

## BUKTI KORESPONDENSI

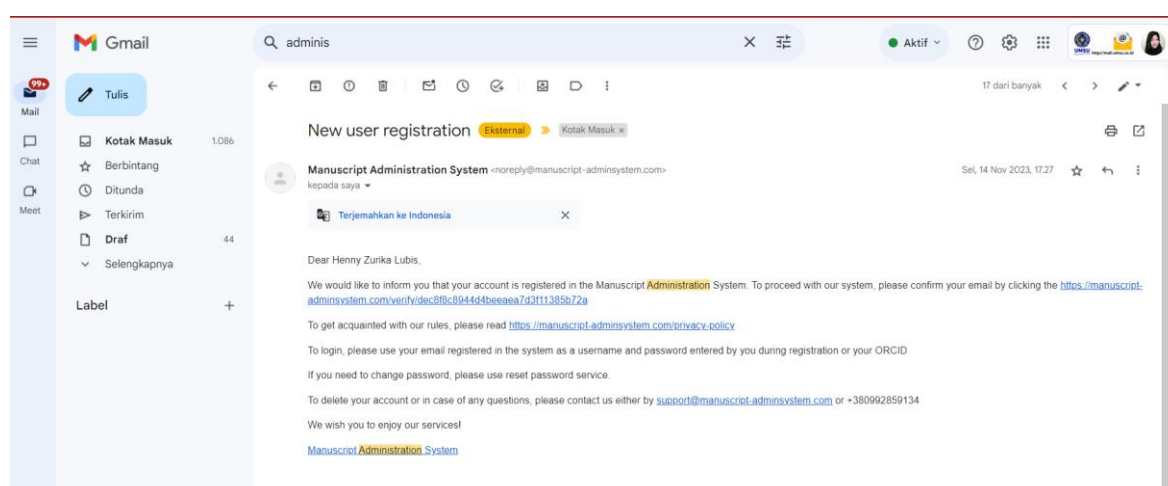
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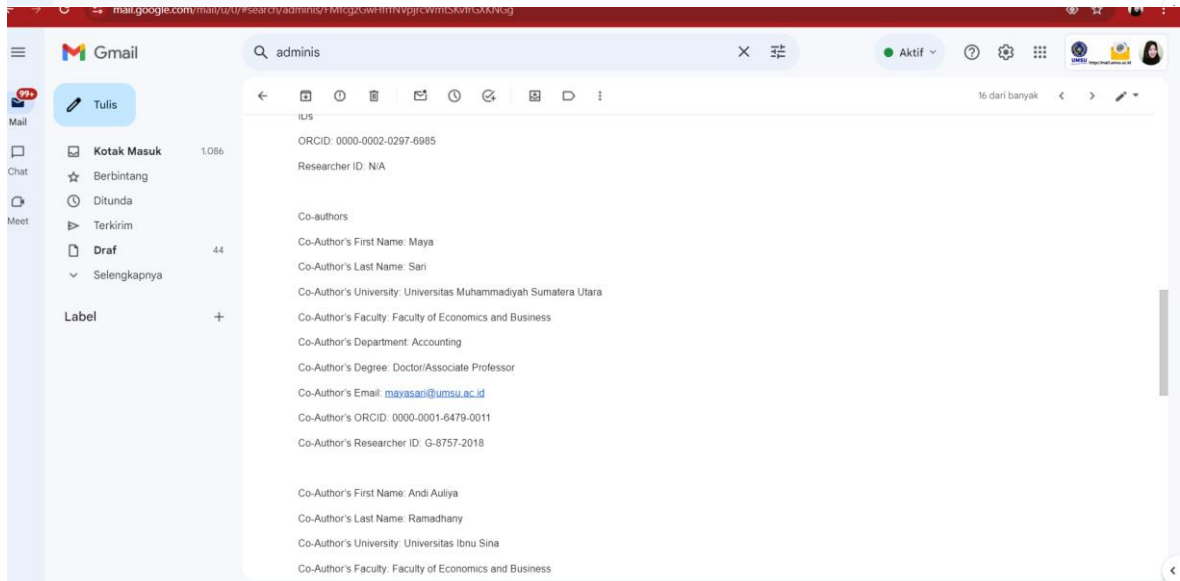
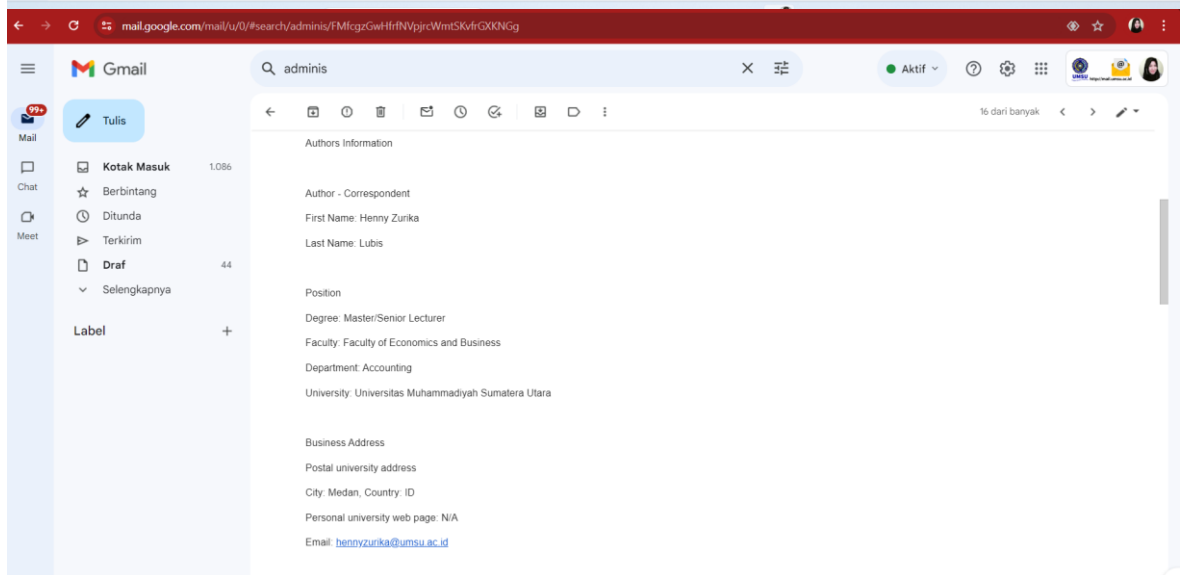
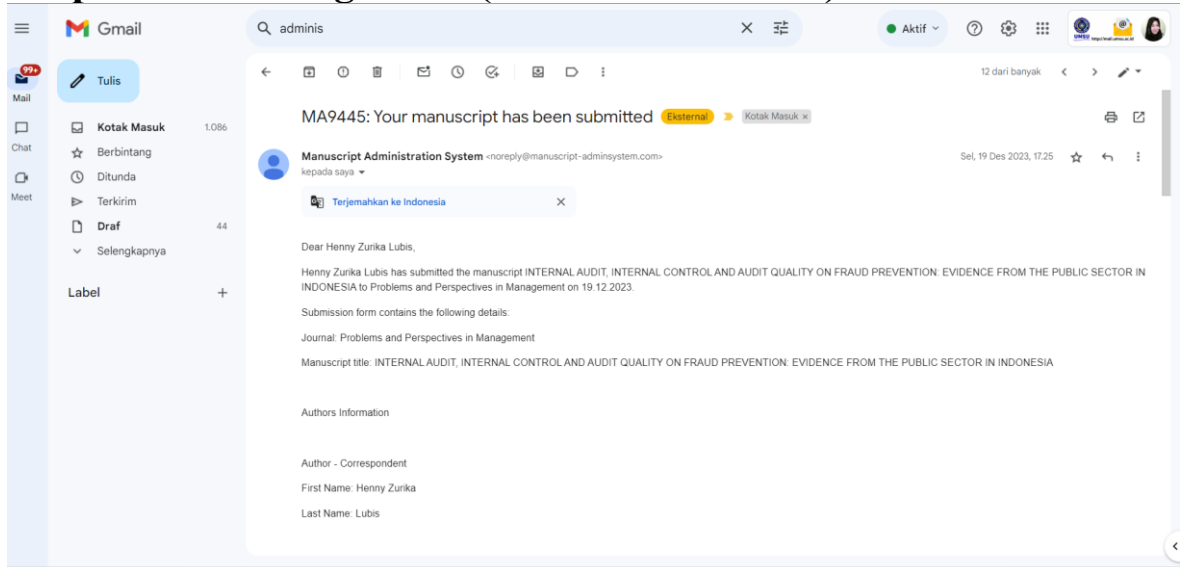
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# **INTERNAL AUDIT, INTERNAL CONTROL AND AUDIT QUALITY ON FRAUD PREVENTION: EVIDENCE FROM THE PUBLIC SECTOR IN INDONESIA**

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## **Abstract**

Fraud prevention is the most cost-effective fraud-fighting activity, so all organizational actors must support it. This study aims to test and analyze the effect of internal auditors, internal control, and audit quality on fraud prevention at the Inspectorate of North Sumatra Province, Indonesia. The variables used in this research use internal audit, internal control, and audit quality as independent variables, and fraud prevention as the dependent variable. The population in this study were employees who worked at the Inspectorate of North Sumatra Province. This research uses the purposive sampling method. The data used in this research is primary data. The data obtained by distributing questionnaires directly to respondents amounted to 61 but could only be processed into 52 questionnaires due to time and energy limitations. The Inspectorate staff did not accept research questionnaires, and there were restrictions on accepting questionnaires for auditors at the Inspectorate. Data analysis uses Partial Least Square with SmartPLS 4.0 software, including outer model test, inner model test, and hypothesis testing. The results of this research indicate that hypotheses 1 (H1) and 2 (H2) are accepted, meaning that internal audit and internal control positively and significantly influence preventing fraud on auditors at the Inspectorate of North Sumatra Province. In contrast, hypothesis 3 (H3) was rejected, meaning that individual audit quality does not affect fraud prevention.

Keywords: Internal Auditor, Fraud, Indonesia

**JEL Classification:** H11, H83, M42

## **INTRODUCTION**

A weak internal audit role will lead to fraud, and the organization's internal audit needs to be proactive. Apart from internal audit, internal control is also a factor that influences fraud prevention. In an institution, adequate internal audits and assistance with an internal audit function that focuses on fraud prevention and detection are needed to assist management in

making decisions regarding detection risk assessment (Bramasto et al., 2022). The government sector, particularly the Inspectorate of North Sumatra Province, Indonesia, urgently needs an internal audit, which is an independent activity that provides assurance and consulting services to enhance a company's or organization's operations and add value.

