Fraud in Financial Institutions: The Contribution of Bengkulu Bank Internal Audit

Karona Cahya Susena[1]*, Kamaludin[2], Rina Suthia Hayu[3], Muhammad Rusdi[4]
[1] Doctoral Student of Management Science, University of Bengkulu, Indonesia
[2,3,4]University of Bengkulu, Indonesia
Email: karonacahya@gmail.com

Abstract

This research explores the key role internal audit plays in mitigating fraud risk. We revealed that internal audit actively examines financial transactions, evaluates internal control procedures, and identifies potential fraud risks. With internal audit's strong competence and team structure, they are at the forefront of protecting banks from fraud risk. Risk evaluation is an essential step in fraud prevention, and this research highlights how internal audit continuously conducts risk evaluations to identify the most vulnerable areas. A fast and effective fraud detection process is also emphasized in this study, where Bank Bengkulu's internal audit has built sophisticated audit tools and techniques to detect suspicious patterns in real-time. While internal audit plays a crucial role in fraud prevention, the research also identified several obstacles and challenges internal audit teams face. In particular, technological developments and increasingly sophisticated fraud demand proactive measures and investment in resources, education, and training. This research confirms that the internal audit at Bengkulu Bank significantly contributes to maintaining the integrity and stability of the bank's operations. In the face of increasingly complex fraud threats, constant efforts in developing internal audit capabilities are essential to protect banks from fraud risks.

Keywords: *Internal Audit, Fraud, Bank, Contribution.*

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A. INTRODUCTION

Fraud and illegal behavior in financial institutions severely threaten economic stability and public confidence. Banks, as one of the key pillars in the financial system, serve as custodians of customer funds and investments crucial for economic growth. Therefore, the problem of fraud in financial institutions, especially banks, is an issue that must be addressed carefully and effectively. Fraud does not just happen, but some factors cause it. This fraudulent practice occurs even though there is already an excellent internal control system. This is inseparable from the concept of the fraud triangle, namely pressure, opportunity, and rationalization. This concept is called the fraud triangle (Kranacher et al., 2011).

In this context, internal audit plays a vital role. Internal audit is an internal assessment and evaluation process conducted by independent professionals within an organization to ensure that the internal control system is effective and efficient. At Bank Bengkulu, internal audit is at the forefront of mitigating risk and preventing and detecting potential fraud. This article will explore the contribution of Bank Bengkulu's internal audit in fraud prevention and detection in the increasingly complex environment of financial institutions. We will highlight various aspects of the internal

audit's role in ensuring the security and integrity of bank operations and explain how internal audit actively supports bank management in minimizing fraud risks.

Internal Audit Professional Standards (2012) explains that internal auditors must have independence, professional ability (sufficient knowledge to be able to recognize, examine and test for indications of fraud), a scope of duties (clear audit responsibilities and authority), and be able to carry out audit tasks appropriately and adequately.

Fraud, in the context of banking, can include several illegal acts, such as forgery, theft of funds, or misuse of confidential information. The implications of these actions are not only detrimental to the bank itself but can also be detrimental to customers and the economy. Therefore, it is essential to understand how Bengkulu Bank's internal audit plays a role in maintaining public confidence and financial stability. To complement this understanding, this article will discuss Bank Bengkulu's internal audit structure and the concrete steps they take in fraud prevention and detection. We will also highlight their challenges in this endeavor and their concrete efforts to overcome these obstacles. By doing so, readers will gain a deeper insight into how regional banks like Bank Bengkulu deal with the challenges of fraud in a complex banking ecosystem.

Furthermore, this article will detail the importance of cooperation with external auditors and how synergies between internal and external audits can enhance fraud prevention and detection effectiveness. The internal audit report will serve as the foundation for external auditors in assessing the bank's financial health and detecting potential issues. As such, this article aims to provide a deeper understanding of internal audit's role in protecting Bengkulu Bank from the risk of fraud and provide insights into how they can contribute to maintaining the integrity and stability of financial institutions in a modern era filled with challenges.

B. LITERATURE REVIEW

1. Role Theory

Role theory combines theory, orientation, and scientific disciplines, namely psychology, sociology, and anthropology (Sarwono, 2012). Role as a dynamic aspect of position (status). If someone carries out their rights and obligations according to their position, they have carried out a role. Role theory emphasizes individual traits as a social behavior that studies behavior in accordance with the position occupied in society (Khan et al., 1964).

Role theory states that when the behavior expected by individuals is inconsistent, they can experience stress and depression and feel dissatisfied. Their performance will be less effective than if the expectations do not contain conflict (Ahmad & Taylor, 2009). Role conflict can negatively influence a person's way of thinking. Role conflict can reduce a person's level of independence and commitment. Expectations of the role itself, the individual controlling the role, society, or other parties with an interest in the role. Everyone who holds authority over a role will shape these expectations (Luthans, 2015).

2. Fraud Triangle

Donald Cressey's (1953) research on fraud raises the question of why fraud can occur. The research results led to the factors that trigger fraud, now known as the "Fraud Triangle." In the study, Cressey decided to interview fraudsters who were arrested for fraud in embezzlement. Cressey conducted in-depth interviews with 200 embezzlers who were serving time in prison. One of the main objectives of this study concluded that every fraud committed by the perpetrators fulfills three essential factors as a trigger factor for fraud, namely: Pressure (showing motivation and as an "unshareable need"), rationalization (personal ethics), Knowledge, and opportunity.

