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The Effect of Internal Audit and Internal Control on Fraud Prevention

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A B S T R A C T

Inconsistencies and negligence in internal functions often trigger fraud within organizations. Therefore, strengthening internal audits and implementing effective internal control and risk management systems is essential. This replication study aims to analyze the influence of internal audit and internal control on fraud prevention, using the fraud triangle theory. A quantitative method with descriptive and associative approaches was applied, with primary data collected through questionnaires from 47 employees. Data analysis included validity, reliability, classical assumption tests, and multiple linear regression. The results show that both internal audit and internal control have a positive and significant effect on fraud prevention, both partially and simultaneously. In conclusion, the better the implementation of internal audit and internal control, the higher the level of fraud prevention.

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INTRODUCTION

A business entity has a foundation focused on business sustainability, in addition to striving to achieve the main goal of increasing profitability. However, in practice, the process of increasing profitability often leads to potential conflicts between the company owners and the management. One of the most common sources of conflict is the presence of information asymmetry. This condition arises because management, as agents, have broader and deeper access to company information compared to shareholders as principals. As a result, managers often engage in manipulative actions in presenting financial reports, especially when the information they possess does not meet shareholders' expectations. This happens because agents often lack the courage or sufficient incentives to disclose information that could harm the image or interests of the principal.

Accounting fraud cases, known as fraud in the auditing world, have recently been receiving increasing attention in various media reports. Based on the ACFE survey results (2025) in the Report to the Nations on Occupational Fraud and Abuse, the losses caused by fraudulent actions reached $3,600,000 (Langen & Gondo, 2025). Companies in general can classify fraud into two categories, namely fraud originating from external parties and fraud occurring within the internal environment of the company (Akhtar et al., 2023).

The phenomenon of fraudulent practices in general, including corruption in particular, remains an important and interesting issue to be further studied. The development of the digital era has a significant impact on human behavior, including in the context of ethical and legal deviations. The increasingly competitive job market demands that every individual possess high professionalism and competence, but on the other hand, it also opens up opportunities for fraudulent actions to emerge. Economic progress actually has the potential to give rise to new forms of fraud.

According to Roemkenya and Bunga (2023:50), internal control is a series of processes designed and implemented by those responsible for governance, management, and all personnel within the organization. The process aims to provide a sufficient level of assurance that the entity's objectives can be achieved, particularly those related to the presentation of reliable financial statements, the execution of effective and efficient operational activities, and compliance with applicable regulations and legal provisions.

As an independent function, internal audit aims to provide objective assessments and consultative services to support the improvement of organizational performance. The role of internal audit not only helps the organization achieve its set objectives but also ensures that risk management, internal control, and governance processes run effectively thru a planned, systematic approach based on professional discipline, internal control mechanisms, and the governance processes implemented. In addition to conducting evaluations, internal audits also contribute by providing recommendations and suggestions for improvements that are useful in enhancing the quality of operational processes and the overall organizational control system (Husain et al., 2023).

On the other hand, a weak internal control system is also one of the main causes of fraud within the organization. The ineffectiveness of internal controls can be caused by a lack of task separation, weak authorization systems, and minimal oversight of the company's operational activities. This condition provides an opportunity for certain individuals to take actions that harm the company without being detected. Therefore, the company needs to ensure that every component of internal control operates optimally and is well integrated into all operational activities.

The role of internal audit becomes crucial in detecting and preventing fraud. Internal audit not only functions as a supervisory tool but also as a strategic partner for management in enhancing the effectiveness of control and risk management. With the presence of an independent and competent internal audit, the company can identify potential risks early on and provide appropriate improvement recommendations. This is expected to strengthen the internal control system and improve the overall quality of corporate governance.

Furthermore, the development of information technology also brings new challenges in the effort to prevent fraud. On one hand, technology can be utilized to enhance the effectiveness of internal control systems thru the use of digital-based systems. However, on the other hand, technology can also be exploited by certain parties to commit more complex and harder-to-detect fraud. Therefore, companies are required to be able to adapt to technological developments and enhance the competence of human resources to manage emerging risks.

