

THE EFFECTIVE ROLE OF INTERNAL AUDITS IN PREVENTING FRAUD OF FINANCIAL STATEMENTS AT PT. BONNE INDO TEKNIK

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Abstract-This study aims to determine whether : (1) the implementation of an effective internal audit at PT. Bonne Indo Teknik; (2) The role of an effective internal audit in preventing fraud of financial reports at PT. Bonne Indo Teknik .The data used is primary data that is in the form of data results of interviews with employees of PT. Bonne Indo Teknik. The data analysis method used in this research is a qualitative descriptive analysis which is carried out by comparing the data obtained from PT. Bonne Indo Teknik with existing theories.The results show that the internal audit at PT. Bonne Indo Teknik has played an effective role in carrying out its duties, namely assisting management in carrying out supervision of the company's operational activities and creating an effective department.

Words key : *Internal Audit, Report of the Finance, Fraud*

I. PRELIMINARY

The increasing development of the business world today requires resilience amid the fierce competition in the business world. Financial reports are an important instrument in the operations of a company. Financial reports are the result of an accounting process that can be used as a means of communication between financial data or operational activities of a company and certain parties who need such financial data or activities. One of the efforts or ways to create resilience and competitiveness for the company is to use internal auditors.

Internal audit is an examination carried out by the company's *internal audit* department , on the company's financial statements and accounting records as well as adherence to predetermined top management policies and compliance with government regulations and the provisions of the applicable professional association (Agoes 2012: 204). The aim is to assist management within a company to carry out their duties and authorities systematically and effectively by providing analysis, assessment, recommendations, consultation and information in connection with the activities it examines.

Along with the development of companies in all sectors, both the government and the private sector, which is getting complex, it causes the limited ability of management to control and supervise the company, making internal audit an increasingly important function. National Private Owned Enterprises (BUMS Nasional) is one of the business entities established by the private sector with the aim of seeking maximum profit and does not conflict with the 1945 Constitution. This business entity consists of several types, one of which is a Limited Liability Company (PT). Limited Liability Company (PT) is an association to run a business whose capital consists of shares, whose owners have as much share as the shares it owns. Each shareholder has limited liability, which is as many shares as owned. The capital from the Limited Liability Company, apart from coming from shares,

also comes from bonds. Shareholders in a Limited Liability Company are at least two shareholders and other rules regarding this Limited Liability Company are regulated in RI Law Number 40 of 2007.

1.1 Formulation Of The Problem

1. Has the implementation of internal audit been effective at PT. Bonne Indo Teknik ?
2. How is the role of an effective internal audit in preventing fraud of financial statement at PT. Bonne Indo Teknik?

II. LITERATURE REVIEW

2.1 Internal Audit

According to the institute of internal auditors regarding the definition of internal audit, "*internal auditing is an independent appraisal function established within an organization to examine and evaluate its activities as a service in the organization*". From this understanding, we can conclude seven keys to internal audit, namely:

1. *Independent*
That the audit is free from limitations on the scope and effectiveness of the audit results in the form of findings and opinions.
2. *Appraisal*
That the audit research convicts on the conclusions it makes.
3. *Established*
Company recognition of the role of internal audit.
4. *Examine and evaluate*
That the internal audit activity as an auditor tests and assesses the facts found in the company.
5. *Its Activities*
That the scope of internal audit work includes all organizational activities.
6. *Service*
Whereas in essence, internal audit seeks to assist management in carrying out its control function, therefore the results of internal audit work must be submitted to management.
7. *To the organization*
The scope of internal audit services is shown to all parts of the organization, including all company personnel, the board of commissioners and shareholders.
The code of ethics for Indonesia's internal auditors according to IIA (downloaded from <http://www.auditorinternalindonesia.files.wordpress.com>), namely:
 1. Integrity, integrity of internal auditors builds trust and thus provides the basis on which to base their assessment. The rules of conduct regarding the principle of integrity are:
 - Internal auditors must do their job honestly, sincerely, and responsibly.
 - Internal auditors must comply with the law and provide explanations as expected by legal and professional regulations.
 - Internal auditors are prohibited from, knowingly engaging in illegal activities, or activities that can discredit the internal audit profession or the organization where it works.
 - Internal auditors must respect and provide support for legitimate and ethical organizational goals.
 2. Objectivity, internal auditors demonstrate the highest level of professional objectivity in collecting, evaluating, and communicating information about the activities or processes that are being examined. Internal auditors make a balanced assessment of all relevant circumstances and are not influenced by their own or other people's interests in making the judgment. The rules of behavior regarding the principle of objectivity are:

