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Journal Paper

Paper Title : The Effect of Internal Auditor on Four Main Pillars in Fighting Fraud

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Abstract : This study aims to determine the effect of internal auditors on the four main pillars in the fight against fraud. Respondents in this study are professionals (internal government accountants) who are appropriate representatives to improve the quality of the generalization of research results. This study uses quantitative descriptive analysis and linear regression test results with a sample of 30 respondents who participated in the survey. The results showed that internal auditors had a significant positive effect on fraud prevention, fraud detection, fraud investigation, and follow-up legal action. The results of this study are expected to enrich the literature for the development of science and also as a consideration for the Finance and Development Supervisory Agency to eradicate corruption through preventive and repressive measures. **Keywords -** Internal Auditors, Legal Action Follow-up, Prevention, Detection, Investigation

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THE EFFECT OF INTERNAL AUDITOR ON FOUR MAIN PILLARS IN FIGHTING FRAUD

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Abstract - This study aims to determine the effect of internal auditors on the four main pillars in the fight against fraud. Respondents in this study are professionals (internal government accountants) who are appropriate representatives to improve the quality of the generalization of research results. This study uses quantitative descriptive analysis and linear regression test results with a sample of 30 respondents who participated in the survey. The results showed that internal auditors had a significant positive effect on fraud prevention, fraud detection, fraud investigation, and follow-up legal action. The results of this study are expected to enrich the literature for the development of science and also as a consideration for the Finance and Development Supervisory Agency to eradicate corruption through preventive and repressive measures.

Keywords - Internal Auditors, Legal Action Follow-up, Prevention, Detection, Investigation

I. INTRODUCTION

The Association of Certified Fraud Examiners (ACFE) through the report to the Nation on Occupational Fraud and Abuse 2016 has analyzed 2410 fraud and abuse cases identified during January 2014 to October 2015 in 114 different countries. The total loss caused by fraud is \$ 6.3 billion with an average loss of \$ 2.7 million per case. ACFE estimates that each year the company loses about 5% of its revenue due to fraud. In a study conducted by Colbert (1993), Peacock and Pelfrey (1989), Ward and Robertson, (1980) in Ricard G. Brody et al. (1998) reveals that the fraud symptoms become more likely to occur when weak internal control of an organization is caused by weak internal audit function.

In general, the BPKP or BPKP is an internal audit function within the Indonesian government. BPKP is an Indonesian non-ministerial government agency that carries out governmental duties in the field of financial and development supervision in the form of Audit, Consultation, Assistance, Evaluation, Eradication of KKN (corruption, collusion, and nepotism) and Education and Supervision Training by applicable regulations (BPKP, 2008). Knowing the magnitude of the dangers and the negative impacts caused by fraud many parties find out how to cope with fraud. In response to these needs, Albrecht et al. (2013) explains that there are four main pillars in the fight against fraud. The four main pillars are the prevention, detection, investigation, and follow-up legal action.

Of the four main pillars in the fight against fraud prevention is the first action that needs to be done. Fraud can occur because of the opportunity. Therefore, the organization needs to minimize the risk of fraud. Minimize the risk of fraud can be done with a strong internal control system. The main pillar in fighting the 2nd fraud is the detection of fraud. Fraud detection

involves an effort to identify indicators requiring auditor follow-up to investigate so that there will be sufficient initial indications of fraud. The main pillar in fighting the next fraud is an investigation. The term of investigation appears in the Act (Act) no. 15 of 2004 on State Financial Management and Accountability Inspection which explains that "investigative audit is included in the inspection with a specific purpose, that is examination conducted with a specific purpose, outside the financial and performance checks."

Follow-up legal action is an action was taken or follow-up on fraud events that have occurred. Whether or not follow-up and enforcement depend on the outcome of the investigation. If the investigation finds irregularities containing criminal and civil elements and requires follow-up, then the investigation report should be reported to the authorities for further processing (BPKP, 2009).

