

Internal control system analysis of fraud prevention at pt bank sulsebar

FADLI YASIN

Master of Management, Faculty of Economics and Business, Hasanuddin University

**Corresponding contact: adhiefadli@gmail.com*

ABSTRACT

The essence of this investigation aimed to dissect the inner workings of PT Bank SULSELBAR's system to thwart deceit. This inquiry took place across 5 branches of the aforementioned bank, spanning a moon's cycle from July of 2023. Employing a quantitative research approach, the selection of participants was no happenstance; rather, it was a calculated choice achieved through purposive sampling, yielding a respondent pool of 76

individuals. Armed with firsthand data, the method of data collection involved the dispersal of self-administered questionnaires. The evaluation of hypotheses hinged upon the grand edifice of the Structural Equation Model (SEM), specifically assessed via Smart-PLS 3.0. Ultimately, the findings echoed in unison: the internal control construct wields a constructive sway over the bulwark against fraud.

Keywords : Internal Control System, Fraud Prevention.

INTRODUCTION

Fraudulence, as elucidated by The Association of Certified Fraud Examiners (ACFE), encompasses deliberate transgressions against regulations, orchestrated by a medley of actors, with the aim of contorting financial records to reap personal advantages, inevitably afflicting other stakeholders. In the Indonesian context, as deciphered by Sari et al. (2020), the tendrils of fraud stretch across two pivotal domains: the public sphere and the private arena. Particularly within government echelons, fraud morphs into an omnipresent specter due to the intricate web of bureaucracy, labyrinthine organizational structure, feeble reins of control, and the crushing weight of duties endured by its members.

Globally conducted surveys and indices that chronicle corruption and its perception underpin the disheartening truth that Indonesia has witnessed an upswing in corruption cases throughout recent years. In 2017, Indonesia nestled itself at the 96th rung among 180 nations in the Corruption Perception Index (CPI), its score resting at 37 out of 100. In contrast, back in 2014, it languished at the 107th position amidst 175 countries, with a score of 34 out of 100 (Transparency International, 2017; Ridwan, 2019). This undeniable progression illustrates the exacerbating state of corruption within Indonesia over the past quartet of years. Such a ranking, unequivocally, is no laurel of honor, casting a deleterious shadow upon the prosperity and evolution of the Indonesian populace.

In the pursuit of curbing deceitful deeds and fraudulent escapades, the government must adopt a stance of preemptive measures against actions that could inflict harm upon the organization's integrity (Ridwan et al., 2019). This proactive approach stands as a linchpin in the battle against corruption, a menace that frays the tapestry of people's livelihoods and the nation's economic prosperity.

The crusade for thwarting fraud assumes paramount significance in the government's aspiration for an environment free from collusion, corruption, and nepotism. This stride towards purity can be concretized through the implementation of an anti-fraud doctrine across the spectrum of organizations, government bodies included. This doctrine strives to anchor the government with a robust preventive mechanism, encompassing the apparatus for uncovering, monitoring, and appraising operational protocols and undertakings (Purba, 2015). Alas, within governmental corridors, instances of corruption often rear their head – instances like misallocated fund usage, wherein resources deviate from their intended purpose. Furthermore, unscrupulous bank personnel might pilfer customer funds for personal gain or to mask financial downturns. And then there's the intricate web of money laundering, where banks could unwittingly abet the cleansing of ill-gotten gains, obfuscating the origin of such funds through suspicious transactions and covert dealings

Navigating the labyrinth of strategies and methodologies to quell the malevolent dance of fraud or corruption entails a multifaceted approach, as delineated by Rahmatika (2020). Central to this endeavor is the implementation of a robust internal control framework, encompassing both preventative measures against fraud and the eradication of the venomous trio: corruption, collusion, and nepotism.

The foundation of this internal control architecture draws sustenance from two intricate theories: the agency theory and the fraud triangle theory. Initially, agency theory serves as the

bedrock upon which governance principles rest, with its roots delving into the essence of corporate dynamics (Ramadhany, 2017). This theory encapsulates the interplay between two pivotal actors: the principal, who extends authorization, and the agent, entrusted with execution (Jensen and Meckling, 1976). Remarkably, this agency theory finds fertile ground even within the public sector landscape (Lane, 2000). A concrete illustration can be drawn from local governance, where the regional government, operating as the agent, manages funds allocated by the central government, often exemplified by the Special Allocation Fund. Meanwhile, the populace takes on the mantle of the principal, channeled through the regional House of Representatives (Fozzard, 2001; Moe, 1984; Abdullah, 2006).

