

CHAPTER I

INTRODUCTION

1.1 Background

Rapid technological change is affecting corporate competition in Indonesia. It can affect operational performance and also cause problems that can hinder business growth, making it difficult for companies to oversee all of the operational activities. This situation requires the company management to be able to manage the company effectively and efficiently to achieve the goals set. One effort to create resistance and competitiveness for the company is to establish an internal audit that help the top managements evaluate the existing control system and assist in achieving the company's goals.

In a radically changing corporate environment, the function of internal audit becomes a major supporting function for management, audit committees, auditors, directors, and key stakeholders of the company. So management needs internal audit function so that company can achieve the desired level of performance. The need for internal auditor is felt by the company because the internal auditor have an important role in tackling all forms of fraud. Fraud that occurs in the company threatens the survival of the company. The fraud has a negative impact on the economy as a whole, causes enormous financial losses, weakens social stability, threatens the structure of democracy, and causes loss of trust in the economic system.

According to Tuanakotta (2013:28) defines fraud as: "...Any illegal act characterized by deceit, concealment or violation of trust. These acts are not dependent upon the application of threats of violence or physical force. Fraud are perpetrated by individuals, and organization to obtain money, property or service; to avoid payment or loss of service; or to secure personal or business advantage". Usually fraud is not easy to find. Fraud is usually discovered by accident or by an intentional attempt to detect it. So the management needs to be careful of the possibility of fraud that occurs in the company under its management.

Before fraud occurs, we must take prevention. Fraud prevention is a system and procedure specifically designed and implemented to achieve the main goal, not the only objective to prevent and deter fraud. One way to prevent fraud is through internal audit.

According to IIA's International Professional Practices Framework (2011) :

"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organizations operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes".

Internal auditors have an important role in the company because the internal auditor acts as an independent appraiser to review the company's operations by measuring and evaluating the adequacy of controls as well as the efficiency and effectiveness of the company's work.

In addition to carrying out effective internal audits, in the prevention of fraud also requires adequate internal control. Internal control is a management tool used to provide reasonable assurance that management's objectives are being achieved. Therefore, responsibility for providing an adequate and effective internal control

structure rests with an organization's management. Managers should realize that a strong internal control structure is fundamental to control of an organization and its purpose, operations, and resources. The head of each governmental organization must ensure that a proper internal control structure is instituted, reviewed, and updated to keep it effective. A positive and supportive attitude on the part of all managers is critical. All managers must be individuals of personal and professional integrity. They are to maintain a level of competence that allows them to understand the importance of developing, implementing, and maintaining effective internal controls. In this case, internal control functions to minimize the risks that may occur in the company. In order for the fraud detection function to function properly, the internal auditor must be aware of various opportunities and weaknesses in internal control that can enable fraud to occur.

The fraud negatively affects an economy as a whole, by causing huge financial losses, weakening social stability, threatening democratic structures, leading to a loss of trust in the economic system, or corrupting and compromising economic and social institutions (Nicolescu C., 2017). It is undeniable that the act of a fraud can occur even though the prevention of fraud has been applied. The companies did not consider fraud prevention as a main objective within their organization's system of internal control. The action for fraud prevention was considered an implicit component within the general objectives, of compliance, of the internal controls, and therefore not seen as a structured programme, with clear and explicit aims regarding fraud prevention and detection (Petracu D., 2013, p.35).

Some cases of fraud such as that occurred at Bank Negara Indonesia (BNI 46) in Ambon (2019), which involved cases of embezzlement of customer funds committed by the Deputy Head of BNI Main Branch Office (KCU) Ambon, Faradiba Yusuf (FY) and three actors who helped the suspect; The head of the BNI Branch office in Tual and his partner JRM, as well as MM who is the leader of the Branch Office (KCP) in Masohi, Central Maluku Regency. The embezzlement case of BNI Ambon customer funds was revealed after the BNI auditor held an internal investigation at the bank. The results of the internal investigation found that there were unnatural transactions and investments made by FY that cost banks up to 58.9 billion. (www.cnnindonesia.com , 2019)

