# Internal Control, Anti-Fraud Awareness, and Prevention of Fraud

## Fitri Yani Jalil

**Abstract.** *Fraud is a serious threat to the organization and should prevent as early as possible. The prevention and detection of fraud is the responsibility of management. The fraud experts estimate that the fraud that has revealed is a small part of all the actual fraud that occurred. Therefore, the main effort is on prevention. This study aims to determine the effect of internal controls and anti-fraud awareness in the prevention of fraud. The samples used were employees of UIN Syarif Hidayatullah Jakarta. Data were analyzed using multiple regressions. The results showed that the internal control does not affect the prevention of fraud. Meanwhile, the anti-fraud awareness significant positive effect on the prevention of fraud. The results of this study are not yet entirely following the conditions at UIN Syarif Hidayatullah Jakarta. UIN Syarif Hidayatullah Jakarta has the concept of internal control and fraud prevention is good, but not yet implemented correctly by all parties. There are still some things that need to be improved practice, for example regarding employee performance evaluation, and program promotion of employees.*

**Keywords:** *internal control, anti-fraud awareness, prevention of fraud.*

**Abstrak.** *Fraud merupakan ancaman serius bagi organisasi dan harus dicegah sedini mungkin. Pencegahan dan pendeteksian fraud merupakan tanggung jawab manajemen. Para ahli fraud memperkirakan bahwa fraud yang sudah terungkap merupakan bagian kecil dari seluruh fraud yang sebenarnya terjadi. Karena itu, upaya utama adalah pada pencegahannya. Penelitian ini bertujuan untuk mengetahui pengaruh pengendalian internal dan kesadaran anti-fraud dalam pencegahan fraud. Sampel yang digunakan adalah karyawan UIN Syarif Hidayatullah Jakarta. Data yang diperoleh dianalisis menggunakan regresi berganda. Hasil penelitian menunjukkan bahwa pengendalian internal tidak berpengaruh terhadap pencegahan fraud. Sementara itu, kesadaran anti-fraud berpengaruh positif signifikan terhadap pencegahan fraud. Hasil penelitian ini belum sepenuhnya sesuai dengan kondisi di UIN Syarif Hidayatullah Jakarta. UIN Syarif Hidayatullah Jakarta memiliki konsep pengendalian internal dan pencegahan fraud yang cukup baik, namun belum di implementasikan dengan baik oleh seluruh pihak. Masih ada beberapa hal yang harus diperbaiki pelaksanaannya, misalnya dalam hal evaluasi kinerja karyawan, dan program promosi karyawan.*

**Kata kunci:** *pengendalian internal, kesadaran anti-fraud, pencegahan fraud.*

## Introduction

Non-profit organizations are organizations that embody the quality of value, spirit, and ethics, and they sustained by the ties of trust within or among its members (Rothschild and Milofsky, 2006). In such conditions, it is not good when trust betrayed by fraud (Holtfreter, 2008). The mission of a non-profit organization is not to maximize profits (Petrovits et al., 2011). They have a wide range of goals and operate in some sectors, mostly services such as sports and education, and social or community areas including civil and religious rights. Governments and communities increasingly need non-profit organizations to provide evidence of the effectiveness of their activities regarding funding their investments. This condition requires non-profit organizations to provide accountable evidence with audited accounts and results (Neely, 2011).

Universities are one of the economic entities that manage funds from individuals, communities and/or governments. Therefore, universities are obliged to provide periodic financial reports on the management of these funds to stakeholders. Transparency and accountability are the demands of the stakeholders. This condition encourages the management to produce quality reports that are free from fraud. Also, strict supervision needs to do to prevent the occurrence of unpredictable behavior by improving the system of internal control (internal control system).

Article 4 of Government Regulation No. 19 of 2005 on National Education Standards explains that this standard aims to guarantee the quality of national education. The existence of quality assurance institutions is a must as the effort of each university to assure the quality of process and educational outcomes to stakeholders both internal and external universities. In addition to having a Quality Assurance Unit, some universities also have a section of the Internal Control Unit or Internal Auditor that has the task to conduct audits in the areas of financial, academic, and resource management.

The overlapping of functional and structural positions of the academic circle of a university causes not yet achieved the professionalism of internal auditors in the environment (Yuniarti and Apandi, 2012). This fact indicates that internal control in the college environment is still weak. The lack of internal control in the college environment can lead to the emergence of fraud. The Center for Anti-Corruption Study of Gadjah Mada University (Pukat-UGM), from Pukat trend data corruption report (TCR), during the first semester (January-June) 2014, stated that the education sector contributed to 10 corruption suspects. Active lecturers at several universities do corruption. Corruption of the academic community dominated in the procurement sector of goods and services as well as the management of university assets. In addition to lecturers, there is also administrative staff in the university environment that is determined to be a suspect of corruption, namely misappropriation of grants funds IDR 700 million.