One way to show that accounting fraud has occurred is to see whether the company/organization carries out internal audits correctly. If the internal audit work runs well and adequately, it will impact the government's internal control system. Hence, to furnish management with follow-up recommendations, internal auditors must perform inspections and evaluations while searching for facts or evidence. Prevention of fraud is one of the findings of the internal auditor.

Apart from internal audit, internal control is also a factor that influences fraud prevention. Efforts to protect against misuse of company/organization assets or wealth include policies and procedures, ensuring that the accounting information available at the company/organization is accurate, and ensuring that all employees comply with and enforce all legal/legislative provisions. Its existence is called internal control. Internal control plays an important role in an organization to minimize accounting fraud. Weak internal controls cause undetected fraud in the accounting process, making audit evidence from accounting data incompetent. Internal audit and internal control are inseparable units to prevent fraud. Therefore, it is necessary to implement measures to prevent fraud by implementing a good and correct internal control and internal audit system. If the company/organization has implemented the role of these two objects, it will encourage the company/organization to run effectively and competently and reduce the scope for fraud.

Quality public sector audits must support good government financial management. If the quality of public sector audits is low, it will likely provide leeway for government agencies to commit budget irregularities. In addition, it raises the risk of lawsuits against government officials who carry it out. This makes audit quality difficult to measure, making it a sensitive issue for individual audit practitioners. The quality of audit work is the auditor's attitude in carrying out his duties, which is reflected in reliable audit results against applicable standards. Audit results are said to be of quality if the audit examination adds weight to accountability and provides evidence of deviation from audit standards. Knowledge is very important for all auditors, especially in audit accounting.

## **1. THEORETICAL REVIEW**

The Institute of Internal Auditors (IIA), a US-based organization for internal auditors, defines *fraud* as a series of prohibited actions that contravene the law and are marked by a deliberate intent to deceive. Fraud is an act of intentional deception or misrepresentation carried out with the purpose of cheating or misleading others. It can be perpetrated by individuals both within and outside of an organization (Lin et al., 2022). Moreover, fraud encompasses intentional error, masking of significant information, obliteration of evidence to support fraudulent activities, and manipulation resulting in financial detriment to an individual or organization. Fraud comprises embezzlement, theft, forgery, misuse, and deliberate evidence destruction (Hilal et al., 2022). In broad terms, fraud can be described as an umbrella term encompassing various techniques that an individual with a specific skill can employ to deceive others into parting ways with valuable assets. No standard and permanent rules can be issued to define fraud, including surprise, deception, or cunning and unnatural methods used to commit fraud. The only boundaries for defining fraud are things that limit human dishonesty (Zimbelman et al., 2012). From the definition of fraud above, it can be concluded that fraud is

a deviant action or deed detrimental to the organization and contrary to statutory regulations, which should be followed up for the organization's survival. Fraud prevention involves the formulation of policies, systems, and procedures to ensure that committees, audit committees, management, and other relevant parties undertake the required actions (Lukman & Chariri, 2023). The capacity of an institution to furnish sufficient assurance regarding the fulfilment of organizational goals, including effectiveness and efficiency, financial reporting dependability, and adherence to relevant laws and regulations (Teye et al., 2023). Fraud prevention is an activity to combat fraud at a low cost. Prevention of fraud can be analogous to a disease, which is better prevented than treated (Dzomira, 2015). Fraud prevention is the most effective fraud-fighting activity at the lowest cost, so all organizational actors must support it. Based on the definition of fraud prevention above, it can be concluded that fraud prevention is an effort to eliminate opportunities for fraud (Karyono, 2013).

The auditor is assigned to audit the financial reports of a company or organization's activities and then to express an opinion on the fairness of the company's or organization's financial reports (Francis, 2023). The Association of Chartered Certified Accountants (ACCA) explains that internal audit is a challenging and important role that can help an organization succeed. Internal audit is a function in which the organization's responsibility is to test and evaluate activities as a form of institutional service (Francis, 2023). Internal or internal audit provides a free assessment of an organization when running other businesses as a basis for providing services to management. Internal audits must be objective and independent (Alqudah et al., 2023). The purpose of an internal audit is to assist organizational members in carrying out their responsibilities to analyze, assess and provide suggestions for effective supervision (Barua et al., 2010). The function of internal audit is service delivery, namely providing analysis and evaluation services and assurance and advice to management and committees. In an agency, internal auditors play a role in assessing whether the existing internal control system is functioning well and whether each unit has implemented the policies established by existing plans and procedures (Alqudah et al., 2023). The Government's Internal Supervisory Apparatus, or what is often referred to as APIP, has the function of internal government audit in Indonesia. APIP carries out the entire audit, review, evaluation, monitoring and other supervisory activities regarding implementing organizational duties and functions (Yusup, 2023).

Internal control is a regulated framework so that one part automatically filters different parts (Glenardy et al., 2022). Internal control is a plan from the organization and all the coordinated methods and procedures adopted by government agencies to protect their property, increase business efficiency, useful to be able to check the accuracy and reliability of existing accounting data and encourage the implementation of applicable management policies (Nurhayati et al., 2023). Internal control encompasses a collection of policies and procedures designed to safeguard the assets of an organization against any potential misuse, guarantee the accessibility of precise and sufficient accounting information, and ensure adherence to all applicable legal regulations and management policies (Kartal et al., 2018). Internal control is a systematic procedure established by the entity committee, management, and other stakeholders with the aim of ensuring a reasonable level of assurance in achieving three key objectives: (a) the accuracy and trustworthiness of financial reporting, (b) the effectiveness and efficiency of operations, and (c) compliance with relevant laws and regulations (Daniela & Attila, 2013). Internal control is a procedural framework intended to furnish reasonable assurances regarding accomplishing organizational objectives. It is influenced by the board of commissioners, directors, management, and personnel. Based on this understanding, internal control is dynamic, not only existing at one time but will exist throughout operational activities

(Bouheraoua & Djafri, 2022). The internal control system is related to the operational activities of an organization and exists for a fundamental reason. Internal control will be very effective if the control is integrated with infrastructure and is an important part of an organization. Unified internal control encourages quality improvement and initiative, avoids unnecessary costs, and produces rapid responses to changing circumstances.

Audit quality refers to the likelihood that an auditor will identify and disclose any abnormalities in the client's accounting system (Xiao et al., 2020). Audit quality refers to the likelihood of an auditor successfully identifying and disclosing instances of fraud within a client's accounting system. As the audit quality increases, the confidence of information users in utilizing financial reports also increases. The significance of audit quality lies in its ability to generate reliable financial reports that serve as a reliable foundation for decision-making (Rusmin & Evans, 2017). Apart from that, audit quality results from the auditor's work in the form of a reliable audit report based on the criteria set (Yan & Xie, 2016). Based on the definition of audit quality above, the conclusion can be drawn that audit quality is a process that an auditor must carry out to examine a financial report to ensure the accuracy of a financial report based on applicable procedures. According to (Deis & Giroux, 1992), audit quality is related to compliance with professional standards and contractual obligations during the audit. Indicators of audit quality are as follows:

1. Accuracy of audit findings.

An auditor guarantees that the audit results are accurate, or it can be said that there are no errors in the slightest, and never carries out engineering or manipulation in conducting an audit.

2. Quality of inspection report.

The reports must be precise, comprehensive, unbiased, persuasive, lucid, succinct, and punctual in order to ensure that the information provided is highly beneficial.

3. Conformity of audits to audit standards.

Auditors must comply with the established code of ethics in carrying out audits (Wedemeyer, 2010).

Research conducted by (Afrah et al., 2022); (Putra et al., 2022) shows that internal audit influences fraud prevention, meaning that internal audit has a positive and significant effect on fraud prevention, and this relationship is included in the strong category. This means better internal audits followed by good fraud prevention. This is supported by research (Kuntadi et al., 2023) showing that internal audit plays a big role in a company/organization in controlling company activities, especially in fraud prevention. Research conducted by (Widilestariningtyas et al., 2016) shows that internal control affects fraud prevention because the more effective the internal control system is implemented, the lower the tendency to commit fraud. Meanwhile, according to the research results conducted by (Sanusi et al., 2020); (Umar et al., 2019), the opposite is true, stating that most audit quality significantly positively affects fraud prevention measures.

## **2. AIM AND HYPOTHESES**

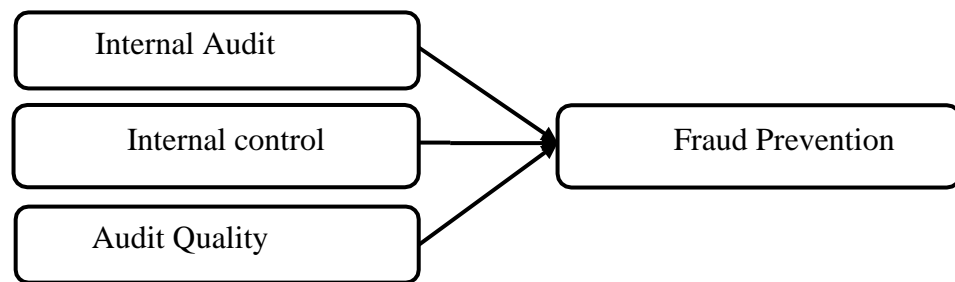
This study aims to test and analyze the effect of internal auditors, internal control, and audit quality on fraud prevention at the Inspectorate of North Sumatra Province, Indonesia. The structural research model is presented in Figure 1 with the following research hypotheses:

H1: Internal audit affects fraud prevention

H2: Internal control affects fraud prevention

H3: Audit quality affects fraud prevention

Based on the arguments presented above and research that has been done in the past, the following can be stated regarding the internal audit, internal control, and audit quality on fraud prevention: evidence from Indonesia:



**Figure 1. Conceptual Framework**

### **3. METHODOLOGY**

This research aims to establish the causal relationship between the variables being studied and assess the proposed hypothesis by applying an explanatory research methodology (Nasution et al., 2020). This study uses three variables: internal audit, internal control and audit quality. Internal audit, internal control, and audit quality are independent variables, and fraud prevention is the dependent variable.

The population in this study were government internal auditors who worked at the North Sumatra Province Inspectorate, totalling 61 people. In this research, a sample of 52 respondents was only partially used. This is because there are time and energy limitations, the Inspectorate staff still need to receive research questionnaires, and there are limits on accepting questionnaires for auditors at the Inspectorate. So, the sample used in this research is limited to questionnaires returned by respondents and filled in by respondents with 52 respondents. Questionnaires and interviews were utilized to collect data. Furthermore, the constructs of this study's evaluation were graded using a scale (1 – disagree, 5 – strongly agree). The analysis technique used in this research is SEM analysis with PLS, an alternative technique for SEM analysis where the data used does not have to have a multivariate normal distribution (Dash & Paul, 2021).