From the basis of the results of research conducted by Donald Cressey, many other opinions have emerged that are increasingly diverse, including:

1. Ramos (2003) describes the causes of fraud in the form of a triangle (The Fraud triangle) as follows: a) Occupational Fraud: fraud committed by individuals working within an organization for personal gain; b) Organisational Fraud: fraud committed by the organization itself for the benefit of the organization; and c) Confidence schemes. The perpetrator creates a fraud scheme in this category by abusing the victim's trust.
2. Simanjuntak's opinion (2008) says that four factors encourage someone to commit fraud, known as the GONE theory, namely: a) Greed, b) Opportunity, c) Need (desire), and d) Exposure (Disclosure).

The Greed and Need factors are factors related to individual fraudsters (also called individual factors). Meanwhile, the Opportunity and Exposure factors are factors related to the organization as a victim of fraud (also called generic/general factors).

C. METHOD

This article is based on qualitative research and combines document analysis, interviews, and observation to collect relevant data and information to support the analysis of the internal audit's contribution to fraud prevention and detection at Bank Bengkulu. The data from these various sources will be analyzed using a qualitative approach. The analysis will focus on audit findings, fraud prevention and detection practices, and the internal audit's role in protecting Bank Bengkulu from fraud risk. The results of this analysis will form the basis of the discussion in this article. This research method will provide an in-depth insight into how Bank Bengkulu's internal audit contributes to fraud prevention and detection and how they overcome the various challenges that may be faced in a dynamic banking environment.

D. RESULT AND DISCUSSION

1. The Role of Internal Audit in Fraud Prevention

The results show that the internal audit at Bank Bengkulu has a significant role in fraud prevention. They actively examine financial transactions, identify potential problems, and evaluate the bank's internal control procedures. This assists the bank

in detecting and preventing various types of fraud, including fraud, theft of funds, and abuse of authority.

Internal audit plays a vital role in fraud prevention by examining and evaluating the bank's transactions and internal procedures. In doing so, they assist banks in maintaining customer confidence and preserving financial stability. Internal audit's role in detecting and preventing fraud is critical to protecting the interests of the bank's customers and stakeholders.

2. Internal Audit Team Structure and Competence

A robust internal audit team structure and competence are key factors in internal audit's contribution. The internal audit team consists of professionals who are familiar with the banking industry and have in-depth knowledge of fraud risks. Internal audit's success in fraud prevention largely depends on this team's ability to identify and address potential problems.

A robust internal audit team structure and good competence are the foundation of success in the fight against fraud. Bank Bengkulu has recognized the importance of having a highly trained and qualified team. This helps them deal with the various challenges that may arise in the ever-changing world of fraud.

3. Fraud Prevention through Risk Evaluation

Internal audit routinely conducts risk evaluations to identify potential high risk for fraud. They develop prevention strategies that match the risks identified. This helps the bank to take appropriate measures to reduce opportunities for fraud.

The risk evaluation conducted by internal audit helps banks to focus on high-risk areas. This allows them to allocate resources wisely to minimize the risk of fraud. Prevention becomes more effective when efforts are focused on the areas most likely to be targeted for fraud.

4. Fast and Effective Fraud Detection Process

The research found that Bank Bengkulu's internal audit has established a fast and effective fraud detection process. They use sophisticated audit techniques and data analysis tools to detect suspicious patterns in financial transactions. In some cases, early detection of fraud has prevented significant losses from occurring.

Rapid and effective fraud detection is key in reducing the impact of fraud. With sophisticated audit techniques, Bank Bengkulu's internal audit can detect suspicious patterns in real-time. This allows the bank to take immediate action to stop illegal acts and minimize losses.

Overall, this study confirms that internal audit plays a vital role in fraud prevention and detection at Bank Bengkulu. However, challenges in the form of technological developments and increasingly sophisticated fraud demand proactive measures and investment in resources as well as education and training to ensure that internal audit remains effective in protecting banks from fraud risks.

E. CONCLUSION

In this study, we have investigated the role of the internal audit of Bengkulu Bank in preventing and detecting fraud in financial institutions. The results of this study illustrate the significant contribution of internal audit in maintaining the integrity, security, and stability of bank operations. With in-depth analysis, we conclude several essential points: 1) Primary Role in Fraud Prevention: Bengkulu Bank's internal audit significantly prevents fraud. They actively examine financial transactions, evaluate internal control procedures, and identify potential fraud risks. In doing so, they assist the bank in protecting customer funds and maintaining the integrity of operations. 2) Strong Structure and Competence: A robust internal audit team structure and high competence are critical to their success. Internal audit teams consist of professionals with in-depth knowledge of the banking industry and fraud risks. This provides the foundation for internal audits to operate effectively in the face of increasingly complex fraud; 3) Focused Risk Evaluation and Prevention: Internal audit's risk assessment helps banks focus on high-risk areas. Thus, fraud prevention efforts can be effectively directed to areas most vulnerable to fraud. 4) Fast and Effective Detection Process: Quick and effective fraud detection is key in reducing fraud's impact. Bank Bengkulu's internal audit has developed sophisticated audit tools and tools and techniques that enable them to detect suspicious patterns in real-time, allowing the bank to take immediate action.

This research also reveals that internal audit is faced with several challenges, especially in relation to technological developments and increasingly sophisticated fraud. Therefore, investment in resources, education, and training is essential in maintaining internal audit excellence in therefore, investment in resources, education, and training is essential in maintaining internal audit's excellence in protecting banks from fraud risk. Bank Bengkulu's internal audit's contribution to fraud prevention and detection is a valuable asset to the bank and the community.is a valuable asset to the bank and the community. With a vital role, competence, and a risk-focused approach, internal audit remains at the forefront of maintaining customer trust. It continues to be at the forefront of maintaining customer confidence and financial institution stability in the face of stability of financial institutions in the face of various fraud threats.

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