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The Role of Internal Audit in Fraud Prevention and Detection (Case Study in PT HBE)

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ABSTRACT

Fraud is an act carried out intentionally and consciously by an individual to steal company assets when the perpetrator commits the acts to benefit himself, and the actions are detrimental to the company. This research aims to know about the role of internal auditors in fraud prevention and detection. The research type of this research is qualitative descriptive; Sampling technique of this research through interviews and documentation studies; The data analysis technique of this research uses qualitative data analysis they are collecting data, reducing data, presenting data, and drawing conclusions, research findings of this research are: the discovery of various cases of fraud on the asset misappropriation; PT HBE doesn't make inquiries about management and other procedures as a part of the audit procedures; in the implementation of audit planning, the auditors of PT HBE often do not meet the specified time target it affects the audit program and procedures.

Keywords: fraud, audit planning, audit program, and audit procedures

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INTRODUCTION

Fraud is an act carried out intentionally and consciously by an individual to steal company assets when the perpetrator commits the acts to benefit himself, and the actions are detrimental to the company. Based on a survey from the Association of Certified Fraud Examiners (ACFE) in 2019, Indonesia has found at least 200 cases of fraud per year and the company has lost 800 million rupiah and the company's loss of 5 % from their profitability caused by fraud.

Based on the survey from ACFE there were four media can detect fraud, there was a whistleblower, an internal audit, others, and an external audit (ACFE Indonesia 2020). With the existence of an internal auditor which aims to improve efficiency and effectiveness based on their duties by supervising systems and procedures whether they have been carried out good and implemented according to standards (Fahmi and Syahputra 2019).

Fraud has been done indiscriminately, and it can happen anywhere and anytime, including PT Humbahas Bumi Energy (HBE), where PT HBE is an industrial energy & utility type company engaged in power and new renewable energy (NRE). Like other companies engaged in the power and NRE sector, HBE built a mini-hydro power plant with a capacity of 5 MW, which is then managed, so it can generate electricity, where the electricity produced will be sold to the state electricity company (PLN), which PLN will later distribute to every household.

In PT HBE, internal auditors or company internal controls has managed by internal control (kontrin). The purpose of the company's internal control activities is to provide guidance in identifying the need to modify existing procedures and assessing the suitability of implementing systems and procedures, also their effectiveness internally, and ensure that the inspection and evaluation activities of the internal procedure system are carried out effectively and efficiently. Therefore, the research objectives were to determine the role of internal auditors in preventing fraud at PT HBE and to determine the role of internal auditors in detection fraud at PT HBE.

LITERATURE REVIEW

Internal audit

The definition internal audit according to the Institute of Internal Auditors (IIA), is an independent and objective assurance and consulting activity designed to provide added value and improve the organization's operating activities. Internal audit helps the organization to achieve its objectives through a systematic and orderly approach to evaluate and improve the effectiveness of risk management, internal control, and good governance. The internal audit carried out by the company's internal parties must have independence and objectives, and it makes the system be carried out effectively. Because the independence of the internal auditor is very influential in good audit quality because if the auditor is not independent, the audit report cannot see the economic reality (Rialdy et al. 2021). The implementation stages of the internal audit are audit planning, program audits, audit procedures, audit worksheet, and internal audit reports. In this study, information will focus on audit planning, audit programs, and audit procedures while working papers and audit reports are company internal secrets.

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Fraud

Fraud according to (Andari and Ismatullah 2019) is a willful act by one or more members of a company example management, managers, employees, or third parties, through fraud to obtain unlawful profits. Fraud is a form of financial crime that can harm an organization or entity. Fraud crime is difficult to detect because fraud perpetrators will usually do everything possible to cover up their crimes, including inviting other parties to cooperate in committing fraud.

The role of internal audit in fraud prevention and detection

According to (Abdul Wahab 2018), audit internal has role in fraud prevention, fraud detection and fraud investigation. Although the internal auditor cannot guarantee that fraud will not occur, they must use their knowledge and experience skills carefully, then they can expect to be able to detect indications of fraud and can provide some advice to help managers prevent fraud.

Prevention fraud

Fraud prevention is analogous to a disease that is better to prevent than treat, Because waiting for a new fraud to be handled means that there has been a loss, that has been enjoyed by certain parties, If the fraud is successfully prevented, then everything has not turned to the perpetrator of the fraud (Wicaksono 2019). This research about fraud prevention uses the theory expressed by the Committee of Sponsoring of Organization (COSO) related to internal control has five interrelated control components, namely is control environment; risk assessment; control activities; monitoring; information and communication.

Detection fraud

Detecting fraud includes activities to determine whether or not there is a possibility of fraud occurring. Fraud detection allows companies to identify anomalies that occur the potential to cause fraud. In this research, fraud detection has carried out by analyzing the four main elements in internal control (Mulyadi 2016). The four main elements are, organization structure; authority system and recording procedure; good practice; and employees whose quality is by their responsibilities.

