

# The Influence of Internal Control, Whistleblowing System and Internal Audit on Fraud Prevention

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## ABSTRACT

This research aims to determine the effect of internal control, whistleblowing system, internal audit on fraud prevention. This research uses qualitative methods and library research. Examining theories and relationships or influences between variables from books and journals both offline in the library and online sourced from Mendeley, Google Scholar and other online media. The research results show that internal control, whistleblowing system, internal audit have a significant positive effect on fraud prevention.

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## 1. Introduction

The company's business activities are closely related to risks, including fraud. This practice is common in Indonesia, because fraud cases are the main problem that must be faced. Cheating is a violation of the law, but it is an act that encourages criminals to do their best and cheat for profit. Based on a fraud survey conducted by the Association of Certified Fraud Examiners in 2019, the most common fraud that occurred in Indonesia was corruption (64.4%) with 167 cases, followed by misuse of state & company assets (28.9%) with 50 cases and The last one was financial statement fraud (6.7%) with 22 cases.

Based on data of value of losses due to fraud is the most detrimental in Indonesia, it shows that the biggest losses due to fraud come from acts of corruption. This indicates that various fraud cases that often occur in Indonesia, corruption is the biggest contributor to losses. Fraud in the form of corruption is the most common for losses under Rp. 10 million. Interestingly, both fraud in the form of corruption, financial statement fraud and misuse of assets, the majority of cases are under IDR 10 million, but the most incidents occur. On the other hand, there are the fewest incidents of corruption cases but the value of losses is the largest, namely above IDR 10 billion.

There are many fraud phenomena indicating that fraud prevention is still not being implemented optimally. Activities that can be implemented as an effort to prevent someone from committing lies, theft, collusion and other things that only benefit themselves and are against the law are preventing acts of fraud (Romadaniati, 2020). Several variables that influence fraud prevention include internal control, whistleblowing system and internal audit.

Fraud prevention can be done if internal control is implemented more effectively by the organization. One component of internal control is supervisory activities that deal with periodic or ongoing assessments (Arens et al., 2003). Internal control is very important to provide protection for entities against human weaknesses and to reduce the possibility of errors and actions that are not in accordance with the rules (Wilopo, 2006). So, the tendency to cheat is influenced by whether or not there is an opportunity to do so. These opportunities can be minimized by having effective internal controls. If

existing internal controls are weak or ineffective, it will open up opportunities for employees to tend to commit fraud. This shows that if internal control is higher, fraud prevention will be higher.

A whistleblowing system can be interpreted as an act of exposing unlawful acts that occur in an organization that do not benefit stakeholders (Romadaniati, 2020). This disclosure system has a high opportunity to prevent fraud. Whistleblowing will arise when there is a conflict between employee loyalty and protecting public interests. According to (Elias, 2018), whistleblowing can occur from within (internal) or outside (external). Internal whistleblowing occurs when an employee finds out about fraud committed by another employee and then reports the fraud to his superior. Meanwhile, external whistleblowing occurs when an employee finds out about fraud committed by the company and then informs the public because the fraud will harm society. This shows that if whistleblowing is implemented well by employees, fraud prevention will increase.

Internal audit is an examination carried out by an authorized team with the aim of assisting all management members in managing corporate governance effectively by being responsible for reporting audit results in the form of analysis, audit assessments, and recommendations related to audits that have been carried out (Suginam, 2019). It is indicated that internal audits can be a form of preventing fraud from occurring. Internal audit is an independent assessment within an organization to test and evaluate organizational activities carried out and play a role in adding value and improving organizational operations and has expertise in the fields of audit, accounting and finance (Nurcahyono & Sukhani, 2019). So, by implementing internal audit properly, fraud can be prevented, especially in the manipulation of financial reports carried out by management.

With an explanation of how important it is to prevent fraud that occurs in the business sphere, it will be followed up through research about The Influence of Internal Control, Whistleblowing Systems and Internal Audit on Fraud Prevention.

## 2. Literatur Review

### Fraud Prevention

Fraud is an action or behavior that does not comply with the rules carried out by a person or group which is carried out in a planned manner in an effort to gain profit. An example is the manipulative act of informing false and inaccurate statements so that in the end, either directly or indirectly, it harms other parties (Islamiyah et.al, 2020). Fraud can consist of various forms of crime or criminal acts, including theft, evasion of obligations, omission or concealment of facts, fabrication of facts and also corruption (Wardana et.al, 2019).

### Internal Control

Internal control is a very important part so that company goals can be achieved effectively and efficiently. The bigger the company, the importance of internal control in the company is very important (Wardana et.al, 2019). According to (Hery, 2019) internal control is a set of policies and procedures to protect company assets or wealth from all forms of misuse, ensure the availability of accurate and adequate accounting information, and ensure that all legal provisions and management policies are complied with as they should. Internal control is very important to provide protection for entities against human weaknesses and to reduce the possibility of errors and actions that are not in accordance with the rules (Wilopo, 2021).

### Internal Audit

Internal audit is a guarantee, independent, objective and consultation activity created to increase the effectiveness of adding value to operational activities (Suputra, 2021). Internal audit plays a very important role in the running process of an organization in order to prevent fraud through strict control and evaluation. In evaluating the effectiveness of the control system, internal audit plays the role of reporting recommendations if system weaknesses are found that need improvement (Witari & Putra, 2023). Internal audit plays the role of testing and evaluating organizational activities in the form of an audit plan, which will reduce the potential for fraud (Utami, 2018).