- Internal auditors may not participate in activities or relationships that may or should be able to reduce their ability to conduct *assessments* objectively. Included in this is any activity or relationship that may create a conflict of interest with the organization.
 - Internal auditors are prohibited from accepting anything that can or should be expected to affect their professional judgment.
 - Internal auditors must disclose all important facts that are known to them, namely facts that, if not disclosed, could distort the report on the activities being reviewed.
3. Confidentiality, internal auditors respect the value and ownership of the information they receive and do not disclose information without permission unless there is a statutory requirement or a professional obligation to do so. The rules of conduct regarding the principle of confidentiality are:
- Internal auditors must be *prudent* in using and safeguarding the information they obtain while performing their duties.
 - Internal auditors are prohibited from using information, for personal gain, or in any way that is against the law or detrimental to legitimate and ethical organizational goals.
4. Competence, internal auditors apply the knowledge, skills and experience required in the implementation of internal audit services. The rules of behavior regarding the competency principle are:
- Internal auditors will only provide services that can be implemented with the essential knowledge, expertise and experience they have.
 - Internal auditors must provide internal audit services in accordance with the Internal Audit Professional Standards.
 - Internal auditors must constantly improve their expertise and effectiveness, as well as the quality of services they provide.

2.2 Effective Internal Audit

To increase the efficiency and effectiveness of a company's business activities, an effective internal audit department is needed. The following are some things that must be considered so that a company can have an effective internal audit department in assisting management by providing analysis, assessment, and suggestions regarding the activities it examines.

- a. The internal audit department must have an independent position in the company organization, that is, not involved in the operational activities it examines.
- b. The internal audit department must have a clear written job description so that it is aware of its duties, authorities and responsibilities. The internal audit department must also have an internal audit manual which is useful for:
 1. Prevent irregularities in the implementation of duties
 2. Determine standards for measuring and improving *performance*
 3. To give assurance that the final results of the internal audit department are in accordance with the *requirements of the* head of internal audit
- c. The internal audit department must have strong support from *top management* . Strong support from *top management* can include:
 1. Placement of the internal audit department in an independent position.
 2. Placement of audit staff with reasonable salaries.
 3. The provision of sufficient time from *top management* to read, listen to and study reports prepared by the internal audit department and prompt and firm responses to suggestions for improvement.
 4. The internal audit department must have professional, capable, objective attitude and have high integrity and loyalty.
 5. The internal audit department must be cooperative with public accountants.

6. There must be a rotation and an obligation to take leave for employees of the internal audit department.
7. Giving strict sanctions to employees who commit fraud and giving awards to those who excel.
8. Establish a firm policy regarding gifts from outside.
9. Organizing education and training programs to improve the ability of employees to carry out their functions and duties as internal auditors.

2.3 Internal Audit Objectives and Functions

The purpose of the inspection carried out by the internal auditor is to assist all company leaders (management) in carrying out their responsibilities by providing analysis, assessment, suggestions and comments regarding the activities they examine. To achieve these objectives, internal auditors must perform the following activities:

1. Review and assess the goodness, adequacy or lack of and the application of the management control system, internal control, other operational controls and develop effective controls that are not too expensive.
2. Ensure adherence to policies, plans and procedures established by management
3. Ensure that the company's assets are accounted for and protected from the possibility of all forms of theft, fraud and abuse
4. Ensuring that the data management developed within the organization can be trusted
5. Assessing the quality of work for each part in carrying out the tasks assigned by management
6. Suggest operational improvements in order to improve efficiency and effectiveness.

