Analysis The Influence of Internal Audit and Internal Control on Fraud Prevention: Literature Review Articles

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ABSTRACT

The objective of this study is to examine the impact of internal audit and internal control on the prevention of fraud. The used approach involves doing a literature review by examining six (6) primary studies that have investigated the impact of internal audit and internal control on fraud prevention. The research findings indicate that internal audit factors have an impact on fraud prevention, while internal control variables also have an affect on fraud prevention.

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1. INTRODUCTION

According to ACFE (2019), having a strong control system will be a barrier for individuals who want to commit fraudulent acts. One important preventive step is the existence of an Internal Audit Department in the company. The larger an entity or organization, the more important it is to expand a more intensive Internal Control System (SPI) to monitor fraudulent acts that may be committed by parties within the company. This SPI can take the form of an Internal Audit Department which is tasked with assessing and verifying Standard Operating Procedures (SOP). [1] said that recording data according to company policies and plans is part of efforts to monitor activities. Therefore, the existence of a strong and efficient internal control system is very important for companies to prevent and detect fraud. The internal audit plays a vital role in assuring effectiveness by performing risk assessments, checking compliance with policies and procedures, and offering recommendations for improvement in case flaws or holes are identified in the internal control system.

Internal audit provides confidence that the internal control system is adequate to reduce risks, as well as facilitate effective and efficient governance processes where organizational goals and objectives can be achieved [2]. The internal audit function plays a crucial role in maintaining the efficient functioning of corporate processes and mitigating the risk of fraudulent activities. The success of internal audits depends not only on the competent skills of internal auditors but also on strong support from top management in providing the necessary resources and authority. The objective of this study is to examine the extent to which the internal audit
function is effective in preventing and detecting fraudulent activities. Additionally, it seeks to assess the importance of internal control in the identification and mitigation of these risks.

Fraud may manifest in several industries, encompassing both the commercial and government sectors. Nevertheless, corruption is a prevalent kind of fraud in the government sector. Indonesia is ranked 96th out of 180 nations in terms of corruption-free status, as per a research conducted by Transparency International [3]. Then in the [4], According to transparency.org, Indonesia was classified as the second most corrupt country in the Asia Pacific region in terms of its degree of development. The prevalence of fraud in government organizations remains significant. An illustrative instance of such fraud is the corruption scandal surrounding the e-KTP auction project in 2011, which resulted in state losses amounting to a staggering IDR 2.3 trillion. This is corroborated by the affirmation of the investigation auditor from the Financial and Development Supervisory Agency (BPKP) who verified that the tender document did not adhere to its execution in the e-KTP project. The e-KTP document pertains to a roster of individuals that are suspected to be imaginary. Based on this instance, it seems that there are signs of the auditor's incapacity or negligence in identifying fraudulent activities during the evaluation of tenders for the e-KTP project procurement. The auditor's capacity to identify fraud might be compromised by several elements under certain circumstances [5], [6].

Accounting fraud or fraud has become a significant phenomenon in various countries, both developing and developed. Fraud incidents involve the government and private sectors. In the current era of globalization and technological advances, developments in the business world are increasingly rapid, which has an impact on increasingly tight company competition, so that the scope of activities and complexity will naturally expand [7]. No institution/corporate body is truly free from the possibility of fraud. Fraud perpetrators also exist at all levels, both upper-class and lower-class employees.

Fraud is not something that can be considered trivial by a company [8]. Ethical violations, both administrative and non-administrative, are a strong factor in causing fraud, but they are not always directly related because they do not only occur as a result of ethical violations but can be caused by other factors that are not within the scope of ethical violations [9]. Fraud has now become the focus of attention for business stakeholders in a company, many companies have experienced setbacks and even collapse due to a lack of prevention, detection, and discipline for actions that cause fraud, so public trust in a company has decreased. Fraud is often carried out by several individuals to gain instant personal gain. Fraudulent acts carried out have big effects and risks for a company, which can cause damage to the reputation that has been built by a company so that the company can slowly experience losses, both material and non-material, such as financial losses so that the company experiences bankruptcy. So a company must be able to take preventive measures to prevent fraud from occurring in the company.

