance value of 0.000 < 0.05, so that at the 5% error level, and to reject H<sub>0</sub>, which means audit internal influence on fraud prevention.

Thus, the proposed hypothesis: Internal Audit affects fraud prevention at PT Bank BRI Unit Selaawi Garut. Internal Audit has an influence of 74.4% on fraud prevention. At the same time, other factors influence the remaining 25.6%.

The analysis results indicate that the presence of an internal audit function has a notable and robust impact on preventing fraudulent activities at Bank BRI, specifically at the Garut Selaawi Unit. Therefore, an internal audit is crucial in mitigating fraudulent behavior within the organization. The coefficient value of 0.493 denotes the effect's magnitude, while the significant value of 0.000 indicates the statistical significance of this effect.

The statistical significance of the findings is further supported by comparing the t-count (9.172) to the t-table (1.699). The statistical analysis reveals that the internal audit

significantly impacts fraud prevention at a 5% level of significance, as evidenced by the t-count exceeding the critical value (t-table). Therefore, the rejection of the null hypothesis (Ho) implies that internal audit has a significant impact on fraud prevention.

According to the analysis, internal audit has a significant impact of 74.4% on preventing fraudulent activities at Bank BRI, Garut Selaawi Unit. This result suggests that the internal audit function is essential in mitigating fraudulent organizational activities. Notably, additional factors (constituting 25.6%) play a role in preventing fraud. This finding implies that a comprehensive strategy encompassing various measures may be imperative.

The results substantiate the conjecture that an internal audit considerably impacts preventing fraudulent activities at PT Bank BRI Unit Selaawi Garut. Furthermore, the findings underscore the significance of internal audits in managing the hazards linked with fraudulent activities and the necessity for sustained attention to internal controls and surveillance mechanisms to guarantee efficient prevention of fraudulent activities.

## CONCLUSION

Based on the research results and discussion in the previous chapter, the implementation of internal audit at Bank BRI Unit Selaawi Garut is in an outstanding category. Likewise, implementing fraud prevention at Bank BRI Selaawi Garut Unit is in an outstanding category, and internal audit affects Fraud Prevention at Bank BRI Selaawi Garut Unit.

Based on the conclusions above, the researcher provides suggestions related to the results of the study, namely For Bank BRI Unit Selaawi Garut: Employees in the internal audit department must further improve the quality of implementation of information reliability, compliance with policies, plans, procedures and laws and regulations, protection of assets, and use of resources economically and efficiently. In addition, employees in the internal audit department must also further improve the quality of the analysis in the fraud auditing approach, preliminary surveys, program audits, and selection of the auditor team for future researchers to conduct similar research by adding other variables.

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