### **4. RESULTS**

Convergent validity is a component of the measurement model, commonly referred to as the outer model in SEM-PLS. Conversely, the type of structural equation modelling that relies on covariance is referred to as confirmatory factor analysis (CFA) (Hair et al., 2021). To determine if the outer model (measurement model) satisfies the convergent validity criteria for reflective constructs, two criteria are used: (1) the loading should exceed 0.7, and (2) the p-value should be less than 0.05 (Hair et al., 2014). Nevertheless, there are instances where loading requirements exceeding 0.7 could be more fulfilled, particularly for recently created questionnaires. Hence, it is imperative to uphold a loading range of 0.40 - 0.70 (Hair et al., 2021).

Indicators that have loadings below 0.40 should be eliminated from the model. Nevertheless, it is essential to examine the effects of removing indicators with loadings ranging from 0.40 to 0.70 on the average variance extracted (AVE) and composite reliability. If the indicator can enhance the average variance extracted (AVE) and composite reliability above the threshold,

we have the option to remove indicators with loading between 0.40 and 0.70 (Hair et al., 2017). The AVE threshold value is 0.5, while the composite reliability is 0.7. An additional factor to take into account when eliminating indicators is their influence on the content validity of the construct. On occasion, indicators that have low loadings are retained due to their contribution to the construct's content validity (Juliandi, 2018).

**Table 1. Loading Factor**

Indicator	Internal Audit	Internal Control	Audit Quality	Fraud Prevention
IA.1	0.822			
IA.2	0.903			
IA.3	0.843			
IA.4	0.823			
IA.5	0.879			
IA.6	0.860			
IA.7	0.886			
IA.8	0.905			
IA.9	0.860			
IA.10	0.838			
IA.11	0.805			
IA.12	0.863			
IA.13	0.812			
IA.14	0.832			
IC.1		0.958		
IC.2		0.852		
IC.3		0.868		
IC.4		0.806		
IC.5		0.886		
IC.6		0.855		
IC.7		0.816		
IC.8		0.945		
IC.9		0.851		
IC.10		0.820		
AQ.1			0.792	
AQ.2			0.843	
AQ.3			0.872	
AQ.4			0.841	
AQ.5			0.842	
AQ.6			0.818	
AQ.7			0.789	
AQ.8			0.845	
AQ.9			0.887	
FP.1				0.761
FP.2				0.849
FP.3				0.926
FP.4				0.874
FP.5				0.937
FP.6				0.875
FP.7				0.877
FP.8				0.880
FP.9				0.866

Table 1 indicates that the loading factor value of each internal audit, internal control, audit quality, and fraud prevention item has a correlation value greater than 0.6, suggesting their validity. These results suggest that the indicators of each variable can be deemed valid and accurately measure these variables in the convergent validity test.

Convergent validity can be assessed by examining the Average Variance Extracted (AVE) value. Indicators are deemed to possess strong convergent validity when their Average Variance Extracted (AVE) exceeds 0.5.

**Table 2. Average Variance Extracted (AVE)**

Variable	Average Variance Extracted (AVE)
Internal Audit	0.727
Internal control	0.752
Audit Quality	0.701
Fraud Prevention	0.762

The recommended AVE value is above 0.5 (Ghozali & Latan, 2015). All AVE values are greater than 0.5, indicating that they satisfy the validity criteria established by AVE.

The discriminant validity of the measurement mode with indicator reflection was assessed using the Fornell-Larcker approach. The Fornell-Larcker approach is the commonly used criterion in the discriminant validity test. Suppose the correlation between the latent construct and the measurement item is larger than the correlation between the other construct and the same measurement item. In that case, it suggests that the latent construct has a stronger predictive power for the block size compared to the other construct.

**Table 3. Discriminant Validity Tests**

Variable	Internal Audit	Internal Control	Audit Quality	Fraud Prevention
Internal Audit	0.853			
Internal control	0.746	0.867		
Audit Quality	0.961	0.730	0.873	
Fraud Prevention	0.833	0.937	0.785	0.873

To assess discriminant validity, one compares the correlation value between a given latent variable and other latent variables with the square root of that latent variable's average variance extracted (AVE). It is established that the AVE root value for each latent variable surpasses the correlation value between that latent variable and other latent variables. Therefore, it can be inferred that the criteria for discriminant validity have been satisfied.

Reliability testing is conducted to assess the internal consistency of measurement instruments. A construct is deemed reliable if its composite reliability or Cronbach's alpha value exceeds 0.7. Moreover, the outcomes of composite reliability or Cronbach's alpha testing are displayed in the subsequent table:

**Table 4. Composite Reliability and Cronbach's Alpha**

Variable	Composite Reliability	Cronbach's Alpha	Criteria	Information
Internal Audit	0.974	0.971	> 0.7	Valid
Internal Control	0.968	0.963	> 0.7	Valid
Audit Quality	0.955	0.947	> 0.7	Valid
Fraud Prevention	0.966	0.961	> 0.7	Valid

Table 4 shows that the results of the Cronbach's alpha or composite reliability test show that the reliability value of each latent variable is reliable because it meets the composite reliability and Cronbach's alpha criteria. The resulting value from the Internal Audit, Internal Control, Audit Quality and Fraud Prevention constructs is > 0.7.

R-Square is a metric that quantifies the extent to which the value of a variable is affected by another variable and can be accounted for by that influencing variable. This is valuable for forecasting the quality of the model (Juliandi, 2018). The R<sup>2</sup> test results can be seen in the following table:

**Table 5. R-Square**

Variable	R-Square	R-Square Adjusted
Fraud Prevention	0.926	0.918

The R-Square value of the joint or simultaneous influence of Internal Audit, Internal Control and Audit Quality on Fraud Prevention is 0.918, with an Adjusted R-Square value of 0.926. So, it can be explained that all exogenous constructs (internal audit, Internal Control and Audit Quality) simultaneously influence Fraud Prevention by 0.918 or 91.8%. Because the Adjusted R-Square is above 70%, the influence of all exogenous constructs, internal audit, Internal Control and Audit Quality on Fraud Prevention is strong.

F-square is carried out to determine the model's goodness by assessing the relative impact of the influencing variables (exogenous) on the influenced variables (endogenous). The measurement criteria are as follows: if the  $f^2$  value is 0.02, it can be categorized as having a weak (small) influence from exogenous variables on endogenous variables; an  $f^2$  value of 0.15 can be categorized as having a moderate (medium) influence from exogenous variables on endogenous variables, and the value  $f^2$  of 0.35 can be categorized as having a strong (large) influence from exogenous variables on endogenous variables (Ghozali, 2014). The f-square value in this research can be seen in the table below.

**Table 6. F-Square**

Variable	Internal Audit	Internal Control	Quality Audit	Prevention Fraud
Internal Audit				0.354
Internal control				0.374
Audit Quality				0.106
Fraud Prevention				

Based on Table 6, it is known that test 6 shows that The influence of internal audit on fraud prevention has an  $f^2$  value of 0.354, indicating that there is a (strong) influence. The influence of internal control on fraud prevention has an  $f^2$  value of 0.374, indicating a (strong) influence. The influence of audit quality on fraud prevention has an  $f^2$  value of 0.106, indicating a (moderate) influence.

Hypothesis testing in research is direct influence testing based on data processing that has been carried out using the smart PLS 4.0 program. The results of the direct influence hypothesis test can be seen in the table:

**Table 7. Path Coefficient**

	Sample Mean (M)	T Statistics	P Values	Decision
Internal audit => Fraud	0.548	2,286	0.023	Accepted
Internal control => Fraud	0.717	5,772	0,000	Accepted
Audit Quality => Fraud	0.263	1,388	0.166	Rejected

## 5. DISCUSSION

Based on the results of hypothesis testing, it is known that internal audit has a positive effect on fraud prevention as assessed by the path coefficient. The probability value (P-Values) obtained is  $0.023 < 0.05$ . This means that the influence of internal audits on fraud prevention is positive and significant. This proves that internal audit positively and significantly influences fraud prevention, where the relationship is included in the strong category. Enhanced internal audits will inevitably be accompanied by effective fraud prevention. Four indicators are used

to quantify internal audit variables: independence, professional competence, work scope, and execution of audit activities. Based on the results of descriptive research on respondents' responses regarding internal audit variables, there was one question that received the highest score of 0.905, which was found in the scope of work indicator with the statement that the internal auditor is responsible for determining whether the activities being inspected are by established policies. However, there are still areas for improvement in the indicators for implementing inspection activities, with a score of 0.812 in the statement Reporting inspection results to the competent authority for corrective action or to ensure that corrective action has been implemented. This means that internal auditors must report fraud to the authorized parties. According to (Handoyo & Bayunitri, 2021), internal audit functions as management supervision to assess the control system so that all management members can be held accountable effectively by making analyses, evaluations, recommendations and reviews related to the activities analyzed to prevent fraud. The results of this research align with the results of research (Hussein, 2018), which states that internal auditors influence fraud prevention, where better internal auditors will be followed by good fraud prevention. Other research results were also conducted (Oki et al., 2021), which stated that internal audits partially had a significant effect on fraud prevention. This means proving that the internal audit owned by a company or agency greatly influences preventing fraud that could arise in a company or institution.

Based on the results of hypothesis testing, it is known that internal control has a positive and significant effect on fraud prevention as assessed by the probability value path coefficient (P-Values) obtained at  $0.000 > 0.05$ . This means that the influence of internal control on fraud prevention has a positive and significant influence. According to (Bouheraoua & Djafri, 2022), internal control represents all activities that must be carried out in an organization, all processes implemented by the board of commissioners and demonstrated to achieve effective and efficient organizational operations, reliability of financial reports, and compliance with applicable regulations. Thus, there is effective internal control when making decisions, always considering applicable ethical values, carrying out appropriate authority and activities, determining clear organizational goals, communicating relationships between employees and clear separation of duties. So, internal control has a positive and significant effect in preventing fraud (Nugrahanti et al., 2023). Internal control variables are measured by five indicators: scope of work, risk assessment, control activities, information and communication, and monitoring. Based on the results of distribution research on respondents' responses regarding internal control variables, one question received the highest score of 0.958 with the statement that the Inspectorate must always pay attention to the ethical values that apply in every decision-making. However, there are still deficiencies in the risk assessment indicator, which received a score of 0.806, with the inspector's statement identifying changes that may significantly impact internal control. This research aligns with the results of research (Rashid, 2022) and (Joseph et al., 2015), which state that there is a moderately positive relationship between internal control and fraud prevention and is statistically significant (real). This means that the internal control system within a company/institution greatly influences the level of fraud within a company or institution.