METHOD

The research type of this research is qualitative descriptive. Descriptive research has intended to analyze, describe and understand the data that has collected, then after being studied will conclude the research. The located of this research were in HAR Syihab Street No. 1-A, West Medan District, Medan City, North Sumatera. Sampling technique of this research through interviews and documentation studies. The data analysis technique of this research uses qualitative data analysis they are collecting data, reducing data, presenting data, and drawing conclusions.

RESULT AND DISCUSSION

Internal audit

The internal auditor at PT HBE is called with internal control (kontrin), Who must be responsible for conducting internal inspections and assessments of the procedure system and whether it has been carried out effectively and efficiently. Internal audit in PT HBE

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has a lot of functions, that was, ensure that the company's internal control system is adequate and fit with standards; as a partner in improving the company's management activities, providing added value through recommendations on the results of audits; able to detect and correct minor control problems before they adequately assess material weaknesses; and, as a consultant to improve the implementation of risk management and the principles of good corporate governance

The position of the internal audit at PT HBE is directly responsible under a director through a senior manager, this is because senior managers are derivatives of the director where senior managers convey orders directly from the director to all divisions of the company. However, although internal control communicates audit results with senior managers, this doesn't decrease the independence of the internal auditors to convey audit results to the director because the director is also present in the discussion on audit results.

Audit Planning

Audit planning in PT HBE has been made well and contains clear information by the audit planning standards because audit planning in PT HBE included things that should be in the audit planning such as audit objectives, audit scope, audit process and time audit allocation. In time allocation has contain with schedule estimate for auditor to finish the audit results and share the division of activities of the auditor who will audit must be clearly explained.

Based on description in paragraph above, audit planning in PT HBE has been arranged (Novianty 2020) that oversight involving the system in the audit team participating in achieving the audit objectives will determine that the audit objectives have been achieved. In addition, the extent of supervision in an engagement depends on the qualifications of the auditor's work performing. Although the company strives for audit planning to run according to the schedule, but in practice, internal audit sometimes doesn't follow the time specified in the audit plan, if this happens it will affect the audit program and procedures will make the audit delay.

Audit program

Audit program and audit procedures in PT HBE are in the same document or it can be said that the audit program same as audit procedure. Although audit program in PT HBE has contain information that should be include in audit program such as analytical procedures and data examination for auditor, this is same with (Arens, Elder, and Beasley 2014) that program audit has been arranged in tree aspect tests it was of transactions, analytical procedures and tests of details of balances.

Audit procedures

Based (Novianty 2020) research, Audit procedures are methods or techniques used by auditors to collect and evaluate sufficient and competent evidence. Although in the audit procedure PT HBE has briefly explained the purpose and technical audit, However, because PT HBE audit procedure also includes an audit program, the report is considered too general compared to the audit program and audit procedure that should be, the audit procedure in PT HBE is considered unable to specifically explain the methods and techniques used by the auditor to collect and evaluate evidence by the Boynton theory.

Planning, program and audit procedures in preventing fraud

Audit Planning, programs, and procedures are very influential for internal auditors to audits because compiling these three things will make it easier for auditors to evaluate and

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analyze audit findings. Not only as a tool for auditors to facilitate the audit process, but audit planning, programs, and procedures can be used as a fraud prevention tool within the company. This thing can be proven if the company makes efforts to improve the performance system so that fraud findings can easy minimized. One way is if the company can implement well internal control, according to the results of the research that the author got from interviews and documentation studies with the company. PT HBE implements fraud prevention where the company prevents fraud by applying COSO related to the five components of internal control, there was:

a. control environment

Based on interviews that the author has conducted with the management of PT HBE before, the company has regulations that are made as part of the company's control environment. This regulation is ratified directly by the head of the manpower office, in which some articles contain company regulations for employees, both for work and sanctions are given to employees if they violate the rules. This rule was created as a company tool to control employees and the work activities they do. This is based from (Fajar and Rusmana 2018) that said the control environment is also based on all the components of internal control that make up the discipline and structure.

b. risk assessment

Risk assessment certainly helps companies to anticipate the risk of fraud According to International Standards on Auditing (ISA) No 315.6 has three procedures it was inquiries to management and others, observation and inspection, analytical procedure. For PT HBE itself, although it is written in the audit planning that the internal auditor must conduct inquiries to management and others, the data examined is more accurate. However, in practice, PT HBE only checks data (financial reports, inventories, etc.) without conducting inquiries.

