



Internal Controls, Investigative Audits, and Forensic Accounting Can Help Prevent Fraud

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Abstract. To reduce the level of fraud, early disclosure of fraud is required. Internal control, forensic accounting and investigative audits are included in the method of revealing fraud early. This study is expected to measure how the effect of the application of internal control, investigative audits, and forensic accounting in revealing an act of fraud. Data collection by distributing questionnaires and data processed with the SPSS version 26 application with multiple regression analysis techniques. The proof of this study reveals that internal control and investigative audits have a positive and significant effect on fraud disclosure, while forensic accounting has no effect on fraud disclosure. However, simultaneously, internal control, investigative audit, and forensic accounting affect fraud disclosure in the government of Penukal Abab District Government (PALI) Regency.

Keywords: Internal Control, Auditing, Fraud.

1 Introduction

According to the Corruption Crime Act by region from 2017 to 2021, South Sumatra Province has 39 corruption cases [1]. Internal and external audit parties that have the responsibility of enhancing the quality of financial statements at institutions and corporations and also have a role in subsequent supervision/investigation if cases of anomalies are discovered, disclose fraud cases [2]. Financial Inspection Agency, the government's external auditor, submits the results of an opinion assessment on the Local Government Financial Statements on a yearly basis. Over the last five years, the evolution of PALI district audit views from 2017 to 2021 has seen ups and downs in opinions received. In 2017, and 2020, qualified opinions were obtained. However, in 2018 and 2019 it increased to unqualified opinion. Meanwhile, in 2021, PALI district received the unqualified opinion. The opinion submitted by the CPC in 2021, supported by findings that can be the beginning of signs of fraud.

Efforts to minimize and suppress crimes originating from fraud must be carried out optimally by internal audits in the central and local government sectors. Fraud cases that occur can harm state finances and also hamper the ongoing infrastructure process. This phenomenon can be influenced by several factors, namely the application of internal control, investigative audits and forensic accounting in disclosing fraud. [3] states that with the effective implementation of internal control objectives, government

organizations have a quality internal control system to control fraud risks and reduce fraud rates. The next factor is an investigative audit.

An investigative audit is a type of audit that is conducted when there are indications of fraud. An investigative audit [4] is an assessment to identify or disclose fraud using procedural and investigative approaches employed in a fraud case investigation. Forensic accounting is the final component impacting the fraud disclosure procedure [5]. When auditors can find or disclose findings and proof of fraud cases, they can present benchmarks for the success of using forensic accounting.

Previous research [3] and [6] demonstrate that internal control factors have a favourable and significant impact on fraud disclosure. Audit of investigation [7] [8]. However, unlike [9], which demonstrates that investigative audits have no influence on fraud disclosure. Forensic accounting [3] has an effect on fraud disclosure variables, but varies from [10] and [11] in that it does not have an effect on fraud disclosure.

2 Literature Review

An auditor is essential to understand considerable internal control over audits [12]. Auditors who have decided to respond to the risk of material misstatement due to fraud or misconduct using a fully substantive approach. According to COSO [13], internal control is a method utilised by an organization's internal and external stakeholders to provide sufficient confidence in the achievement of operational objectives, the accuracy of financial data, and compliance with laws and regulations. Internal control is a procedure or method for performing managerial supervision, protecting tangible and intangible assets, and adhering to applicable regulatory standards in order to meet the goals of fraud prevention, detection, and disclosure. If internal control has been implemented, it allows accounting fraud to occur will be minimized.

Investigative auditing [14] is an activity that involves an indefinite examination of a certain scope, even more specifically and in detail on areas of responsibility that purportedly show evidence of abuse of authority. Investigative audits generate audits in the form of recommendations for further action based on the severity of irregularities or abuse of authority discovered. The characteristics listed below assist forensic examiners in detecting fraud disclosures [14].

Forensic accounting [12] Broadly divided into accounting terms, namely accounting disciplines which include auditing, while forensic terms are legal problem solving. In other words, forensic accounting uses accounting concepts to deal with legal issues that arise inside and outside the courtroom. [15] positing that forensic accounting is a specialized accounting practice considering engagements arising from actual or anticipated disputes and litigation.

Disclosure of fraud [16] If there is a complaint from the community or an organisation (agency) and there is a legal foundation, the auditor conducts an examination by detailing what, why, how, who, and other related questions. According to [7], fraud disclosure is a forensic auditor or an inquiry using examination methodologies to uncover fraudulent activities committed purposefully or unintentionally in order to get a personal advantage through fraud and fraud. There is an examination technique for fraud disclosure that has been regulated under the State Financial Inspection Standard in the form of examination with a specific purpose.

3 Research Methodology

This research is characterised as quantitative because of how the information gathered from the results of the question-naire distribution to the Auditor at the Regional Inspectorate of PALI Regency was analysed. The total number of samples obtained was 96. This study employs a number of statistical tests, including validity and reliability tests, multiple regression analysis, classical assumption tests, and hypothesis testing, all of which are performed using IBM SPSS Version 26.0 software.

4 Result and Discussion

The test results reveal that the R Square value produced has a coefficient of determination of 0.4780. According to this figure, internal control factors, investigative audits, and forensic accounting influence 47.80% of fraud disclosures. Test F explains that the nominal F is 29.964 with a significance level of 0.000. This suggests that the $F_{\text{calculate}}$ value is bigger than the F_{table} value ($df = 96-4 = 92$). The significance level of 0.000 is less than 0.05. Overall internal control, investigative audits, and forensic accounting all have a substantial impact on fraud disclosure.

Multiple Regression Analysis produces the following equation:

$$Y = 2700 + 0,173 X_1 + 0,239 X_2 + 0,196 X_3 + e$$

A coefficient of 0.173 is established, indicating a one-way relationship between internal control elements and fraud disclosure. This means that changes in internal control will have an impact on the disclosure of fraud to the PALI Regency Government. The regression coefficient with a positive sign explains that the greater the organization's application of internal controls, the higher the fraud disclosure is also because auditors are simpler to detect and reveal the fraud.

Partially obtained a coefficient of 0.239, a positive value indicates that there is a unidirectional relationship between investigative audits and fraud disclosure. This means that if the investigative audit increases or decreases, it will affect the disclosure of fraud to the PALI. The regression coefficient with a positive sign explains that the better the application of investigative audits carried out by the organization, the better fraud disclosure [2] is also because auditors are easier to detect and disclose the fraud [17].

A positive coefficient of 0.196 shows a unidirectional association between forensic accounting and fraud disclosure. This means that changes in forensic accounting will have an impact on the report of fraud to the PALI government. The regression coefficient with a positive sign explains that the better the organization's implementation of forensic accounting [17], the better the fraud disclosure. Employees make it easier to discover and report fraud [2].

5 Conclusion

Investigative audits and internal controls have a beneficial impact on fraud disclosure in PALI District. Forensic accounting has no impact on fraud disclosure.

Simultaneously has a significant and positive effect on internal control, investigative audits, and forensic accounting for fraud disclosure.

Future research is expected to include additional elements that have a greater impact in influencing fraud disclosure. To increase the seriousness of respondents in responding to all important questions and to increase the validity and reliability of findings, interviews are also intended to complement the survey approach.

Auditors are expected to continue to improve internal control, conduct investigative audits, and conduct forensic accounting in accordance with fraud disclosure protocols at the Regional Inspectorate of PALI Regency.

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