Tuanakotta (2012) mentions that those who engage in fraud are encouraged by the interaction between forces in the individual's personality and the external environment. These forces classified into three main categories, namely: first, situational stress; Second, opportunity; Third, personal characteristics. Cheating generally does when situational

pressures of the individual and a person's opportunity to access an asset or have the authority to regulate control procedures that permit a fraudulent scheme. To minimize this, it requires a reliable internal control and useful. Having good internal control is a widely used way by many parties to prevent fraud (Albrecht et al., 2012). Some studies suggest that internal controls influence fraud prevention (Hermiyetti, 2010; Prawira et al., 2014).

The fraud experts estimate that the fraud that has revealed is a small part of all the actual fraud that occurred. Therefore, the main effort is on prevention. Albrecht et al., (2012) says that in order to prevent effective fraud, the involvement of two principal activities is needed, namely: First, taking steps to create and maintain a culture of honesty and a high code of ethics. Second, assess the risk of fraud and develop concrete actions to reduce risk and eliminate opportunities for fraud.

Growing awareness of anti-fraud can also do fraud prevention. Suprajadi (2009) states that fraud awareness and methodology are systematic steps that can be performed to detect fraud in financial reporting. Besides, Singleton et al. (2010) state that what can be done to reduce fraud is to reward employees who have contributed to detecting fraudulent behavior and upholding the anti-fraud culture. With widespread fraud taking place, it should awaken all parties to develop an anti-fraud strategy and be consistently implemented to build awareness of anti-fraud and raise shared awareness of the dangers of fraud and its impact on organizations and employees. Tuanakotta (2012) mentions that there are two concepts other than internal control in preventing fraud, which is instilling awareness about the existence of fraud (fraud awareness) and efforts to assess the risk of fraud (fraud risk assessment).

Anti-fraud awareness is an effort to raise awareness about the importance of fraud prevention by all related parties in the organization. Through good leadership and supported with high anti-fraud awareness is expected to foster the concern and sensitivity of all parties to the dangers of fraud and control necessary to prevent it. By building internal controls and anti-fraud awareness, it is expected to minimize fraud either by employees or management of the organization and can protect organizational assets and assist management in achieving its objectives.

Hermiyetti (2010) states that the internal controls built and implemented by an organization can be a barrier to the misuse committed by employees. With good internal control, the occurrence of fraud and waste can detect and addressed earlier so that losses can avoid. Some studies suggest that internal control affects fraud prevention. Arfah (2011) found a positive impact on the application of internal control environment to the fraud prevention in the procurement process. Meanwhile, Prawira et al. (2014) state that the effectiveness of internal controls hurts the tendency of accounting fraud. Yuniarti and Ariandi (2017) also stated that internal control has a positive effect on the fraud prevention in the procurement process. The results of these studies mostly focused on the profit-oriented organization to see fraud prevention in the procurement process.

Not only profit-oriented organizations are potential fraud. The non-profit organization also has the potential for fraud. There are various forms of fraud that generally occur in public sector organizations. Yuniarti and Apandi (2012) say that for organizations that are

not profit-oriented then the type of fraud asset misappropriation is potentially more common than other types of fraud.

Still few research results related to internal control and anti-fraud awareness in the educational environment make the reason this study conducted. State Islamic University (UIN) Syarif Hidayatullah Jakarta is one of the educational institutions in which there are Quality Assurance Institution and Internal Control Unit. It expected that the academic community of UIN Syarif Hidayatullah Jakarta has a complete understanding of some methods of fraud prevention. This research was conducted to determine the effect of internal control and anti-fraud awareness in preventing fraud type asset misappropriation in UIN Syarif Hidayatullah Jakarta.

## Method

This research was conducted at UIN Syarif Hidayatullah Jakarta. The sample used in this research is employee UIN Syarif Hidayatullah Jakarta. This research was conducted by survey method by distributing questionnaires to potential respondents in order to obtain valid data and significant results. The survey method was chosen because the study of fraud is a study that is closely related to the behavior, which from the individual whose private secrets necessitate the collection of data to be anonymous in order to be kept confidential.