Based on the results of hypothesis testing, it is known that audit quality does not have a significant effect on fraud prevention as assessed by the probability value path coefficient (P-Values) obtained at  $0.166 > 0.05$ . This means that the influence of audit quality on fraud prevention has a positive and insignificant influence. The audit quality variable is measured by five indicators, namely building integrity, creating exemplary leadership, minimizing opportunities, developing a good internal control system, developing collision prevention policies and systems, developing monitoring systems, hotlines and whistle-blowing systems,

developing reward systems and punishment, and creating a balance of power. Based on the research results on the distribution of respondents' responses regarding audit quality variables, one question received the highest score of 0.887 with the statement that after the auditor accepts the assignment, determine the objectives, scope and audit methods. However, there are still deficiencies in the audit conformity indicator with audit standards, which obtained a score of 0.789 with the statement. Before deciding, I always compare the audit results with the established standard results. The results of this research align with the results of research (Umar et al., 2019), which states that audit quality for fraud prevention is negative and not significant for fraud prevention. This contradicts the research results (Khan et al., 2023) and (Arum & Wahyudi, 2021), which state that audit quality positively and significantly affects fraud prevention. Audit quality has no effect due to other factors; for example, the results of audit findings that are carried out are inaccurate in finding irregularities or fraud. This means that an auditor should guarantee that the audit results are accurate, or it can be said that there are no errors in the slightest, and never carry out engineering or manipulation when conducting an audit.

This research implies that the role of internal audit, internal control and audit quality influence fraud prevention at the Inspectorate of North Sumatra Province, Indonesia. Therefore, routine internal audit and internal control activities are needed, as well as the instillation and implementation of anti-fraud values and policies within the company so that it is free from fraud and maintains the agency's image in the eyes of the public.

## **CONCLUSION**

This research was conducted to test and analyze the influence of internal audit, internal control and audit quality on fraud prevention at the Inspectorate of North Sumatra Province, Indonesia. Based on the results of the data analysis that has been carried out and the discussion described in the previous chapter. The conclusion obtained is that there is a positive and significant influence between internal audit and fraud prevention at the Inspectorate of North Sumatra Province, Indonesia. So, it can be explained that if the internal audit in a company or institution is running well, then fraud prevention is also good. There is a positive and significant influence between internal control and fraud prevention at the Inspectorate of North Sumatra Province, Indonesia. So, it can be explained that if internal control in a company or institution is running well, then fraud prevention is also good. Based on the results of hypothesis testing, audit quality does not affect fraud prevention.

After the author researches and explains the discussion regarding the Influence of Internal Audit, Internal Control and audit quality on Fraud Prevention in North Sumatra Provincial Inspectorate, Indonesia, it is necessary to carry out more thorough testing and evaluation activities to ensure whether all audited financial reports meet government accounting standards, as well as adding human resources or auditors who can audit financial reports and the need for auditors to carry out training so that auditors do not experience difficulties in auditing financial statements. To improve internal control, it is necessary to make control activities more effective by adding human resources who are experts in accounting so that there is a separation of functions between recording, receiving, spending and storing finances, as well as adding an accounting information system or improving/updating the accounting information system. For future researchers, it is hoped that more samples can be taken so that the results obtained can represent the overall situation. It is hoped that future research can develop research by adding variables such as good corporate governance, which can prevent fraud.

This research has several limitations, including the data collection method using a survey method with questionnaire techniques, which can cause differences in perceptions between respondents and researchers regarding the questions contained in the questionnaire. Then, the researcher cannot monitor and ensure whether the questionnaire has been filled in as well as possible by the respondent. There are still areas for improvement, such as answers that need to be more careful, not serious and respondents who are not honest. The research only focuses on internal audit variables, internal control and audit quality. Other factors may influence fraud prevention but have not been tested in this research.

## AUTHOR CONTRIBUTIONS

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Writing - review & editing: Henny Zurika Lubis, Maya Sari, Istiqomah Rahmayati Brutu, Debbi Chyntia Ovami, Andi Auliya Ramadhany

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The screenshot shows a Gmail interface with a search bar at the top containing the word "adminis". The left sidebar contains navigation options: "Tulis", "Mail" (with a notification badge for 97), "Kotak Masuk" (1,086), "Berbintang", "Ditunda", "Terkirim", "Draf" (44), "Selengkapnya", and "Label". The main content area displays an email titled "MA9445: Notification on Submission" (External) from "Manuscript Administration System" (noreply@manuscript-adminsystem.com) received on Saturday, January 20, 2023, at 15:01. The email body contains the following text: "Dear Henny Zurika Lubis, The manuscript INTERNAL AUDIT, INTERNAL CONTROL AND AUDIT QUALITY ON FRAUD PREVENTION: EVIDENCE FROM THE PUBLIC SECTOR IN INDONESIA, submitted to Problems and Perspectives in Management Journal is overdue. Please check and complete the process on phase Desk Review as soon as possible. Kind regards, Manuscript Administration System". Below the email is a reply from "Henny Zurika Lubis S.E.M.Si" (hennyzurika@umsu.ac.id) received on Saturday, January 20, 2023, at 15:08, with the text "\*\*\*". At the bottom of the email thread are two buttons: "Balas" and "Teruskan".

### 3. Bukti Revisi Pertama dan Hasil Turnitin (26 December 2023)

The image displays three sequential screenshots of a Gmail email interface. The email is from k.maschenko@manuscript-adminsystem.com and is titled "MA9445: Notification on Submission". The email content provides detailed instructions for revising a manuscript titled "INTERNAL AUDIT, INTERNAL CONTROL AND AUDIT QUALITY ON FRAUD PREVENTION: EVIDENCE FROM THE PUBLIC SECTOR IN INDONESIA".

**Key points from the email:**

- Comments:** The manuscript needs to be revised to meet journal requirements.
- Structure:** The manuscript must contain sections: Abstract, Introduction, Literature review, Method, Results, Discussion, and Conclusion.
- Length:** The maximum length is 6,000 words (excluding Abstract, List of references, and Appendixes).
- Keywords:** 8-10 keywords are required, chosen carefully and not repeated.
- JEL Classification:** Codes should be two-digit, on average 2.4, and placed in order of importance.
- Introduction:** Should be a half-page devoted to the scientific problem.
- Literature review:** 30-50 sources, structured with specific logic.
- Method section:** Describe the algorithm/procedure and provide primary data.
- Results section:** Explain results, analytics, and systematization.
- Discussion:** Discuss results, compare with previous work, and indicate future prospects.
- Conclusion:** Indicate purpose, results, and conclusions.
- Publication Ethics:** Strictly observed, including proper citation of other scientists' works.
- Plagiarism:** Check the report and revise the manuscript.
- Deadline:** Revisions are due by 2024-01-03.
- Signature:** Katerina Maschenko, Managing Editor, Journal Problems and Perspectives in Management.

mail.google.com/mail/u/0/?search=maschenko

Gmail

maschenko

Aktif

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Please, check the plagiarism report and revise the manuscript.  
<https://drive.google.com/file/d/1-FAAF0003dsB1jvY7YLPhc8av7tok/view2usp=sharing>

The deadline for revisions is 2024-01-03

To revise a manuscript please don't forget to log in to the system and to upload a revised manuscript!

Kind regards,

Katerina Maschenko  
Managing Editor  
Journal Problems and Perspectives in Management

Satu lampiran • Dipindai dengan Gmail

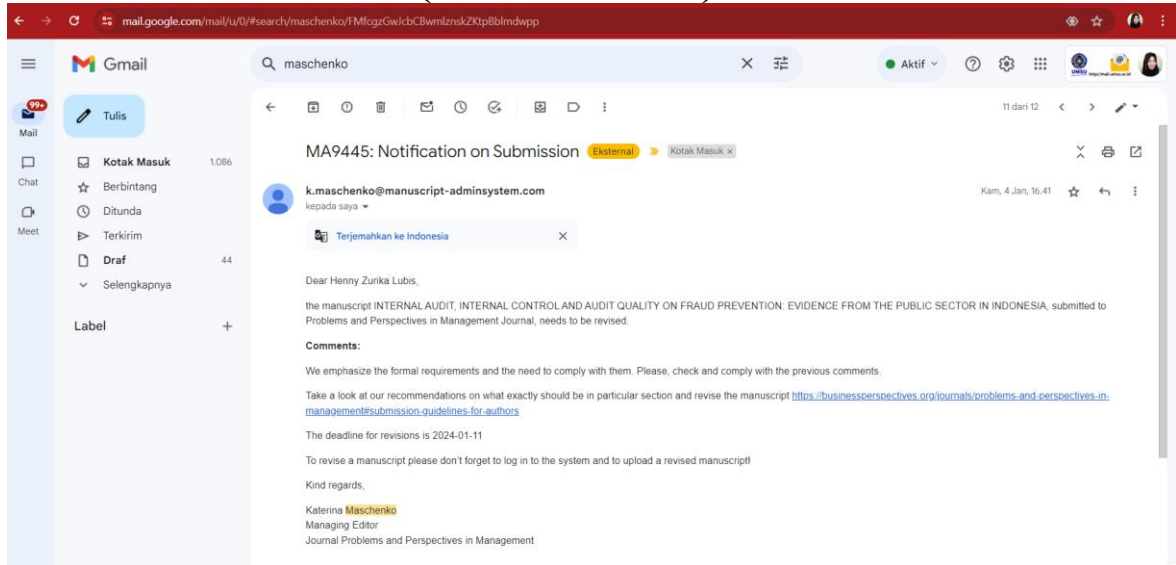
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Henny Zurika Lubis S.E.M.Si <hennyzurika@umsu.ac.id>  
kepada mayasari

26 Des 2023, 17:52

## 4. Bukti Revisi Kedua (4 Januari 2024)



The screenshot shows a Gmail interface with a search bar containing 'maschenko'. The email is titled 'MA9445: Notification on Submission' and is marked as 'Eksternal'. The sender is 'k.maschenko@manuscript-adminsystem.com' and the recipient is 'kepada saya'. The email content is as follows:

Dear Henny Zurika Lubis,

the manuscript INTERNAL AUDIT, INTERNAL CONTROL AND AUDIT QUALITY ON FRAUD PREVENTION: EVIDENCE FROM THE PUBLIC SECTOR IN INDONESIA, submitted to Problems and Perspectives in Management Journal, needs to be revised.

**Comments:**

We emphasize the formal requirements and the need to comply with them. Please, check and comply with the previous comments.

