

The Influence of the Implementation of Internal Supervision and Good Corporate Governance (GCG) on the Prevention of Fraud at the Bina Administration Foundation

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ABSTRACT

The background of this research is that there are still many cases of fraud in various agencies. Fraudulent practice is a danger that can threaten the sustainability of the organization, so preventing fraud is an initial line of defense to protect the organization. The management of the organization has an important role in the process of preventing fraud. The purpose of this study was to determine the effect of internal control and GCG on fraud prevention at the Foundation for Administrative Development (YBA) Bandung. The sampling technique used a saturated sample with a total sample of 42 employees of the Bandung Administration Development Foundation. The research method uses the explanatory method. Data analysis used multiple linear regression. The results show that the implementation of internal control and GCG have an effect on fraud prevention with a large effect of 72.8%.

Keywords: Internal Control, Good Corporate Governance, and Fraud Prevention.

INTRODUCTION

The high level of business competition forces every company to be able to compete in achieving maximum profit. But besides that, the company must also pay attention to the risk of fraud that may occur. The threat of fraud risk can come from inside or outside the company. Therefore, it is important for companies to improve the effectiveness and efficiency of operational activities to reduce these risks. The act of fraud is currently a dynamic that attracts the attention of business people. Various forms of fraud in Indonesia are not only corruption, but many other cases such as fraud and so on.

Fraud itself is a form of deviation carried out to deceive a party that can cause harm and aims to gain personal/group gain. Fraud consists of various forms including fraudulent financial statements, misappropriation of assets, and corruption. Below will be presented the results of a survey conducted by the ACFE Indonesia Chapter in 2019 as follows:

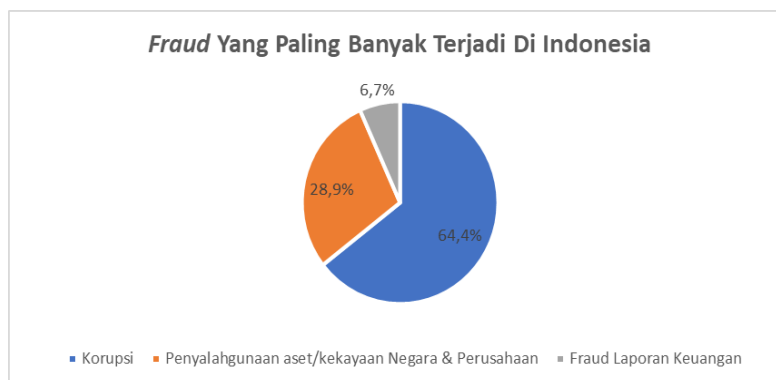


Figure 1 Fraud Survey in Indonesia in 2019

The ACFE Indonesia Chapter survey conducted on 239 respondents showed that the most common frauds in Indonesia were corruption at 64.4%, misuse of state/company assets/wealth at 28.9%, and financial statement fraud at 6.7%. Fraud cases in Indonesia that occur in public/private companies tend to have the same motive. Fraud is a factor that needs to be avoided because it can result in losses and affect the continuity of a business, therefore it is important to take preventive measures to reduce these risks.

Internal control is a form of control that is carried out in a systematic and organized manner to prevent fraud in the organization. Internal control is a tool used to manage and evaluate organizational resources so that they can play a role in preventing fraud. In addition to internal control, GCG is also an important factor that can be used in fraud prevention. Good corporate governance is an important element used to improve good corporate governance in the company/government. The implementation of GCG must be supported by the development and implementation of an appropriate system to prevent the risk of fraud.