This case began after the Maluku Regional Police received a report from BNI that the results of the audit from the center to the regions found that there were irregularities related to investment in BNI 46 Ambon Main Branch. This abnormal event took the form of a transaction that resulted in BNI experiencing a loss and they found indications of banking crime. It was reported on October 8, 2019 to the Regional Police and after being received directly coordinated with the BNI Legal Department to coordinate and simultaneously expose the position of the actual incident. A person with the initials FY who is part of a syndicate collects funds from investors with the promise of giving a large enough return to do business. The recipients of the alleged flow of funds are the owners of capital who appear to receive refunds and returns from individuals, even though the funds come from the embezzlement of bank funds. (www.cnnindonesia.com , 2019)

From the description of the case above, we can see that the implementation of internal audit and internal control has not been optimal yet, causing losses to the

company. Therefore internal audit as the company's internal supervisor in charge of checking and evaluating the internal control. Internal control is a very important part to company get goals maximum. The larger the company the more important is the meaning of an internal control in achieving the goals of the company. Because internal control is one of the goals, which is to protect the asset and property of the company from all forms of prevention.

Banking fraud is a crime committed related to the banking industry, both institutions, instruments, and banking products, which can involve banks and their customers, both as perpetrators and victims. According to Law of the Republic of Indonesia number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998 concerning Banking Article 51 states that banking crimes are criminal offenses as referred to in Article 46, Article 47, Article 47A, Article 48 paragraph (1), Article 49, Article 50, and Article 50A, covering thirteen types of criminal acts. The thirteen types of banking crimes are further summarized into four types of crime, namely: (a) Crimes related to licensing; (b) Criminal Acts relating to secrecy; (c) criminal offenses relating to supervision and guidance and (d) criminal offenses related to bank business.

In this research, The researcher is interested in examining how much influence the internal audit quality and implementation of internal control on fraud prevention in Bank Negara Indonesia (BNI) Ahmad Yani Padang City. Bank Negara Indonesia (BNI) is the oldest commercial bank in the history of the Republic of Indonesia. In the city of Padang BNI Ahmad Yani is the main branch

office which is a representative branch office directly from the head office of Indonesia.

Based on the background that has been explained, the researcher is interested in conducting research with the title: The effect of internal audit quality and implementation of internal control on the prevention of fraud in Bank Negara Indonesia (BNI) Ahmad Yani Padang City.

1.2 Problem Formulation

Based on the background of the research above, the problem of the study is as follows:

1. How much influence does Internal Audit Quality on the Prevention of Fraud?
2. How much influential is the Implementations of Internal Control on the Prevention of Fraud?

1.3 Objectives of Research

Based on the problem formulation above, the objective of this research are :

- 1) To determine the effect of Internal Audit Quality on Fraud Prevention.
- 2) To determine the effect of the Implementation of Internal Control on Fraud Prevention.

1.4 Research Benefit

The purpose of this research is to broaden researchers, this research is expected to be used as a contribution of knowledge to support accounting knowledge, especially the influence of internal audit and the implementations of internal control on fraud prevention.

1.4.1 Practical Use

a. For Authors

For the authors, this study are expected to provide knowledge about the effect of internal audit and the implementation of internal control on fraud prevention. In addition, the author can also find out the truth of the application of the theory that can be lectured with existing practice in the field, and can complete the thesis preparation materials to meet the requirements in taking the undergraduate examination in the International Accounting Study Program at the Faculty of Economics , Andalas University.

b. For Banks

For the Bank, this thesis will be used as information and evaluation material for the implementations of internal audit and the implementation of fraud prevention.

c. For Other Parties

It is expected to be a source of thought for the development of science and as a means of information for readers who will conduct research on the same field of study.

1.5 Writing Systematic

In this research comprises in five parts, the first chapter is describes a background, problem definition, research purpose and benefit and also writing systematic. For literature Review about this research is identified in second chapter.

For research methodology including the type of research, population and sampling, data collection method, research instrument, type and source of the data,

model and technique data analysis are presented in the third chapter. For analysis of the research result and other factor that could influence the finding can be found in the fourth chapter. In the fifth chapter it present the conclusion, limitation and suggestion