Take a look at our recommendations on what exactly should be in particular section and revise the manuscript <https://businessperspectives.org/journals/problems-and-perspectives-in-management#submission-guidelines-for-authors>

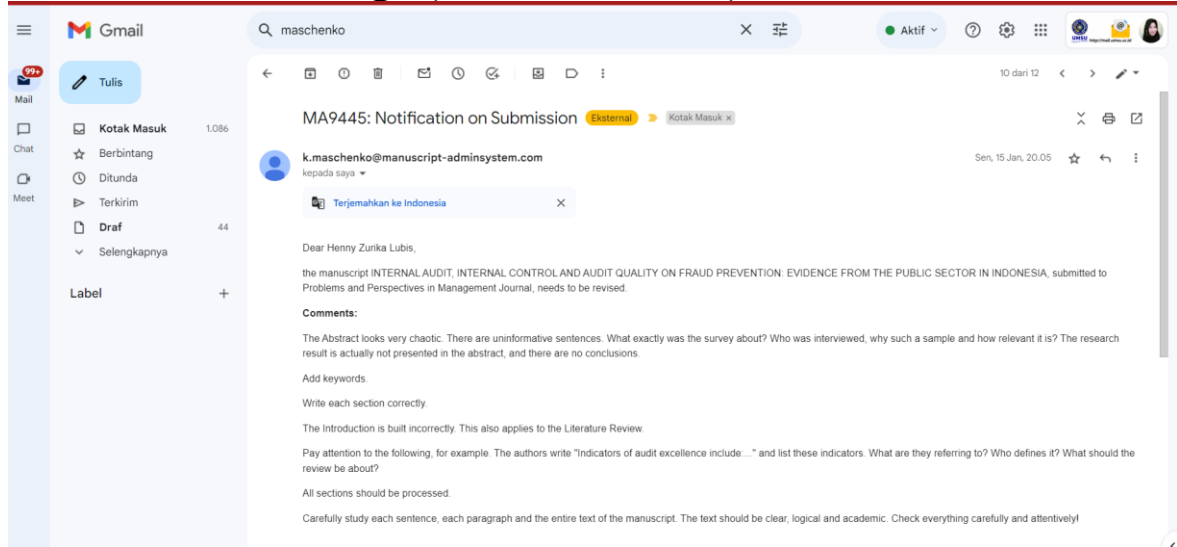
The deadline for revisions is 2024-01-11

To revise a manuscript please don't forget to log in to the system and to upload a revised manuscript!

Kind regards,

Katerina Maschenko  
Managing Editor  
Journal Problems and Perspectives in Management

## 5. Bukti Revisi Ketiga (15 Januari 2024)



The screenshot shows a Gmail interface with a search bar containing "maschenko". The email is titled "MA9445: Notification on Submission" and is categorized as "External" and "Kotak Masuk". The sender is "k.maschenko@manuscript-adminsystem.com" and the recipient is "kepada saya". The email content includes a translation button "Terjemahkan ke Indonesia" and the following text:

Dear Henny Zurika Lubis,

the manuscript INTERNAL AUDIT, INTERNAL CONTROL AND AUDIT QUALITY ON FRAUD PREVENTION: EVIDENCE FROM THE PUBLIC SECTOR IN INDONESIA, submitted to Problems and Perspectives in Management Journal, needs to be revised.

**Comments:**

The Abstract looks very chaotic. There are uninformative sentences. What exactly was the survey about? Who was interviewed, why such a sample and how relevant it is? The research result is actually not presented in the abstract, and there are no conclusions.

**Add keywords:**

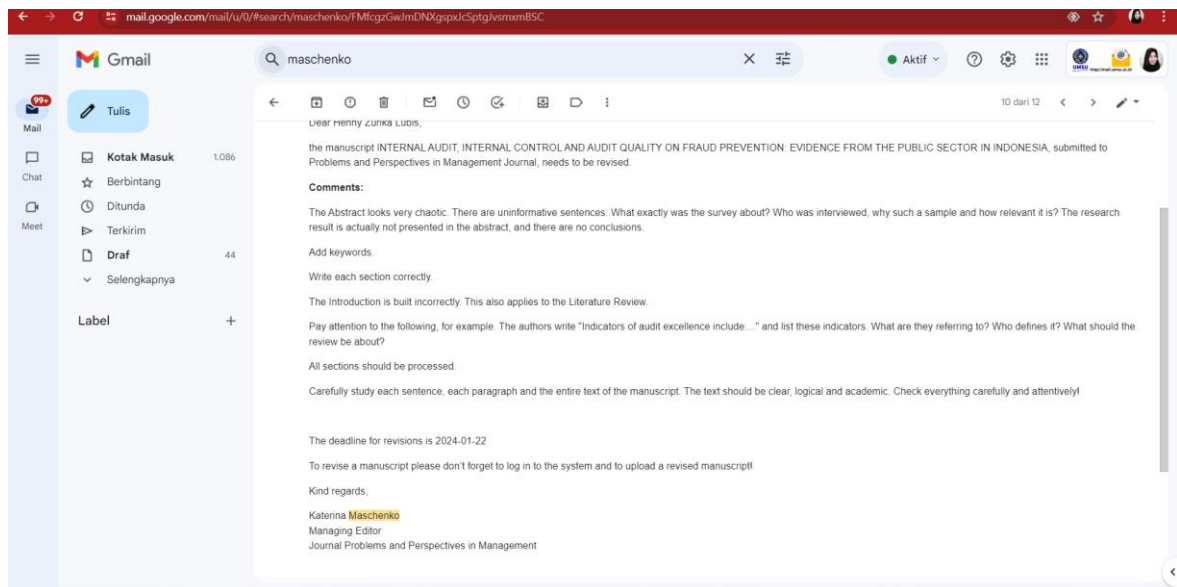
Write each section correctly

The introduction is built incorrectly. This also applies to the Literature Review.

Pay attention to the following, for example. The authors write "Indicators of audit excellence include..." and list these indicators. What are they referring to? Who defines it? What should the review be about?

All sections should be processed.

Carefully study each sentence, each paragraph and the entire text of the manuscript. The text should be clear, logical and academic. Check everything carefully and attentively!



The screenshot shows a Gmail interface with a search bar containing "maschenko". The email is titled "Dear Henny Zurika Lubis," and is categorized as "External" and "Kotak Masuk". The sender is "Katerina Maschenko" and the recipient is "kepada saya". The email content includes the following text:

Dear Henny Zurika Lubis,

the manuscript INTERNAL AUDIT, INTERNAL CONTROL AND AUDIT QUALITY ON FRAUD PREVENTION: EVIDENCE FROM THE PUBLIC SECTOR IN INDONESIA, submitted to Problems and Perspectives in Management Journal, needs to be revised.

**Comments:**

The Abstract looks very chaotic. There are uninformative sentences. What exactly was the survey about? Who was interviewed, why such a sample and how relevant it is? The research result is actually not presented in the abstract, and there are no conclusions.

**Add keywords:**

Write each section correctly

The introduction is built incorrectly. This also applies to the Literature Review.

Pay attention to the following, for example. The authors write "Indicators of audit excellence include..." and list these indicators. What are they referring to? Who defines it? What should the review be about?

All sections should be processed.

Carefully study each sentence, each paragraph and the entire text of the manuscript. The text should be clear, logical and academic. Check everything carefully and attentively!

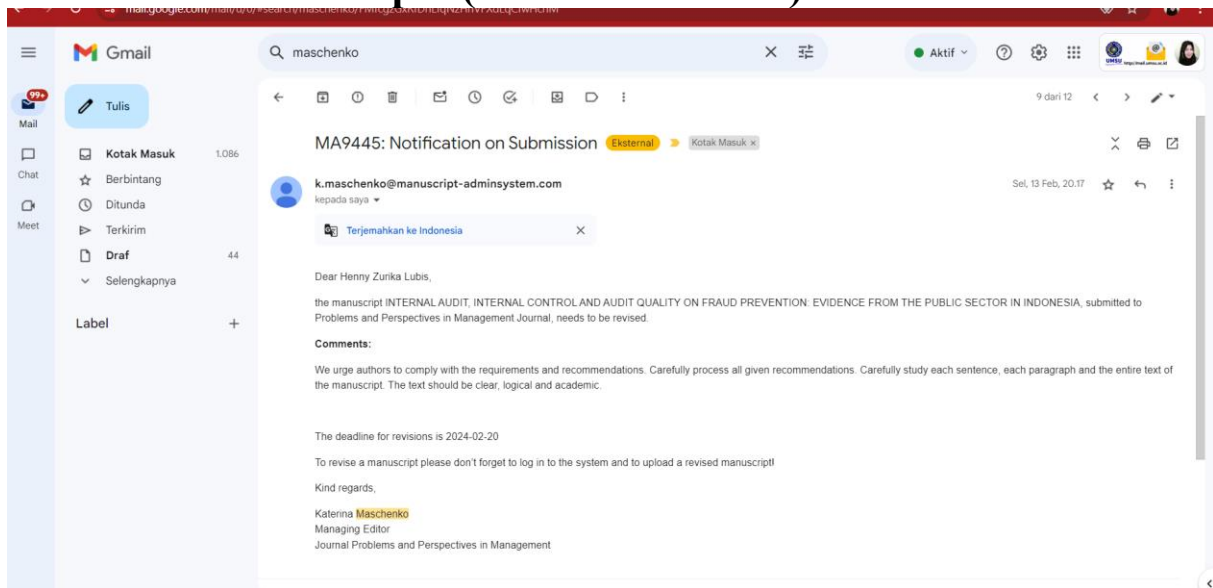
The deadline for revisions is 2024-01-22

To revise a manuscript please don't forget to log in to the system and to upload a revised manuscript!

Kind regards,

Katerina Maschenko  
Managing Editor  
Journal Problems and Perspectives in Management

## 6. Bukti Revisi Keempat (13 Februari 2024)



The screenshot shows a Gmail interface with a search bar containing "maschenko". The email is titled "MA9445: Notification on Submission" and is categorized as "Eksternal". The sender is "k.maschenko@manuscript-adminsystem.com". The email content includes a translation button "Terjemahkan ke Indonesia", a greeting to Henny Zurika Lubis, and a notification that the manuscript "INTERNAL AUDIT, INTERNAL CONTROL AND AUDIT QUALITY ON FRAUD PREVENTION: EVIDENCE FROM THE PUBLIC SECTOR IN INDONESIA" needs to be revised. It also provides a deadline for revisions (2024-02-20) and a request to log in to the system to upload a revised manuscript. The email is signed by Katerina Maschenko, Managing Editor of the journal "Problems and Perspectives in Management".

**MA9445: Notification on Submission** Eksternal Kotak Masuk x

k.maschenko@manuscript-adminsystem.com  
kepada saya

Terjemahkan ke Indonesia x

Dear Henny Zurika Lubis,

the manuscript INTERNAL AUDIT, INTERNAL CONTROL AND AUDIT QUALITY ON FRAUD PREVENTION: EVIDENCE FROM THE PUBLIC SECTOR IN INDONESIA, submitted to Problems and Perspectives in Management Journal, needs to be revised.

**Comments:**

We urge authors to comply with the requirements and recommendations. Carefully process all given recommendations. Carefully study each sentence, each paragraph and the entire text of the manuscript. The text should be clear, logical and academic.

