

CHAPTER I

INTRODUCTION

1.1 Background

Economic, science, and technology development are grow rapidly as the impact of globalization which resulted in the corporate world to experience increasingly sharp competition. This is forcing many companies to improve the quality of products or services as well as creating a competitive advantage that can ensure business continuity. The development of a company is strongly influenced by developments in the general business world where businesses are required to further improve the quality of its management. The company that is still small, in general led by the owner himself. Owner as a leader can directly supervise all things that happened in the company. Transactions that occur are still in minimum number, so it is natural that the leader can remember things that happened in his company. Direct supervision systems like this are usually found in companies that are still relatively modest. In accordance with the development of the business world, the problems faced by the company has changes from a relatively simple problem into a problem that is quite extensive and complicated. In this case the activities undertaken by the company must to be in line with the intended purpose. The company's goal in a competitive economy is to obtain the maximum profit in accordance with the company's growth in the long term.

The company is mainly created to provide goods or services for the community need that in line with the social attitudes of the community. In the era of Industrial Revolution in

England, the need for large capital is perceived once, due to rapid industrial development at that time requires a large investment. Along with it comes the separation between the owners of capital with those who run the company. In line with the delegation of authority to subordinate that are committed by managers and more difficult for the top managers (Managing Director) to reach and it's hard for conduct monitoring.

This development will continue, and the increasing of difficulty that will require each company to improve its ability for the sake of its survival. The issues will arise in the company, whether it is the question of planning, organizing, direction, and control. Each form of business entity, no exception for the type and scope of business that are always targeting to generate maximum profits, however, in the fact that the target is often not achieved, even deviations from the expected. This deviation can be caused by several factors, such as lack of accuracy of the information given by Controller to the Top Manager, or due to the lack of skilled personnel and so on. Lack of accuracy of the information obtained by the top manager can be caused due to lack of involvement of the Internal Auditor in conducting a review of the information presented by the Controller.

A top manager is not enough to have just received information from subordinates who act operationally, for example, President Director is informed by the subordinates which is "the Director", the Director informed by the Head of the Bureau. Head of the Bureau received information from the Chief and the Chief itself received information from subordinates. Because the information given is not independent, as executor, each of them could have reported the bad things that lead to the blurring of the real information. This is

reasonable because it involves their own credibility. In order for top managers receive the real information and independent as expected, it is necessary for the Company's Organizational Structure to have Internal Auditor role or parts, which is an independent appraiser and not involved in the company's operations. Management's ability to achieve the company's goals lies in the planning and monitoring functions. The function of planning is the first step while the monitoring function is the final step of management. All three other functions are functions of directing, organizing, and exercising will not be effective without the monitoring function. Weak control systems often result in losses due to errors, waste and abuse.

Each organization must have a purpose and to encourage the achievement of these goals, organizations need control. The control is done by leaders to gain confidence about achieving the stated goals. One system that can help management to oversee all activities of the company, called Internal Control. Internal control objectives would be achieved if the implementation of all procedures, methods and techniques is in accordance with established of company standards. It will require a section of the company that assists the leadership of the company in developing and overseeing the implementation of internal control. The implementation of the control functions are usually located in a section called Internal Auditing, while the one who do the task is known as Internal Auditor.

According to Holmes and Burns (2005), the notion of internal auditing is "An independent appraisal function established within the company or organization to test and evaluate the activities that exist within the company as a service to the company." Internal

Audit as an independent appraisal activity established in order to test and evaluate the activities of an organization that aims to help members of the organization to complete their responsibilities effectively and because of that, internal audits provide their analysis, assessment, recommendation, advice and information in connection with the examined activity. Without the internal audit function, leaders including the board of directors will be difficult to obtain free internal information regarding the performance of the organization. With the development of the role and activities of the Internal Auditor, the Internal Auditor services for the management can not be ignored. Management and Internal Auditors need each other and help each other in achieving the targeted goals of the company.

In a company, internal auditors assess whether the internal control system that has been set by management goes well and efficiently, whether the financial statements show the financial position and results of operations accurately and every part actually implement the policy in accordance with the plans and procedures that have been established. Internal audit provides precise and objective information to assist management in making decisions to improve the management capabilities and reduce the possibility that could harm the company.

Internal Auditor helps management and other employees in the company performing their duties. In essence Internal Auditor within an organization is to help the management company, especially as an advisor in the management acted upon management control. This is done partly by assessing the efficiency, obedience and effectiveness of examined objects in managing and accountable for the implementation of activities or programs of the

company. The correct place for Internal Auditor in the organizational structure that is as independent parties and accompanied by a firm Job Description will have a positive impact in the communication process between the Internal Auditor with the management and owners of the company.