2.4 Definition of Cheating

In general, there are two types of errors, namely *errors* and *irregularities*. *Errors* are errors that arise as a result of unintentional actions by management or employees and others. Meanwhile, *irregularities* are mistakes that are intentionally committed by management or company employees which result in material errors in the presentation of financial statements, for example fraud. In everyday terms, fraud can be defined as theft, extortion, embezzlement, forgery, abuse of power, negligence, and so on. Fraud is a condition that may be discovered by the auditor in an audit. The auditor may encounter various findings and forms that occur in the field. Not only that, perhaps the auditors will also see the various ways the perpetrators commit fraud and who are the possible actors to commit fraud.

2.5 Forms of Fraud (fraud)

Fraud in financial reporting occurs in various ways and forms. Where an auditor will be fooled in examining this matter. The following are forms of fraud according to experts.

According to Johnstone, et al (2013; 34-35) the forms of fraud consist of 2, namely:

1. **Misstatements Arising From Misappropriation of Assets (Misstatements arising from misuse of assets)**
 Asset misuse occurs when the perpetrator steals or misuses an organization's assets. Asset diversion is a fraudulent scheme that is predominantly carried out against small businesses and the perpetrators are usually employees, misuse of assets usually occurs when employees:
 - a. Gain access to cash and manipulate accounts to cover cash theft.
 - b. Manipulate cash disbursements through fake companies.
 - c. Steal inventory or other assets and manipulate financial records to cover up fraud.
2. **Misstatements Arising from Fraudulent Financial Reporting (Misstatement of Financial Reporting Fraud Transactions)**

Intentionally manipulating the financial results report by exposing the organization's economic conditions that are wrong in the financial statements. Three common ways that financial statement fraud can occur includes:

- a. Manipulating, falsifying or altering accounting records or supporting documents
- b. Misrepresentation or omission of events, transactions, or other significant person information
- c. Deliberate misuse of accounting principles

2.5 Financial Report

Unified accounting information system through the process of classifying, recording, summarizing will produce financial reports. Financial reports that have been prepared reflect the state of a company.

According to Kartikahadi, et al (2016: 12) financial reports are the main media for an entity to communicate financial information by management to stakeholders such as: shareholders, creditors, trade unions, government agencies and management.

III. RESEARCH METHODS

The most important phase of research is data collection. Data collection is nothing but a process of procuring data for research purposes, so it is impossible for researchers to produce findings, if they do not obtain data. Where the data were obtained, the type of data used in this study, namely, primary data, is data obtained directly from the object under study in the form of data from interviews with internal audit employees at PT. Bonne Indo Teknik.

3.1 Data Analysis Method

The data analysis method used in this study is a qualitative descriptive analysis method used for systematic review of the role of internal audit by analyzing various procedures. The analysis was carried out by comparing the data obtained from PT. Bonne Indo Teknik with existing theories.

IV. RESEARCH RESULTS

4.1 Descriptive Research Objects

PT. Bonne Indo Teknik is a company engaged in inspection and technical services for processing, refining Oil and GAS. PT Bonne Indo Teknik was built since 2001 and was founded by Ir. Delyuzar Hamid. PT Bonne Indo Teknik is fully staffed, equipped and certified with a complete license approved by MIGAS and the Workforce Development Security Council. Several years ago the company was registered with the Directorate General of Oil and GAS (MIGAS).

The main vision of PT. Bonne Indo Teknik is to be a professional leader in a company that provides reliable and reliable NDT and Man Power for customers who use the company's services. Its core values are *Integrity*, *Excellence in Execution* and *Team Work* . With *Integrity*, PT Bonne Indo Teknik runs its business through professional ethical standards and high conscience. Always promote honesty, conscience and are very open when dealing with employees, customers, suppliers and the wider community. Through *Excellence in Execution*, PT Bonne Indo Teknik works hard to provide the best quality products and services for customers. This is achieved through continuous dedication in improving the skills gained from every experience, made innovation, and from a strong culture in carrying out tasks.

