

Role System Control Internal In Accounting Fraud Prevention

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Abstract

This study aims to analyze the role and influence of the attitude of internal auditor independence and the whistleblowing system in efforts to detect fraud in various business sectors, both private companies, state-owned companies, banking, and government institutions. This study is a qualitative study using a descriptive analysis method based on literature studies based on secondary data obtained through journal articles and previous research in the period between 2018 - 2023. The results obtained from this study are that the attitude of internal auditor independence and the whistleblowing system have a significant positive effect on the ability to detect fraud. This cannot be separated from the influence of several factors that underlie the effectiveness of the implementation of the attitude of independence and the whistleblowing system, including the control environment, the length of the relationship with the client, incentives for whistleblowers, and regulations regarding whistleblower protection.

Keywords: Auditor, Fraud, Independence, Disclosure System.

INTRODUCTION

Accountability and financial transparency in an organization are very important, but they are not free from various challenges, one of which is the risk of fraud (Zelmiyanti & Anita, 2015a). Fraud is an act that is carried out intentionally to misuse organizational resources for personal gain. Accounting fraud is a form of fraud in financial statements that is carried out intentionally for personal gain and harms other parties (Fitriyah and Adinda, 2021). This type of fraud includes data manipulation, misrepresentation, embezzlement, and collusion for personal or group gain. Accounting fraud can occur in both the private and public sectors. Fraud prevention is the first step to avoid accounting fraud. Detection is usually carried out when prevention fails to achieve the desired results. This prevention is important to prevent losses or bankruptcy caused by fraud (Primadhany & Puspaningsih, 2018). The implementation of an internal control system (SPI) can help companies maintain their assets by ensuring the accuracy and reliability of accounting information. The objectives of internal accounting control include authorization of the use of company assets and accountability recorded in accordance with the assets owned. This study aims to analyze the role of internal control systems in preventing accounting fraud.

RESEARCH METHODS

This study uses the narrative literature review method to examine various previous studies related to internal control and accounting fraud. The narrative review method aims to

identify and summarize published articles, avoid research duplication, and find new fields of study that have not been widely studied (Ferrari, 2015). The research process begins with determining the topic, searching and selecting literature, processing data, and drawing conclusions.

The PEO framework is used as a guide in literature search. PEO consists of three components: P (population), E (exposure), and O (outcome). The population in this study includes the government sector, public companies, and private companies. The exposure variable used is the role of the internal control system, while the expected outcome is the prevention of accounting fraud. With this framework, the literature search process can be adjusted to the research questions that have been set, including inclusion and exclusion criteria (Munn et al., 2018).

Article collection was done manually through Google Scholar and ResearchGate. Keywords used in the article search include: "internal control", "internal control system", "fraud", "fraud accounting", and "fraud accounting". This study uses English or Indonesian language articles published in the last 10 years (2012-2022)

RESULTS AND DISCUSSION

Merawati & Mahaputra (2017) highlighted internal control in Higher Education as the main focus of their research, which was triggered by a number of corruption cases in Higher Education in Bali. Internal control is a key variable to assess the potential for fraud. Fraud that can occur anywhere, including in non-profit organizations, is also discussed by Natasya et al. (2017) who studied cases in hospitals and internal control efforts as a preventive measure. The government sector which is often the target of fraud is analyzed by Taufik (2019) in relation to good governance practices, showing that the implementation of internal control can improve governance effectiveness. Similar studies were conducted by Bangsa (2018) in the public sector in Kendal, Primadhany & Puspaningsih (2018) in Sukoharjo, Setiawan (2018) in Bali, and Wijaya (2021) in Purbalingga. A broader study by Yuniarti et al. (2017) discussed internal control in ASEAN intergovernmental organizations, including anti-fraud awareness as an additional variable. Puryati and Febriani (2020) studied internal control and whistleblowing systems in BUMN as fraud prevention measures. In the banking sector, Kurniawan & Izzaty (2019) studied the effect of internal control on fraud prevention in Rural Credit Banks (BPR), some of which were liquidated due to fraud. Zelmiyanti & Anita (2015) studied BPR in West Sumatra, while Chandrayatna & Sari (2019) studied Regional Development Banks in Bali, and Husnurrosyidah (2019) studied the BMT Kudus financial institution. An international perspective was presented by Adetiloye et al. (2016) who studied banks in Nigeria. Technological advances, especially in start-up businesses, also pose a risk of fraud, as studied by Fernandhytia & Muslichah (2020). An experiment to test the chances of fraud was conducted by Efrizon et al. (2020) on students at Andalas University. Nawawi & Salin (2018) examined internal control weaknesses in the cash disbursement cycle and investigations in companies established in the 1980s in the Klang Valley, Malaysia. Chandra et al. (2021) examined internal control related to investment, while Sudarmanto & Utami (2021) discussed fraud from an Islamic perspective, interpreting the values of the Qur'an that are relevant to internal control.