This research aims to identify the factors that influence internal audit and internal control and how this can influence a company's ability to prevent and uncover fraud. This research will also explore how internal audit approaches can be improved to strengthen internal controls so that organizations can detect and respond to signs of fraud more efficiently and proactively. By evaluating the contribution of internal audits to fraud prevention and detection, this research is expected to provide useful recommendations for companies and organizations to strengthen their control systems and minimize the risk of fraud and asset misuse.

2. THEORETICAL REVIEW
2.1 Understanding Internal Audit
There are many definitions according to experts regarding internal audit, namely as follows: " Internal audit is a self-governing and unbiased process
that aims to instill trust and offer guidance with the goal of enhancing organizational operations and adding value. According to [10] "Internal audit will analyze, suggest several suggestions, and audit evaluation will also include effective monitoring at a reasonable cost." An internal auditor is the person responsible for planning and carrying out audit tasks that must be approved and reviewed or revised by managers.

2.2 Internal control

Internal control includes the company's agenda and all coordinated means implemented. Every organization of course has internal controls to achieve its goals. As per COSO, internal control refers to the impact of the board of directors, management entities, and other members on actions that serve as safeguards for accomplishing organizational objectives in the domains of operations, reporting, and compliance [11].

2.3 Internal Control Components

When designing and implementing internal control measures, it is important to take into account the concerns and objectives of risk management within an organization. For this reason, in planning internal control it is necessary to consider the principles of internal control which are components of internal control. COSO's internal control components have 5 components, namely:

1. The Control Environment serves as the fundamental basis for the internal control framework, exerting influence over the design of activities and the assessment of risks
2. Risk Assessment is the introduction and analysis of risks by achieving objectives and becomes a guideline for determining the company's methods. To manage identified risks.
3. Control Activities refer to the set of policies and processes implemented to effectively address risks and assure the execution of management instructions.
4. Information and Communication refers to the systematic collection, manipulation, and transmission of data in a manner that enables individuals to fulfill their responsibilities
5. Monitoring Activities is the process of determining the quality of internal control performance over time [11].

2.4 Fraud

Fraud is a fraudulent act carried out to obtain illegal profits. The main goal is usually to obtain financial benefits, such as money or other assets, through illegal means [12]. These actions can include various forms, ranging from forgery, and fraud, to misuse of company resources. Fraud perpetrators generally try to avoid detection and legal sanctions by using methods that are complex and difficult to trace. Fraud is an act that violates regulations and laws (illegal acts) as well as irregularities carried out with a specific purpose. This action can be carried out by people who have authority, both from within and outside the organization. Meanwhile, in the Criminal Code (KUHP) article 378, it is explained that fraudulent acts are "intending to obtain personal or group benefits through violations of applicable law, by using false names or identities, deception or lies to encourage parties to another person hands over goods or something that causes harm to the other party.". Therefore, preventing and detecting fraud requires a careful approach and a strong internal control system.

2.5 Fraud Prevention

According to [13] The five aims of efficient fraud prevention are, namely:

1. Prevention, specifically, the aim is to proactively stop actual instances of fraud from happening across all areas of the firm.
2. Deterrence, specifically, the purpose is to prevent prospective offenders and even exploratory behaviors.
3. Disruption, specifically, this aims to impede the movement of fraud perpetrators to the greatest extent feasible.
4. Identification, specifically, the task involves the identification of
activities that carry a high level of risk and the identification of flaws in controls.

5. Civil action prosecution, specifically, this involves asserting requirements and enforcing suitable penalties for instances of deceit on the individuals responsible.

Fraud prevention according to [13] is a comprehensive endeavor that can mitigate the occurrence of variables that contribute to fraud (fraud triangle), specifically:
1. Minimize the opportunity for fraud to occur.
2. Reduce pressure on employees so that they can meet their needs.
3. Eliminate reasons to justify or rationalize the fraud committed.

The company’s preventive activities effectively lower the likelihood of fraud by promptly detecting and proactively anticipating any fraudulent activity. Each employee no longer experiences coercion and may rationalize engaging in dishonest behavior, which has the potential to hurt several stakeholders.

3. WRITING METHOD

The research method applied in this research uses traditional narrative methods. The data sources for this research will consist of publications published between 2020 and 2024 that pertain to the impact of internal audit and internal control on fraud prevention. The literature review includes several research journals with 6 article titles which of course have a relationship related to the Influence of Internal Audit and Internal Control on Fraud. Literature study methods: articles studied using various quantitative methods, literature review.

