

IMPACT OF Internal Control on Fraud Prevention with Internal Audit As Moderation (Case Study Pt. Indoprismatama)

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Abstract : The purpose of this study was to determine the effect of internal control on fraud prevention with internal audit as a moderating variable at PT. Indoprismatama Bandung. The research method used in this research is explanatory. The population in this study is the Finance Division of PT. Indoprismatama Bandung, while the sample obtained through the Slovin formula as many as 90 people. The data collection technique used in this study was a questionnaire. Meanwhile, the analysis method used in this research is moderation regression analysis at a significance level of 5%. The program used in analyzing data using SPSS 25 .. The results of this study indicate that internal control, fraud prevention and internal audit are included in the very good category. In addition, the results of research partially and simultaneously show that internal audit can moderate or strengthen the effect of internal control on fraud prevention.

Keywords: Internal Control, Fraud Prevention, Internal Audit

1. Introduction

When a company or organization is founded, of course, has goals that must be achieved through a set plan (Kabuye and Kato, 2019). However, along with its growth, of course it cannot be separated from the various obstacles and problems faced (Bagh and Nazir, 2016). This certainly results in the company being faced with various risks, namely the difficulty of overseeing all company activities and operations at the company (Oussi and Neila, 2019). According to Sari, D (2013), if this is left unattended, it will lead to fraud in the company. Internal control is one of the effective ways that can support the prevention of fraud (Gamage, 2014). According to Chue, et al. (2020) control is an internal audit activity that must evaluate the adequacy and effectiveness of responding to risks, operations and organizational information systems, which include the achievement of organizational goals, reliability and integrity of financial information, effectiveness and efficiency, and asset security. In addition, it is felt that the internal control function can help prevent fraud that occurs in the company (Li and Li, 2020).

1. According to Chen and Chan (2017), one of the functions of internal control is to supervise and report that workers have carried out their duties in accordance with the standards set by the company. Internal control is an important element needed by a company so that the company can survive and be competitive in facing increasingly complex competition (Fan and Jang, 2013; Sithomola, T., & Auriacombe, C. J. (2019). DEVELOPING A MONITORING AND EVALUATION (M&E) CLASSIFICATION SYSTEM TO IMPROVE DEMOCRATIC GOOD GOVERNANCE. *The International Journal of Social Sciences and Humanity Studies*, 11(2), 86-101.

Yas, 2019). Therefore the company management needs the help of an internal inspection function to oversee all activities that are difficult to overcome by top management and identify and minimize risks. Sohn (2016) explains that fraud prevention can be done using tools that can control or monitor, and this is the most widely applied. PT. Indoprismatama is an industry that is engaged in retail and provides various kinds of needs for the community. Currently, according to the results of interviews with the perpetrators, namely employees of PT. Indoprismatama has experienced a lot of fraud, especially related to the misuse of assets, namely the illegal taking of assets by persons authorized to manage or supervise these assets. From year to year the occurrence of fraud committed by employees. In 2019 fraud was committed by 4 employees including the Head of the Shop, Assistant to the Head of the Shop, and two other employees, by damaging the CCTV receiving cable to remove evidence. (<https://tribunnews.com>, January 2019). A year earlier, the assistant shop head of PT. Indoprismatama reported himself to be a victim of forced theft, it turned out that during the investigation all scenarios of the perpetrator tricked officers and employees (<https://news.detik.com>, January 2017).

Based on this, this study tries to examine the effect of internal control on fraud prevention with internal audit as a moderating variable at PT. Indoprismatama Bandung. As for the formulation of the problem in this study are; (1) Does Internal Control affect fraud prevention? (2) Does internal audit affect fraud prevention? (3) Does internal audit moderate the relationship between internal control and fraud prevention?

