

The Role of Information Technology on the Effectiveness of Internal Control in Fraud Prevention

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Abstract

Fraud or Fraud is a deliberate act of dishonesty to deprive another person/party of their rights or property. In the context of a financial statement audit, fraud is defined as a misstatement in a financial report carried out intentionally. Companies identified as committing fraud can result in bankruptcy. This is where the role of an internal control system is really needed. To reduce the potential for fraud committed by irresponsible parties, maximizing the role of information technology is one way that must be taken to prevent fraud. In this research, qualitative research methodology was used. This type of research is library research. The approach used in this research is a philosophical and pedagogical approach. In the process of preventing and detecting fraud, the use of information technology to strengthen the internal control system is a step to overcome this problem. Through the use of information technology systems, it is believed that it will reduce the occurrence of fraud in an organization, which of course will have a good impact on the continuity of the organization's business.

1. INTRODUCTION

The world is currently in the era of Industrial Revolution 4.0, and everything has switched to digital systems. The increasingly rapid and complex development of technology will be the cause of changes in society. Many things are done with technology, even now fraud can be done with technology, this development also affects accounting science in general. Accounting information systems (AIS) which were completed manually can now be completed with the help of computers, namely computer-based accounting information systems. There is not much difference between manual and computer accounting processes. The difference between computer information systems is only data entry or transactions, which will change in the ledger, and financial reports can also be changed directly. The more advanced IT becomes, the greater its impact on the accounting field. The real impact is that data processing has changed from a manual system to a computer system. The development of accounting related to computer-based AIS in preparing financial reports will influence audit practices. Changes in the accounting process will affect the audit process, because auditing is a practice area that targets financial reports

(accounting products). With the development of the business world which has become very complex nowadays, and the development of various crimes in the form of fraud, especially in the accounting field (Elisabeth, 2019).

Fraud is a deliberate act of dishonesty to take the rights or ownership of another person/party. In the context of a financial statement audit, fraud is defined as an intentional misstatement of financial statements. A company is identified as being able to go bankrupt if it experiences fraud. This is where a company's internal control system is needed. Management designs internal control systems to enable them to obtain reliability of financial reports, efficiency and effectiveness of operations, and compliance with laws and regulations (Lestari & Supadmi, 2017). In modern society, the formation of an internal control system cannot be separated from the development of information technology. When a company's business grows and demand for information increases, companies usually upgrade their IT systems. The advantage of information technology lies in its ability to handle a large number of complex business transactions efficiently. With good information technology, it is believed to reduce the possibility of fraud (Suryani et al., 2021).

Acts of accounting fraud in companies have resulted in heating up the accounting profession. There are many scandals that have occurred both at home and abroad, such as the Enron case in 2001, the Worldcom case in 2002, the case of 10 KAPs in Indonesia, as well as the PT misstatement case. Kimia Farma, Tbk., and PT. KAI forces the world of accounting to further improve its performance. One example of a corruption case that occurred in Indonesia was the Jiwasraya case in 2020. PT Jiwasraya was caught in a corruption case with losses reaching tens of trillions of rupiah, the BPK even stated that the loss in this case was the biggest loss for the state. The Chairman of the Financial Audit Agency (BPK) also stated that the Jiwasraya case was large scale and required caution in handling it (Yolanda, 2020). Of the cases of fraud that occur, these cases should be immediately addressed and prevented so that similar cases do not occur again.

Seeing the rapid development of the world of technology, information technology will also play a very important role in helping to expedite the process of disclosing fraud in audit practices (Suryani et al., 2021). Information technology (IT)-based internal controls have been introduced and implemented by many organizations throughout the world, especially well-integrated organizations. It cannot be denied that the development of information technology plays a very important role in encouraging internal control and developing it into a series of controls that are strict, safe and reliable. Continuous developments in information technology will help increase the effectiveness of internal control and narrow the gap for fraud.

The use of information technology can improve internal control by adding new control programs that are run by computers and replacing controls that are usually carried out manually and are prone to human error (Aron et al., 2020). In addition, information technology provides higher quality information. Although information technology can improve a company's internal control, it can also affect overall control risk. The emergence of new risks related to damaged and non-functioning IT systems. Based on

this phenomenon, we researched "the role of information technology in preventing fraud". The purpose of this research is to find out that in the current digital era, information technology plays a large role in human activities, so that information technology can play a role in audit practices to help detect fraud.

2. LITERATURE REVIEW

2.1 Information Technology

Information technology is technology used to process data, including processing, obtaining, compiling, storing and manipulating data in various ways to produce quality information, namely information that is relevant, accurate and timely for personal, business and governance purposes, and use strategic information for decision making (Dewi, 2017). This technology uses a group of computers to process data, a network system that connects one computer to another computer as needed, and uses telecommunications technology so that data can be distributed and accessed on a global scale. In general, to be able to take advantage of information technology requires at least three components, namely: hardware (hardware), software (software), and users (brainware). These three components are supporting elements that can be built using computers together to form information technology. Computers are like humans, hardware is the body, and software is the brain. However, hardware and software will not be fully useful without manual operation, so the function and performance of these three components cannot be separated (Wicaksono, 2015).

