

Literature Review: The Role of Internal Auditors in Preventing and Detecting Accounting Fraud

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ABSTRACT

The digital era has brought about major changes in various aspects of human life, including business and the financial sector. The development and advancement of technology brings many benefits but also the risk of fraud which is also increasingly complex. *Accounting Fraud* is the deliberate manipulation of financial statements to create or hide the Company's transactions or create a false impression of the Company's Financial Health and Financial Statements. *Accounting Fraud* is carried out with the aim of deceiving and giving a false picture of the Company's financial condition to stakeholders such as Investors, Creditors, Regulators and the General Public. To prevent *Accounting Fraud* from occurring in the Company, it is important for the Company to strengthen the Internal Control System. Internal Control is defined as a process that is influenced by human resources and information technology systems, which is designed to prevent *Accounting Fraud*. The purpose of Internal Control is so that the Company's objectives can be achieved, the Company's Financial Reports are trustworthy and the Company's activities are in line with applicable laws and regulations. Internal audit, according to the American Accounting Association (AAA), is "a systematic process to objectively obtain and evaluate assertions regarding economic actions and events in order to ascertain the degree of conformity between assertions and the criteria set and communicate to interested users". The purpose of the study was to determine the role of Internal Audit in efforts to prevent and detect the tendency of *Accounting Fraud*. This research uses the Literature Study method. The data used in this study is secondary data that has been analyzed so that it can be developed to describe research problems. Based on the results of the research analysis, Internal Audit has an impact on the prevention of Accounting Fraud in the Company. Internal auditors play a role in ensuring that all plans and agendas owned by a company run in accordance with the company's goals that have been set by understanding the company comprehensively.

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Introduction

Accounting fraud is a serious challenge for organizations, both in the public and private sectors. Accounting fraud can undermine the integrity of financial statements, reduce stakeholder

trust, and cause significant financial losses. In this context, internal audit plays a crucial role in preventing and detecting fraud, by ensuring that the internal control system operates effectively and transparently.

Internal audit functions as a supervisory mechanism that helps organizations identify weaknesses in the financial system, reduce the risk of report manipulation, and provide improvement recommendations to enhance accountability. With a systematic approach, internal audit can uncover indications of fraud through risk-based audit techniques and financial data analysis.

This research aims to analyze the role of internal audit in efforts to prevent and detect accounting fraud, as well as to evaluate the effectiveness of audit procedures in reducing the risk of fraud. By understanding the strategic role of internal audit, organizations can strengthen their internal control systems and enhance transparency in financial reporting.

The Association of Certified Fraud Examiners (ACFE) defines fraud as an act against the law or applicable regulations characterized by dishonest actions for embezzlement or abuse of authority. these actions do not depend on acts of violence using physical force or actions without using physical force that are used by an individual or organization for personal gain or the benefit of certain parties committing fraud (ACFE, 2021). The International Auditing and Assurance Standard Board (IAASB), as part of the International Federation of Accountants (IFAC), defines fraud as an act that is not a form of negligence or lack of competence of an individual, but rather a deliberate act by one or more individuals with authority, such as management, employees, or third parties, to obtain unlawful and dishonest benefits (IFAC, 2020). Fraud is any illegal act or activity that intentionally violates existing regulations to deceive someone or an organization in order to gain an advantage for the perpetrator of the fraud. In this case, there are three key words: illegal actions, intentional, and causing adverse effects or losses to others (Tjahjono: 2013). From the three definitions related to fraud above, it can be concluded that fraud is an action that does not comply with regulations, where the party committing the fraud seeks to gain personal benefit and cause loss to another party. This fraudulent act can occur to any party, especially those who hold power/authority.

Method

The research method used in this study is a qualitative descriptive method with a literature review. According to Hasibuan et al. (2007), a literature review is a description that contains theories, findings, and other research materials obtained to serve as a reference foundation for research activities. The literature review consists of reviews, the author's thoughts, and summaries of several library sources that can include scientific articles and books, information from the internet, and others related to the researched topic. The data sources that will be used in this research are secondary data sources obtained through literature review from journals and scientific articles related to the Role of Internal Audit in Efforts to Prevent and Detect Accounting Fraud.