2. Theoretical review

Internal Control

Internal control is a system that is used as a procedure to guide the operations of a company or organization to identify, analyze, and communicate any organizational events (Sari, D, 2012). Companies generally use internal control systems to direct their operations and prevent them. abuse from various parties (Li and Li, 2020). Therefore internal control is very important to ensure the achievement of organizational goals in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies. In the broad concept of internal control, it involves everything that controls risk for an organization (Muna and Haris, 2018). Oussi (2019) explains that internal audit must be able to report that employees have carried out their duties in accordance with the International Standards for the Professional Practice of Internal Auditing. According to Gamage (2014), internal control is a spolicy and procedure that can protect against misuse and provide accurate information to companies. The effectiveness of internal control means that the company's goals have gone according to planning with control and supervision so that there will be no fraud (Megayani and Ni Nyoman, 2020). According to Dewi and Ajeng (2016) there are three pillars in the effectiveness of internal control, including: Organizational Independence, Skills, and Obedience.

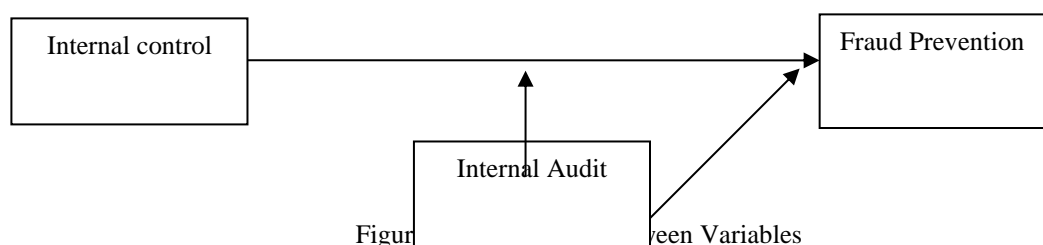
Fraud Prevention

Fraud is a criminal act that aims to benefit an individual or group financially. According to Nyoman (2020) this is a criminal act committed with malicious intent. And from these evil deeds, he benefits and harms his victims financially and non-financially (Ardyana and Tashia, 2017) defines fraud as an act that is carried out deliberately using internal resources inappropriately and inappropriately in presenting facts with the aim of obtaining personal gain. Megayani (2020) defines accounting fraud as, (a) misstatement or deliberate omission of amounts or disclosures in financial statements to deceive users of financial statements. (b) misstatements arise as a result of fraud against assets (as misuse or embezzlement) relating to theft of the entity's assets. This incident resulted in the preparation of financial statements that were not presented in accordance with generally accepted financial principles. According to Eniola, A (2020) categorizes fraud into three parts, namely: (a) corruption, (b) fraudulent financial statements and (c) misuse of assets. Among the factors that cause cheating are, pressure, opportunity, and justification.

Internal Audit

Internal audit is an important relationship with the internal control structure in an organization, because it was created to monitor the effectiveness of its internal activities. According to Putra, S, I (2017) the definition of Internal Audit is an independent and objective consulting and assurance activity designed to add value and improve organizational operations. It helps organizations achieve their objectives by providing a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes. From this definition, it can be interpreted that internal audit is an independent activity that provides objective assurance and consultation designed to add value and improve organizational operations. These activities also assist the organization in achieving its objectives with a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Dewi (2016) explains that internal auditors must be able to report that they have carried out their duties in accordance with the International Standards for the Professional Practice of Internal Auditing.

Theoretical Framework and Hypothesis Development



Hypothesis Development

Effect of Internal Control on Fraud Prevention

Dewi (2016) explains that internal control is a system that is used as an operational guide for a company or organization to identify, analyze, and communicate every organizational incident. Research () states that internal control can prevent fraud in a company. This is in line with the research of Kbuye and Kato (2019) which states that internal control can affect the prevention of fraud committed by certain individuals.

H1. Internal controls affect fraud prevention

The Effect of Internal Audit on Fraud Prevention

The role of internal audit in an organization can help to achieve the goals that have been set. Among the functions of this internal audit is to provide an overview of all activities that have been carried out over several periods (Li and Li, 2020). Putra, S, I (2017) stated that internal audit can prevent fraud by examining every report presented. Internal audit is an independent activity that provides assurance and objective consultation designed to add value and improve the organization's operations.