According to (Ardyaksa & Kiswanto, 2014) the benefits of information technology applications are: Speed, Consistency, Precision and Reliability. Therefore, the use of information technology greatly influences the effectiveness of the fraud prevention system. Through optimal use of information technology, all work support system procedures (technology in the fraud prevention system) can be implemented more quickly and on time, and more accurate results can be

obtained.

2.2 Internal control

The Indonesian Institute of Accountants (IAI) defines internal control as a process carried out by the board of directors, management and other personnel of an entity, and aims to provide the agency with reasonable assurance to achieve the following three objectives: reliability of financial reports Compliance, effectiveness and efficiency operations, as well as compliance with applicable laws and regulations. According to (Komala et al., 2019), an internal control system is a process that is influenced by a company's board of directors, management and other employees, and provides reasonable assurance of achieving the following categories of objectives: a. operational effectiveness and efficiency b. Reliability of financial statements c. Comply with applicable laws and regulations. The implementation of the internal control system aims to: preventive, detective, corrective, directive and compensative.

Internal controls are designed and influenced by the entity's board of directors, management, and other personnel. The goal is to provide reasonable assurance for the entity to achieve the following categories of objectives (Adelin & Fauzihardani, 2013): 1. reliability of financial reporting. 2. effectiveness and efficiency of operations, and 3. compliance with applicable laws and regulations. Internal control includes policies and procedures designed to provide management with reasonable assurance that the company has achieved its goals and objectives. According to experts' understanding, internal control is used to help monitor overall company activities (Arens et al., 2013:316).

2.3 Fraud

Fraud is a series of forgeries and improper behavior characterized by planned or deliberate fraud (Pane, 2018). An activity that can be classified as a form of fraud is if it is identified as bringing benefits to certain groups or individuals, so that many parties are harmed by illegal actions and

inappropriate methods. Fraud in financial statements is the misstatement or omission of amounts or disclosures intentionally made to deceive users. Writing off reported amounts is less common, but companies can increase earnings by writing off debt and other liabilities. Asset misappropriation is fraud that involves theft of assets belonging to an entity. The term misappropriation of assets is often used to refer to theft by employees and other insiders within an organization (Rahmana, 2009). There are 3 conditions that cause fraud, known as the fraud triangle, namely: 1. Pressure. Management or other employees have incentives or pressure to commit fraud. 2. Chance. Situations that provide opportunities for management or employees to commit fraud. And 3. Attitude/rationalization. The existence of an attitude, character, or set of ethical values that allows management or employees to carry out dishonest actions, or they are in an environment that puts enough pressure on them to cause them to justify carrying out such dishonest behavior.

3. RESEARCH METHODS

Dalam penelitian ini digunakan qualitative research methodology. This type of research is library research, namely a series of research relating to library data collection methods, or research whose research objects are explored through various library information (books, encyclopedias, scientific journals, newspapers, magazines and documents). Library research or literature review (literature review, literature research) is research that examines or critically reviews knowledge, ideas, or findings contained in a body of academic-oriented literature, as well as formulating theoretical and methodological contributions to a particular topic.

In this research, the type of data used is secondary data. Where this secondary data is obtained from various kinds of literature studies through scientific articles, research journals, and news from mass media that are related and have a context that is relevant to the problem to be studied. Literature studies

conducted related to the role of information technology in disclosing fraud in Indonesia were carried out over the last 7 years (2014-2021) from all journals, both national and international journals. Meanwhile, data or paper retrieval uses the keywords audit fraud, fraud in the digital era, and the role of IT in disclosing fraud. To obtain the data needed for research, we used two types of techniques, namely documentation and literature study. Documentation is a technique for collecting data in the form of images, writing, or a monumental work from someone, while library research is data collection that is carried out by referring to research that has been carried out previously.

4. RESULTS AND DISCUSSION

4.1 The role of information technology in fraud prevention

The use of information technology is designed to help companies save funds and increase the efficiency of the audit process. One of the developments in the use of information technology is the use of general audit software. General audit software helps in cash data capture and analysis, aiming to present audit data and statistical analysis in detail. This software can be used to search, analyze, summarize audit results, divide samples, calculate samples, and other audit activities related to accounting data. This technology takes the form of Electronic Data Interchange (EDI), which can also be called Electronic Data Interchange. Usually used in e-commerce to communicate with each other via computer. In digital business transactions, the use of data formats requires the agreement of the transaction partner. When few documents or audit evidence are obtained, it is necessary to pay more attention to the information in the computer system (Melasari, 2019).

Information technology has a major impact on all aspects of life. One of them is the use of technology in today's business world. Information technology is used to send information, such as annual reports, corporate social responsibility reports, and so on. The use of information technology by companies is a key

factor in good company performance. Mastery of information technology resources is one of the factors that determines the internal performance of employees in a company, and that is to advance the company in the eyes of stakeholders. According to (Wicaksono, 2015) managers and stakeholders will consider information technology resources when evaluating a company's future success and performance. However, companies must go through a fairly long period of using information technology, namely changes in corporate governance, such as operational activities, strategy formulation and decision making, from traditional methods to modern methods..