Bank is a financial intermediary institute that generally established with the authority to accept deposits, lend money, and issue promissory notes, also known as a banknote (Hoggson, NF) (1926). As mentioned above, the bank providing storage services and borrowing money. In the process of providing storage services and borrowing money the internal auditors is required as control functions and any activities carried out by the bank. Here's internal auditors perform their duties as a tool to achieve the objectives of the company and internal auditors detect fraud and protect company property and also provide consulting services to management in assessing the quality of performance in accordance with the expected goals. As said by Amrizal (2004), although the internal auditor can not guarantee that fraud will not occur, but they should use their skill carefully and expected to detect fraud and can provide useful advice to management to prevent fraud.

While fraud or cheating can happen to any company or organization, whether fraud that are intentional, or unintentional. We often heard and read articles and news about the indications of fraud or irregularities in a company or government agency that is done by their own employees. The rise of the news about the investigation of the indications of fraud in the company and also in country constitutional in newspapers and television increasingly made aware that we have to do something to correct the frauds.

Although the main focus is now common in top management of the company, or especially the first high official of an institutions, but in fact deviant behavior can also occur in various layers of the organization's work. Law enforcement efforts acts against fraud has been less bring satisfactory. Actions taken by the government to improve the overall situation has not shown signs of significant success. The effectiveness of legal provisions cannot be achieved if not supported by norms and ethical values of the related parties. In the context of an organization, individual ethical and moral values should emerge as the organization's ethics rules that had been coded as a code of ethics and the completeness. Fraud itself is generally an unlawful act committed by people from inside or outside the organization, with the intent to gain personal or group advantage that can directly harm the other party (ex: organization). Common- people often assume fraud as a crime or act of corruption.

In carrying out its business activities, the company continues to face a variety of risks, called business risk. Including the risk of fraud which is belong to the integrity risk. According to the ACFE (Association of Certified Fraud Examiners) (2012), fraud can be classified into three categories, Financial Statement Fraud, Asset Misappropriation, and Corruption. Early signs (symptoms) are usually appears in the case of fraud, however the emergence of the symptoms not mean there has been fraud. These symptoms known as Red flags, which should be understood and used by internal auditors in conducting further analysis and evaluation to detect fraud that may arise prior to investigation.

Bank fraud are ways to earn money, assets, or other property owned or held by a financial institution. In many cases, bank fraud is a criminal offense. While certain elements

of the law varies between jurisdictions bank fraud, bank fraud term applies to actions that employs a scheme or artifice, as opposed to a bank robbery or theft. For this reason, bank fraud is sometimes regarded as a white collar crime.

As stated by PPATK that is based on statistical data centers Pusat Pelaporan dan Analisis Transaksi Keuangan (PPATK) were collected from October 2003 to January 2009, the banking industry is the biggest contributor to statements of Laporan Transaksi Keuangan Mencurigakan (LIKM) amounted to 78,8%, equivalent to 19.242 cases. It is evident that the banking business is vulnerable to the emergence of business fraud.

After understanding the types of fraud, internal auditors need to understand exactly the good internal control system in order to make efforts to prevent and detect fraud. According to COSO, internal control system consists of five components, that is the Control Environment, Risk Assessment, Control Activities, Information And Communication, as well as Monitoring. If the system of internal control has been placed and run well, opportunities for undetected fraud will be reduce. Fraud examiner must know and well understand each element in the internal control structure in order to be able to evaluate and look for weaknesses.

Based on the description above, the authors are interested in doing research with the title "AN ANALYSIS OF INTERNAL AUDIT ROLES IN THE PREVENTION OF FRAUD, CASE STUDY IN PT BANK NAGARI PADANG, SUMATRA BARAT."

1.2 Problem Statement

Based on the description above, the problem to be studied are: How is the role and the professionalism of Internal Auditors in the prevention of fraud in PT Bank Nagari Padang, Sumatera Barat ?

1.3 Research Objective

This research is conducted to obtain an understanding about the current condition and the results will be analyzed afterwards. The objective of this research is to find out how the internal auditor role in preventing fraud by comparing the real practices at PT. Bank Nagari with the applicable regulation.



1.4 Research Benefit

From this research, the researcher expect will give some benefit for researcher, company, and other parties.

1. For the authors, this study is an intellectual exercise which is expected to sharpen scientific thinking and improve the scientific competence.
2. For companies, this research can be a reference for the internal auditor's role itself, so that the company can review how the performance of the internal auditor itself.

3. For the scientific community, this study is expected to complete the assessment reference materials, especially for topics in the accounting subject that useful for its progress and development in the future.
4. For accounting knowledge and subsequent researchers, hoped this research can provide information in the internal audit subject.

1.5 Writing Systematic

Chapter one is an introduction. This chapter consists of background, problem statement, problem identification, research objectives and research benefit. Chapter two is a literature review. In this chapter discuss about theories of auditing, internal auditing, and fraud. Chapter three is about the research methodology. This chapter will explain about types of research, setting and timeline schedule, type of data, data collection method, research instrument, and analysis method.

Chapter four is about Analysis and Evaluation. This chapter will elaborate about analysis and evaluation between theory and practice also to determine similar and differential between theories and practices. Chapter five is about Conclusion and Suggestion. This chapter contains the conclusion of the research results as well as suggestions for future research.