The variables used in this research are internal control, anti-fraud awareness and fraud prevention. Internal control variables are measured using internal control elements according to The Committee of Sponsoring Organization of Tredway Commission (COSO) (2013), which consists of: (1) control environment, (2) control activities, (3) risk assessment, (4) information and communication, and (5) monitoring. For the anti-fraud awareness variable is measured by using elements in Management Anti-Fraud and Controls sourced from Statement on Auditing Standard (SAS) No. 99 (AICPA, 2002), namely: (1) create and maintain a culture of honesty and ethics high, (2) carry out evaluations of anti-fraud and control processes, and (3) develop adequate monitoring processes. Meanwhile, fraud prevention variables are measured using fraud prevention methods according to Albercht et al., (2012), namely: (1) creating a culture of honesty, openness and mutual help, and (2) eliminating the chance of fraud.

This research conducted by using multiple regression analysis. Independent variable of this research is internal control and anti-fraud awareness, while the dependent variable is fraud prevention. The basic model can formulate as follow:

$$FP_i = \alpha + \beta_1 IC_i + \beta 2 FAi + \varepsilon$$

Where:

FP: Fraud Prevention, IC: Internal Control, FA: Anti-Fraud Awareness

## Result and Discussion

Respondents used in this research are employees of UIN Syarif Hidayatullah Jakarta. Researchers send questionnaires directly to the intended respondents. The questionnaires

were submitted totaling 140 questionnaires with the number of questionnaires returned by 135 questionnaires. Then the response rate is 96.42%. Return questionnaires are not all included in the analysis. Of the 135 returned questionnaires, only 107 questionnaires could use for this study. Nine questionnaires cannot use because not UIN Syarif Hidayatullah Jakarta employees fill them. Respondents filled thirteen incomplete questionnaires. The respondent or empty when returned did not fill six questionnaires.

**Table 1. Demographics Respondent**

|  | Characteristics | Frequency | Percentage (%) |
|---|---|---|---|
| Gender | Male | 50 | 46.73 |
|  | Female | 57 | 53.27 |
| Age | ≤ 20 years old | 0 | 0 |
|  | 21 - 30 years old | 22 | 20.56 |
|  | 31 - 40 years old | 55 | 51.40 |
|  | 41 - 50 years old | 25 | 23.36 |
|  | ≥ years old | 5 | 4.67 |
| Last Education | Diploma | 4 | 3.74 |
|  | S1 | 47 | 43.93 |
|  | S2 | 42 | 39.25 |
|  | S3 | 7 | 6.54 |
|  | Other | 7 | 6.54 |
| Work Experience | < 1 years old | 0 | 0 |
|  | 1 - 3 years old | 13 | 12.15 |
|  | 4 - 6 years old | 20 | 18.69 |
|  | 7 - 9 years old | 31 | 28.97 |
|  | ≥ 10 years old | 43 | 40.19 |
| Position | Lecturer | 22 | 20.56 |
|  | Lecturer with Additional Duties | 15 | 14.02 |
|  | Head of Division | 1 | 0.93 |
|  | Head of Subsection | 5 | 4.67 |
|  | Staff | 50 | 46.73 |
|  | Other | 14 | 13.08 |

Source: Data processed, 2017

The respondents in this research are mostly female, 57 people (53.27%). The majority of respondents aged 31-40 years old as many as 55 people (51.40%). The last education of majority respondents is S1 as many as 47 people (43.93%). Work experience majority of respondents over ten years as many as 43 people (40.19%). Respondents dominated by staff that consists of 50 people (46.73%). (For detail see Table 1).

In this research, the test of data validity using Pearson Correlation and test of reliability using Cronbach's Alpha statistic test. Validity and reliability test are used to ensure objective, valid and reliable data. The results of the validity and reliability test presented in Table 2.

### Table 2. Validity and Reliability Test

| Variable | Pearson Correlation | Cronbach's Alpha |
|---|---|---|
| Internal Control | 0.485** - 0.768** | 0.888 |
| Anti-Fraud Awareness | 0.560** - 0.831** | 0.841 |
| Fraud Prevention | 0.730** - 0.858** | 0.922 |

Source: Data processed, 2017

Table 2 show all variables in this research have valid and reliable criteria with the significance value is less than 0.05 for Pearson Correlation and more than 0.7 for Cronbach's Alpha. This study tested two hypotheses. First, examine the influence of internal controls on fraud prevention. Second, examine the effect of anti-fraud awareness on fraud prevention. The results of the regression analysis for each hypothesis were presented in Table 3.

