eISSN: 2118-7453

ANALYSIS OF THE ROLE OF INTERNAL AUDIT IN PREVENTING AND DETECTING TENDENCIES IN ACCOUNTING FRAUD

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ABSTRACT

Fraud is defined as an intentional conduct that causes losses for specific people and institutions while serving one's own or a group's objectives. Finding out if internal audit has an impact on stopping and identifying accounting fraud is the aim of this research. The impact will be investigated using the findings from earlier studies. The metaanalysis method, which combines two or more prior research findings in related situations to draw conclusions about the research, is employed in this study. The unit of analysis used in this research is written documents from previous research in the form of international journals or articles taken from google scholar that are in accordance with the topic to be discussed. The results of this study indicate that internal audit has a positive effect on the prevention and detection of fraud in accounting.
Keywords: *internal audit, accounting fraud.*

INTRODUCTION

In the current era of globalization, the rapid growth of the economy and the advancement of science and technology have not only positive but also negative impacts. Fraud is one of the negative effects that occur in Indonesia. According to Karyono (2002), fraud is an illegal conduct carried out by people either inside or outside of an organization with the intention of gaining wealth or favoring themselves, other individuals, or other legal entities, which either directly or indirectly affects other parties inside the organization.

Akiyomi (2010) argues that fraud is an act that fraudulently deprives someone of their rights or entitlements, but lexically, fraud is defined as an act that intentionally deprives someone of something that is rightfully theirs an act of fraud generating illegal profits. Therefore, for an act to be considered fraud, there must be a fraudulent purpose to gain an advantage (on the part of the perpetrator) at the expense of others.

The three levels of fraud, or fraud tree, developed by the Association of Certified Fraud Examiners (ACFE) is a way to classify different forms of fraud. The three levels of the fraud tree are:

1. Asset Misappropriation is the appropriation, theft, and misuse of a company's wealth or assets. This form of fraud is easy to detect because it is measurable, calculable, or specific (definable value).
2. Misrepresentation or Misstatement Financial reporting fraud committed by a party with an interest in a company, such as an officer or director, with the aim of keeping the true financial content of the company secret by falsifying engineered financial statements. This aims to achieve personal goals.
3. Corruption is the abuse of public power for private gain. The following scams are very difficult to detect because they involve other people. This type of corruption fraud is often difficult to detect because the perpetrators work together to benefit (mutual symbiosis).

Factors that influence the occurrence of accounting fraud are due to the pressure exerted by superiors on their subordinates, and attitudes or rationalizations that support these events. Other factors include poor corporate governance, effective internal controls, the role of internal audit, and compensation suitability that can open up employee freedom so that they can do things that harm the company.

Fraud Risk Evaluation. Internal auditors and fraud investigators are very different from one another in terms of their jobs, responsibilities, professional backgrounds, and areas of competence. It is obvious that professional training and real-world experience are essential to the job of internal auditors. Internal audit can modify its processes and working ways, but it cannot totally avoid fraud. Actually, internal auditing has a lot of different obligations. to support management in putting in place dependent anti-fraud measures. to make it easier to identify the risks of fraud and reputation at the organizational and business process levels. Analyze how internal controls and fraud risk are related. Examiner fraud. Help professionals who investigate fraud. Encourage attempts to make improvements. Provide information on fraud prevention strategies, fraud risk evaluations, reputation-related concerns, fraud incidences, and fraud suspicions to the audit committee (Petracu D., 2012, p. 18).

Several guidelines for evaluating fraud risk are established under National Auditing Standard 240, "Fraud and Error" (SNA 240). In the process of organizing an audit, the auditor evaluates the risks related to the possibility that fraud or error would result in a major misstatement in the financial statements and notifies management of any such fraud or error that requires further investigation. There are situations and occurrences that raise the risks of fraud and error in addition to the structural flaws in the accounting system, internal controls, and noncompliance with internal control regulations. These scenarios can involve questions about the competency and honesty of the management team, peculiar internal or external events that impact the business's operations, odd transactions, or the gathering of adequate and relevant audit evidence.

