

## The Effect of Internal Audit and the Effectiveness of Internal Control on the Ability to Detect Fraud

Angelia Christie<sup>1\*</sup>, Cris Kuntandi<sup>2</sup>

Fakultas Ekonomi dan Bisnis, Universitas Bhayangkara Jakarta Raya, Indonesia <sup>1\*,2</sup>

Article Info	ABSTRACT
<b>Corresponding Author:</b> Angelia Christie E-mail: 202110315099@mhs.ubhar ajaya.ac.id	Fraud detection is needed in a management in order to be able to control and prevent failure in achieving goals. This research uses a literature review analysis method with qualitative characteristics, with sources from google scholar, ebooks and other online media. This study aims to examine the effect of internal audit and the effectiveness of internal control on fraud detection capabilities. The results of this study are in the form of internal audit variables and the effectiveness of internal control which have a significant effect on fraud detection capabilities.  <b>Keywords:</b> Fraud Detection, Internal Audit and Internal Control Effectiveness

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### INTRODUCTION

Fraud is a case that can occur in any field, and fraud is still a major case that still cannot be resolved or stopped. In Indonesia itself, cases of fraud are still very common and difficult to stop. According to ACFE (Association of Certified Fraud Examiners, fraud is an individual or group activity that is carried out in a wrong or fraudulent way, even though it actually knows the impact of the fraudulent action can have a bad impact on the individual or group, (ACFE, 2024).

Based on a survey conducted by ACFE (Association of Certified Fraud Examiners) in the report "Occupational Fraud 2024: A report to The Nationals" analyzing based on respondents submitting fraud cases from 138 countries with different regions that affect private, public, government, and non-profit organizations in 22 different industry categories so that it covers globally, it was found that there were 1921 real cases of fraud in the workplace and caused a total loss of more than \$ 3.1 billion investigated from January 2022 and September 2023. According to the ACFE, there are three categories of fraud that can be identified, namely, the first is mismanagement of assets including theft, the second is the deliberate preparation of reports, and the third is corruption that seeks to take personal gain at the expense of the organization or company, (Murdock, 2018). The rise of fraud cases requires steps to stop fraud as in the survey conducted by ACFE, the findings presented in the report can be used in prevention, detection and response efforts, (ACFE, 2024).

Internal audit is one of the most needed in detecting fraud, this is because is an can stand alone activity that provides objective audits or advice to increase the rate value of an organization and improve its operations. Internal audit has a function to evaluate the system

*The Effect of Internal Audit and the Effectiveness of Internal Control on the Ability to Detect Fraud - **Angelia Christie et al***

and process procedures that have been prepared systematically, regularly and correctly and whether they have been implemented correctly, through observation, research and examination of the applied of the responsibility sent that have has been given responsibility in each unit of the company, (Yusriwati, 2017).

Become a fraud detector, because fraud can occur, one of the factors is related to the performance of internal control, company Management support it plays an important role in building fraud control effectiveness by implementing optimal internal controls, (Y. A. Lestari & Bernawati, 2020).

This article discusses the impact of Internal Audit, and the Effectiveness of Internal Control on Fraud Detection, as a study of literature views in the field of auditing.

## **PROBLEM FORMULATION**

From the main picture in the introduction can be formulated and discussed, and hypotheses will be developed for future research in other words: 1) Does Internal audit have an effect on fraud detection?. 2) Does the Effectiveness of Internal Control affect Fraud Detection?

## **METHOD**

### **Literature Review**

#### **Fraud**

Explanation of Fraud based on the Accounting Dictionary is an act of fraud group to enrich oneself by depriving others of their rights. Some of the causes of fraud are commonly known as the Fraud Triangle. The dimensions or indicators of fraud are 1) Motivation, 2) Expressly to stop and identify fraud, with the aim of finding or detecting fraud that is suspected of having occurred in the management of assets and assets according to Pratama (2022 in (Irsutami & Ryansyah, 2023).