With the various factors that have been outlined, it can be seen that fraud prevention does not rely on just one aspect, but rather requires synergy between internal control systems, internal audits, organizational culture, and management commitment. It is this complexity that makes research on fraud prevention remain relevant to conduct. Therefore, this research is expected to provide contributions both theoretically and practically in efforts to enhance the effectiveness of fraud prevention in the corporate environment.

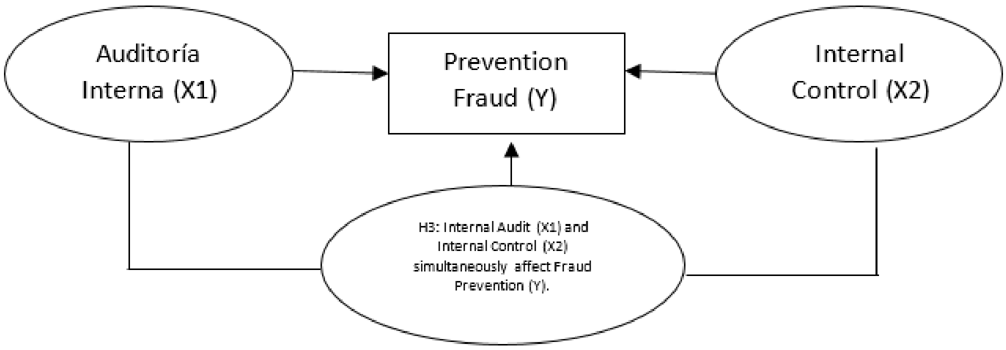
Based on the description, it can be concluded that internal audits and internal controls play a very important role in efforts to prevent fraud. Both are interconnected and inseparable in creating an effective oversight system. With the implementation of good internal audits and strong internal control systems, companies are expected to minimize the risk of fraud and maintain business continuity. Therefore, this research is important to conduct in order to determine the extent of the influence of internal audit and internal control on fraud prevention in the company.

LITERATURE REVIEW

This research uses a quantitative approach. The quantitative method is based on the positivist paradigm, which is applied to study a specific sample or population, thru sampling that is generally determined randomly. Data collection is carried out using research instruments, while data analysis employs statistics or quantitative techniques to examine the formulated hypotheses (Adil et al., 2023).

Data collection was conducted thru a structured questionnaire based on a five-point Likert scale. The saturated sampling technique involving 47 respondents (employees) was applied because the population size is relatively limited, allowing all members of the population to serve as respondents to obtain a comprehensive picture.

Data analysis uses multiple linear regression with the help of SPSS software. The stages of analysis include testing the quality of the instrument thru validity and reliability tests, classical assumption testing, and hypothesis testing thru t-test, F-test, and the coefficient of determination (Ghozali, 2023).



Hypothesis:
H1: Internal audit is suspected to positively contribute to increasing the effectiveness of fraud prevention.
H2: Internal control is suspected to have a positive influence on fraud prevention efforts.
H3: Simultaneously, internal audit and internal control are suspected to positively influence fraud prevention.
Regression equation:
Y=1.840+0.435X1+0.482X2

METHODOLOGY

This research uses a quantitative approach. The quantitative method is based on the positivist paradigm, which is applied to study a specific sample or population, thru sampling that is generally determined randomly. Data collection was conducted using research instruments, while data analysis employed statistics or quantitative techniques to examine the formulated hypotheses (Adil et al., 2023).

This research obtained primary data thru the distribution of questionnaires using a five-point Likert scale as a measuring instrument. The saturated sampling technique was chosen because the research population consists of only 47 employes, so all members of the population were made respondents. Thus, the research can more comprehensively depict the condition of the population.

Data analysis was conducted by applying a multiple linear regression model processed using the SPSS program. The analysis process begins with testing the quality of the instrument, which includes validity and reliability tests, followed by classical assumption testing. To test the research hypothesis, partial tests (t-test) and simultaneous tests (F-test) are used, while the model's ability to explain the dependent variable is analyzed thru the coefficient of determination (Ghozali, 2023).