A salient facet of agency theory unravels through the prism of disparate preferences or objectives harbored by principals and agents, a fertile soil where agency conflicts germinate (Ramadhany, 2017). Such conflicts become the petri dish in which the culture of fraud and corruption thrives within the agent's domain. To counteract this taint, vigilant oversight by the principal becomes indispensable. This observation aligns seamlessly with the findings of Candrakusuma et al. (2017), underscoring the prophylactic prowess of a surveillance-laden control system against the specter of fraud. Romadaniati's study (2020) further corroborates this narrative, illuminating the tangible impact of an internal control system on the bastion of fraud prevention. In essence, an internal control fortress serves as a sentinel warding off the marauding specter of fraud, rendering its malevolent advances futile

LITERATURE REVIEW

Fraud Triangle Theory

The essence of the Fraud Triangle Theory lies in unraveling the intricacies that lead to the inception of fraud. The mastermind behind this theory's genesis was none other than Donald R. Cressey (1953). At its core, this theory paints a tripartite canvas of factors that converge to spur someone down the treacherous path of fraud. This triangular tale is spun from three essential strands: (1) the weight of pressure; (2) the allure of opportunity; and (3) the chimeric cloak of rationalization. These elements, akin to elemental forces, maintain their presence perennially, necessitating the vigilant gaze of upper echelons. As the government steers the ship, it is incumbent upon them to forge processes, methodologies, and reins of control that serve as bulwarks against the nascent tendrils of fraud, preempting its inception and ensuring its demise remains but a distant thought.

Internal Control System

The framework for internal control put forth by the Committee of Sponsoring Organizations (COSO) entails a procedure orchestrated collectively by the board of directors, management, and other individuals constituting an entity (Hall, 2011:32). This intricate system of internal control is meticulously fashioned to furnish a measure of reasonable certainty in pursuing a trifecta of objectives: (a) fostering trust in financial reporting; (b) upholding adherence to pertinent guidelines and mandates; and (c) amplifying the efficacy and efficiency of operational endeavors.

Fraud

Ahmad et al. (2020) elucidates fraud as a deliberate endeavor, orchestrated with the intention to mislead or beguile, all for the sake of reaping gains, whether in solo pursuit or through collaborative endeavors. This act encompasses a spectrum of misdeeds or what's commonly known as white-collar crime, encompassing manifestations like theft, asset misappropriation, information manipulation, breach of fiduciary responsibilities, deliberate omission or fact concealment, and even the ominous presence of corruption.

Hypothesis Development

The essence of the internal control system is to aid management in the deterrence of fraud, encompassing tasks like safeguarding assets, achieving budgetary milestones, thwarting and uncovering fraudulent activities, and bolstering adherence to regulatory frameworks (Allen et al., 2013; Zakaria et al., 2016). Beyond its anti-fraud role, this system assumes the mantle of an organizational catalyst, orchestrating a symphony of optimal performance by judiciously harnessing both fiscal and non-monetary resources, thus rendering the inception of fraud a distant possibility.

By infusing the organizational landscape with the architecture of an internal control system, the oversight over personnel is poised to scale new heights. This, in turn, manifests as a bulwark against mishaps, imperfections, and unwarranted conduct, such as the gambits of fraud and the illicit manipulation of assets (Zakaria et al., 2016). The scholarship of Satria et al. (2021), Romadaniati et al. (2020), and Taufik (2019), among others, delves into the nexus between the internal control system and the veritable fortress it erects against fraud, unveiling a resounding chorus of empirical evidence attesting to the constructive and substantial influence of the internal control system in thwarting the nefarious designs of fraud

H₁: The internal control system has a positive effect on *fraud prevention*.

RESEARCH METHODS

This study employs a quantitative approach, employing purposive sampling to select its samples. Data gathering involves the direct distribution of questionnaires, preceded by validation and reliability assessments to ascertain the research instrument's soundness. The sample size, consisting of 76 individuals, was drawn through a purposive sampling technique, characterized by a nonprobability sampling design. The evaluation of hypotheses finds its foundation in the Structural Equation Model (SEM), with the examination facilitated by Smart-PLS 3. 0..

RESULTS AND DISCUSSION

Results of Descriptive Statistics

Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Means	std. Deviation
Internal Control System	76	2,33	5.00	4.2330	,46102
Fraud Prevention	76	2,17	5.00	4.3113	,50363
Valid N (listwise)	76				

Source: Primary data processed in 2023

The presented table elucidates the descriptive statistical portrayal of each variable under the research spotlight. The outcomes unveil a consistent trend where respondents, on average, tend to express agreement with the statements encompassed within each variable. For instance, the internal control system garners an average score of 4.2330, while fraud prevention stands at a mean value of 4.3113.