Detecting fraud is an auditor's expertise or quality in explaining irregularities or allegations in his audit assignment. Dimensions or indicators are 1) Anomalies in financial data, 2) Defensive attitude, and 3) Lack of documentation. ACFE (Association of Certified Fraud Examiners) classifies based on fraud behavior into three, namely the first is the unauthorized use of assets. According to research conducted by Eaminers (2008) shows that employees and managers who are senior or who have worked long enough to commit asset especially those that are not administered, therefore it is important to have security, namely physical security and legal security. Second, false descriptions/ fraudulent reporting (fraudulent statements), fraud can occur when there is a wrong or inconsistent submission with the existing it is done by working together between individuals and other individuals or from related groups with other groups. Corruption is the act of using influence to achieve interests for personal or other individuals, which violates one's obligations or the rights of others, for example, conflicts of interest, bribery, unlawful or unauthorized income, and economic coercion, (Irsutami & Ryansyah, 2023).

Fraud is difficult to avoid because no organization is free from fraud or fraud. Fraud will continue to occur even though it has tried to contain and prevent it, (N. Putri, 2022). There are several types that motivate fraudsters, namely the desire to live beyond their means, a great desire for personal gain, having large debts, there is pressure from family and friends

or colleagues, and there is a strong challenge to beat the system, (Y. A. Lestari & Bernawati, 2020).

Fraud detection it has examined by may previous researchers including: (Irsutami & Ryansyah, 2023), (Ziah & Kuntadi, 2023), (Kuntadi et al., 2022) , (Pipiet Niken Aurelia, 2022), (Raharjo et al., 2021), (Diana S & Haryati T, 2021), (Safitri et al., 2024), (N. Putri, 2022)

### **Internal Audit**

Internal audit is an independent evaluation of an organization's operations or performance. Good management integrity can help internal audits run conducive too, (Irsutami & Ryansyah, 2023). There is a law that regulates internal control, namely Decree No. 60 of 2008 concerning Internal Control Systems issued by the Government. The Institute of Internal Audit (2009) states that internal audit is an independent form that is carried out consistently as part of an organization's audit and review. In a company or organization, a good internal audit is to have a successful management implementation, there are several factors that consider management to be successful, namely leadership, risk management processes, risk mitigation activities, and the results of implementing risk management, (Irsutami & Ryansyah, 2023).

Internal audit is an activity that provides reassurance and objective advice aimed at increasing the value of an organization and improving its operations, (Subiyanto et al., 2022). The dimensions or indicators of internal audit are 1) Operational Effectiveness, 2) Internal Control and 3) Reporting. The necessary internal audit capability is to be able to protective, monitor and detect fraud in the performance of management or organizations so that the activities carried out can run effectively and efficiently, (Pipiet Niken Aurelia, 2022). According to Kultanen (201) in research (N. Putri, 2022) stated that an effective fraud prevention and detection strategy can support all institutions such as financially, bring members closer, and increase trust between stakeholders. There are several obstacles in the internal audit process, namely limited expertise, unqualified staff, negligence, insufficient supervision, lack of employee benefits, lack of supervision, lack of separation of duties are also obstacles implementing an effective internal control system requires stakeholder trust in the existing system, and management interference with established internal controls can also be an obstacle, (N. Putri, 2022).

Internal audit has been widely researched by previous researches including (Irsutami & Ryansyah, 2023), (Pipiet Niken Aurelia, 2022), (Diana S & Haryati T, 2021), (Safitri et al., 2024) and (N. Putri, 2022).

### **Internal Control Effectiveness**

Internal control is a process designed, established and protected by corporate governance, organization and/or other party holding it adequate confidence regarding the acquisition of company objectives regarding the reliability of financial reporting. The efficiency and effectiveness of internal controls is very important for any management team or organization, Therefore, a good internal control system can protect management and the organization from financial gaps that indicate fraud, procedural violations, and even fraud. Effective internal control ensures that goals are achieved effectively and efficiently in based on with the rules applicable in the organization. The dimensions or indicators of the effectiveness of internal control are 1) Responsibility for assets (According to records), 2) Accuracy of control, and 3) Efficiency and Effectiveness.

(2011:319.2) defines internal audit effectiveness as a process carried out by ensuring the reliability of financial reporting, effectiveness and efficiency of business activities, as well as compliance with applicable regulations or laws, (Kuntadi et al., 2022). Based on sound to Government Regulation number 60 of 2008, an internal control system is defined as actions carry out routine activities by management and all employees to ensure adequate achievement of organizational goals through effective and efficient activities as well as an activity integration process that determines the reliability of the internal control system, ensure financial reporting, protection of government assets, and compliance with laws and regulation. Based on sound to Government Regulation number 60 of 2008, the government's internal control system, usually abbreviated as SPIP, consists of several factors: control environment, risk assessment, control activities, information and communication, and internal control monitoring.