The auditor should create a set of audit procedures that offer a reasonable level of certainty that major misstatements resulting from fraud or error in the financial statements as a whole have been discovered, based on the risk assessment. As a result, when conducting an audit, the auditor looks for adequate documentation to support their findings regarding whether there has been fraud or error that could have a material impact on the financial statements or whether the consequences of the fraud have been reflected in the financial statements and the error has been fixed. Because fraud typically entails taking steps to conceal the event, the likelihood of detecting it is higher than the likelihood of verifying it. There is an inevitable chance that significant fraud-related misstatements in the financial statements will not be found because of the inherent constraints of auditing.

This study confirms agency theory which states that a person's behavior generally focuses on self-interest, has limited thinking power about future perceptions and is always riskaverse.

There are several mediums that can be used to detect fraudulent activities and practices in organizations. Some of them include whistleblowing, tips, internal or external audits, and so on. There are several ways to prevent fraud, one of which is internal auditing. Internal audit is the process by which managers evaluate and assess corporate governance, including financial performance and methods of preparing accounting reports.

Internal audit is an independent auditor who evaluates the internal affairs of a company that is responsible for auditing and evaluating the activities carried out by the company. However, The Institute of Internal Auditors contends that internal auditing can be seen as a service to the company in the 2017 Standard for Professional Practice of

Internal Auditing. Internal Audit (IA) is an independent activity that is conducted to add value to the organization's operations, primarily by introducing a methodical and disciplined approach to organizational operations, as Leung, Cooper, and Perera (2011) explain. Internal auditors perform functions such as evaluation, compliance, verification, and ensuring that policies, procedures, rules and other types of business controls are effectively implemented to ensure that the internal control system set up by management is effective and free from errors and fraudulent practices.

Internal auditing is an independent activity that aims to provide assurance and consulting to enhance and optimize organizational processes that create value, according to the Institute of Internal Auditors (IIA) (2004). By taking a methodical and exacting approach to evaluating and enhancing the effectiveness of risk management, monitoring, and control procedures, it aids businesses in achieving their goals.

Internal audit functions are in high demand in some companies, and statistics show that companies have implemented effective fraud policies and significantly reduced financial losses. With the increase in crime, fraudulent practices, and general dishonest attitudes in individuals, which permeate every aspect of our lives, the global community has also experienced a dramatic increase in illegal and fraudulent business behavior (Repousis, Lois, & Veli, 2019), especially in the economic sector, as a result of which many companies have experienced bankruptcy as a result of these events.

The responsibilities and authority of internal auditors are based on the Public Accountant Professional Standards of the Indonesian Institute of Accountants (SPAP, 2001). This means that in addition to providing assurance, recommendations, and other information to management, board members, and other persons with comparable power and duty, auditors are also accountable for offering analysis and assessment services. Internal auditors conduct audits with objectivity in order to carry out this duty.

1. Authority of Internal Auditors According to Guy at.al, Rajoe (2002) defines internal auditors as full-time employees employed by a company to conduct audits within the organization. Therefore, internal audit is very interested in determining whether policies and procedures have been followed. The auditor's authority must be defined in detail. The designated authority should cover all aspects of corporate governance. There should be no restrictions on access to all work units within a business organization. For example, they can develop audit programs, access all data and information, evaluate and prepare reports on audit findings.
2. Responsibilities of Internal Auditors Auditors, both external and internal auditors, have a great responsibility towards the demands of their profession. Arens et al. (2008) state that auditors organize and carry out audits in order to get a fair level of assurance that there are no major misstatements in the financial statements, whether as a result of fraud or error.

The purpose of internal control testing is to protect firm resources, guarantee adherence to rules and guidelines, and stop fraud and non-compliance (I.A. Kustiwi, & Hwihanus 2024). Internal auditors need to be well-versed in order to recognize, investigate, and alert others to potential fraud, notify the appropriate individuals within an organization, and take appropriate measures to either completely prevent or significantly reduce the likelihood of fraud.

To improve the effectiveness and efficiency of internal audit, it is important for organizations to try to assess their ability or capacity to handle cybersecurity and technology threats through the use of data analytics, artificial intelligence, and automated audit tools. Internal audit must present audit reports that are clear, meaningful, and easily understood by all stakeholders and contain constructive recommendations for improvement and development.