4.2 Organizational Structure

The operational activities of PT. Bonne Indo Teknik is led by a Director who is assisted by several directors who handle areas such as the following:

1. Business Development Division, Business Development Division is one of the company's management functions in an effort to develop the business owned by the company. The Business Development task is to carry out marketing for services produced by Bonne Indo Teknik and maintain good relations with existing customers, including by providing various entertainment and representation activities with the aim of maintaining company income.
2. Engineering Division, the role of engineering, namely being able to overcome or minimize the various possible problems that exist around everyday life from the smallest to the large ones with equipment that aims to make work easier, that is the basic concept of engineering. In addition, this division is tasked with carrying out various innovations to increase the efficiency and effectiveness of company performance.
3. Supply Management Division, is defined as a set of activities involved in the process of transformation and distribution of goods starting from the earliest raw materials from nature to finished products to the final consumer. The Supply Management Division's duties are to carry out various activities related to the procurement of facilities to support the company's operational activities.
4. The Operation Division, which is in charge of managing and supervising the performance of workers starting from the recruitment process, prepares the human data sources to be ready to go to the field / location by conducting various trainings / trainings to evaluating their performance at the location.
5. The Plant Division, which is in charge of planning all activities carried out by the company, is in charge of controlling the plant business that has been made against the real conditions in the field. Almost similar to the operation division, the plant division also carries out activities in the form of recruitment, training / training and job evaluation.
6. Information System Division (IS Division), which is responsible for the entire information system in the company.
7. Human Capital and General Service Division (HCGS Division), which is tasked with providing various services related to employment including remuneration, recruiting employees according to company needs and carrying out activities to improve employee quality through various trainings, both internal and external training.
8. Finance Division, which is in charge of managing company finances. This division is in charge of 4 departments, which include: Treasury Department, Budget Department, Accounting Department and Tax Department.

This research will discuss further about the role of effective internal audit so that it is necessary to know more about the existing structure in the internal audit department of PT. Bonne Indo Teknik. Corporate Internal Audit reports directly to the *President Director* and the *Board of Directors* (BOD). Corporate Internal Audit is responsible for all activities related to evaluation of internal control processes, operational, financial, compliance in helping the company achieve its goals. Corporate Internal Audit is divided into 4 *sections* , namely, *Operational Audit Section Head*, *Subsidiaries Audit Section Head*, *Audit Risk Management Development IT Audit Section Head*, and *Risk Management Section Head*. The following is an explanation of each *section* :

1. Operational Audit Section Head, where this section functions to carry out assessments in terms of effectiveness and efficiency under management control and report incidents to people who include recommendations for improvement.
2. Subsidiaries Audit Section Head, this section functions to supervise businesses that are within the scope of PT. Bonne Indo Teknik.
3. Audit Risk Management Development IT Audit Section head, this section develops systems for the implementation of audits and also conducts audits on the information technology side.
4. Risk Management Section Head, this section functions to help company management to analyze and identify business risks facing the company.

4.3 Internal Audit Functions and Duties at PT. Bonne Indo Teknik

In general, the task of internal audit in a company is to assist the leadership of the company to supervise the company's operating and financial activities and to assess whether the policies that have been set are implemented properly. Internal audit at Bonne Indo Teknik has a goal to become a professional, independent and trusted audit unit, besides that internal audit wants to provide additional value for the company and become a management partner. To achieve these objectives, the overall functions and tasks of internal audit at PT. Bonne Indo Teknik, namely:

1. Continuously evaluating whether the company's internal control system is adequate and running according to regulations.
2. Carry out a review and evaluation of the company's operations and finances and compliance with applicable regulations and procedures.
3. Providing consulting services to auditees to achieve their goals.
4. Coordinating with audit committees and external auditors to achieve optimal public accountability.
5. Verify every transaction that exists, and assess whether it has been carried out in accordance with the systems and procedures as well as the Bonne Indo Teknik company provisions and applicable laws.
6. Facilitating the risk mitigation process to help Bonne Indo Teknik achieve its goals.
7. Deliver information about conditions such as irregularities or transactions that are not in accordance with applicable procedures and regulations, obtained from the results of the audit and make suggestions for improvement to management through the audit report.

Basically, internal audit at Bonne Indo Teknik is not directly responsible for the weaknesses that occur in this company. Internal audit has a duty and function to supervise and inspect and then submit reports along with recommendations to company leaders for further corrective action.