### Table 3 Multiple Regression Result

| Variable | Coefficients | t | Sig. | Result |
|---|---|---|---|---|
| Constant | -9.851 | -3.456 | 0.001 | |
| Internal_Control | 0.178 | 1.522 | 0.131 | Not Significant |
| Fraud_Awarness | 0.740 | 7.277 | 0.000** | Significant |
| $R^2$ | 0.682 | **F count** | 111.779 | |
| Adjusted $R^2$ | 0.676 | **Sig. F** | 0.000** | |

Source: Data processed, 2017
Notes: ***: 1%; **: 5%; *: 10%

Based on result in Table 3, the multiple regression equation can be formulated as follows:

$$FP = -9.851 + 0.178IC + 0.740FA$$

The equation above shows that (1) $\alpha$ = -9.851, it means that if all the independent variables have a value of zero (0), the value of fraud prevention will decrease by 9.851 units. (2) Internal control coefficient is 0.178; this means that the increase of internal control will increase fraud prevention value of 0.178 if the other variables are still constant. (3) Anti-fraud awareness coefficient is 0.740; this means that the increase of anti-fraud awareness will increase fraud prevention value of 0.740 if the other variables are constant.

Table 3 shows that the adjusted $R^2$ is 0.676. This result suggests that variations in internal control variables and anti-fraud awareness may account for 67.6% of the variation in fraud prevention variables. Besides, it also is known that the value of F count of 111.779 with a probability of 0.000 which means that the regression model of this study is feasible used to test the data because it illustrates the fit model of the regression equation.

Table 3 also presents the level of significance for each hypothesis. The results for the first hypothesis show no significant effect between internal controls on fraud prevention, so empirically H1 fails to be supported (p = 0.131). The results of this study do not support the theory put forward by Albrecht et al., (2012) which states that the application of good internal control is a widely used fraud prevention method. The results of this study differ from several previous studies (Hermiyetti, 2010; Arfah, 2011; Prawira et al., 2014; Yuniarti and Ariandi, 2017) that found a positive and significant influence on the application of internal controls to fraud prevention.

In general, UIN Syarif Hidayatullah Jakarta has an excellent internal control concept, but it has not been implemented well by all parties. UIN Syarif Hidayatullah Jakarta already has a unique institution that conducts assessment and review on the effectiveness of internal control as representative of the top management of UIN Syarif Hidayatullah Jakarta, but the implementation of internal control has not run maximally. One of the best forms of internal control of UIN Syarif Hidayatullah Jakarta is on a strictly financial transaction authorization system, and every financial transaction is recorded and well documented. Nevertheless, there are still some internal controls that need to be considered and improved regarding employee recruitment and performance evaluation.

Meanwhile, the second hypothesis shows a significant influence between anti-fraud awareness of fraud prevention (p = 0.000). This result is in line with previous theories and results (Suprajadi, 2009; Singleton et al., 2010; Tuanakotta, 2012; Yuniarti and Ariandi, 2017). Anti-fraud awareness is an attempt to raise awareness about the importance of fraud prevention by all parties in the organization. Through good leadership and supported by

high anti-fraud awareness is expected to cultivate the awareness and sensitivity of all parties to the dangers of fraud.

The results of this study are following the conditions in UIN Syarif Hidayatullah Jakarta. UIN Syarif Hidayatullah Jakarta provides training, seminars, or adequate workshops to all employees regarding the dangers of fraud and how to anticipate the occurrence of fraud. In this way, it expected that every employee has knowledge of the fraud hazard and its impact on the organization and all parties. The thing that should be improved by top management concerning the implementation of anti-fraud awareness is regarding employee promotion.

## Conclusion

The conclusions obtained are: First, Internal control does not affect fraud prevention. Second, Anti-fraud awareness has a positive effect on fraud prevention. The results of this study have an impact on the top management of UIN Syarif Hidayatullah Jakarta (through a unique institution that conducts assessment and review) on the effectiveness of internal control so that it can always identify the occurrence of fraud in the university environment, and conduct periodic fraud risk assessment so that fraud action can eliminate. Top management must also be able to create awareness and understanding of anti-corruption culture to all elements in the organization to prevent the occurrence of fraud.

Based on the results of the research, the researchers recommend the following: First, Top management UIN Syarif Hidayatullah Jakarta should always keep the commitment to continue to implement internal controls regularly and structured so that organizations can be free from fraud that may be possible. Second, top management UIN Syarif Hidayatullah Jakarta should establish a daily executive team related to the implementation of internal control in each unit in the environment UIN Syarif Hidayatullah Jakarta. Third, top management UIN Syarif Hidayatullah Jakarta should be committed to evaluating the performance of employees consistently and sustainably. Fourth, top management UIN Syarif Hidayatullah Jakarta should give rewards to every employee who is achievements, one of them by promoting employees.

