

The Influence of Internal Audit, Internal Control And Quality of Accounting Information System in Fraud Prevention Efforts

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ABSTRACT

This study investigates the impact of internal audits, internal controls, and accounting information systems (AIS) on employee fraud prevention within PT. Amartha Mikro Fintek in Banyuwangi, a microfinance institution focusing on providing loans to rural entrepreneurs. Fraud, often perpetrated by employees, poses a significant challenge to organizational integrity and financial stability. The research employs a quantitative approach with a population of 54 employees, utilizing primary data collected through structured questionnaires and secondary data from internal reports. Statistical tools such as multiple linear regression were used to analyze the data. The findings reveal that internal audits significantly influence the prevention of employee fraud, highlighting the importance of systematic evaluations in identifying irregularities. However, internal controls and AIS were found to have no direct individual impact on fraud prevention. When assessed simultaneously, internal audits, internal controls, and AIS collectively demonstrate a significant effect in reducing fraudulent activities, emphasizing the necessity of their integration for effective fraud prevention. The study concludes that a combined approach involving rigorous internal audits, enhanced internal controls, and reliable AIS can create a robust framework to mitigate fraud risks and improve organizational governance. This research contributes to the understanding of fraud prevention mechanisms within financial institutions and offers practical insights for enhancing anti-fraud strategies. It underscores the importance of aligning operational processes with ethical standards and continuous improvement to maintain financial integrity and trust.

Keywords: *Internal Audits, Internal Controls, Accounting Information Systems, Fraud Prevention, Organizational Governance*

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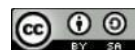
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1. INTRODUCTION

Fraud or acts of financial deception, represents a significant issue within organizations, especially those operating in the financial sector. Such actions, typically perpetrated to secure personal or group benefits, can lead to substantial financial discrepancies within a company. Fraud often stems from individuals within the organization who exploit their positions to manipulate systems or falsify data. These deceitful practices not only harm the financial integrity of the company but also undermine trust among stakeholders, thus necessitating robust preventive measures.

In Banyuwangi Regency, where numerous companies operate in the financial services sector, fraud remains a pressing challenge. A common occurrence is employee involvement in fraudulent activities, from junior staff to managerial levels. Such cases reveal vulnerabilities within the internal systems of these organizations. The persistence of these

incidents underscores the urgent need for effective strategies to mitigate and prevent fraud. Companies must employ multi-faceted approaches that include regulatory measures, supervisory mechanisms, and systematic evaluations of operational practices.

Key tools for fraud prevention include internal audits, internal controls, and accounting information systems (AIS). According to the Institute of Internal Auditors (IIA), internal auditing is an independent, objective assurance and consulting activity designed to improve an organization's operations. It employs systematic methodologies to evaluate the effectiveness of governance, risk management, and control processes. Internal control systems, as defined by Mulyadi, involve structured organizational methods aimed at safeguarding assets, verifying data accuracy, enhancing operational efficiency, and ensuring adherence to management policies.

AIS plays a pivotal role by integrating and processing financial data to generate accurate and actionable information for managerial decision-making. As highlighted by prior research, weaknesses in these systems often create opportunities for fraudulent behavior. For instance, insufficient internal audits or overlapping roles among staff can lead to unchecked financial irregularities. Studies, such as those by Fitrianti Ningsih and Saifudin, confirm that improving internal audit quality and addressing gaps in internal control systems are critical to reducing fraud risks.

The significant relationship between internal audits, internal controls, and AIS in fraud prevention is well-documented in existing literature. For instance, Suginam's research emphasizes that these elements are instrumental in identifying legal violations and preventing both internal and external fraud. Strengthening these mechanisms can help organizations detect irregularities early, minimize risks, and maintain operational integrity. This evidence underscores the necessity for organizations to prioritize continuous improvement of these systems.

The current study focuses on PT. Amarta Mikro Fintek, a financial service company in Banyuwangi that provides microfinancing to rural entrepreneurs, particularly women running household businesses. Despite implementing internal audits, internal controls, and AIS, the company continues to encounter employee fraud. Instances include discrepancies in reported collections, manipulation of financial reports, and in severe cases, employees absconding with funds collected from clients. These challenges highlight the critical need for comprehensive and effective fraud prevention measures.

PT. Amarta Mikro Fintek has implemented several initiatives to address fraud risks. These include annual internal audits at each branch, ongoing evaluations of internal control systems, and enhancements to AIS to improve transparency and decision-making processes. However, gaps remain, particularly in cash handling procedures and financial reporting, which are often exploited by employees. These systemic weaknesses necessitate a thorough analysis to identify areas for improvement.