H2. Internal audit affects fraud prevention

Internal Audit Moderates the Influence of Internal Control Relations on Fraud Prevention

Megayani (2020) explains that internal audit must be able to report that all activities can carry out their duties in accordance with established standards. The most common way to prevent fraud is to have a good control system. According to Sohn (2016) effective control is the most important step to eliminate or reduce the possibility of fraud. The internal audit function is better able and more likely to detect and correct minor control problems before they become severe enough to prevent fraud.

H3. Internal audit has an effect in moderating the relationship between internal control and fraud prevention.

3. RESEARCH METHODS

The method in this study uses an explanatory method. According to Gumilar, I (2007) the explanatory method aims to obtain an overview of the relationship between variables. In this study, internal control as (X) against fraud prevention (Y) with internal audit as a moderating variable (M) at PT. Indoprismatama The sample in this study were all employees totaling 90 people, and used simple regression analysis and moderation using SPSS 25.

4. RESULTS AND DISCUSSION

In this study, the sample profile can be seen in table 1 below:

Table 1. Profile of Respondents

Profile of Respondents		Amount	Percentage
Gender	Male	54	64%
	Woment	36	36%
Age	>20 thn	29	22%
	31 - 40 thn	52	63%
	> 40 thn	9	15%
Education	Diploma	52	60%
	Bachelor degree)	38	40%

Source: Data processed (2020)

Based on table 1, it can be seen that the respondents are mostly men with a percentage of 64% and women 36%. Based on age, the respondents who dominate are at the age of 31-40 years as much as 63%, meaning that the workers at PT. Indoprismatama is more of a productive age. Meanwhile, at the level of diploma education, there is more than 60% for undergraduate. The validity and reliability tests are as follows:

Test the validity and reliability

Based on the results of validity testing, each statement item in this study has a Sig alpha level ≤ 0.05 level, meaning that the research variable is valid. The reliability test is as follows:

Table 2. Reliability Test

Variable	Cronbach's Alpha (CA)	Information
Internal control	0,887	Reliable
Fraud Prevention	0,885	Reliable
Internal audit	0,818	Reliable

Source: Data processed (2020)

Based on table 1.3. Above, it can be seen that the Cronbach Alpha value of all tested variables is above 0.60, it can be concluded that all variables in this study are declared reliable .

Simple Linear Regression Analysis

Table 3 Simple Linear Regression Test The Effect of Internal Control on Fraud Prevention

Unstandardized Coefficients	Standardized Coefficients		

Model	B	Std. Error	Beta	t	Sig.
1 (Constant)	,754	,247		3,044	,003
Internal Control	,574	,090	,559	6,609	,000

- a. Predictor: Internal Control
- b. Constant: Fraud Prevention

Source: Data processed (2020)

Based on the results of the calculations in table 3 above, a simple linear regression equation is obtained as follows: $Y = 0.754 + 0.574x + 0.090$

From the linear regression equation above, the constant value is 0.754. That is, if the fraud prevention variable at PT. Indoprismatama is not influenced by independent variables, namely internal control, so the average number of fraud prevention at PT. Indoprismatama will be worth 0.754. The regression coefficient value for the internal prevention variable is 0.574 in the positive direction, meaning that if the internal control variable increases by one unit it will cause an increase in fraud prevention by 0.574.

Regression test of the Effect of Internal Control and Internal Audit on Fraud Prevention

Table 4. Regression Test

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	,272	,243		1,117	,267
Internal Control	,435	,086	,420	5,157	,000
Internal Audit	,427	,084	,395	4,856	,000

- a. Predictor: Internal audit, internal control
- b. Constant: Fraud Prevention

Source: Data processed (2020)

The equation of linear regression is as follows:

$$Y = 0.272 + 0.435X1 + 0.427X2 + \epsilon$$

From the multiple linear regression equation above, the constant value is 0.272. That is, if the variable fraud at PT. Indoprismatama is not influenced by independent variables, namely Internal Control and Internal Auditing, the average amount of Fraud Prevention at PT. Indoprismatama will be worth 0.272. The regression coefficient value for the Internal Control variable is 0.435 in a positive direction, meaning that if the internal control variable increases by one unit it will cause an increase in fraud prevention at PT. Indoprismatama source 0.435. The regression coefficient value for the internal audit variable is 0.427 in a positive direction, meaning that if the Internal Auditing variable increases by one unit it will cause an increase in fraud at PT. Indoprismatama 0.427.

