

CHAPTER I

INTRODUCTION

1.1 BACKGROUND

Bank is a monetary institute that is generally established with the authority to receive deposit of money, and issuing promissory notes or known as banknotes (Hoggson: 1926). According to The Act of The Republic of Indonesia number 10 about banking, we can conclude that the banking business covers 3 activities, which are collecting funds, distributing funds, and provide other banking services. Collecting and distributing funds are the main activities of the bank, whereas providing other banking services are only supporting activities. The activity of collecting funds consist of collecting funds from people in the form of current accounts, savings and deposits. The activity of distributing funds consists of granting loans to people. Whereas other banking services are provided to support the process of the main activities.

In the process of performing its functions, it is almost impossible for the top managements to directly monitor all the activities of the bank. Because of that, an internal auditor is needed to control every activity that is conducted by the bank. The internal auditor carry out their duties to monitor the course of the operation, also to analyze what, why, and how to control the operation efficiently. Furthermore, internal auditors are also in charge to detect fraud for securing the company's assets and provide consulting services for management in assessing if performance quality is in accordance with the expected goals.

The most common definition of fraud is a generic term, and embraces all the multifarious means which human ingenuity can devise, which are resorted to by one individual, to get an advantage over another by false representations. No definite and invariable rule can be laid down as a general proposition in defining fraud, as it includes surprise, trickery, cunning and unfair ways by which another is cheated. The only boundaries defining it are those which limit human knavery (Albrecht, et al.: 2012). In simple definition, fraud is deliberate deception. This includes lying, deceiving, embezzlement, and stealing.

Banking fraud is every counterfeit, theft, falsification of information or other methods that violates the banking law for the purpose of gaining money. Whereas specific elements from each banking fraud are different between jurisdiction, time period of banking fraud using scheme, compared to banking fraud or theft. This creates a unique characteristic to this type of crime. Banking fraud are commonly perpetrated by people with high education and position. Because of this, banking fraud are commonly considered as white collar crime.

In order to prevent fraud, every company has an internal auditor to control the activity and help the managements in making decisions and achieving the company's goals. Internal audit is independency, objectivity, and consulting activity that is designed to increase the value operation of an organization. This helps the organizations in achieving its goals and perform a systematic approach and discipline to evaluate and increase effectivity of risk management, control and governance. Internal auditors contributes in fraud prevention. At its simplest, internal auditing involves identifying the risks that could keep an organization from achieving its goals,

making sure the organization's leaders know about these risks, and proactively recommending improvements to help reduce the risks (The Institute of Internal Auditors: 2012).

The Indonesian Central Bank, as the regulator for banking up until the year of 2013, has reported in that throughout January until December 2013 they have been investigating a total of 62 case of banking crimes. These case took place in 35 bank offices, where 19 cases took place in 14 commercial banks and 43 cases took place in 21 rural banks (Dwiantika: 2014). This case proves that banking company is very vulnerable against fraud. But this tragedy can be avoided with an implementation of a decent internal audit.

Based on the explanation above, the author is interested in investigating about internal audit in banks and its roles in preventing fraud, with the title: "THE ROLE OF INTERNAL AUDITOR IN PREVENTING FRAUD, Case Study: PT. Bank Pembangunan Daerah Sumatera Barat (Bank Nagari)".

1.2 PROBLEM DEFINITION

The formulation of the problem in this study is as follows:

1. Have the internal audit been implemented adequately in PT. Bank Pembangunan Daerah Sumatera Barat (Bank Nagari)?
2. Can the internal audit play a role in preventing fraud in PT. Bank Pembangunan Daerah Sumatera Barat (Bank Nagari)?

1.3 RESEARCH OBJECTIVES

With this research the author aims to:

1. Find out whether the internal audit in PT. Bank Pembangunan Daerah Sumatera Barat (Bank Nagari) have been implemented adequately.
2. Find out whether the internal audit can play a role in preventing fraud in PT. Bank Pembangunan Daerah Sumatera Barat (Bank Nagari).

1.4 RESEARCH BENEFIT

This research is expected to benefit the following parties:

1. The Author:
The author can gain knowledge and understanding in the field of internal audit.
2. The Company:
The result of this research can be used as inputs, information, and additional data that are useful in the company's development.
3. Other Parties:
Other parties, especially fellow students, and other readers as a contribution of ideas and information in the field of internal auditing.

1.5 WRITING SYSTEMATICS

To get a quick overview of this proposal, the writing system will be divided into the following chapters. Chapter one is the Introduction, that is the background of the research, problem definition, research objectives and the research benefits. Chapter two is Literature Review, which explains the concepts and basic theories for internal

auditing and fraud. Chapter three is Research Method that contains the description of how to conduct this research operationally. So this part is needed to explain the research method, data collection method and data analysis method.

Chapter four is Research Result and Discussion, which explains the object of the research, the whole research process, the data analysis techniques and the results according to the method that is used. Chapter five is Conclusion and Suggestion, which describes the overall conclusion from the results that have been obtained in this study. It also explains what the limitations are to this research and suggestions for further studies in order to develop their research.