RESEARCH RESULT

Tabel 1. Statistik Deskriptif

Variabel	N	Min	Max	Mean	Std. Deviation
audit internal	47	8	20	14.936	2.616
pengendalian internal	47	8	20	14.872	2.123
kecurangan	47	8	20	15.511	2.578
Valid N (listwise)	47				

Pada tabel 1 hasil analisis data dengan menggunakan SPSS

Based on the descriptive data processing, Internal Audit (X1) has a mean value of 14.936 with a standard deviation of 2.616. Internal Control (X2) shows a mean value of 14.872 with a standard deviation of 2.123, while Fraud Prevention (Y) has a mean value of 15.511 with a standard deviation of 2.578.

In general, the relatively high average values of the three variables indicate that the implementation of internal audits, internal controls, and fraud prevention has been carried out well according to the respondents' perceptions. Additionally, the comparison between the mean and standard deviation values shows that the level of data dispersion is relatively low, meaning that the respondents' answers tend to be consistent and reflect a relatively homogeneous condition.

Hypothesis Testing Results

Simultaneous Test (F Test)

Table 2. Simultaneous Test (F Test)

Model	F-Statistic	Sig.
Regression	28.870	0.000

Simultaneous hypothesis testing resulted in an F value of 28.870 with a probability (sig.) of 0.000. Because the probability value is less than the 5% significance level, the regression model used is declared significant. This indicates that Internal Audit and Internal Control simultaneously affect Fraud Prevention.

Based on these results, hypothesis H3 is accepted. These findings affirm that the presence of effective internal audits and adequate internal control systems together play a role in enhancing fraud prevention efforts. In addition, both variables are able to contribute to explaining the variation in the level of fraud prevention occurring within the company.

Partial Test (T-Test)

Table 3. Partial Test (T-Test)

Variables	Coefficient (B)	t-value	Sig.
Internal Audit (X_1)	0.435	3.520	0.001
Internal Control (X_2)	0.482	3.162	0.003

The Influence of Internal Audit on Fraud Prevention

Based on the results of the partial test (t-test), the Internal Audit variable obtained a t-value of 3.520 with a significance level of 0.001. This significance value is lower than the 5% significance threshold (0.001 < 0.05), so it can be concluded that Internal Audit has a positive and significant effect on Fraud Prevention.

The magnitude of the obtained regression coefficient, which is 0.435, indicates that each one-unit increase in Internal Audit will be followed by a 0.435 unit increase in Fraud Prevention, assuming other independent variables remain unchanged. Thus, the first hypothesis (H1) stating that Internal Audit has a positive and significant effect on Fraud Prevention is accepted.

The Influence of Internal Control on Fraud Prevention

Partial testing results show that the Internal Control variable has a t-value of 3.162 and a significance level of 0.003. Because the significance value is below the established error level of 5% (0.003 < 0.05), Internal Control is proven to have a positive and significant effect on Fraud Prevention.

The regression coefficient value of 0.482 indicates that an increase in Internal Control by one unit will increase the level of Fraud Prevention by 0.482 units, assuming other factors remain constant. Therefore, the second hypothesis (H2) which states that Internal Control has a positive and significant effect on Fraud Prevention can be accepted.

Coefficient of Determination (R^2)

Table 4. Coefficient of Determination (R^2)

R Square	Adjusted R Square
0.568	0.548

The results of the coefficient of determination test yielded an R^2 value of 0.568. This figure indicates that the research model, which consists of the Internal Audit and Internal Control variables, is able to explain 56.8% of the variation in Fraud Prevention. The remaining 43.2% is explained by other variables outside the model that were not analyzed in this study.

The magnitude of the coefficient of determination indicates that Internal Audit and Internal Control have a relatively strong ability to explain changes in the level of Fraud Prevention. Therefore, both variables can be considered important factors that contribute to the effectiveness of fraud prevention in the company.

Although the R^2 value has not reached 100%, the value of 56.8% indicates that the research model has a fairly good explanatory power in explaining the variation in Fraud Prevention.