Methodological Aspects Used

Most studies use a quantitative approach by comparing variables systematically and measurably. Quantitative methods are guided by positivism, where phenomena are considered measurable (Mulyadi, 2019). Many studies use comparative studies, such as Zelmianti & Anita (2015), Wijaya (2021), Fernandhytia & Muslichah (2020), and Bangsa (2018), to compare several variables and test the causal relationships between them. Descriptive research, such as that conducted by Adetiloye et al. (2016), describes the factual situation in the field. Some studies also use experimental studies, such as Setiawan (2018) and Efrizon et al. (2020), to test the effectiveness of certain variables.

Table 1: List of articles used in the literature review

Writer	Article Title	Year
Riri Zelmianti, Lili Anita	The Influence of Organizational Culture and the Role of Internal Auditors on Fraud Prevention with the Implementation of Internal Control Systems as Intervening Variables	2015
Kehinde Adekunle Adetioye, Felicia Omowunmi Olokoyo, Joseph Niyai Taiwo	<i>Fraud prevention and internal control in the Nigerian banking system</i>	2016
Rozmita Dewi Yuniarti	<i>The Effect of Internal Control and Anti-Fraud Awareness on Fraud Prevention (A Survey on Inter-Governmental Organizations)</i>	2017
Luh Komang Takes Care of Her, I Nym Kusuma Adnyana Mahaputra	Morality, Internal Control and Gender in Fraud Tendency	2017
Bachtiar Asikin, Supardi, Rita Yuniarti, Tetty Lasniroha Sarumpaet, R. Ait Noratiani	<i>Internal control influence toward accounting fraud tendency: case study on local finance service Indramayu District Government</i>	2017
Toisuta Novenia Natasya, Herman Karamoy, Robert Lambey	The Influence of Organizational Commitment and Internal Control on the Risk of Fraud in the Implementation of Health Insurance at the Bhayangkara Hospital Level IV, North Sulawesi Regional Police	2017
The story of the 2018 film "The Story of the 2018 Film" by Abriyani Puspaningsih	Analysis of Determinants of Accounting Fraud Tendency in the Public Sector	2018
The Nation's Pledge	<i>The Effect of Internal Control Systems, Accounting Systems on The Quality of Financial Statements Moderated by Organizational Commitments</i>	2018
Anuar Nawawi, Ahmad Saiful Azlin Puteh Salin	<i>Internal Control and Employees Occupation Fraud on Expenditure Claims</i>	2018

English: Santy Setiawan	<i>The Effect of Internal Control and Individual Morality on the Tendency of Accounting Fraud</i>	2018
Good morning	Internal Control, Love of Money Against the Tendency of Accounting Fraud in BMT Kudus Regency	2019
Pratomo Cahyo Kurniawan, Khairina Nur Izzaty	The Influence of Good Corporate Governance and Internal Control on Fraud Prevention	2019
I Dewa Gede Praditya Chandrayatna, Maria Mediatrrix Ratna Sari	The Influence of Internal Control, Individual Morality and Organizational Ethical Culture on the Tendency of Accounting Fraud	2019
Taufeni Taufik	<i>The Effect of Internal Control System Implementation in Realizing Good Governance and Its Impact on Fraud Prevention</i>	2019
Fernanda Fernandhytia, Muslimah	<i>The Effect of Internal Control, Individual Morality and Ethical Value on Accounting Fraud Tendency</i>	2020
Sonia Febriani	<i>The Consequence of Whistleblowing System and Internal Control Toward Fraud Prevention: A Study on Indonesian State-Owned Enterprise</i>	2020
Efrizon, Rahmat Febrianto, Rayna Kartika	<i>The Impact of Internal Control and Individual Morals on Fraud: An Experimental Study</i>	2020
Fadly Chandra, Suwandi Ng, Cherly Tanamal	The Mediation Role of Internal Control and Ethical Culture Against Fraud Acts	2021
Vishnu Reno Wijaya	<i>The Influence of Compensation Suitability, Effectiveness of Internal Control, and Individual Morality on the Tendency of Accounting Fraud</i>	2021
Eko Sudarmanto, The Main Characteristics of Charisma	Fraud Prevention With Internal Control In The Perspective Of The Qur'an	2021