The effectiveness of internal control as sources that are based on the effects of an individual's resources and technological systems designed to help an organization or company achieve certain goals, (Meini et al, 2022). According to Arnes (2006). The effectiveness of internal control has the ai, of monitoring, directing, measuring the resources in management or organization and minimizing the tendency of fraud and providing management with reasonable assurance that management or organization has achieved its goals and objectives, (Pipiet Niken Aurelia, 2022). The accounting system is an arrangement of procedures and documents used to track, categorize, record, and report business transactions and to enforce management responsibilities and other related tasks. Organizational goals can be achieved, (Irsutami & Ryansyah, 2023).

The effectiveness of internal control has been examined by may previous researchers including (Irsutami & Ryansyah, 2023), (Ziah & Kuntadi, 2023), (Kuntadi et al., 2022), (Pipiet Niken Aurelia, 2022), (Diana S & Haryati T, 2021) and (Raharjo et al., 2021).

**Table 1 .** Relevant previous research

No.	Author (Year)	Previous Research Results)	Similarities with this article	Differences with this article
1	(Irsutami & Ryansyah, 2023)	Internal audit and the effectiveness of internal control affect the disclosure or ability to detect fraud.	Internal audit and the effectiveness of internal control have an effect on the ability to detect fraud.	-
2	(Ziah & Kuntadi, 2023)	Internal control, forensic accounting and investigative audits affect the disclosure of fraud.	Internal control affects the ability to detect fraud.	Forensic accounting and investigative audits affect fraud disclosure.
3	(Kuntadi et al., 2022)	The internal control system, employee resorce habit and compensation suitability affect fraud.	The internal control system affects fraud.	Employee competency and appropriate

				compensation influence fraud.
4	(Pipiet Niken Aurelia, 2022)	Internal audit has an insignificant effect on fraud detection, meaning that it has little effect on fraud detection, while control effectiveness has a significant effect on the ability to detect fraud.	Internal audit and internal control have a significant influence on the ability to detect fraud.	
5	(Raharjo et al., 2021)	The effectiveness of internal control and employee quality development have a relevant effect on the ability to detect fraud.	The effectiveness of internal control has a significant influence on the ability to detect fraud.	Employee quality development has a relevant effect on fraud deection.
6	(N. Putri, 2022)	Internal audit has an important or influential role in the prevention and detection of fraud.	Internal audit affects the ability to detect fraud.	-
7	(Diana S & Haryati T, 2021)	Internal audit and internal control have a significant effect on preventing and detecting fraud.	Internal audit and intenral control affect the ability to detect fraud.	-
8	(Safitri et al., 2024)	Internal audit has a significant impact on fraud prevention and detection.	Internal audit affects fraud detection.	-
9	(N. A. Putri & Tuti Meutia, 2024)	Internal audit and internal control have a relevant effect on fraud detection.	Internal audit affects fraud detection.	-

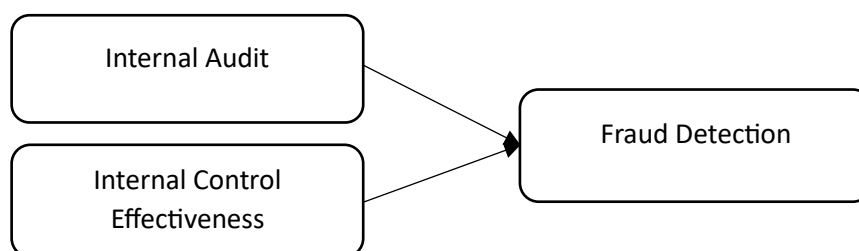
### Research Methods

Research Methodology this academic paper was written using qualitative methods and library research. Explore the relationship and influence between theories and varibales in books and journals, both offline in the library and online from Mendeley, Google scholar, and other online media.

Calculation with a qualitattive system requires the use of literature reviews in accordance with methodological assumptions. This qualitative method aims to determine the results of the process of collecting, comparing and analyzing previous research regarding the impact of inernal audits and the effectiveness of internal control in detecting fraud.