The deadline for revisions is 2024-02-20

To revise a manuscript please don't forget to log in to the system and to upload a revised manuscript!

Kind regards,

Katerina Maschenko  
Managing Editor  
Journal Problems and Perspectives in Management



## 7. Bukti Revisi Kelima (26 Februari 2024)

The image displays two screenshots of a Gmail interface. The top screenshot shows an email notification titled "MA9445: Notification on Submission" from k.maschenko@manuscript-adminsystem.com, dated "Jum, 23 Feb, 17.56". The email content includes a greeting to Henny Zurika Lubis and a request to revise a manuscript titled "INTERNAL AUDIT, INTERNAL CONTROL AND AUDIT QUALITY ON FRAUD PREVENTION: EVIDENCE FROM THE PUBLIC SECTOR IN INDONESIA". The "Comments" section lists several points for revision: the text should not be in the first person, irregular abbreviations should be avoided, the abstract should accurately present the research result, and three specific criteria for audit quality are listed: 1. Accuracy of audit findings, 2. Quality of inspection report, and 3. Conformity of audits to audit standards. The bottom screenshot shows a detailed view of the email content, focusing on the "2. Quality of inspection report" and "3. Conformity of audits to audit standards" sections. It provides specific feedback on the manuscript's methodology and structure, including a deadline for revisions of 2024-02-29 and a request to log in to the system to upload a revised manuscript. The email is signed by Katerina Maschenko, Managing Editor of Journal Problems and Perspectives in Management.

**MA9445: Notification on Submission** Eksternal Kotak Masuk

k.maschenko@manuscript-adminsystem.com kepada saya

Terjemahkan ke Indonesia

Dear Henny Zurika Lubis,

the manuscript INTERNAL AUDIT, INTERNAL CONTROL AND AUDIT QUALITY ON FRAUD PREVENTION: EVIDENCE FROM THE PUBLIC SECTOR IN INDONESIA, submitted to Problems and Perspectives in Management Journal, needs to be revised.

**Comments:**

The text of the manuscript should not be submitted in the first person, not like 'we', 'authors' or 'researchers'.  
Do not enter irregular abbreviations in the manuscript.  
The abstract does not actually present the research result. Allocate half the abstract volume to it and write it specifically.  
How important is it to refer this source - "Indicators of audit quality, according to Wedemeyer (2010), include:

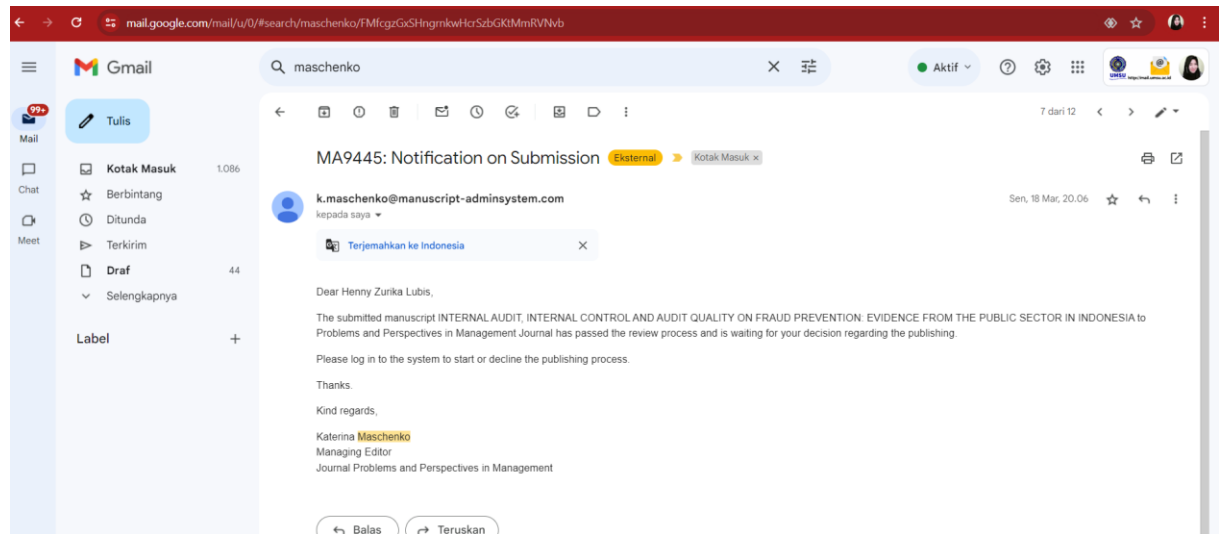
1. Accuracy of audit findings.  
An auditor guarantees that the audit results are accurate, or it can be said that there are no errors in the slightest, and never carries out engineering or manipulation in conducting an audit.
2. Quality of inspection report.  
The reports must be precise, comprehensive, unbiased, persuasive, lucid, concise, and punctual to ensure that the information provided is highly beneficial.
3. Conformity of audits to audit standards.?"

2. Quality of inspection report.  
The reports must be precise, comprehensive, unbiased, persuasive, lucid, concise, and punctual to ensure that the information provided is highly beneficial.

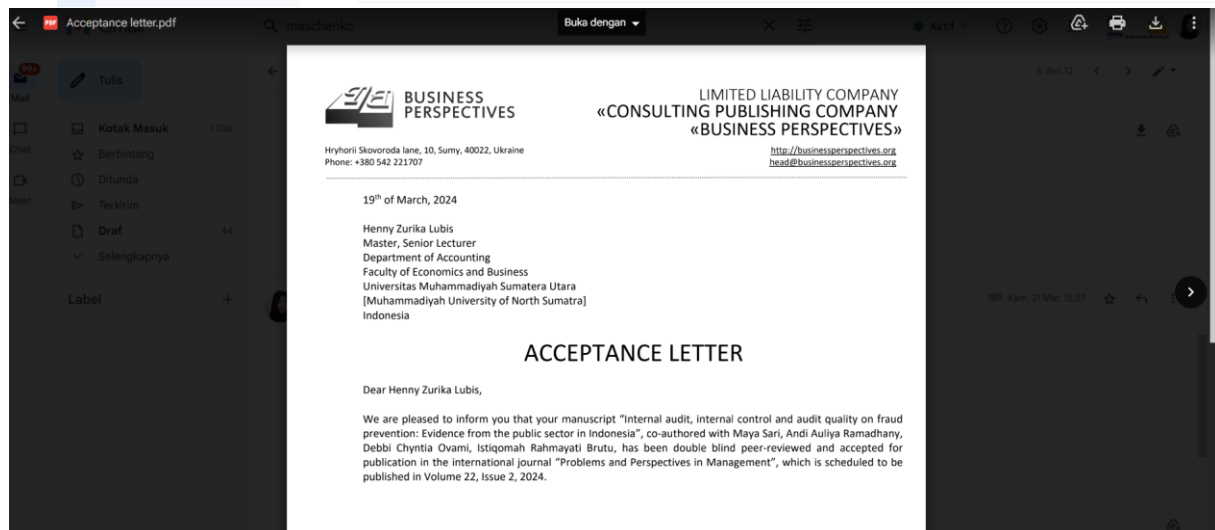
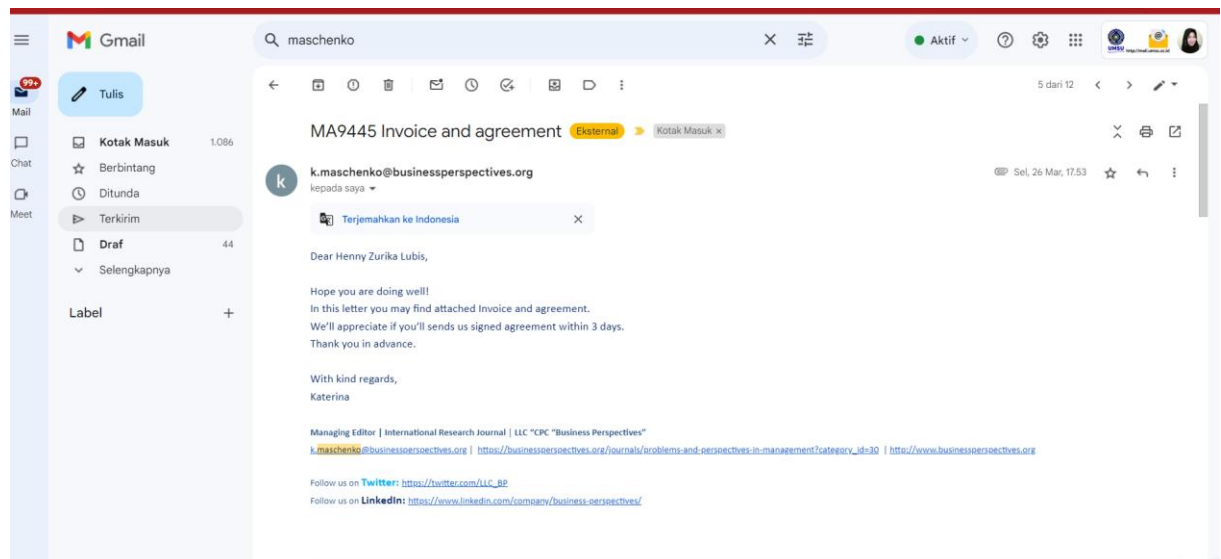
3. Conformity of audits to audit standards.?"  
Is this what the authors then take as a basis? Is this the only such list and that is why it is given?  
What is the purpose of stating the purpose in the METHODS section - "The principal objective of this inquiry is to discern the causal relationships among the variables under consideration and to assess the proposed hypotheses by applying an explanatory research methodology, as posited by (Nasution et al., 2020).?"  
There should be only one goal and it should be placed after the Literature review.  
This fragment is redundant - "With the increasing curiosity of researchers about non-linear relationship analysis in social research, business or the field of information systems, PLS is the right application for finding solutions to existing problems. Such applications will also be very helpful for students to determine research design and analysis techniques, especially statistics as a tool when dealing with problems and or questions during research. SEM with PLS is used to predict and develop theories. This is in contrast to covariance-based SEM, which is aimed at testing and confirming existing theories. In addition, SEM-PLS is also used to predict endogenous latent variables or identify key variables if the research is exploratory or extends an existing structural theory (Hair et al., 2014)."  
Write the Methods section more academically and coherently. It should also be demonstrated here exactly how the respondents were interviewed and about what.  
Why is the RESULT section at first rather a Literature review? Review material should be removed from here.  
Write the Conclusions correctly.  
The deadline for revisions is 2024-02-29  
To revise a manuscript please don't forget to log in to the system and to upload a revised manuscript!