In accordance with the Internal Audit of PT. Bonne Indo Teknik agreed by the President Director, Director in charge of Internal Audit and the Audit Committee, it has been determined that internal audit has the following roles:

1. Internal audit is an independent, objective party and provides consulting services that are built to provide added value and improvement to company operations.
2. Internal audit also assists business units to achieve their objectives of assessing, monitoring, evaluating and correcting compliance with regulations, internal controls and procedures.
3. Management is responsible for maintaining an adequate system of internal control to assess the risk of the organization. Internal audit will provide assurance to management in terms of reviewing the adequacy of the internal control system.
4. Internal audit focuses on the company's internal controls to ensure:
 - a. Reability, integrity, accuracy, punctuality, and confidentiality of significant financial, management and operating information, including support systems and information-generating activities.
 - b. Assess the use of resources related to the economy, effectiveness and efficiency of operations in accordance with the company's operating activities.
 - c. Assess how to safeguard assets
 - d. Oversee compliance with legal and contract regulations.
 - e. Risk identification and management.
 - f. Regulations that significantly impact the organization are handled appropriately.
5. In certain circumstances internal audit must:
 - a. Carry out an assessment, investigation or review requested by management.

Internal audit will endeavor to respond to management's requests for investigations regarding fraud, honesty and compliance. Internal audit will provide suggestions or recommendations regarding this matter, however this remains the responsibility of management.

In general, the role of internal audit at PT. Bonne Indo Teknik, which provides independent assurance that the company risks, governance and internal controls that exist in the business process are running effectively. Internal auditors deal with issues that are essential for the survival of a company to be successful. The role of internal audit at PT. Bonne Indo Teknik can be summed up as:

- *Advisory*, in this role, internal audit has a role to improve the design of the procedure system if it is needed by management.
- *Assurance*, in this role internal audit provides information to the BOD (*Board of Director*) about how well the systems and procedures that have been designed have worked and to ensure the company is still on.
- *Integrity*, internal audit has a role to carry out investigations if during the audit process indications of infringement are found so that they can actually be disclosed according to facts in the field.

V. CONCLUSIONS AND SUGGESTIONS

5.1 Conclusion

In closing this thesis, the author will provide conclusions based on the discussion that has been conducted by the author from Chapter I to Chapter IV regarding the Effective Role of Internal Audit in Preventing Fraud of Financial Statements at PT. Bonne Indo Teknik

Then the conclusions that can be drawn from the author are:

1. Internal audit at PT. Bonne Indo Teknik has the function of continuously evaluating whether the SPI (Internal Control System) of the company has been effective and efficient and is running in accordance with the provisions, carrying out reviews and evaluations of the company's operations and finances and compliance with applicable regulations and procedures. And it can be concluded that the Internal Audit of PT. Bonne Indo Teknik has played an effective role in carrying out its duties, namely assisting management in supervising the company's operational activities and creating an effective department.
2. In preventing fraud, internal audit at PT / Bonne Indo Teknik has a role in improving systems and procedures. Assessing how good a system and procedure has been, internal audit has worked to ensure that the company is still on the same path to achieve company goals and if any indication of irregularities is found, the company will conduct an investigation. In preventing fraud, the internal audit of PT. Bonne Indo Teknik always reviews the accuracy, independence, efficiency, and usefulness of company records, as well as internal controls contained in the company and the company can have an effective department.

5.2 Suggestion

Based on the results of the research conducted, the researcher tries to provide suggestions, namely as follows:

1. Recommendations for companies
In considering the improvement of the company's operational supervision activities, when viewed from the existing business scope of PT. Bonne Indo Teknik has many businesses, so the researchers suggest that PT. Bonne Indo Teknik adds internal audit personnel so that internal audit can carry out more optimal supervision and achieve audit planning targets.
2. Suggestions for further research
For future researchers who are interested in similar problems, it is suggested that research be carried out on a wider object, not only on company fraud, so that it is more capable of generalizing the results of the research. It is hoped that the variables used in future research will be more varied by adding to any existing problems.

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