LITERATURE REVIEW

Internal Control

Internal control is part of risk management that must be carried out as effectively as possible by each institution to achieve the institution's goals, one of which is preventing the risk of fraud. The effectiveness of internal control is strongly influenced by the quality of the resources owned by an organization [2]. Internal control is designed to ensure the effectiveness and efficiency of operations, reliability of financial information, and compliance with generally accepted regulations [3]. According to [2] the components of internal control include:

1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information and Communication
5. Monitoring Activities

Good Corporate Governance (GCG)

According to FCGI in [4], GCG is a set of systems that regulate the rights and obligations of both internal and external stakeholders. According to FCGI in [4] it states that the GCG indicators are based on the following:

1. Fairness
2. Transparency
3. Accountability
4. Responsibility
5. Independence

Fraud Prevention

Fraud is an act that violates the law and can harm various parties. Basically, fraud is a difficult thing to overcome, even corruption in Indonesia needs to be handled systematically. However, we must be optimistic that this can be prevented or at least mitigated by implementing anti-fraud controls. Fraud prevention is an activity carried out by an organization to prevent or minimize the risk of fraud effectively at low costs [5]. According to [6, 7] several fraud prevention methods include the following:

1. Determination of Anti-Fraud Policy
2. Standard Preventive Procedure
3. OrganizationControl Techniques
4. to Fraud

Framework

Below will be presented a picture of the framework of thought as a form of research flow of thought, namely as follows:

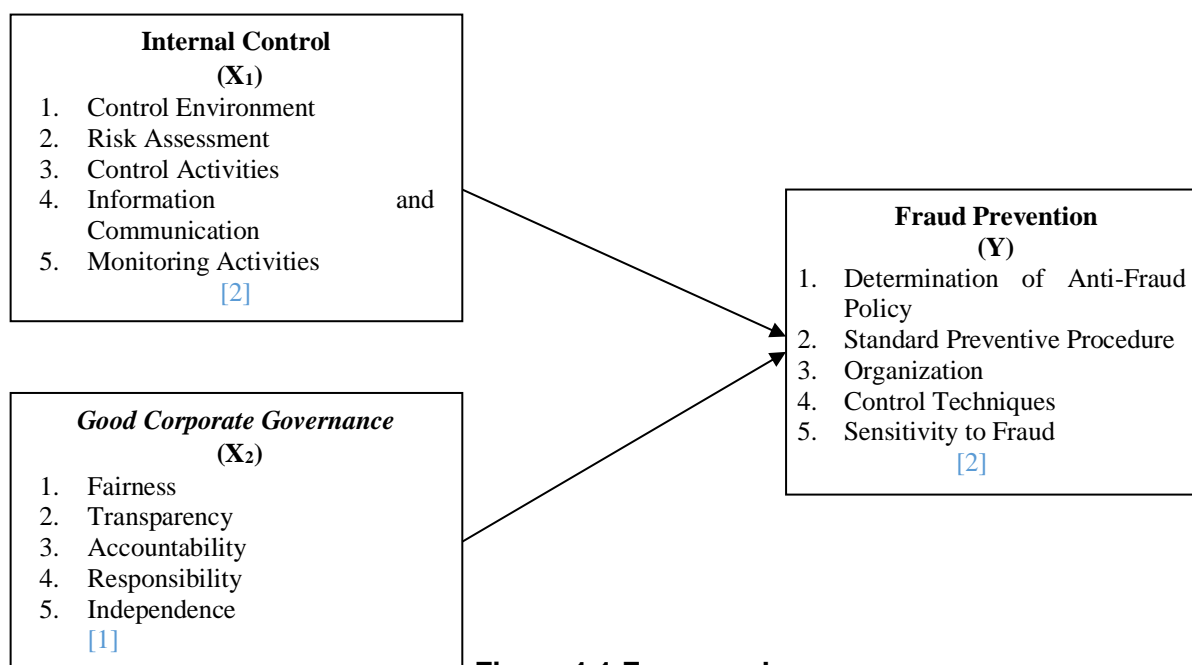


Figure 1.1 Framework

Research Hypothesis :

- H1 : There is an effect of implementing internal control on fraud prevention.
 H2 : There is an effect of GCG implementation on fraud prevention.

RESEARCH METHODOLOGY

This type of research is quantitative using the explanatory method. The sampling technique used a saturated sample with a total sample of 42 employees of the Bandung Administration Development Foundation. The types and sources of data are primary. Data collection techniques using a questionnaire. The independent variables are internal control and GCG, while the dependent variable is fraud prevention. Data analysis used multiple linear regression [1, 8].