Table 1. Relevant previous research

No.	Author (Year)	Previous Research Results	Equation	Difference
1	(Suputra, 2021)	Whistleblowing system, internal audit and surprise audit have a significant positive effect on fraud prevention.	Whistleblowing system and internal audit have a significant positive effect on fraud prevention.	Surprise audit has a significant positive effect on fraud prevention
2	(Witari & Putra, 2023)	Internal audit, whistleblowing system and organizational culture have a significant positive effect on fraud prevention.	Internal audit and whistleblowing system have a significant positive effect on fraud prevention.	Organizational culture has a significant positive effect on fraud prevention
3	(Trijayanti et.al, 2021)	The audit committee, internal audit, whistleblowing system have a significant positive effect on fraud prevention.	Internal audit and whistleblowing system have a significant positive effect on fraud prevention.	The audit committee has a significant positive effect on fraud prevention
4	(Megawati & Reskino, 2023)	Internal control, whistleblowing system, organizational commitment and individual morality affect fraud prevention.	Internal control and whistleblowing system have an effect on fraud prevention	Organizational commitment and individual morality affect fraud prevention
5	(Baihaqie & Sofie, 2023)	Internal audit, whistleblwoing system and individual morality have a significant positive effect on fraud prevention.	Internal audit and whistleblwoing system have a significant positive effect on fraud prevention.	Individual morality has a significant positive effect on fraud prevention
6	(Mersa et.al, 2021)	Whistleblowing system, internal control system, organizational culture and organizational justice have a significant positive effect on fraud prevention.	Whistleblowing system and internal control system have a significant positive effect on fraud prevention.	Organizational culture and organizational justice have a significant positive effect on fraud prevention.

### 3. Research Method

This research employs a qualitative research method with a non-systematic literature review approach, relying on relevant sources related to the research topic. The data is gathered from various references, including books, national and international journals, which support the analysis. The analysis involves evaluating multiple pieces of literature pertinent to the research topic, specifically examining the influence of internal control, whistleblowing systems, and internal audits on fraud prevention.

Data collection techniques include observation and literature study from journals, books, and websites relevant to obtaining information aligned with the research theme. The data analysis technique in this qualitative research is conducted interactively and continuously, encompassing data collection, data reduction, data presentation, and finally, verification and conclusion drawing. This process ensures the consistency of analysis throughout the study.

This approach allows the research to provide an in-depth perspective on how internal controls, whistleblowing systems, and internal audits impact fraud prevention in various organizational contexts.

### 4. Result and Discussions

#### The Effect of Internal Control on Fraud Prevention

The internal control system is a process related to procedures developed and implemented to prevent fraud (Tuanakotta, 2023). (Sujana et al, 2020) found that the stronger the internal control system, the greater the possibility of preventing or reducing fraud, but conversely, when internal control is weak, the tendency for fraud to occur is greater.

Based on the fraud triangle theory, one of the trigger factors for fraud is opportunity. In connection with the fraud triangle theory, a weak company internal control system will provide opportunities for perpetrators to commit fraud.

Research conducted by (islamiyah et al, 2020), (Romadaniati et al, 2020) and (Sujana et a, 2020) states that internal control has a significant positive effect on fraud prevention.

### **The Influence of the Whistleblowing System on Fraud Prevention**

One form of internal control to prevent or reveal fraud in a company is to implement a good corporate governance (GCG) whistleblowing system. The whistleblowing system can be used by any company by creating a manual violation reporting system for each company. Usually, whistleblowers report crimes that occur in their immediate environment to internal authorities. However, whistleblowers not only report crimes to internal authorities, they can also report crimes to higher authorities, such as the board of directors, commissioners, or secretaries, or to authorities outside the sanctioned organization, mass media, and so on (Semendawai et al , 2021).

According to the National Committee for Governance Policy (2008:02) in (Agusyani et al, 2019) the benefit of implementing a good whistleblowing system is the emergence of reluctance to commit violations, because of trust in an effective reporting system. The existence of a whistleblower system is not only a means of reporting violations that occur, but is also a form of supervision. Because the system is available to all employees, employees are afraid of cheating, co-workers monitor each other, and are afraid of being reported by other employees. This helps prevent fraud in managing company finances.

This is supported by research conducted by (Mersa et al, 2021), (Baihaqie & Sofie, 2023) and (Suputra, 2021) which states that the whistleblowing system has a positive effect on preventing fraud.

### **The Influence of Internal Audit on Fraud Prevention**

Internal audit plays a very important role in the ongoing process of an organization to prevent fraud through strict control and evaluation. In assessing the effectiveness of the control system, internal audit is tasked with making recommendations when weaknesses are found in the system that require improvement. In its supervisory function, internal audit must be able to detect existing or past fraud.

All internal audit tasks are performed by the internal audit administrator. Internal audit works effectively if all indicators are good. (Firmansyah, 2020) stated that internal audit has a positive effect on fraud prevention.

Research conducted by (Witari & Putra, 2023), (Trijayanti et.al, 2021) and (Baihaqie & Sofie, 2023) states that internal audit has a positive effect on fraud prevention.

## **5. Conclusion**

Based on the results of the literature review analysis carried out, internal controls, whistleblowing systems and internal audits are implemented by auditors to prevent fraud. If these three variables have been implemented well then cases of fraud that may occur can be minimized. This is in accordance with previous research which shows that fraud prevention is influenced by internal control, whistleblower systems, and internal audit. The author realizes that the results of this literature review are not perfect. The limitation of this research is that there are still few sources of book reading and fraud prevention theories.

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