II. LITERATURE REVIEW

A. Internal Auditor and Fraud Prevention

Prevention of fraud is an activity undertaken by management regarding the determination of policies, systems, and procedures that help ensure that necessary actions have been done the board of commissioners, management, and other personnel company to be able to provide reasonable confidence in achieving goals.

The purpose of fraud prevention is to minimize the chances or risks of fraud may occur. So that the main role of the internal auditor by its function in the prevention of defects is trying to eliminate or eliminate the causes of the incidence of such fraud (Kayo, 2004). Also, internal auditors can assist fraud prevention by testing and evaluating the effectiveness of internal controls. In addition, internal auditors can help management create effective fraud prevention

measures by understanding the strengths and weaknesses of the organization (The IIA, Internal Auditing and Fraud 2009).

H₁: Internal auditors positively influence the prevention of fraud.

B. Internal Auditor and Fraud Detection

Fraud detection aims to determine the presence or absence of fraud. The guidance of cheating is usually indicated by the appearance of symptoms such as lifestyle changes or personal behavior, suspicious documentation, customer complaints or suspicion of co-workers (Kayo, 2004). Fraud detection by internal auditors is the identification of fraud indicators that lead to the need for testing. The indicators made refers to the controls set by the management, the tests conducted by the auditor, and other sources both within and outside the organization (BPKP, 2008). In International Professional Practice Framework - Practice Guide (2009) explained that internal auditors play a role in preventing and detecting fraud within the organization. Internal auditors can do proactive auditing to search for misuse of assets and information. This includes the use of audit techniques with computers, including data mining, to detect certain types of cheats. Internal auditors may also use analytical procedures or other procedures to uncover the odds and carry out a detailed analysis of each account and high-risk transactions to identify potential fraud.

H₂: Internal auditors positively influence the fraud detection.

C. Internal Auditor and Fraud Investigation

In Pusdiklat was BPKP (2008) states that investigative audits can start from the results of regular audits, such as operational audits, compliance audits, performance audits or other types of audits whose findings need to be further developed because they allegedly contain elements of the law and harm the state finances. In the Practice Guide issued by The Institute of Internal Auditors (Internal Auditing and Fraud (2009) the role of internal auditors in fraud risk management and comprehensive investigation of allegations of fraud, namely the analysis of the main causes of fraud and improvement recommendations controlling, supervising hotlines aimed at reporters or whistleblowers, and holding an ethics training session. If given such tasks and responsibilities, internal audit is required to have the skills and abilities, including knowledge of fraud schemes, investigative techniques, and legal knowledge (The IIA, 2009).

H₃: Internal auditors positively influence the fraud investigation.

D. Internal Auditor and Follow-up Legal Action

Follow-up legal action is the action taken or follows up on the fraud events that have occurred (Albercht et al.,

2004). In general, no fraud cases can be in the form of, do not follow-up, corrective actions such as making changes or improvements to the system, and for cases of fraud that contains legal elements then the follow-up is in accordance with the provisions of the applicable legislation. Follow-up legal action on fraud cases is not the responsibility of internal auditors, but internal auditors may provide information, advice, and recommendations to management or law enforcement agencies regarding fraud cases (The IIA, 2009).

BPKP auditors who have expertise in forensic accounting (accounting and auditing) need information and opinions by the investigator or public prosecutor to prove the indictment in the hearing related to the fraud case. In accordance with the function of expert information that is to make the light of a case of fraud to increase the judge's confidence, the information given by the BPKP auditor plays an important role (Kayo, 2013).

III. RESEARCH METHODOLOGY

Measurements of internal auditor variables were measured by 11 statements using the instruments developed by Moller et al. (2009: 4) The fraud prevention variables were measured using 11 statements with those developed by Albercht et al. (2004). As for the measurement of fraud detection variables measured using 12 items from albercht et al. (2004) and fraud investigation variables were measured using two statement items from BPKP (2008). The follow-up legal action variables were measured by 10 items of statement developed by Albercht et al. (2004). The sample of this research is 30 auditor in BPKP of West Java Representative by using purposive sampling result technique.