The primary objective of this research is to analyze the impact of internal audits, internal controls, and AIS on fraud prevention at PT. Amarta Mikro Fintek. By employing a qualitative case study approach, the study gathers data through interviews with key stakeholders and document analysis. The methodology allows for an in-depth exploration of how these mechanisms function within the company and their effectiveness in mitigating fraud risks.

Preliminary findings from this research reveal that while internal audits are conducted annually, they do not fully address the risks associated with cash transactions handled by employees. For example, funds collected from clients are often held by individual employees before being remitted to branch managers, creating opportunities for misappropriation. Furthermore, weaknesses in financial reporting systems allow for data manipulation, compromising the reliability of the company's financial records. Addressing these vulnerabilities is essential to enhancing the overall fraud prevention framework.

The study contributes to the broader understanding of fraud prevention by demonstrating the interconnected roles of internal audits, internal controls, and AIS. It emphasizes that these systems must function cohesively to effectively deter fraudulent behavior. For PT. Amarta Mikro Fintek, the findings provide actionable insights to strengthen its anti-fraud strategies. By addressing identified weaknesses and optimizing existing mechanisms, the company can create a more secure operational environment and safeguard its financial integrity.

In conclusion, this research highlights the critical importance of robust internal audits, comprehensive internal controls, and reliable AIS in preventing fraud. For financial organizations like PT. Amarta Mikro Fintek, these mechanisms are not only tools for compliance but essential components of risk management and organizational sustainability. By continuously improving these systems, companies can mitigate fraud risks, enhance stakeholder confidence, and achieve their operational objectives effectively.

2. METHODS

This research employs a quantitative approach to analyze the influence of internal audits, internal controls, and accounting information systems (AIS) on fraud prevention at PT. Amarta Mikro Fintek, a microfinance institution in Banyuwangi. The study was conducted across six key branches located in Kalipuro, Kabat, Songgon, Genteng, Cluring, and Bangorejo, areas chosen due to recurring incidents of fraud involving cash handling and financial reporting processes. Utilizing primary and secondary data, this research aims to provide a comprehensive evaluation of mechanisms employed to prevent fraud. The entire employee population of 54 individuals from PT. Amarta Mikro Fintek's Banyuwangi branches was selected as the research sample, employing a census sampling method to ensure full representation and data accuracy. Primary data collection was achieved through structured questionnaires distributed to employees, capturing their perceptions and experiences regarding internal audits, internal controls, and AIS, as well as their effectiveness in fraud prevention. A five-point Likert scale, ranging from "Strongly Disagree" to "Strongly Agree," was used to record responses. Secondary data were obtained from internal company records, such as audit reports, financial statements, operational policies, and AIS documentation, which provided contextual insights into the existing systems and their effectiveness.

The data analysis began with descriptive statistics, summarizing the characteristics of collected data, including frequencies, means, and standard deviations to describe respondent demographics and key variables. To ensure the validity and reliability of the questionnaire, Pearson's correlation was used to confirm the strength of each item's relationship to the overall construct, deeming items valid when the correlation coefficient exceeded the critical value at a 5% significance level. Reliability was assessed using Cronbach's Alpha, where a value of 0.6 or higher indicated acceptable consistency. Classical assumption tests were conducted to validate the dataset before regression analysis. These included the Kolmogorov-Smirnov test for normality to ensure residuals followed a normal distribution, the Variance Inflation Factor (VIF) for multicollinearity to confirm that independent variables were not highly correlated, and the Glejser test for heteroscedasticity to detect inconsistencies in residual variances. The primary analytical tool was multiple linear regression, which assessed the simultaneous and individual effects of the independent variables—internal audits, internal controls, and AIS—on fraud prevention. The regression model was expressed as $Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e$, where Y represents fraud prevention, X1 is internal audits, X2 is internal controls, X3 is AIS, and e is the error term. The coefficient of determination (R^2) was calculated to measure the proportion of variance in fraud prevention explained by the independent variables, with higher values indicating stronger explanatory power. Hypotheses were tested using t-tests for individual variable

significance and F-tests for joint variable significance, both evaluated at a 5% significance level.

Operational definitions clarified the variables studied, with fraud prevention (Y) defined as the organization's effectiveness in deterring fraudulent behavior. Internal audits (X1) referred to systematic evaluations ensuring compliance with policies and detecting irregularities. Internal controls (X2) encompassed procedures designed to safeguard assets and ensure operational efficiency, while AIS (X3) related to systems integrating accounting and financial data for accurate decision-making. Ethical considerations included obtaining approval from PT. Amarnya Mikro Fintek's management and ensuring participant confidentiality, with informed consent secured before questionnaire distribution. This methodological framework enables an in-depth understanding of the roles played by internal audits, internal controls, and AIS in fraud prevention, offering actionable insights to enhance organizational integrity and mitigate fraud risks at PT. Amarnya Mikro Fintek.