## References

Albrecht, W. S., Albrecht, C. O., Albrecht, C., C, & Zimbelman, M., F. (2012). *Fraud Examination 4th Edition*. New Jersey: South Western.

Arfah, E. A. (2011). Pengaruh Penerapan Pengendalian Internal Terhadap Pencegahan *Fraud* Pengadaan Barang dan Implikasinya Terhadap Kinerja Keuangan: Studi Pada Rumah Sakit Pemerintah dan Swasta di Kota Bandung (The Influence of the Implementation of Internal Control Against Fraud Prevention of Procurement of Goods and Their Implications for Financial Performance: Studies in Government

and Private Hospitals in the City of Bandung). *Jurnal Investasi*. Vol. 7 (2): 137-153.

Committee of Sponsoring Organizations of Teadway Commission (COSO). (2013). "*Internal Control-Integrated Framework*". Retrieved from www.coso.org/IC.htm.

Hermiyetti. (2010). Penerapan Pengendalian Internal Terhadap Pencegahan Kecurangan Pengadaan Barang (Application of Internal Control Against Fraud Procurement Prevention). *Jurnal Akuntansi dan Auditing Indonesia (JAAI)*. Vol. 14 (2): 42-53.

Holtfreter, K. (2008). Determinants of Fraud Losses in Nonprofit Organizations. *Nonprofit Management and Leadership*. Vol. 19 (1) : 45-63. doi: https://doi.org/10.1002/nml.204.

Neely, D. G. (2011). The Impact of Regulation on the US Nonprofit Sector: Initial Evidence from the Nonprofit Integrity Act of 2004. *Accounting Horizons*. Vol. 25 (1): 107-125. doi: https://doi.org/10.2308/acch.2011.25.1.107.

Petrovits, C., Shakespeare, C. & Shih, A. (2011). The Causes and Consequences of Internal Control Problems in Nonprofit Organizations. *Accounting Review*. Vol. 86 (1): 325-357. doi: https://doi.org/10.2308/accr.000000012.

Prawira, I M. D., Herawati, N. T., & Darmawan, N. A. S. (2014). Pengaruh Moralitas Individu, Asimetri Informasi dan Efektivitas Pengendalian Internal terhadap Kecenderungan Kecurangan (Fraud) Akuntansi: Studi Empiris pada BUMD Kabupaten Buleleng (Effect of Individual Morality, Information Asymmetry and Effectiveness of Internal Control of Fraud Accounting Trends: Empirical Study on BUMD Buleleng District). *Jurnal Ilmiah Mahasiswa Akuntansi*, Vol. 2 (1): 1-12.

Rothschild, J. & Milofsky, C. (2006). The Centrality of Values, Passions, and Ethics in the Nonprofit Sector. *Nonprofit Management and Leadership*. Vol. 17 (2) : 137-143. doi: https://doi.org/10.1002/nml.139.

Singleton, T., Singleton, A., Bologna, J., & Lindquist, R. (2010). *Fraud Auditing and Forensic Accounting*. New Jersey: John Wiley & Sons, Inc.

Suprajadi, L. (2009). Teori Kecurangan, Fraud Awareness, dan Metodologi untuk Mendeteksi Kecurangan Pelaporan Keuangan (Fraud Theory, Fraud Awareness, and Methodology for Detecting Financial Reporting Fraud). *Jurnal Bina Ekonomi*. Vol. 13 (2): 52-58.

Tuanakotta, T. M. (2012). *Akuntansi Forensik dan Audit Investigatif (Forensic Accountancy and Investigative Audit)*. Jakarta: Lembaga Penerbit FE UI.

Yuniarti, R. D. Y. & Apandi, R. N. N. (2012). Gejala Fraud dan Peran Auditor Internal dalam Pendeteksian Fraud di Lingkungan Perguruan Tinggi (Fraud Symptoms and Internal Auditor's Role in Fraud Detection in Higher Education Environment). *Paper Proceeding at Simposium Nasional Akuntansi*. Available at http://sna.akuntansi.unikal.ac.id/makalah/074-CG-46.pdf

Yuniarti, R. D. Y. & Ariandi, I. (2017). The Effect of Internal Control and Anti-Fraud Awareness on Fraud Prevention (A Survey on Inter-Governmental Organizations). *Journal of Economics, Business, and Accountancy VENTURA.* Vol. 20 (1): 113-124. doi: https://doi.org/10.14414/jebav.v20i1.751.