DISCUSSION

The Influence of Internal Audit on Fraud Prevention

Research findings indicate that internal audits play a crucial role in supporting fraud prevention at PT Anjungan Maju Bersama. The existence of an effectively functioning internal audit allows the company to better supervise operational activities, thereby minimizing the risk of deviations or fraudulent actions.

Statistically, the t-test results in a t-value of 3.520 with a significance value of 0.001. Since the significance value is smaller than the established significance level of 0.05, the influence of internal audit on fraud prevention is declared significant. Thus, the first hypothesis (H1) stating that internal audit has a positive effect on fraud prevention can be accepted. In reality, these results indicate that the presence and implementation of a good internal audit are related to the level of fraud within an organization. A well-functioning internal audit can identify errors, check procedural compliance, and strengthen the oversight system. With orderly supervision, the likelihood of fraud can be reduced.

Theoretically, this finding aligns with the Fraud Triangle principle proposed by Donald R. Cressey, particularly regarding the element of opportunity. In this concept, it is explained that one of the main causes of fraud is the emergence of opportunities due to weak supervision and control systems. Internal audit plays a crucial role in this matter and is capable of closing those opportunities thru inspection activities, evaluation, and providing recommendations for the ongoing control system.

Internal audits conducted independently, objectively, and in a structured manner can identify weaknesses in operational procedures and provide early warnings of potential deviations. Therefore, internal audits not only serve as a tool for detecting problems but also as a preventive measure (Wulandari, 2023). The results of this study support Gusnardi's (2023) findings, which state that internal audits have a significant impact on fraud prevention. The research shows that an effective internal audit function can reduce the risk of fraud within the company. The similarity of these results indicates that empirically, internal audit does indeed have a real contribution in reducing the risk of fraud.

However, the results of this study differ from the research conducted by Rasutami and Anggy Ryansyah (2024), which found that in some situations, internal audits do not have a significant impact on the ability to identify fraud. This difference may be due to variations in the dependent variables used. Previous research focused more on monitoring capabilities, while this study emphasizes the preventive aspect. From a logical standpoint, prevention is broader and more proactive compared to detection, which tends to be reactive after indications of fraud appear.

In the context of PT Anjungan Maju Bersama, the results obtained indicate that the internal audit has performed its role well, especially in assessing high-risk transactions, ensuring procedural compliance, and providing improvement suggestions. With continuous supervision, employes become more vigilant in carrying out their tasks, thereby minimizing the possibility of fraud.

The Influence of Internal Control on Fraud Prevention

Research findings show that internal control has a significant contribution in supporting fraud prevention at PT Anjungan Maju Bersama. This condition indicates that the improving quality of internal control will strengthen the company's ability to detect, monitor, and prevent various forms of fraud that could potentially harm the organization.

Statistically, the t-test results in a value of 3.162 with a probability level (sig.) of 0.003. Since the probability value is below the 5% significance level, internal control is proven to have a significant effect on fraud prevention. Thus, the second hypothesis (H2) is accepted. These findings indicate that the implementation of adequate, consistent, and integrated internal controls can create a more controlled work environment, thereby reducing the likelihood of fraud. Therefore, internal control becomes one of the important instruments in maintaining asset security and enhancing corporate accountability. Good internal control involves clear task division, regular approval processes, adequate recording systems, and continuous supervision.

In general, if internal controls are functioning well, the likelihood of fraud occurring will decrease, especially in the opportunity aspect of the Fraud Triangle. An effective control system includes the control environment, risk assessment, control activities, information and communication, and monitoring as outlined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the research (Suginam, 2023). These five components are interconnected in creating a system that can protect company assets and ensure the accuracy of financial reports.

The results of this study are in line with the findings of Gusnardi (2023), which reveal that internal controls have a significant impact in preventing fraud. Additionally, research by Heidi Ruth Corry Sitorus and Fitriany (2025) also highlights the importance of enhancing internal controls to reduce the risk of fraud, although in some situations weaknesses in transaction verification procedures are still found. In the context of PT Anjungan Maju Bersama, these findings indicate that the improvement of the internal control system after the previous financial data manipulation case has yielded positive results. The company began strengthening verification procedures, increasing oversight of financial transactions, and implementing stricter control mechanisms. Logically, when the control system functions well, the risk of fraud can be minimized.

