

The Effect Of Internal Control On Fraud Detection (Case Study On Several State-Owned Enterprises Banks In Bandung City)

Niki Hadian¹

Widyatama University
niki.hadian@widyatama.ac.id

Vina Vionica³

Widyatama University
vina.vionica@widyatama.ac.id

Ifan Ibrahim⁵

Widyatama University
ifan.ibrahin@widyatama.ac.id

Annisa Nazhara Rufaidah²

Widyatama University
annisa.nazhara@widyatama.ac.id

Destiana Avionita⁴

Widyatama University
destiana.avionita@widyatama.ac.id

Alifia Zumar⁶

Widyatama University
alifia.zumar@widyatama.ac.id

Obsatar Sinaga⁷

Obsatar.sinaga@unpad.ac.id
Padjadjaran University

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Abstract

This study aims to determine the effect of internal control on fraud detection in several state-owned banks in Bandung. The factors tested in this study are internal control as an independent variable. While the detection of fraud as the dependent variable. The research method used in this research is descriptive and explanatory research methods. The type of data used in this study is primary data with data collection using a questionnaire instrument. The population in this study is the SPI section and all sections related to credit, with 140 respondents using purposive sampling technique. The analytical method used in this study is simple linear regression analysis at a significance level of 5%. Data processing using Statistical Package for Social Sciences (SPSS) Ver. 25.0. The results showed that the internal control and fraud detection at several state-owned banks in the city of Bandung were included in the good category. In addition, the results of the study also show that internal control has a significant effect on fraud detection. While the magnitude of the influence of internal control on fraud detection is 56% while the remaining 44% is the influence of other factors outside the internal control variable. So, the better the Internal Control, the more effective the Fraud Detection in several state-owned banks in Bandung City. The results showed that internal control and fraud detection at several state-owned banks in the city of Bandung were included in the good category. In addition, the results of the study also show that internal control has a significant effect on fraud detection. While the magnitude of the influence of internal control on fraud detection is 56% while the remaining 44% is the influence of other factors outside the internal control variable. So, the better the Internal Control, the more effective the Fraud Detection in several state-owned banks in Bandung City. The results showed that the internal control and fraud detection at several state-owned banks in the city of Bandung were included in the good category. In addition, the results of the study also show that internal control has a significant effect on fraud detection. While the magnitude of the influence of internal control on fraud detection is 56% while the remaining 44% is the influence of other factors outside the internal control variable. So, the better the Internal Control, the more effective the Fraud Detection in several state-owned banks in Bandung City. While the magnitude of the influence of internal control on fraud detection is 56% while the remaining 44% is the influence of other factors outside the internal control variable. So, the better the Internal Control, the more effective the Fraud Detection in several state-owned banks in Bandung City. While the magnitude of the influence of internal control on fraud detection is 56% while the remaining 44% is the influence of other factors outside the internal control variable. So, the better the Internal Control, the more effective the Fraud Detection in several state-owned banks in Bandung City.

Background

According to Putra and Kansil (2020) concerning banking, what is meant by banking is a business entity that collects funds from the public in the form of savings and distributes them to the public in the form of credit and or other forms in order to improve the standard of living of the people at large. Therefore, public trust is the main factor in the banking business, so bank management must strive to maintain and maintain that trust in order to gain sympathy from potential customers (Sapariyah, Choerudin, Setyorini, & Khristiana, 2017). One of them is by obeying the rules and not making mistakes that can lead to irregularities and fraud. Fraud that occurs within the company, whether committed by the employees themselves, collusion by several employees, or by people outside the company will not only cause financial losses but will reduce the good name/reputation of the company. Fraud acts can be reduced through prevention or deterrence, detection, and investigation measures. (Reding et al., 2013). Detecting fraud consists of all efforts made to identify signs or symptoms of its occurrence, then analyzing whether these signs can indicate an early identification of the occurrence of fraud. Therefore, to detect fraud, it is necessary to eliminate the causes and drivers of fraud and improve its internal control. In essence, fraud is difficult to detect because it is carried out in secret and the perpetrators in general will also hide their tracks. Therefore, fraud detection cannot be done directly by looking at the traces it leaves. (Widiyanto, 2021). Another study conducted by Joseph, Albert, and Byaruhanga which shows the results that internal control has an effect on the detection and prevention of fraud. Weak internal control, poor leadership style by management are the causes of fraud in the banking sector.

Identification of problems

How the Effect of Internal Control on Fraud Detection in Several State-Owned Banks in Bandung City.

Literature Review

Internal Control according to the Committee Of Sponsoring Organization (Kewo, 2017) internal control is: "a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance". According to Yang and Guan (2004) the definition of internal control is: "internal control is designed and influenced by the entity's board of directors, management, and other personnel to provide reasonable assurance about the achievement of the entity's objectives in the following categories: (1) reliability of financial reporting, (2) operational effectiveness and efficiency, (3) compliance with applicable laws and regulations"

Kewo (2017) states that the components of internal control consist of:

1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information and Communication
5. Monitoring

The definition of fraud according to the Black's Law Dictionary which is a legal dictionary in the United States quoted in Widiyanto (2021), namely: "Fraud embracing all multi various means which human ingenuity can device and which are resorted to by one individual to get an advantage over another by false suggestions or suppression of truth and included all surprise, trick, cunning or dissembling and any unfair way by which another is cheated "According to Widiyanto (2021) fraud detection is: "Fraud detection is an action to find out that fraud occurred, who the perpetrators are, who are the victims, and who is the cause. The key to fraud detection is to be able to spot errors and irregularities. "The first step in detecting fraud is to understand the organization's activities and to recognize and understand all business sectors. The next step to detect fraud is to understand the signs that cause fraud. According to W. Steve Albercht in his book Fraud Examination, there are 6 types of signs of fraud, namely accounting anomalies, internal control weaknesses, excessive lifestyle analysis irregularities, unusual behavior, and complaints.