Aspects of Findings in the Article

All of the research articles that we use as sources show that internal control is closely related to the prevention of accounting fraud in every type of agency that exists. Government agencies are the most frequently studied field regarding internal control systems to prevent accounting fraud. Almost all source articles argue that effective control will reduce the level of accounting fraud or in other words, the better the level of internal control, the more efficient the prevention of accounting fraud will be so that fraud cases will also decrease. The implementation of good control is a procedure that provides control or inspection of physical assets, appropriate authorization, separation of duties and independence, and proper documentation. More specifically, inspection of physical assets, appropriate authorization and separation of duties are forms of control to prevent fraud, while inspection of documentation and independence will facilitate early detection of fraud (Yuniarti et al., 2017). These systems must be formed in an agency, especially non-public or government agencies. The internal control system in

government agencies is something that is considered because it is related to good governance which is a characteristic of government agencies. A control system that meets the requirements will provide reasonable assurance that the goals and objectives of the organization will be achieved and fraud can be reduced. Furthermore, internal control is reviewed and its effectiveness is checked to ensure that the internal control process works properly and efficiently. In addition, an examination of the internal control process is carried out to determine whether mitigation measures against fraud have been carried out properly. The examination of the internal control system is carried out by management and internal auditors. Nawawi, (2017) conducted a study on a manufacturing construction company founded in the Klang Valley, Malaysia in the 1980s. The study was conducted by asking employees for their opinions about their company's internal control system and found that the company's internal control system was weak and respondents agreed to improve internal control performance. Efrizon et al., (2020) argue that internal control must be implemented in the company. In line with this research, seen from the religious side of the research by Sudarmanto & Utami, (2021) argues that the Koran contextually contains meanings related to internal control such as the important values of integrity, justice, responsibility, and management, as well as work quality.

One of the 20 articles that were the source of the research showed different results, namely research from Setiawan, (2018) which showed the opposite results, namely that internal control had no impact on accounting fraud, but morality was the most significant impact on accounting fraud. The sample of this study was conducted on 85 accounting students at Maranata Christian University. Setiawan argued that accounting fraud is not only determined by the presence or absence of internal control but also by a person's level of morality.

CONCLUSION

A total of 10 articles were used as references in this study, with articles sourced from various sources, both national and international. Of the total, 13 articles applied a comparative study method with a quantitative approach. The comparative study approach is often used in this topic because it links the internal control system variable as an independent variable and the prevention of accounting fraud as a dependent variable. Both variables show a causal relationship. The results of the analysis show that internal control has a crucial role in preventing accounting fraud in an agency. The internal control system serves as a reference for auditors in assessing the performance of the agency and estimating its materiality level. In terms of findings, 19 out of 20 articles stated that internal control is closely related to the prevention of accounting fraud. The implementation of an internal control system should include control of physical assets, proper authorization, independent separation of duties, and adequate documentation. By fulfilling this control system, the organization can achieve its goals and reduce the possibility of fraud. After implementing the right internal control system, an audit is also needed to ensure its effectiveness. The audit process is carried out by management and internal auditors to ensure that internal control is running well and efficiently. In contrast to other studies, Setiawan (2018) showed that internal control does not have a significant effect on preventing accounting fraud, whereas individual morality plays a greater role in the occurrence of fraud. For further research,

it is recommended to expand the sources of articles studied and add new variables. There is a possibility that different findings will emerge from previous studies, such as those conducted on 85 Maranata Christian University students. Further research can also re-evaluate an entity's internal control system by considering other relevant variables. In addition, morality can be the focus of research to explain the differences in results shown by Setiawan (2018), considering that morality is the main factor influencing accounting fraud.

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