4. RESULTS AND DISCUSSION

The focus of this literature review article is determined by theoretical studies and pertinent prior research:

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<th>Title</th>
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<th>Research Design</th>
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<tr>
<td>1</td>
<td>The Effect of Audit and Internal Control on Fraud Prevention: A Case Study of a Regional Bank</td>
<td>[14]</td>
<td>The research method used is a quantitative method with a questionnaire which is measured using a Likert scale.</td>
<td>1. Fraud Prevention (Y) 2. Audit (X1) 3. Internal Control (X3)</td>
<td>Data analysis involves the application of descriptive statistical analysis and multiple linear regression.</td>
<td>The research findings indicate that internal audit, internal control, and audit quality positively influence fraud prevention. Improved internal audit, internal control, and audit quality at the Bali Regional Development Bank will result in enhanced implementation of fraud prevention.</td>
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<td>2</td>
<td>The Influence of the Role of Internal Audit and Internal Control on Preventing</td>
<td>[15]</td>
<td>The research method used is quantitative.</td>
<td>1. Prevention of fraud. (Y) 2. Internal audit role (X1) 3. Internal Control (X2)</td>
<td>The research employed route analysis, as well as T and F statistical tests for data analysis.</td>
<td>The research findings suggest that the internal audit variable does not have a significant effect on fraud prevention, and the internal control variable similarly does not have a significant impact on fraud.</td>
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<td>The Influence of Internal Audit and Internal Control on Fraud Prevention at PT Perkebunan Nusantara VIII</td>
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<td>3</td>
<td>The Influence of Internal Audit and Internal Control on Fraud Prevention at PT Perkebunan Nusantara VIII</td>
<td>This research method uses quantitative methods.</td>
<td>1. Fraud Prevention. (Y) 2. Internal Audit (X1) 3. Internal Control (X2)</td>
<td>In this research, researchers used quantitative analysis techniques based on questionnaire calculations. The object to be studied in the population is called the unit of analysis or population element. Based on the tests that have been carried out, the results of the first hypothesis show that internal audit partially has a significant effect on fraud prevention where the calculated t value &gt; t table with a value of 2.150 &gt; 2.016. The results of the second hypothesis show that internal control partially has a significant effect on fraud prevention where the calculated t value &gt; t table with a value of 8.933 &gt; 2.016. The results of the third hypothesis show that internal audit and internal control simultaneously have a significant effect on fraud prevention, where the calculated F value &gt; F table with a value of 54.328 &gt; 3.21.</td>
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<td>4</td>
<td>The Influence of Internal Audit and the Effectiveness of Internal Control on Fraud Prevention at State-Owned Banks in Denpasar.</td>
<td>This research uses quantitative methods.</td>
<td>1. Fraud Prevention. (Y) 2. Influence of Internal Audit. (X1) 3. Internal Control Effectiveness. (X2)</td>
<td>The data analysis employed includes multiple linear regression analysis, F test, t statistical test, coefficient of determination (R2), and traditional assumptions such as the normality test, multicollinearity test, and heteroscedasticity test. The t-statistical hypothesis test findings indicate that internal audit has a favorable impact on fraud prevention at state-owned banks in Denpasar. Similarly, authority also has a good influence on fraud prevention at state-owned banks in Denpasar. The findings of the hypothesis F test indicate a clear and statistically significant positive influence of the internal audit variable on the fraud prevention variable at state-owned banks in Denpasar.</td>
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<td>5</td>
<td>The Influence of Internal Audit and the Effectiveness of Internal Control on Fraud Detection.</td>
<td>This research uses quantitative methods.</td>
<td>1. Fraud Detector (Fraud). (Y) 2. Influence of Internal Audit. (X) 3. Internal Control Effectiveness</td>
<td>Data analysis uses a questionnaire method by distributing several questionnaires to employees at the PDAM Tirta. The results of this research indicate that internal audit and the effectiveness of internal control influence the detection of fraud.</td>
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According to the literature review presented in the table above, the author gathered journals that examine the impact of internal audit and internal control on the prevention of fraud. The following are several examples of fraud cases in a company, including in the 1st journal with the title "The Influence of Audit and Internal Control on Fraud Prevention: A Case Study of a Regional Bank", The research centers on the Development Bank Regional (BPD), a provincial bank located in Bali. The research findings indicate that internal audit, internal control, and audit quality have a beneficial impact on the prevention of fraud. Improved internal audit, internal control, and audit quality at the Bali Regional Development Bank will result in enhanced implementation of fraud prevention. The 2nd journal title is "The Influence of the Role of Internal Audit and Internal Control on Preventing Fraud in the Pasim Group in the Bandung Region.", this research shows fraud that occurred in the Pasim Group in the Bandung Region. The research findings suggest that the internal audit variable does not have a statistically significant effect on fraud prevention.