Framework

Internal Control is a process that can function effectively if it is supported by the leadership of the organization, management, and all personnel in the organization. Internal controls designed by management have the following objectives:

1. Achieving the effectiveness and efficiency of the organization's operational activities.
2. Reliability (trustworthiness) of financial statements.
3. Compliance with organizational policies and regulations.

Without internal control, the organization will not be able to achieve these goals. So to achieve the goal of internal control is not an easy thing, because there are many obstacles that will be faced by the organization, one of which is changes in tax regulations, very fast technological developments, internal and external risks of the organization (Spira & Page, 2003). One of the most significant risks faced by an organization is the risk of fraud. Fraud is any intentional act or omission designed to deceive another person, resulting in the victim suffering a loss and the perpetrator gaining an advantage. It is important for the organization to develop a strong governance structure and internal control to monitor the risk of fraud and other activities in order to help ensure the achievement of organizational goals (Reding et al., 2013). There are three conditions that

encourage people to commit fraud. The three conditions are pressure, opportunity, and rationalization. Pressure is an impulse that causes someone to commit fraud, in general what drives fraud is financial need but many are only driven by greed. Opportunities are opportunities that allow fraud to occur, usually due to weak internal control of an organization, lack of oversight, or abuse of authority. Rationalization or justification is an important element in the occurrence of fraud because perpetrators seek justification for their actions (Aprilia, 2017).

Internal controls are designed by management to prevent, detect and/or correct fraud that may occur or has already occurred. Internal control must be designed in such a way that it is responsive or responsive to the needs of the entity concerned, if the internal control is implemented properly then the internal control can be relied on to protect itself from fraud (Subagja, 2014). The larger the company, where the space for movement and the tasks that must be carried out are increasingly complex, making it impossible for company leaders to carry out direct control anymore, an internal control is needed that can provide confidence to leaders that company goals have been achieved (Kalendesang, Lambey, & Budiarmo, 2017). The importance of internal control must be realized by all employees in the company whose purpose is none other than to prevent fraud. This means that internal control is a process and procedure regarding management policies to provide adequate assurance, increase the effectiveness and efficiency of company activities. The bigger the company, the better the internal control so that the structure and division of tasks can be clearly distinguished and can minimize fraud (Amin, 2018).

Based on the description above, the hypotheses formulated are as follows:

"Internal Control has an effect on Fraud Detection in several State-Owned Enterprises Banks in Bandung City"

Research Methods

In this study, the object of research is Internal Control as variable X, and Fraud Detection as variable Y. While the subjects are Bank BTN, Bank BRI, and Bank BNI in Bandung. Which method will be used in this research is descriptive research and explanatory research using a case study approach? In this study, explanatory research is used to explain the influence of Internal Control on Fraud Detection in several state-owned banks in Bandung. The population in this study were employees of the SPI section and employees of the credit-related department. The sample selection process uses purposive sampling. The purposive sampling method is the sample taken by the researcher because the researcher considers that the sample has information or characteristics that are in accordance with the needs of the researcher (Fadjar, Sukandi, Mentari, Sihombing, & Hasbiya, 2021). The questionnaires distributed in this study amounted to 200 which were given to employees of the SPI section and employees of the credit-related department at several state-owned banks in the city of Bandung. The criteria used as a sample are all questionnaires that have been filled out and returned to the researcher, as many as 140 questionnaires.

Research Results And Discussion

Based on the results of the study, it can be said that Internal Control has an effect on Fraud Detection, it shows that better Internal Control tends to increase effectiveness in Fraud Detection. The influence of Internal Control with Fraud Detection seen from the correlation value is obtained so that if the Internal Control changes, it will have an effect on Fraud Detection. The magnitude of the influence of Internal Control on Fraud Detection is 56%. The results of this study are supported by previous research conducted by Abd Aziz, Ab Rahman, Alam, and Said (2015), the results of this study state that one of the factors for fraud is due to opportunities. Fraud that occurs due to opportunities is fraud that arises as a result of the weakness and ineffectiveness of the internal control system. This shows that the tendency of employees to commit fraud can be reduced by internal control. If the internal control structure is in place and running well, the chances of undetected fraud will be greatly reduced. The better the internal control, the less the level of fraud that occurs in an organization or company.

According to the findings in this study indicate that internal control can affect the detection of fraud. It is shown that employees at several state-owned banks in Bandung City are good in

implementing the ethical standards applied, are good at implementing risk management objectives, and always authorize all transactions by affixing their signatures. The results of this study support the theoretical basis in the previous discussion which states that one of the most significant risks faced by an organization is the risk of fraud. Fraud is any intentional act or omission designed to deceive another person, resulting in the victim suffering a loss and the perpetrator gaining an advantage. It is important for the organization to develop a strong governance structure and internal control to monitor the risk of fraud and other activities in order to help ensure the achievement of organizational goals (Reding et al., 2013). In this study, the results of the magnitude of the influence of Internal Control on Fraud Detection are 56%, which means that there are 44% remaining variables that are not examined which can be influenced by other factors such as internal audit, risk management, and Good Corporate Governance (GCG).

Conclusion

Based on the results of data analysis and discussion in the previous chapter, the researcher concludes that internal control has a significant effect on fraud detection in several state-owned banks in Bandung. This is shown that the employees at the bank are good in implementing the applied ethical standards, are good at implementing risk management objectives, and always authorize all transactions by affixing their signatures. The better the implementation of internal control, the more effective fraud detection will be.

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