The Simultaneous Influence of Internal Audit and Internal Control on Fraud

Based on the results of the simultaneous analysis, it was found that internal audit and internal control together have a significant influence on fraud prevention efforts. This shows that both variables support each other in building an effective fraud prevention system.

Internal audit and internal control have a strong interconnection. Internal control functions as a system or mechanism created by management, while internal audit is tasked with assessing the effectiveness of that system. In other words, internal audit serves as a guaranty that internal control is functioning properly.

Based on the results of the simultaneous test (F-test), an F value of 28.870 was obtained with a significance level of 0.000. Since this significance value is lower than the established significance level of 0.05, it can be concluded that internal audit and internal control together have a significant effect on fraud prevention.

The results of the coefficient of determination analysis show an R^2 value of 0.568. The value indicates that 56.8% of the variation in fraud prevention can be explained by the internal audit and internal control variables. Meanwhile, the remaining 43.2% is influenced by other factors not included in the research model. These findings indicate that both independent variables have a significant contribution in explaining the effectiveness of fraud prevention efforts in the company.

The role of an effective internal audit and an adequate internal control system can strengthen the oversight function and reduce various potential deviations. With an optimally functioning control mechanism, the company has a better ability to detect and prevent fraudulent actions.

When linked to the Fraud Triangle theory, internal audits and internal controls function to narrow down the element of opportunity, which is one of the main factors causing fraud. The stronger the control and supervision system implemented, the more limited the opportunities for individuals to engage in actions that harm the organization. As a result, the risk of fraud can be more effectively mitigated.

The results of this study are in line with the findings of Kelvin Haryanto and Kenny Ardillah (2023), which state that internal audit and internal control simultaneously play an important role in supporting fraud prevention. Thus, the success of the company in minimizing fraud is not only determined by a single oversight mechanism but rather by the synergy between various control systems and audit functions applied continuously. Practically, if a company only implements an internal control system without routine evaluations thru internal audits, there is a possibility of unnoticed gaps. On the other hand, if internal audits are conducted without adequate support from the control system, the recommendations provided will be less effective. Therefore, cooperation between the two becomes important in creating good corporate governance.

The results show that the improvement measures taken thru strengthening the internal audit function and enhancing the internal control system have significantly increased the prevention of fraud. This serves as evidence that the commitment from management in developing an integrated oversight system greatly influences the sustainability of the company.

CONCLUSIONS AND RECOMMENDATIONS

Based on the research and discussion conducted regarding the influence of internal audit and internal control on fraud prevention, several conclusions can be formulated as follows.

Internal audit has been proven to have a positive and significant impact on fraud prevention. This is evidenced by the partial test results which yielded a t-value of 3.520 with a significance level of 0.001. Because the significance value is less than 0.05, the first hypothesis (H1) is accepted. These findings indicate that the implementation of an effective internal audit is capable of enhancing fraud prevention efforts within the organization.

Internal control also shows a positive and significant influence on fraud prevention. The t-test results show a t-value of 3.162 with a significance value of 0.003. The value is below the 5% significance level, so the second hypothesis (H2) can be accepted. Thus, the more effective the internal control system implemented, the greater the organization's ability to minimize the risk of fraud occurring.

Simultaneously, internal audits and internal controls have a significant impact on fraud prevention. The F test results show a calculated F value of 28.870 with a significance level of 0.000. Since this value is less than 0.05, the third hypothesis (H3) is accepted. These results confirm that both independent variables together contribute to enhancing the effectiveness of fraud prevention.

The coefficient of determination (R^2) value of 0.568 indicates that internal audit and internal control can explain 56.8% of the variation in fraud prevention. The remaining 43.2% is influenced by other factors outside the research model that were not analyzed in this study. Therefore, it can be concluded that internal audit and internal control are important factors that contribute to efforts to prevent fraud within the organization.

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