### Conceptual Framework

Based on the conclusion of the problem statement, research theory, related previous ones that have searched and concluded, or discussions that discuss the impact between factors, the rationale for this journal, namely.



**Figure 1. Conceptual Framework**

From the sketch above, internal audit and internal control effectiveness affect fraud detection. More than in the impact sector fraud detection, there are still several more factors affect it, listed:

- a) Quality Development: (Raharjo et al., 2021)
- b) Human resource competencies: (Kuntadi et al., 2022)
- c) Compensation suitability: (Kuntadi et al., 2022)
- d) Forensic accounting: (Ziah & Kuntadi, 2023), (H. Lestari & Kuntadi, 2022)
- e) Investigative audit: (H. Lestari & Kuntadi, 2022)
- f) Mining: (H. Lestari & Kuntadi, 2022)

## RESULTS AND DISCUSSION

Based on related theory analysis and previous searches, explained in this literature review article focuses on fraud detection:

### 1. The Effect of Internal Audit on Fraud Detection

Internal audit affects fraud detection, where can I find internal audit aspects and indicators, I will find on the aspect 1) Operational Effectiveness, 2\_ Internal Control and 3) Reporting affects the dimensions or indicators of fraud detection, namely 1) Anomalies in financial data, 2) Defensive attitude, and 3) Lack of documentation, Internal audit affects fraud detection because aspects or indicators of internal audit have an internal audit function ease the burden on management in preventing, detecting and investigating fraud, (Diana S & Haryati T, 2021).

Fraud detection is based on the influence of internal audit, if internal audit plays a higher role, it can reflect that management has the ability to detect and prevent fraud, with a good internal weak, the lower the detection and prevention of fraud so that the company has difficulty achieving its goals, (Bangun et al., 2024).

Internal audit plays an important role because it acts as a company supervisor internal audit is responsible for ensuring that management plans and activities are in accordance with the target of achieving goals, by knowing thoroughly internal control, (N. A. Putri & Tuti Meutia, 2024). The role of internal audit is to communicate independent and objective accountability and

input to management, regarding the overall and effectiveness of governance and risk management, (Safitri et al., 2024).

Internal audits impact fraud detection, this is in accordance with research by: (Diana S & Haryati T, 2021), (Irsutami & Ryansyah, 2023), (Pipiet Niken Aurelia, 2022), (Safitri et al., 2024), and (N. Putri, 2022).

## **2. The Effect of Internal Control Effectiveness on Fraud Detection**

The effectiveness of internal control affects fraud detection, where it can be seen that if there is a sense of responsibility, accuracy in control and effective and efficient actions can prevent document deficiencies or errors in report writing so as to reduce fraud. The better the level of effectiveness of internal control, the more effective it will be in detecting fraud, (Irsutami & Ryansyah, 2023).

To improve fraud detection by paying attention to the effectiveness of internal control, management or the organization must pay attention to scope of operation. A responsibility that carries a grave threat, management activity, notifications and conversations with each other are also part of management. This ensures that management's internal controls continue to function effectively and efficiently and helps management identify component functions in management, (Sera & Santoso, 2024).

The effectiveness of internal control affects fraud detection, if the better the internal control system so that it can reduce fraud, (Kuntadi et al., 2022). The internal control system aims to safeguard assets, documentation, prevent the accuracy and reliability of accounting data, encourage efficiency by using resources and encourage a sense of responsibility in compliance with management policies, (Tambunan et al., 2024).

The effectiveness of internal control impact on fraud detection, this is in accordance with research by: (Irsutami & Ryansyah, 2023), (Ziah & Kuntadi, 2023), (Kuntadi et al., 2022), (Pipiet Niken Aurelia, 2022), (D. Putri et al., 2023), and (Raharjo et al., 2021).

## **CONCLUSION AND SUGGESTION**

### **Conclusion**

Based on the learning above, related journals and conversations, the hypothesis become a formulation for future research is 1) Internal audit has an impact on fraud detection. 2) The effectiveness of internal control influences fraud detection. Based on the conclusions above, this article will explain that apart from internal audit, the effectiveness of control and internal controls in organizations or companies of all types and levels, Therefore, further research is needed to determine what factors, other than factors discussed in this article, may influence fraud detection. Other

factors include quality development, employee competency, suitability of remuneration, forensic accounting, investigative audits and mining.

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