IV. RESULTS OF HYPOTHESIS TESTING

A. Descriptive Statistics Analysis

The research variables in this study are described using the mean statistic (Indrianto and Bambang, 2002). The average descriptive statistics are used to describe the propagation trend of data. In other words the average descriptive statistics are used to describe the tendency of the respondent's answer to the question posed.

Variabel	N	Theoretical				Actual				Std. Deviation
		Min	Max	Mean	Theoretical Range	Min	Max	Mean	Actual Range	
Internal Auditor	30	11	55	33	11-55	42	55	47,3667	42-55	4.038464
Fraud Prevention	30	11	55	33	11-55	37	54	44,9333	37-54	4.600849
Fraud Detection	30	12	60	36	12-60	41	59	49,0666	41-59	4.975341
Fraud Investigation	30	21	105	63	21-105	74	102	89	74-102	8.212690
Follow-up Legal Action	30	10	50	30	10-50	30	50	39,6333	30-50	5.555261
Valid N (listwise)	30									

Table.1 Description of research variables

The actual average score of 47.3667 and the standard deviation 4,038 for the measurement of internal

auditors shows that respondents' assessment of the measurement of internal auditors high above the theoretical average score is 33. Fraud prevention measure with average score 44,9333 and standard deviation 4,600 indicates that the respondents' assessment of the basic activities of fraud prevention is high, because above the theoretical mean score is 33. The statistical result of the mean score of 49,0666 and the standard deviation 4,975 for the measurement of fraud detection indicates that the respondent's assessment of fraud detection is high, because above the theoretical mean score, ie 36. Measurement of fraud investigation shows average score 89 and standard deviation of 8,212; this illustrates that respondent's assessment on with indicator of stages in audit investigation is high, because above the mean score of theoretical is 63. As for the measurement of follow-up legal action obtained score average 39,6333 with standard deviation 5,555, this illustrates that the respondent's assessment above with basic understanding indicator on the follow-up legal action of fraud case is high because above the theoretical mean score is 30.

B. Hypothesis

	Hipotesis	Prediction	Result	Significant	Explanation
H1	The Internal Auditor positively affects fraud prevention	(+)	(+)	0,001	Accepted
H2	The Internal Auditor positively influences the detection of fraud	(+)	(+)	0,000	Accepted
H3	The Internal Auditor positively influences the fraud investigation	(+)	(+)	0,001	Accepted
H4	Internal Auditor positively influences the Follow-up Legal Action	(+)	(+)	0,030	Accepted

Table 2. Hypothesis Testing Result

Based on the results of data processing as presented in table 2 that all testing hypotheses 1 to 4 have probability values smaller than 0.05, this indicates that all test results are significant.

V. DISCUSSION

A. FraudEffect of Internal Auditor on Fraud Prevention

Hypothesis 1 states that the internal auditor positively influences the prevention of fraud. Empirical evidence supports that internal auditors have a significant positive effect on fraud prevention. This means that with the internal auditor then, the less chance or opportunity to do fraud.

The description data indicates the prevention of fraud above average, indicating the ability of internal auditors to conduct fraud prevention through the creation of a culture of high honesty and ethics as well as identify fraud risks, implement anti-fraud programs, widespread supervision and document and report fraud

risk assessments. The results of this study is supported by research conducted Taufeni (2010), Rizkyana, et al. (2012) and Tampubolon (2015) which revealed that internal auditors have a significant positive effect on fraud prevention. The role of an improved internal audit will improve fraud prevention performance that will minimize the risk of fraud.