Regression Analysis of the Effect of Internal Control on fraud prevention with Internal Audit Moderation.

Table 5. Regression Test of the Effect of Internal Control on fraud prevention with internal audit as moderation

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1,995	,643		3,104	,003
Internal control	1,244	,257	1,172	4,833	,000

Internal audit	1,448	,300	1,406	4,834	,000
X1*X2	,359	,113	1,476	3,167	,002

- a. Predictor: Internal audit, internal control
- b. Constant: Fraud Prevention

Source: Data processed (2020)

Based on the results of the calculations in the table above, the multiple linear regression equation is obtained as follows:

$$Y = 1.995 + 1.244X1 + 1.448X2 + 0.359X1 * M + \epsilon$$

From the multiple linear regression equation above, the constant value is 1.995. That is, if the fraud prevention variable at PT. Indoprismatama is not influenced by independent variables, namely Internal Control and Internal Audit, so the average amount of fraud prevention at PT. Indoprismatama will be worth 1,995. The regression coefficient value for the internal control variable is 1.244 in a positive direction, meaning that if the internal control variable increases by one unit it will cause an increase in fraud prevention at PT. Indoprismatama of 1,244. The regression coefficient value for the internal audit variable is 1,448 in a positive direction, meaning that if the internal audit variable increases by one unit it will cause an increase in fraud prevention at PT. Indoprismatama is the source of 1,448. The regression coefficient value for moderation of internal control and internal audit is 0.359 to a positive direction, meaning that if the moderation of internal control and internal audit increases by one unit, it will result in an increase in fraud prevention at PT. Indoprismatama of 0.359.

Table 6 Coefficient of Correlation of Internal Control to Fraud Prevention with Internal Audit as Moderation

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.860 ^a	,740	,732	,25489

Source: Data processed (2020)

In table 6 above it can be interpreted that the internal control variable has an effect of 73.2% on fraud prevention with internal audit as moderation at PT. Indoprismatama. As for 26.7% is the contribution of variables other than internal control and internal audit.

Table 7 t test of the effect of internal control on fraud prevention with internal audit as moderation Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	Q	Sig.
		B	Std. Error	Beta		
1	(Constant)	1,995	,643		3,104	,003
	Internal Control	1,244	,257	1,172	4,833	,000
	Internal Audit	1,448	,300	1,406	4,834	,000
	X1*X2	,359	,113	1,476	3,167	,002

a. Dependent Variable: Fraud Prevention

Source: Data processed (2020)

Based on the table above, it can be seen that the internal control variable has a calculated t value greater than the t table value. Because the value of t count (4,833) > t table (1.986). Thus it can be concluded that Internal Control has a significant effect on fraud prevention in PT. Indoprismatama. The internal audit variable has a

calculated t value greater than the t table value. Because the value of t count (4,834) > t table (1.986), then H2 is rejected. Thus it can be concluded that internal audit has a significant effect on fraud prevention in PT. Internal Control Moderation and internal audit have a t value greater than the t table value. Because the value of t count (3.167) > t table (1.986) then H3 is accepted.

5. Conclusion

Based on the results of research that has been conducted regarding the effect of internal control on fraud prevention with internal audit variables as moderation, it can be concluded that: (1) Implementation of internal control at PT. Indoprismatama has been very good, (2) Implementation of Internal Audit at PT. Indoprismatama has been very good, (3) Implementation of fraud prevention at PT. Indoprismatama has been very good, (4) Internal Control has an effect on fraud prevention in PT. Indoprismatama, (5) Internal audit has an effect on fraud prevention in PT. Indoprismatama. (6) Internal Audit can moderate and strengthen the relationship of Internal Control to fraud prevention.

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