Similarly, the internal control variable does not have a statistically significant impact on fraud prevention.

Both internal audit and internal control play a crucial role in preventing fraud simultaneously. The next case example is in the 3rd journal with the title "The Influence of Internal Audit and Internal Control on Fraud Prevention at PT Perkebunan Nusantara VIII". The findings of this study are derived from conducted tests. The results of the initial hypothesis indicate that internal audit has a partial and considerable impact on fraud prevention, as evidenced by a computed t-value of 2.150, which exceeds the critical t-value of 2.016. The results of the second hypothesis indicate that internal control has a partial and considerable impact on avoiding fraud, as evidenced by the computed t-value of 8.933, which exceeds the critical t-value of 2.016. The findings of the third hypothesis indicate that both internal audit and internal control have a large impact on fraud prevention. This is supported by the computed F value of 54.328, which is more than the critical F value of 3.21.

The next case is in the 4th journal with

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<td>Detection Of Fraud Through Professional Skepticism</td>
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<td>[19] This research uses quantitative and descriptive methods.</td>
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<td>1. Detection of Fraud(Y) 2. Professional Skepticism(X1)</td>
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<td>The data analysis used is multiple linear analysis and path analysis (J test)</td>
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<td>7</td>
<td>The Role of Internal Audit and Internal Control in Efforts to Prevent and Detect Fraud.</td>
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<td>[20] This research uses quantitative methods.</td>
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<td>1. Efforts to Prevent and Detect Fraud (Y) 2. Audit Role (X1) 3. Internal Control (X2)</td>
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<td>Data analysis utilized multiple regression analysis using the SPSS version 20 application.</td>
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<td>The research findings indicate that the proficiency of auditors and the internal control system positively influence professional skepticism, whereas workload does not have any impact on professional skepticism. Professional skepticism greatly enhances the auditor's capacity to identify instances of fraud.</td>
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the title "The Influence of Internal Audit and the Effectiveness of Internal Control on Fraud Prevention at State-Owned Banks in Denpasar". The results of the t-statistical hypothesis test suggest that internal audit has a favorable influence on fraud prevention at state-owned banks in Denpasar. Additionally, authority also has a beneficial impact on fraud prevention at state-owned banks in Denpasar.

The findings of the hypothesis F test indicate a clear and statistically significant beneficial impact of the internal audit variable on the fraud prevention variable at state-owned banks in Denpasar. Next is the case in the 5th journal with the title "The Influence of Internal Audit and the Effectiveness of Internal Control on Fraud Detection". The results of this research indicate that internal audit and the effectiveness of internal control influence the detection of fraud. Next is the case in the 6th journal with the title "Detection of Fraud Through Professional Skepticism". The findings of this study indicate that the proficiency of auditors and the internal control system have a favorable impact on professional skepticism, whereas workload does not have any influence on professional skepticism. Professional skepticism greatly enhances the auditor's capacity to identify instances of fraud. Lastly, in the seventh journal titled "The Role of Internal Audit and Internal Control in Efforts to Prevent and Detect Fraud". The findings of this study indicate that the presence of internal audit and internal control factors has a substantial impact on the effectiveness of fraud prevention and detection measures.

5. CONCLUSION

Based on the results of the research and discussion, the following conclusion was obtained: that internal audit and internal control influence fraud prevention. This means that if internal audit and internal control get better, then the implementation of fraud prevention will also get better.

Based on the conclusions above, the suggestion in this article is that there are still many other factors that influence fraud prevention, apart from internal audits and internal control at all types and levels of organizations or companies, therefore further studies are still needed to find What other factors can influence fraud prevention besides the variables examined in this article.

REFERENCES

[14] G. Das Prena and N. K. Karina, “Pengaru...