B. FraudEffect of Internal Auditor on Fraud Detection

Testing of hypothesis 2 that is internal auditor positively influence to fraud detection. The results support hypothesis 2 means that with the internal auditor then, fraud will be more easily identified, or with the internal auditor then, fraud can be detected more quickly.

The respondents' descriptive data on the statement items on the fraud detection variables are above the theoretical averages. This suggests that the auditor has encouraged any employee or employee to report any gaffe or fraud by providing hotlines or whistleblowing systems. In addition, the auditor has performed an analysis of the symptoms of fraud.

The results of this study is consistent with research conducted by Tampubolon (2015) which revealed that internal auditors have a significant positive effect on the detection of fraud. The existence of internal auditors will improve the performance of fraud detection so that if there is a fraud action that occurs can be known and determined how to cope before causing too many losses.

C. Effect of Internal Auditor on Fraud Investigation

Hypothesis 3 in this research is internal auditor has a significant positive effect to a fraud investigation. Empirical evidence supports hypothesis4 which shows that internal auditors have a significant positive effect on fraud investigation. This means that with the internal auditor then, the greater the possibility of fraud cases can be revealed truth.

The statistical description of the respondents' responses to the item statements on the fraud Investigation variable is above the theoretical average. Internal auditors conduct initial information review, planning, implementation, reporting and submission of investigative reports in conducting fraud investigations. Although the scores for fraud investigations are above average, the influence of internal auditors on fraud investigation in fighting fraud is less than the effect of internal audit on fraud prevention.

The results of this study is supported by research conducted Fauzan et al. (2015) states that, investigative audit has a significant effect on the disclosure of fraud, the direction of the relationship between the investigative audit and the fraud disclosure is positive (direction), meaning that more investigative audit is

used, the disclosure of fraud will be revealed as done. This research support is in line with the theory of Practice Guide issued by The Institute of Internal Auditors (Internal Auditing and Fraud (2009) the role of internal auditors in fraud risk management and comprehensive investigation of allegations of fraud, the main causes of fraud and recommendations for control improvements.

D. Effect of Internal Auditor on Follow-up Legal Action

Testing hypothesis 4 states internal auditors have a significant positive effect on the follow-up legal action. The test results support hypothesis 2 which shows the internal auditor influencing the follow-up legal. These findings indicate that with the presence of internal auditors, the more the case of fraud in court cases.

The score of respondents' responses to items of statements on follow-up legal action variables is above the theoretical average. These results indicate that the majority of auditors have identified important aspects of the judicial system, understanding civil and criminal law and being able to act or act as expert witnesses. Agreed with the statement in the research questionnaire. This indicates that the respondent who is an internal auditor has a legal knowledge and can provide information or act as an expert witness in the trial. Although the score for follow-up legal action is above average, the effect of internal auditors on legal action follow-up in fighting fraud is less than the effect of internal audit on fraud prevention.

The results of this study are supported by research conducted by Benny Karya Limantara (2016) regarding the follow-up of fraud case law involving BPKP. The handling of corruption which involves the role of the Financial and Development Supervisory Board (BPKP) becomes important because in the State of Indonesia adopt a negative evidentiary system. So in making the decision, the judge should base on the minimum evidence and judge's convictions. BPKP experts can provide information in the trial so that it is considered as evidence of expert information. The results of this study are in line with the statement of The IIA (2009) that the Follow-up legal action of fraud cases is not the responsibility of internal auditors, but internal auditors may provide information, advice, and recommendations to management or law enforcement agencies on fraud cases.

CONCLUSION

Based on the result of the research, it can be concluded that internal auditors have a significant positive effect on fraud prevention, fraud detection, fraud investigation, and follow-up legal action. Of the 4 main pillars in the fight against fraud, internal auditors have the greatest influence on fraud detection followed by fraud prevention while the internal auditor's influence

is not maximized in order to combat fraud through fraud investigation and follow-up legal action, in other words become homework) for government agencies (BPKP) to further enhance its role in the field of investigation and follow-up legal action.

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