3. RESULTS AND DISCUSSION

The Effect of Internal Audit on Employee Fraud

Internal audits serve as a crucial mechanism in identifying and preventing employee fraud within an organization. By systematically evaluating operational processes and compliance with company policies, internal audits act as a first line of defense against fraudulent behavior. At PT. Amarnya Mikro Fintek, the implementation of annual internal audits has provided significant insights into the operational vulnerabilities that employees may exploit. However, the study found that despite these efforts, certain fraudulent practices, such as misrepresentation of financial transactions, continue to occur due to limited audit scope and follow-up measures. Strengthening internal audits through increased frequency, detailed scrutiny of financial records, and robust follow-up actions can further enhance their effectiveness. Empirical evidence from the research indicates a positive correlation between thorough internal audits and a reduction in fraudulent incidents. This highlights the need for management to prioritize audits as an integral component of corporate governance. By doing so, organizations can ensure a culture of accountability, transparency, and adherence to ethical standards among employees, ultimately mitigating the risk of fraud and enhancing operational integrity.

The Effect of Internal Control on Employee Fraud

Internal controls are designed to establish a framework that ensures operational efficiency, resource safeguarding, and compliance with established policies. At PT. Amarnya Mikro Fintek, the study revealed that weaknesses in internal controls, such as overlapping responsibilities and poorly defined procedures, have contributed to opportunities for employee fraud. Instances of cash misappropriation during collection processes were identified as a key area where internal controls require reinforcement. Effective internal controls not only establish preventive measures but also serve as a deterrent against fraudulent behavior by creating an environment where unethical actions are less likely to succeed. This research underscores the importance of continuous monitoring and periodic updates to control mechanisms to address emerging risks and operational changes. Enhancing internal control systems involves incorporating advanced tools for monitoring, clear documentation of processes, and regular training for employees to adhere to best practices. By addressing these gaps, PT. Amarnya Mikro Fintek can reduce instances of financial misconduct and improve the overall reliability of its operational framework.

The Effect of Accounting Information Systems on Employee Fraud

Accounting Information Systems (AIS) play a vital role in ensuring the accuracy and reliability of financial data, which is crucial for organizational decision-making and fraud prevention. The research at PT. Amarnya Mikro Fintek highlights that weaknesses in the AIS—such as insufficient integration of data and lack of regular updates—have created opportunities for data manipulation and financial discrepancies. For example, errors in

transaction records and delayed reporting were found to exacerbate the risk of fraudulent activities. Strengthening AIS involves implementing advanced technology to ensure seamless integration of financial data, regular system maintenance, and robust data validation processes. Training employees to use these systems effectively is equally essential to minimize errors and misuse. The findings emphasize that a reliable AIS not only supports transparency and accuracy in financial reporting but also acts as a significant deterrent to fraudulent practices. As AIS improves, the organization's ability to detect anomalies and enforce accountability among employees is enhanced, fostering a more secure financial environment.

The Combined Effect of Internal Audit, Internal Control, and AIS on Employee Fraud

The research demonstrates that the integration of internal audit, internal control, and AIS creates a comprehensive approach to fraud prevention. Each mechanism plays a distinct yet interrelated role: internal audits identify discrepancies and provide corrective actions, internal controls establish preventive measures, and AIS ensures data accuracy and reliability. At PT. Amarta Mikro Fintek, the combined application of these systems has shown potential in significantly reducing instances of employee fraud. However, the effectiveness of this integration depends on their seamless collaboration and consistent implementation. For example, while internal audits may uncover issues, robust internal controls and a reliable AIS are necessary to address and prevent recurrence effectively. The study underscores the importance of creating a cohesive framework where these components support each other in mitigating risks and maintaining transparency. By leveraging the strengths of each mechanism, organizations can build a resilient operational environment that not only deters fraudulent behavior but also enhances overall governance and trust among stakeholders.

4. CONCLUSION

Based on the findings and discussion outlined in the research, the conclusion can be summarized as follows: Internal audits significantly influence employee fraud within PT. Amarta Mikro Fintek, Banyuwangi. Ineffectively conducted audits increase the likelihood of fraudulent activities, as poor audit practices create opportunities for unethical behavior. Internal controls, while crucial for organizational efficiency and resource safeguarding, showed no significant direct impact on employee fraud in this study. Similarly, the role of accounting information systems (AIS) in fraud prevention was found to be insignificant when evaluated in isolation. However, when analyzed simultaneously, internal audits, internal controls, and AIS collectively influence the reduction of fraudulent activities. This outcome underscores the importance of integrating these mechanisms for a comprehensive fraud prevention strategy. Organizations are encouraged to enhance the quality of audits, implement more effective controls, and improve AIS reliability to strengthen operational integrity and reduce fraud risks. These measures ensure better alignment with organizational goals and reinforce ethical practices across the workforce.

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