RESULTS AND DISCUSSION

Table 1

Multiple Linear Regression

Model	Koefesien
Constant	0.623
Internal	0.393
Good corporate Governance	0.464
$Y=0.623+0.393X1+0.464X2$	

Based on table 1, it is known that internal control and GCG have a positive influence on fraud prevention. This means that the high level of internal control and GCG will have an impact on the high level of fraud prevention.

Table 2

Hypothesis Testing

Model	T Value	Prob Value	Result
Internal Control	3.275>2.023	0.002>0.05	H_1 Accepted
Good corporate Governance	2.808>2.023	0.008>0.05	H_2 Accepted

Based on table 2, it is known that there is an influence of internal control and GCG on fraud prevention. *Table 3*

Simultaneous Coefficient of Determination

Information	Value	Percentage
R-Square	0.728	72.8

Based on table 3, it is known that the magnitude of the influence of internal control and GCG on fraud prevention is 72.8%.

Table 4

Partial Coefficient Of determination

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Information	Value	Percentage
Internal Control * Pencegahan Kecurangan	0.395	39.5%
Good Coeporate Governance * Pencegahan Kecurangan	0.333	33.3%

Based on table 4 above, it shows that the amount of internal control in influencing fraud prevention is 39.5%, while the amount of GCG in influencing fraud prevention is 33.3%.

Discussion

The Influence of Internal Control on Fraud Prevention

The results of the study show that internal control has an effect on fraud prevention. The amount of internal control in influencing fraud prevention is 39.5%. It can be explained that internal control has a positive effect on fraud prevention, which means that there is a positive relationship between internal control composed of the supervisory environment, risk assessment, monitoring activities, monitoring information and communication, and monitoring activities carried out by institutions on fraud prevention. . Where a good control environment, adequate risk assessment, good control activities, good information, communication, and monitoring activities, as well as good monitoring activities will increase the institution's ability to prevent fraud. This can happen because good internal control will further narrow the gap for fraud to occur, both in the preparation of financial statements, or other fraud. The results of this study are in line with research by [9], [10], [11], [12], and [13, 14] which state that internal control has an effect on fraud prevention. However, this study does not contradict the research of [15] which states that internal control has no effect on fraud prevention.

The Influence of Good Corporate Governance on Fraud Prevention

The results show that GCG has an effect on fraud prevention. The amount of GCG in influencing fraud prevention is 33.3%. This can be explained that the implementation of good GCG will increase the ability of the institution to prevent fraud. This can happen because if the institution practices the principles of GCG well, such as an open institution, the institution has good accountability, there is a clear separation of responsibilities and functions, the institution is managed professionally, and there is equality and fairness for all employees, then the opportunity for individuals to commit fraudulent acts will be smaller. The results of this study are in line with previous research conducted by [16], [1, 2, 4, 5, 11, 12, 17, 18] stated that GCG has an effect on fraud prevention. However, this study contradicts the research of [15] and [19] which state that GCG has no effect on fraud prevention.

Conclusions

1. Internal control affects the prevention of fraud at the Bandung Administrative Development Foundation.
2. Good Corporate Governance has an effect on preventing fraud at the Bandung Administrative Development Foundation.

Suggestions

1. The Bandung Administrative Development Foundation must continue to maintain and improve the internal control that has been implemented by the management of the Bandung Administrative Development Foundation to prevent fraud by always implementing the 5 (five) components of internal control properly.
2. The Bandung Administrative Development Foundation must be able to maintain and improve the implementation of GCG that has been implemented by the management of the Bandung Administrative Development Foundation in preventing fraud, by means of high transparency, prioritizing independence and justice, and must dare to take responsibility for everything.
3. Bandung Administration Development Foundation must increase the socialization of the understanding of GCG to all its employees. So that employees' trust in the Foundation will be higher.
4. Procurement of employee competency and expertise improvement, especially with regard to fraud prevention activities, for example, such as anti-bribery management system training (ISO 37001:2016).

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