Kind regards,  
Katerina Maschenko  
Managing Editor  
Journal Problems and Perspectives in Management

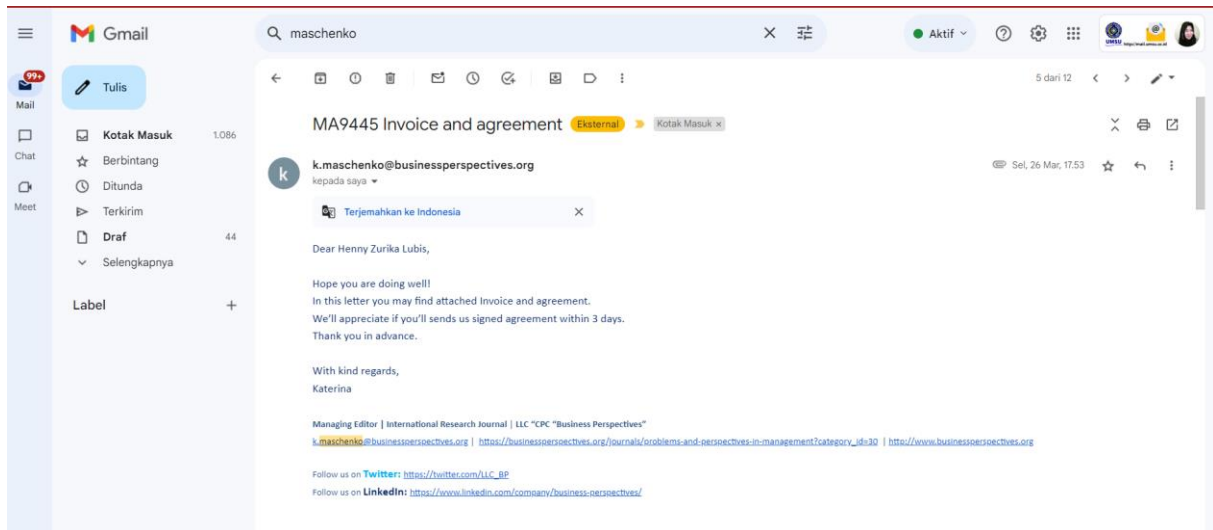
## 8. Bukti Artikel Proses Diterima (18 Maret 2024)



## 9. Bukti Artikel Diterima (26 Maret 2024)



## 9. Bukti Invoice dan Agreement (27 Maret 2024)



# 10. Revisi Proofreading (2 April 2024)

The screenshot shows a Gmail interface with a search bar at the top containing 'maschenko'. The left sidebar shows the 'Kotak Masuk' (Inbox) with 1,086 emails, and a 'Draf' (Drafts) folder with 44 emails. The main content area displays an email from 'k.maschenko@businessperspectives.org' to 'Henny Zurika Lubis'.

**Subject:** MA9445 please, add link to added sources

**From:** k.maschenko@businessperspectives.org

**To:** Henny Zurika Lubis

**Date:** 3 Apr, 19:31

**Body:**

Dear Henny Zurika Lubis,

Thank you for your letter.

We will inform you when the payment received.  
We kindly ask you to add link to added sources.

Kind regards,  
Katerina

For your reply, I waitin you.

Kind regards,  
Henny Zurika Lubis

Pada Sel, 2 Apr 2024 pukul 14:28 <k.maschenko@businessperspectives.org> menulis:

Dear Henny Zurika Lubis,

Hope this letter finds you well.

Attached you will find the additional comments of a proof-reader in the text of a paper.  
Pay attention to the marked words and check these corrections and revise if required.  
Please, do ONLY the required changes in the attached file within 2 days and highlight all changes that you make. Please, indicate DOI or another link to the source that/if you add.  
We will prepare this manuscript for publication.

Also, kindly remind that we are waiting for signed Agreement (attached).

Look forward to hearing from you.

Sincerely yours,  
Katerina

Managing Editor | International Research Journal | LLC "CPC "Business Perspectives"  
k.maschenko@businessperspectives.org | [https://businessperspectives.org/journals/problems-and-operations-in-management?category\\_id=30](https://businessperspectives.org/journals/problems-and-operations-in-management?category_id=30) | <http://www.businessperspectives.org>

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# **Effect of internal audit, internal control, and audit quality on fraud prevention: Evidence from the public sector in Indonesia**

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Debbi Chyntia Ovami (Indonesia), Istiqomah Rahmayati Brutu (Indonesia)**

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## **Abstract**

Fraud prevention entails developing and implementing risk management strategies, particularly regarding fraud, and establishing internal controls and transparent corporate governance practices to eliminate fraudulent activities. This study aims to examine the effect of internal auditors, internal control, and audit quality on preventing fraud at the Inspectorate of North Sumatra Province, Indonesia. The sample included 61 government internal auditors of the Inspectorate of North Sumatra Province, Indonesia. The data collection process was carried out by administering questionnaires using Google Forms. Additionally, this investigation assessed the constructs under scrutiny using a five-point Likert and the partial least square (PLS) approach. The results showed that internal audit has a positive and significant effect on fraud prevention ( $p < 0.05$ ), internal control has a positive and significant effect on fraud prevention ( $p < 0.05$ ), and audit quality has no effect on fraud prevention at the Inspectorate of North Sumatra Province, Indonesia ( $p > 0.05$ ). The Inspectorate of North Sumatra Province, Indonesia, should conduct internal audits, implement an internal control system, and pay attention to the quality of audits to make them more effective as a basis for quality decision-making and fraud minimization.

**Keywords:** fraud prevention, internal auditor, SEM-PLS, Indonesia

**JEL Classification:** H11, H83, M42

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## **Introduction**

The rising number of fraudulent incidents in Indonesia has become a significant issue for the government and the community. Fraud prevention is a cost-effective endeavor that combat fraudulent activities. It is comparable to illness prevention, as preventing fraud is more efficient than dealing with its consequences. There are three types of fraud. The first is the misappropriation of assets, which refers

to the theft of an organization's assets. Furthermore, the deliberate inclusion of inaccurate information or purposeful withholding of relevant details on financial statements mislead the users of said statements. Thirdly, corruption refers to exploiting one's position inside the government sector for personal benefit. The internal audit function is crucial in overseeing activities, guaranteeing the effectiveness of the antifraud control program, and detecting and preventing fraud through its actions. Regular internal audits will minimize and prevent fraud, errors, and detrimental activities that affect an organization. Internal audits in government institutions or agencies have yet to achieve maximum efficiency. The occurrence of fraud cases within the Indonesian government can be attributed to the deactivation of the detection system and internal audit within the region. This includes the non-functioning of the regional supervisory body, which is compromised by the presence of individuals who have been exiled or are nearing retirement.

Besides internal audits, internal control is also a factor that affects fraud prevention. Efforts to protect against misuse of company/organization assets or property, including policies and procedures, ensure that the accounting information available in the company/organization is accurate, and ensure that all employees comply with and enforce all provisions (regulations) of the law/laws on internal control. Quality public sector audits must support good government financial management. If the quality of public sector audits is low, it will likely provide leeway for government agencies to commit budget irregularities. In addition, it raises the risk of lawsuits against government officials who carry it out. This makes audit quality difficult to measure, making it a sensitive issue for individual audit practitioners. Audit results are said to be of quality if the audit examination adds weight to accountability and provides evidence of deviation from audit standards.

## **1. Literature review and hypotheses**

The Institute of Internal Auditors (IIA), a US-based organization for internal auditors, defines fraud as a series of prohibited actions that contravene the law and are marked by a deliberate intent to deceive (IIA, 2016). Fraud is an act of intentional deception or misrepresentation carried out with the purpose of cheating or misleading others. Individuals within and outside an organization can perpetrate it (Lin et al., 2022). Moreover, fraud encompasses intentional error, masking of significant information, obliteration of evidence to support fraudulent activities, and manipulation resulting in financial detriment to an individual or organization. Fraud comprises embezzlement, theft, forgery, misuse, and deliberate evidence destruction (Hilal et al., 2022). In broad terms, fraud can be described as an umbrella term encompassing various techniques that individuals with a specific skill can employ to deceive others into parting ways with valuable assets. No standard and permanent rules can be issued to define fraud, including surprise, deception, or cunning and unnatural methods used to commit fraud. The only boundaries for defining fraud are things that limit human dishonesty (Zimbelman et al., 2012). Therefore, fraud is a deviant action or deed detrimental to the organization and contrary to statutory regulations, which should be followed up for the organization's survival. Fraud prevention involves

formulating policies, systems, and procedures to ensure that committees, audit committees, management, and other relevant parties undertake the required actions (Lukman & Chariri, 2023). The ability of an institution to ensure the achievement of organizational goals, including reliable financial reporting, operational efficiency, and compliance with policies and guidelines, is crucial (Teye et al., 2023). Preventing fraudulent activities is a cost-effective approach to mitigating such occurrences. Preventing fraud is akin to preventing a disease, where proactive measures are more effective than reactive ones (Dzomira, 2015). Implementing fraud prevention measures is the most effective and economically prudent way to counter deception. Therefore, it is crucial that everyone in an organization actively supports and facilitates these efforts. Accordingly, fraud prevention is a purposeful measure to eliminate opportunities or potential for fraudulent activities (Karyono, 2013).

The main purpose of auditing financial reports in a company or organization is to assess the accuracy of these reports (Francis, 2023). Internal audit, as defined by the Association of Chartered Certified Accountants (ACCA, 2013), plays a crucial role with significant benefits for businesses. An organization's mandatory function involves examining and evaluating operations as part of its institutional service (Francis, 2023). The internal audit department evaluates an organization's operations alongside its involvement in other business activities, aiming to provide valuable services to management. Alqudah et al. (2023) emphasized the importance of internal audits having independence and objectivity. According to Barua et al. (2010), internal audits are conducted to assist members of an organization in fulfilling their responsibilities by examining, evaluating, and providing recommendations for effective oversight. The primary role of internal audit includes providing services, such as advising and assisting management and committees and conducting analyses and assessments. Internal auditors are responsible for evaluating the effectiveness of the existing internal control system and ensuring organizational compliance with policies outlined in established plans and procedures (Alqudah et al., 2023). In the context of governmental entities in Indonesia, the Government's Internal Supervisory Apparatus, as explained by Yusup and Rahadian (2023), is responsible for conducting internal audits within the government. It oversees various tasks, including audits, reviews, assessments, monitoring, and other supervisory activities related to organizational duties and functions.

An organized framework, known as internal control, empowers a singular entity to oversee and regulate other elements autonomously (Glenardy et al., 2022). Internal control involves a coordinated system of procedures and strategic planning used by governmental entities to safeguard assets, optimize operational effectiveness, ensure the precision and reliability of accounting information, and adhere to pertinent management policies (Nurhayati et al., 2023). It comprises protocols and strategies to safeguard an organization's resources against potential exploitation, ensure accurate and comprehensive financial data availability, and guarantee compliance with relevant legal mandates and management strategies (Kartal et al., 2018). Executed by the entity committee, management, and other stakeholders,

internal control is a systematic procedure designed to instill a reasonable degree of assurance in achieving three primary objectives:

- (a) ensuring accurate and reliable financial reporting;
- (b) enhancing the efficiency and effectiveness of operations; and
- (c) ensuring compliance with relevant laws and regulations (Daniela & Attila, 2013).