When external auditors investigate possible fraud in an organization, they focus more on financial statement fraud only. However, Internal auditors focus on a wide range of fraudulent practices, including misuse of a company's assets (Badara & Saidin, 2013). Fraud can also be defined as duplicative activity, involving criminal deception, to achieve illegal gains.

One way to detect whether there is fraud in accounting is to check whether internal audits have been conducted properly. In many countries, the Capital Market Management Agency says that a good corporate governance system has successfully prevented public companies from disclosing financial reports that are not transparent to investors, shareholders and other interested parties. The aim of this research is to investigate if accounting fraud is impacted by internal auditing. You are curious about the extent to which internal audit has a role in both preventing and identifying accounting fraud.

METHODS

This research uses the meta-analysis method. Meta-analysis is a type of systematic review, which is a systematic documentary research method to synthesize the results of previous research. According to (I.A Kustiwi, & Hwihanus 2024) Literature review is a research method that analyzes, evaluates, and synthesizes literature or previous work from other researchers in a particular field. The goal of the literature review is to increase our understanding of the field, point out areas where research is still lacking, and offer a conceptual framework for future investigations. This study used a meta-analysis research design that incorporated findings from other researchers' earlier studies that were found using a global Google Scholar search. "The role of internal audit in accounting fraud" was the search term used. A population, according to Sugiyono (2015: 135), is a broad category made up of things or subjects that researchers select to examine in order to draw conclusions. Scientific papers on the function of auditors in fraud detection published in international journals served as the foundation for this study.

The variables used in this study are:

1. Independent Variable more specifically, factors that have an impact on the dependent variable. Internal control is the study's independent variable.
2. Dependent Variable specifically, the variable that emerges as a result of the Independent variable. Accounting fraud serves as the study's dependent variable.

RESULT AND DISCUSSION

Fraudulent activities attract more attention during periods of economic crisis. In business organizations, the IAF is considered to be the main tool used to prevent, as well as detect fraud in the company. Most commonly, individuals who commit fraud are members of the administration, or employees. Thus, it is anticipated that the Internal Auditor's proactive role will reduce fraud in this area.

The internal audit division needs to work effectively to keep the company's financial reporting system dependable and high-quality. To avoid this kind of problem, companies should consider certain important measures to ensure that fraudulent activities do not succeed in their organization. For example, companies should establish strong internal control and audit systems, they should only hire internal audit individuals who have a lot of experience in the field, and are trusted by the organization, and also create a positive internal control environment.

Internal auditor training is a mandatory practice used to develop the necessary expertise to prevent and detect fraud. Due to these factors, recovery costs can be high for companies that fall victim to fraud. To secure financial data, there must be an effective and efficient internal audit system, to identify financial irregularities in the system.

Ndukwu Valentina Anthony's research also demonstrated a connection between internal auditors' responsibilities and preventing fraud and errors in Nigerian businesses, specifically First Bank Plc and UBA Plc. The results imply that internal auditors are crucial in reducing errors and fraudulent activity in these businesses.The moderate positive correlation signifies that as the effectiveness of internal auditors in preventing fraud and error increases, instances of such malpractices within the companies decrease. The results highlight the importance of having a strong internal audit function to protect against fraudulent activities and misconduct in Nigerian companies, contributing to improved corporate governance and financial integrity.

According to research conducted by Rafat Salameh et al., internal audit is thought to be effective in preventing fraud, with internal audit units being thought to be more effective than outsourced internal audit functions. This information is presented in an article titled Alternative Internal Audit Structures and Perceptions of Internal Audit Effectiveness in Fraud Prevention: Evidence from the Jordanian Banking Industry.

The results of research conducted by (I.A Kustiwi, & Hwihanus 2024). Stating that business management has significant advantages for companies to mitigate expected or unexpected risks. Companies can identify and minimize risks by using internal audit techniques through accounting information systems. Business management is useful for companies because it provides added value by allowing them to face risks caused by internal and external uncertainties. Guidelines are used to assist and maximize existing risks, including the risk of failure, through integrated techniques. The supervision of internal audit is carried out effectively and efficiently, so that the company's risk management can be managed in a more structured manner and increase the confidence of users, including management.