In the pursuit of establishing a robust discriminant validity within the model, it becomes imperative for the roots of the Average Variance Extracted (AVE) within each construct to surpass the construct's correlation with other latent variables within the model. The subsequent section unveils the outcomes of the Fornell-Larcker criterion, expounding on this aspect further

:

Fornell-Larcker Criterion

Variable	Internal Control System (X1)	Fraud Prevention (Y)
Internal Control System (X1)	0.766	
Fraud Prevention (Y)	0.784	0.731

Source: primary data processed in 2023

From the results shown in the table above, it appears that all the AVE root values of each construct are higher than the correlations with other latent variable constructs in the model. Thus, both cross loading and the Fornell-Larcker criteria show that there is evidence that the constructs in the model have discriminant validity.

Measurement Model Testing (Inner Model)

R-Square

	R Square	R Square Adjusted
Fraud Prevention	0.628	0.630

Source: Primary data processed in 2023

The tabulated data reveals that the R-Square value pertaining to the variable of fraud prevention stands at 0.628, signifying its placement within the realm of elevated magnitudes. This numerical indication underscores the comprehensiveness of the model's ability to explicate the variance within the fraud prevention variable, showcasing a well-established linkage to the internal control system variable.

Hypothesis test

Hypothesis test based on path coefficient

Variable	Coefficients	Sample Means (M)	Standard Deviations	T Statistics	P Values
Internal Control System -> Fraud Prevention	0.457	0.314	0.208	3,249	0.000

Source: Primary data processed in 2023

The outcomes of testing the first hypothesis (H1) concerning the impact of the internal control system on fraud prevention unveil a compelling narrative. The t-statistic value (3.249) surpasses the critical t-table value (1.974), bolstered by a significance level (0.000) that resides comfortably below the 0.05 threshold. The coefficient for the parameter stands at +0.457, adorned with a positive polarity. This coefficient, oriented towards the positive realm, signifies a unilateral influence stemming from the internal control system variable (X1) onto the domain of fraud prevention (Y). This directional relationship signifies that as the internal control system's value ascends, so does the magnitude of fraud prevention. Consequently, the acceptance of H1 becomes tenable, thus culminating in the deduction that the internal control system exercises a constructive and noteworthy impact on the terrain of fraud prevention.

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

Derived from the findings of the study, it's evident that the internal control system yields a favorable impact on the prevention of fraud within PT Bank SULSELBAR. As the implementation of the internal control system within an organization improves, the likelihood of fraud transpiring diminishes correspondingly.

Suggestion

Based on the results of the research that has been done, there are several suggestions that can be submitted for further research:

1. It is recommended to carry out ongoing research to understand and assess changes in the behavior of respondents from time to time. Continuous research can provide deeper insight into the effectiveness of the internal control system and fraud prevention in the long term of PT Bank SULSEL BAR.
2. Future research can add other variables related to fraud prevention efforts. Those additional variables can include factors such as organizational culture, business ethics, level of compliance, or adoption of information security technology. By adding this variable, research can provide a more complete and comprehensive view of the factors that influence the success of fraud prevention in an organizational environment.