Fraud is in the form of acts of violation, concealment, deception carried out by a person or group of people with a specific purpose and can occur due to 3 motives which are usually referred to as the fraud triangle, namely pressure, opportunity and rationalization. The impact of fraud is clearly detrimental to many parties, such as companies, even worse on a country scale. Therefore, fraud detection and prevention should be carefully prepared to minimize the occurrence of fraud in the future. Fraud prevention can be done using internal controls, followed by two other concepts, namely increasing fraud awareness and fraud risk assessment.

The internal control concept referred to is the company's internal control through internal auditors. Internal auditors in every company hope to improve their abilities, especially in the technical field. If the auditor can use the technology owned by the company in the audit process, the auditor will have added value, one of which is effectiveness and efficiency. With the help of technology, internal auditors can carry out the audit process efficiently and save time. The higher the auditor's understanding of technology, the better his performance will be, which leads to increased audit quality (Aviana, 2012).

Preventing fraud requires internal control, so information technology can be a solution for a company's internal control. Information technology has the effect of

preventing fraud, making it easier for companies to produce accurate and accurate information. This has a positive impact on the company and helps prevent fraud and make decisions about fraud follow-up actions. This is in accordance with the statement of Wilkinson and Cerullo (1997) which states that the implementation of information technology can meet the demands of business information that is relevant, accurate, fast and timely, thereby minimizing errors or errors..

In the digital era, the use of technology has become commonplace, even including everyone's daily needs, especially companies. The use of technology used by companies has its own purpose, namely as a means of providing information, decision making and policy making for the company. In the practice of implementing company operations, problems that arise include fraud that occurs within the company. Therefore, early detection and prevention of fraud is absolutely necessary.

One way that can be done is to improve internal control, in this case internal auditors. If internal auditors can master information technology, coupled with other factors such as competence, independence and professionalism, then the implementation of audit activities will be more efficient and the quality of auditors can be improved. A quality internal auditor will certainly help the company establish good internal controls to detect and prevent fraud early. If the company's internal control performance is good, then the company's quality and performance can be recognized and evaluated. As a result, the use of technology within a company indirectly affects audit quality, and also helps companies detect and prevent fraud attempts.

4.2 The role of Internal Control in fraud prevention

Overall, fraud prevention is an activity carried out by management in formulating policies, systems and procedures to help ensure that directors, management and other company personnel take the necessary actions to achieve three (three) main objectives, namely; reliability of financial

reports, effectiveness and efficiency of operations, as well as compliance with applicable laws and regulations (Gunawan, 2012). For this, the possibility of cheating must be prevented by the following methods:

1. Building a good internal control structure. As the company develops, management's task of controlling company operations becomes increasingly difficult. To achieve the goals set by top management, ensure the security of company assets, and carry out business activities effectively and efficiently, management needs to establish a good and effective internal control structure to prevent fraud..
2. Make control activities effective a). Performance review These control activities include reviewing actual performance compared with budgets, forecasts, or past performance, relating disparate operational or financial data sets to each other, and analyzing relationships, investigations, and corrective actions; Review, loan approval and collection reports for Company branches. b). Information processing Various controls are implemented to check the accuracy, completeness and authorization of transactions. The two main categories of information systems control activities are general controls and application controls. General controls usually include data center operation control, system software processing and maintenance, access security, application system development and maintenance. These controls apply to mainframes, minicomputers, and end-user environments. These controls help determine that transactions are legal, properly authorized, and processed completely and accurately. c). Physical controls Activities include physical security of assets, adequate protection of facilities to prevent access to assets and records; authorization to access computer programs and data files; regular calculations and comparison with the amounts stated in the control records. d). Separation of duties Assigning responsibility to different people for authorizing, recording transactions, and maintaining asset custody is designed to

reduce the possibility of fraud by those in advantageous positions, while concealing errors and irregularities in the performance of duties under normal circumstances.

3. Improve organizational culture

Organizational culture can be improved by implementing interrelated Good Corporate Governance (GCG) principles to encourage efficient operation of company resources and create long-term, sustainable economic value for shareholders and the surrounding community as a whole. These basic principles are (according to Saifuddin Hasan, 2000): (1) justice, (2) transparency, (3) accountability, (4) responsibility, (5) ethics, (6) reliability, and (7) commitment.

4. Activate the internal audit function.

Although an internal auditor cannot guarantee that fraud will not occur, he must use his position skills carefully to detect fraud and provide useful suggestions to management to prevent fraud. Management must consider several things so that the internal audit function can effectively assist management in preparing Amz 10 to carry out its duties by providing analysis, evaluation, recommendations and comments on the activities it inspects.

5. CLOSING

5.1 Conclusion

There is a lot of fraud in Indonesia today, and fraud in Indonesia is carried out in various ways, such as financial statement fraud and corruption. In the process of preventing and detecting fraud, the use of information technology to strengthen the internal control system is a step to overcome this problem. Through the use of information technology systems, it is believed that it will reduce the occurrence of fraud in an organization, which of course will have a good impact on the continuity of the organization's business.

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