This is in line with the research of Irwansyah & Wilensi Zega (2023) which states that the role of internal audit has a negative relationship with indications of fraud in BUMN in Bengkulu. This proves that the BUMN of Bengkulu City has carried out internal audit properly. This shows that a well-executed internal audit results in a decrease in the tendency of accounting fraud in BUMN Bengkulu City. Internal audit has an important role in overcoming accounting fraud, because without a well-run internal audit, the occurrence of fraudulent accounting practices will be difficult to detect and difficult to overcome. In order for the risk of fraud to be minimized as low as possible, organizations must optimize their internal audit.

Auditors need to be very knowledgeable in order to spot fraud, even though they cannot be held accountable or held responsible for stopping errors or fraud from occurring. Internal audit actually performs a wide range of duties, including supporting management in developing manageable anti-fraud mechanisms , facilitating assessments of fraud and reputational risk at the organizational and business process levels, expert investigations, assessments of fraud risks and internal controls, aiding in the elimination of fraud, and reporting to the audit committee on matters relating to anti-fraud mechanisms, assessments of fraud risk, reputation, incidents, and suspected fraud. Although internal auditing cannot totally stop fraud, it can modify its operations and protocols to make it more likely that fraud signals will be identified and appropriately interpreted. To thoroughly carry out their duties, internal auditors need to possess both extensive theoretical knowledge and practical experience. Auditors need to be able to spot possible fraud patterns, as well as situations unique to the industry in which the company operates (insurance, retail, telecommunications, etc.). They also need to be able to spot the warning indications of possible fraud patterns.

Disccussion

It's critical to understand the three primary components of fraud opportunity, motivation, and self-justification in order to understand it better. These kinds of opportunities are typically brought about by a lack of internal controls, which fosters an atmosphere in which fraudsters feel secure in their ability to succeed and avoid detection. These kinds of motivations often result from financial constraints brought on by an expensive lifestyle, a pay disparity from responsibilities, pressure to achieve financial targets, the criminal's sense of superiority, or plain greed.

Self-justification is the term used to characterize the mental processes that abusers employ to justify their actions. The con artists Minimizing fraud is the function of internal audit in preventing fraud. By adopting a methodical and disciplined approach to assessing and enhancing the efficacy of risk management, controls, and control processes, internal audit assists businesses in achieving their goals.

As internal auditors create or adjust audit plans based on fraud risk assessments, they must account for uncertainty in their work plans. An accurate and thorough assessment of the fraud risk is essential to a company's capacity to stop and identify fraud. This assessment involves considering various factors such as fraud facilitation through management and employee remuneration, significant organizational changes, and operating in areas with increased fraud risk.

Fraud or what is commonly referred to as farud is analyzed as being more difficult to detect than error. Because fraud is an element of willful misconduct, there are always factors that lead to fraud, such as:

- There is pressure on people to cheat in order to fulfill their needs or other goals.
- Company policies may be poorly enforced or regulations may be too lax, increasing the likelihood of fraud and deception.
- There is a feeling that law enforcement is not doing its best, and it is easy to admit to fraud.

Internal auditors face various challenges in fulfilling their mission, especially in assessing whether deficiencies in internal control functions lead to fraud detection problems. Internal audit must conduct quantitative and qualitative assessments of documented risks, prioritize these risks, and classify them.

CONLUCION

Based on the findings of the literature research, it can be said that internal auditing has a beneficial impact on accounting fraud. There will be less accounting fraud in a corporation the more robust the internal audit program is implemented by the organization.

Internal audit can modify its operating procedures and methodologies to improve the probability of identifying and accurately interpreting signals of fraud, even though it cannot totally prevent it. The majority of frauds are caused by a variety of factors, including inadequate internal controls, improper financial statements preparation, inadequate compensation, employee pressure from superiors at work, subpar management systems, and anomalies in the hiring process.

Theoretical knowledge and exceptional experience are prerequisites for auditors to effectively identify potential fraud indicators. However, auditors are not held accountable or responsible for stopping fraud and mistakes.Internal audit has an important role in overcoming accounting fraud, because without a well-run internal audit, the occurrence of fraudulent accounting practices will be difficult to detect and difficult to overcome. In order for the risk of fraud to be minimized as low as possible, organizations must optimize their internal audit.

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