BIBLIOGRAPHY

1. Abdullah, S., & Halim, A. (2006). Hubungan dan Masalah Keagenan di Pemerintah Daerah: Sebuah Peluang Penelitian Anggaran dan Akuntansi. *Jurnal Akuntansi Pemerintah (Vol:2)*.
2. Achmad, T., Wahyudi, S., & Pamungkas, I. (2020). Whistleblowing System and Fraud Early Warning System on Village Fund Fraud: The Indonesian Experience. *International Journal of Environmental Science (Vol:5)*.
3. Allen, R., Hemming, R. dan Potter, B. (2013), *Buku Pegangan Internasional Manajemen Keuangan Publik*. Palgrave Macmillan, London.
4. Candrakusuma, D., & Jatmiko, B., (2017). Dampak Komitmen Organisasi, Sistem Pengendalian Intern Pemerintah, Akuntabilitas Publik, Partisipasi Anggaran dan Kejelasan Sasaran Anggaran terhadap Kinerja Manajerial. *Jurnal Bisnis dan Ekonomi (JBE) (Vol:21)*.
5. Fozzard, Adrian. 2001. The Basic Budgeting Problem: Approaches to Resource Allocation in The Public Sector and Their Implications for Pro-poor Budgeting. Center for Aid and Public Expenditure, Overseas Development Institute (ODI). Working paper 147.
6. Hall, James A (2011). *Information Technology Auditing. Third Edition*.
7. Jensen, M. C., and Meckling, W.H., (1976). “Theory of the Firm: Managerial Behavior Agency Costs and Ownership Structure”, *Journal of Financial Economics* 3.
8. Lane, Jan-Erik. 2000. The Public Sector – Concepts, Models and Approaches. London: SAGE Publications.
9. Moe, T. M. 1984. The new economics of organization. *American Journal of Political Science (Vol:28)*.
10. Peltier-Rivest, D. and Lanoue, N. (2015), “Cutting fraud losses in Canadian organizations”, *Journal of Financial Crime (Vol: 22)*.
11. Purba, B. (2015). *Fraud dan Korupsi*. Jakarta: Lestari Kiranatama.
12. Rahmadany, I. (2017). Pengaruh Sistem Pengendalian Intern, Asimetri Informasi, Kesesuaian Kompensasi Dan Implementasi *Good Corporate Governance* Terhadap Kecenderungan Kecurangan Akuntansi (Studi Empiris Pada Rumah Sakit Swasta Yang Ada Di Pekanbaru). *JOM Fekon (Vol:4)*.
13. Rahmatika, D. N., (2020). *Fraud Auditing*. Yogyakarta: Deepublish.
14. Ridwan, R.A., Syarifuddin., & Arifuddin (2019). Pengaruh Locus Of Control Dan Profesionalisme Terhadap Niat Whistleblowing Dengan Menggunakan Komitmen

- Organisasi Sebagai Variabel Moderating. *International Journal Of Advanced Research (IJAR)*.
15. Romadaniati., Taufik, T., & Nasir, A. (2020). The Influence Of Village Aparature Competence, Internal Control System And Whistleblowing System On Fraud Prevention In Village Government With Individual Morality As Moderated Variables (Study In Villages In Bengkalis District). *Jurnal Ilmiah Akuntansi*, (Vol:3).
 16. Sari, S. P., Kartika., & Pasetyo, W. (2020). Pengaruh *Fraud Diamond* Bagi Kecurangan Pengelolaan Keuangan Desa (Studi Kasus Pada Pemerintah Desa Kecamatan Sidoarjo). *Jurnal Akuntansi Universitas Jember* (Vol:18).
 17. Satria, A., Hizazi., & Ratih, K. (2021). The Effect Of Internal Control Systems, Compliance Of Government Financial Reporting, Organization And Whistleblowing Cultural Culture On Village Prevention Prevention Of Village Funds Management With Morality As Moderating Variables. *Jurnal Akuntansi Dan Keuangan Universitas Jambi* (Vol:4).
 18. Taufik, T. (2019). The Effect Of Internal Control System Implementation In Realizing Good Governance And Its Impact On Fraud Prevention. *International Journal Of Scientific & Technology Research* (Vol:8).
 19. Zakaria, K., & Nawawi A (2016). Internal controls and fraud - empirical evidence from oil & gas company. *Journal of Financial Crime* (Vol:23).
 20. Romadaniati., Taufik, T., & Nasir, A. (2020). The Influence Of Village Apparatus Competence, Internal Control System And Whistleblowing System On Fraud Prevention In Village Government With Individual Morality As Moderated Variables (Study In Villages In Bengkalis District) . *Journal of Scientific Accounting* , (Vol: 3).
 21. Sari, SP, Kartika., & Pasetyo, W. (2020). The Influence of *Fraud Diamond* on Fraud in Village Financial Management (Case Study in Sidoarjo District Village Government). *Jember University Journal of Accounting* (Vol:18).
 22. Satria, A., Hizazi., & Ratih, K. (2021). The Effect Of Internal Control Systems, Compliance Of Government Financial Reporting, Organization And Whistleblowing Cultural Culture On Village Prevention Prevention Of Village Funds Management With Morality As Moderating Variables. *Journal of Accounting and Finance, University of Jambi* (Vol: 4).

23. Taufik, T. (2019). The Effect Of Internal Control System Implementation In Realizing Good Governance And Its Impact On Fraud Prevention. *International Journal Of Scientific & Technology Research* (Vol:8).
24. Zakaria, K., & Nawawi A (2016). Internal controls and fraud - empirical evidence from oil & gas companies. *Journal of Financial Crime* (Vol:23) .