Result and Discussion

Referring to the fraud triangle theory introduced by Donald R. Cressey, there are three main causes of fraud occurrence (Kristiyani Hamidah, 2020). Pressure (pressure) The pressure experienced by an individual or a group of individuals that leads them to commit misconduct or fraud. The pressure can be classified into several types, namely: pressure in the financial field, pressure due to unavoidable bad behavior, pressure in a profession, and other pressures. Next, there is Opportunity, which is an external factor that can encourage individuals to commit illegal acts such as fraud. This factor often occurs and emerges when procedures and the realization of controls are weak, such as minimal supervision, which can lead individuals to act contrary to

societal norms due to the presence of space that can be exploited to enhance their own prestige. In the book *Forensic Fraud* by Karyono (2013), it is stated that there are several factors that can increase the opportunity to commit fraud, namely: a.) Failure to identify fraud perpetrators. b.) Limitations in accessing information. c.) Ignorance, laziness, and lack of employee capability. d.) Lack of audit trails and one of the causes of Accounting Fraud is Rationalization. Unlike opportunity, rationalization is a factor that arises from the individual themselves, where they assume that the fraudulent behavior is reasonable to commit and still morally acceptable. Rationalization is necessary for fraud perpetrators to create the perception that they are honest and trustworthy people, but victims of circumstances.

The Role of Internal Audit in Preventing and Detecting Accounting Fraud
Fraud that occurs within an Organization or Company has many indicators of its causes, namely the weakness of Internal control in an Organization or Company. These causes consist of many factors, including the lack of role of internal auditors in controlling the implementation of applicable financial rules within the internal control system of an Organization or Company. Preventing Accounting Fraud with Internal Audit is carried out with the aim of minimizing the possibility of fraud occurring. Therefore, the role of the Internal Auditor is very important in preventing fraud.

Fraud is something that cannot be taken lightly by the company. Fraud that occurs within a company has many indicators of its causes, namely weak internal controls within the company. The role of internal auditors is very important in preventing fraud; internal auditors are the implementers of the company's supervisory function. The better the internal audit within a company, the smaller the company's risk of fraud. Internal auditors can conduct evaluations in the form of assessments and tests related to the internal control system implemented by a company. The internal auditor plays a role in ensuring that all company plans and agendas run according to the company's established objectives by thoroughly understanding the scope of the company's control. As a function of internal control oversight, the internal audit is expected to be responsive in detecting any fraud that occurs. If these functions are carried out thoroughly, then the role of internal auditors in the company can be considered effective (Fatimah & Pramudyastuti, 2022). The main role of the internal auditor in accordance with their function in fraud prevention is to strive to eliminate or minimize the causes of such fraud. Because preventing fraudulent acts is easier than dealing with them after they occur, although internal auditors cannot guarantee that fraud will not happen, they must diligently use their expertise to detect potential fraud and provide useful recommendations to management to prevent its occurrence. Several things that management must pay attention to in order for the internal audit function to effectively assist management in carrying out its responsibilities by providing analysis, assessment, recommendations, and comments on the activities it examines. Internal Control is a stage carried out by the Board of Directors, Management, and certain involved parties, structured with the aim of providing adequate assurance for the achievement of objectives. If internal control in a company can be implemented effectively, then it can create prevention and detection of fraud. Internal controls must be structured to enable prevention and detection.

Conclusion

This research analyzes the importance of internal audits in preventing fraud. Fraud is not something that can be taken lightly by a company. Fraud has now become a focal point for business stakeholders within a company. Many companies have experienced setbacks or even destruction due to a lack of prevention, detection, and discipline regarding actions that lead to fraud, resulting

in a decline in public trust towards the company. From the explanation above, internal audits have a significant impact on addressing fraud. Just like fraud occurs due to several factors such as personal issues, opportunities to commit fraud, and rationalizations that align with and support the conditions for committing fraud. Therefore, investigating the internal parts of the company is important by implementing several methods and actions such as examining some financial reports. Because fraud or deception commonly occurs in financial statement changes. Therefore, all forms of fraud can be addressed by internal audits by implementing several measures such as establishing a good internal control structure, enhancing organizational culture, and providing a sense of comfort to employees so that they do not have the desire to commit fraud.

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