c. control activities

Every company certainly has operational procedures that aim to help companies to reduce risk in planning goals. In the case of fraud, assets are company assets that are most vulnerable to being stolen by fraud perpetrators. And every company must be able to develop asset maintenance procedures, then the assets can be controlled and fraud can be prevented. Based on information obtained from interviews and analyzing data, it is found that the company establishes operational procedures in each of its activities example, there is an SOP for asset maintenance, SOP for internal audit, SOP for warehouse, SOP for training and etc. this statement same based on theory (Pratiwi and Priono 2021) The management of information and procedures will help reduce risks in realizing the planning objective

d. Monitoring

Based on information that author got from interviews with internal auditor, monitoring system in PT HBE is done by manager to staff with focus group discussion method, where managers and staff will have discussions to discuss the progress of the implementation of work, after manager and staff discussions about evaluation on work progress, When the work progress is completed, the field staff will make a report of the work inspection, and the manager will make the handover of the implementation work. This information is in accordance with the COSO compiled by (Schandl and Foster

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2019) That monitoring must be watch by the personnel who are supposed to do that work, to see if the internal control has been implemented as expected.

e. **Information and communication**

To achieve the company goals, one way is to implement good internal communication, because the information can be disseminated throughout the organization. After do interview with personnel manager PT HBE and conduct analysis related to answers, information was obtained that in disseminating information related to the state of the company PT HBE conveyed it in meetings, both general meetings (for all employee), and meeting for managers. Meeting participants are required to bring notes to write down the information obtained during the meetings. Employees exchange information or discuss work achievements and internal problems through existing groups on a smartphone application so that the work environment is more communicative

Planning, program and audit procedures in detection fraud

Related from theory in fraud prevention. Audit planning, program and procedures has significant influence for auditor to detect fraud. Especially audit procedures, because audit procedures describe the methods and techniques used by the auditor to collect audit evidence of internal control effects on fraud detection, because if internal control is not implemented optimally then fraud will be easy to occur. Based on interviews and documentation study that author done in PT HBE, there are several important aspects that are applied by the company to detect fraud, this application of internal control elements (Mulyadi 2016), The four main elements are:

Organizational structure

Based on the organization structure in PT HBE, the director holds the highest position in the organization. In addition, the position and responsibilities of the internal auditor are also under the director. This is following the theory by (Mulyadi 2016) that organization structure is a framework for the division of functional responsibilities to organizational units formed to carry out the company's main activities. This is show the independent internal auditor in PT HBE, where internal auditor give the report of internal audit directly to director.

Authority system and recording procedure

Related to description in environment control theory above, the company has regulations that have been made to all employees are obliged to comply with these regulations. Where the regulation is the company's control over the activities that take place both as a control for employee performance and as a control of work activities. Based on the results of interviews and data analysis that the author conducted with the personnel manager in PT HBE, information was obtained that the authority system was regulated by the company through the job description. Where each employee will be given their respective job description and responsibility for their work. Meanwhile, for the recording procedure at PT HBE, the company always has a target in carrying out projects for each division. Each division will fill out a form related to the progress of the stages of its work implementation.

Good practice

According to (Mulyadi 2016) of functional responsibility, the authority system and recording procedures that are implemented will not be implemented if the company can't find a way to create good corporate governance. Good internal control will not be created

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without good work practices. To see the good of a company's work activities can be measured by the company's ability to maintain its assets. PT HBE has made several procedures to maintain its assets, one of them was standard operating procedures for warehouse.

Employees whose quality is by their responsibilities

According to (Mulyadi 2016), the employee quality element is the most important aspect of all existing control elements, because if company got employee who competent, honest and expert in their work will be able to carry out work effectively and efficiently even though the elements of internal control not support it. Many ways can be done to get competent and trustworthy employees, there was by selecting prospective employees and holding training for employee development, both of this thing are arrange in PT HBE rule.

CONCLUSION AND SUGGESTIONS

Conclusions

Audit planning, program and procedure prepared by the company are considered adequate. However, the company's audit programs and procedures are considered too general and cannot specifically explain the methods and techniques used by the auditor to evaluate and collect audit evidence. Internal auditors are considered to have played a sufficient role in preventing fraud at PT HBE. Where's element of internal control has been carried out in accordance with the existing theory. However, the company experienced a few problems where internal auditors sometimes did not carry out the procedures for inquiries of management and others due to time constraints. Internal auditors are considered to have played a sufficient role in detecting fraud at PT HBE. Where the elements of internal control have been carried out in accordance with the existing theory.

Suggestions

Based on the conclusions above, the author wants to give some advice to the company and hopes that the company can't fix some of the obstacles that the author found. The suggestions that author want to give are:

1. If many divisions have difficulty following the schedule in the audit planning, probably the internal auditor can increase the estimated audit time so that the auditor does not have to wait long for the director and also has a lot of time to collect documents from other divisions
2. It is better if the internal auditor team can develop audit programs and audit procedures that are good and specific according to the circumstances of the company so that the auditors can be more clear and focused in conducting audits, and also the quality of the resulting audits will be considered to be better and more detailed.
3. It is better if the internal auditor in carrying out audit procedures continues to use the inquiries method because the inquiries method is important to avoid fraud that might occur.

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