This conceptualization of internal control transcends temporal limitations and remains an ongoing framework integral to operational activities (Bouheraoua & Djafri, 2022). The internal control system plays a fundamental role in overseeing an organization's operational activities and should be seamlessly integrated into the organizational framework as an indispensable element. A unified internal control system enhances quality and proactivity, reduces unnecessary expenditures, and enables timely responses to changing circumstances (Pattawe, 2023).

Audit quality is a systematic procedure for impartially acquiring and assessing evidence related to assertions about economic activities and events. It seeks to ascertain the alignment between these assertions and the established criteria and report the findings to stakeholders (Mulyadi, 2014). Audit quality pertains to the likelihood that an auditor will identify and disclose defects or anomalies in the client's accounting system (Xiao et al., 2020). A positive correlation exists between the level of audit quality and the confidence and reliance of individuals reading financial reports. The capacity of audit quality to generate reliable financial reports that serve as a robust foundation for decision-making is of paramount significance (Rusmin & Evans, 2017). Furthermore, the auditor's efforts to deliver a reliable audit report conforming to established criteria determine the quality of an audit (Yan & Xie, 2016). Building upon the earlier definition, audit quality pertains to the systematic scrutiny carried out by an auditor to validate the accuracy of a financial report, adhering to pertinent procedures. Audit quality is contingent on contractual obligations and adherence to professional standards throughout the auditing process (Deis & Giroux, 1992).

Afrah et al. (2022) and Putra et al. (2022) demonstrate a compelling and statistically significant association between internal audit practices and the mitigation of fraudulent activities. Consequently, this linkage is robust, indicating a substantive and dependable connection. This robust connection enhances internal audit efficacy, fortifying fraud prevention measures within organizational contexts. This elucidates the pivotal role of internal audits in overseeing corporate operations and specifically deterring fraudulent acts. Moreover, Widilestariningtyas and Karo (2016) underscored that the efficacy of fraud prevention is intricately linked to deploying a resilient internal control system, resulting in a discernible reduction in the probability of fraudulent activities. In contrast, Sanusi et al. (2019) and Umar et al. (2019) present a departure from prior perspectives by positing that audit quality exerts a significant and positive influence on preventing fraud. This nuanced perspective challenges earlier assumptions and underscores the multifaceted nature of factors contributing to effective fraud prevention within organizational frameworks.

This study aims to evaluate the impact of internal auditors, internal control mechanisms, and audit quality on fraud prevention in the Inspectorate of North Sumatra Province, Indonesia. This study is guided by a structured research paradigm, as depicted in Figure 1, and further supported by a set of research hypotheses:

*H1: Internal audit affects fraud prevention.*

*H2: Internal control affects fraud prevention.*

*H3: Audit quality affects fraud prevention.*

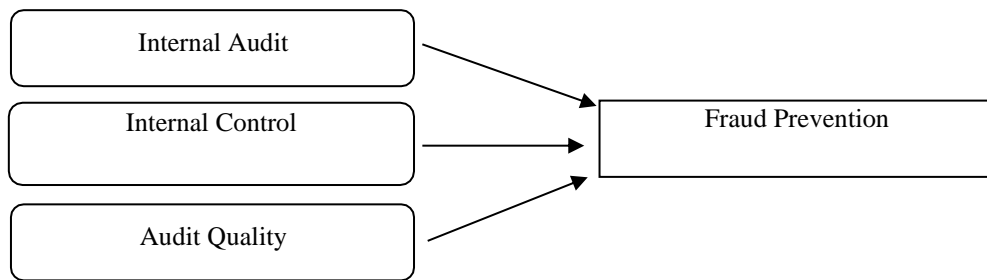


Figure 1. Research model

## 2. Methodology

This study involves an explanatory approach that examines the causal relationship between the variables and evaluates the proposed hypotheses (Nasution et al., 2020). This investigation incorporates three pivotal variables: internal audit, internal control, and audit quality. In this context, the independent variables encompass internal audit, internal control, and audit quality, while the dependent variable pertains to fraud prevention. Internal audit variables are measured using indicators adapted from Bramasto et al. (2022). Internal control variables are measured using indicators adapted from Bouheraoua and Djafri (2022). The measurements of the audit quality variable are adapted from Husain (2020), and the measurements of the fraud prevention variable are adapted from Bramasto et al. (2022).

The sample consisted of 61 government internal auditors at the Inspectorate of North Sumatra Province. Questionnaires were administered using Google Forms. Additionally, this investigation assessed the constructs under scrutiny using a five-point Likert scale (with one: strongly disagree to five: strongly agree). The study used the partial least squares (PLS) methodology. SEM-PLS is used to predict and develop the theory of SEM. This contrasts with covariance-based SEM, which tests existing theories and confirmations. SEM-PLS is utilized to predict endogenous latent variables or determine crucial factors in exploratory or theory extension research (Hair et al., 2014a).

## 3. Results

Convergent validity, an integral facet of the measurement model, also known as the outer model in SEM-PLS, plays a pivotal role in substantiating the robustness of the measurement instruments. In contrast, confirmatory factor analysis (CFA), a subtype of structural equation modeling, relies on covariance structures to evaluate the latent constructs (Hair et al., 2021). To ascertain the

appropriateness of the outer model (measurement model) for reflective constructs, two criteria are conventionally employed: factor loadings exceeding 0.7 and *p*-values below 0.05 (Hair et al., 2014b). Under certain circumstances, adhering to loading thresholds beyond 0.7 may be advantageous, particularly in newly devised surveys. Consequently, maintaining a loading range between 0.40 and 0.70 ensures methodological rigor (Hair et al., 2021).

Table 1. Factor loadings

Indicator	IA	IC	AQ	FP
IA.1	0.822			
IA.2	0.903			
IA.3	0.843			
IA.4	0.823			
IA.5	0.879			
IA.6	0.860			
IA.7	0.886			
IA.8	0.905			
IA.9	0.860			
IA.10	0.838			
IA.11	0.805			
IA.12	0.863			
IA.13	0.812			
IA.14	0.832			
IC.1		0.958		
IC.2		0.852		
IC.3		0.868		
IC.4		0.806		
IC.5		0.886		
IC.6		0.855		
IC.7		0.816		
IC.8		0.945		
IC.9		0.851		
IC.10		0.820		
AQ.1			0.792	
AQ.2			0.843	
AQ.3			0.872	
AQ.4			0.841	
AQ.5			0.842	
AQ.6			0.818	
AQ.7			0.789	
AQ.8			0.845	
AQ.9			0.887	
FP.1				0.761
FP.2				0.849
FP.3				0.926
FP.4				0.874
FP.5				0.937
FP.6				0.875
FP.7				0.877
FP.8				0.880
FP.9				0.866

*Note:* IA = internal audit; IC = internal control; AQ = audit quality; FP = fraud prevention.

Table 1 comprehensively summarizes the relationships among internal audit, internal control, audit quality, and fraud prevention. The correlation coefficients for each element exceed 0.6, affirming the construct validity of these components. This underscores the reliability and precision of the indicators related to internal audit, internal control, audit quality, and fraud prevention in the assessment of convergent validity.

The average variance extracted (AVE) is a key measure for convergent validity (Table 2). AVE is considered satisfactory when it reaches or surpasses the threshold of 0.50 for a specific indicator. This indicates how much the variance captured by the indicator aligns with the variance attributed to the underlying construct (Cheung et al., 2023).

Table 2. Average variance extracted

Variable	AVE
IA	0.727
IC	0.752
AQ	0.701
FP	0.762

*Note:* IA = internal audit; IC = internal control; AQ = audit quality; FP = fraud prevention.

The AVE value should exceed 0.50, aligning with established validity standards. AVE scores surpassing 0.50 signal adherence to the validity criteria stipulated for AVE (Ghozali & Latan, 2015).

Using indicator reflection, the Fornell-Larcker approach was employed to evaluate discriminant validity in the measurement model. It is widely recognized as the predominant criterion for discerning discriminant validity. The Fornell-Larcker approach suggests that if the correlation between an underlying concept and its corresponding measurement item is stronger than the correlation between an alternative concept and the same measurement item, the underlying concept is better suited to accurately predict the variance in the measurement item than the alternative concept.

Table 3. Discriminant validity

Variable	IA	IC	AQ	FP
IA	0.853			
IC	0.746	0.867		
AQ	0.961	0.730	0.873	
FP	0.833	0.937	0.785	0.873

*Note:* IA = internal audit; IC = internal control; AQ = audit quality; FP = fraud prevention.

To evaluate discriminant validity (Table 3), one analyzes the correlation coefficient between a given latent variable and other latent variables, comparing it to the square root of the average variance extracted (AVE) for that latent variable. The AVE root value for each latent variable is expected to be higher than the correlation value with other latent variables, meeting the criterion for discriminant validity.

Reliability testing evaluates the internal consistency of measurement equipment. A construct is considered reliable if its composite reliability or Cronbach's alpha value exceeds 0.70. Table 4 shows the composite reliability and Cronbach's alpha test findings.

Table 4. Composite reliability and Cronbach's alpha

Variable	Composite Reliability	Cronbach's Alpha	Result
IA	0.974	0.971	Valid
IC	0.968	0.963	Valid
AQ	0.955	0.947	Valid
FP	0.966	0.961	Valid

*Note:* IA = internal audit; IC = internal control; AQ = audit quality; FP = fraud prevention.

Table 4 signifies that the reliability values for each latent variable satisfy the prescribed criteria for both composite reliability and Cronbach's alpha. More specifically, the values associated with the internal audit, internal control, audit quality, and fraud prevention constructs surpass the 0.70 threshold, confirming their credibility.

Expanding beyond the realm of reliability assessments, the *R*-square statistic assumes a pivotal role in elucidating the extent to which another variable influences the value of a variable. It unveils the proportion of variability in the dependent variable that the influencing variable can explicate. This analytical metric is important in forecasting the model's accuracy (Juliandi, 2018). Table 5 provides a detailed representation of the results derived from the *R*<sup>2</sup> test.

Table 5. R-square

Variable	R-square	R-square adjusted
FP	0.926	0.918

*Note:* FP = fraud prevention.

The cumulative influence exerted by internal audit, internal control, and audit quality on fraud prevention is quantified by an *R*-square value of 0.926, subsequently refined to an adjusted *R*-square value of 0.918. The exogenous components, specifically internal audit, internal control, and audit quality, collectively greatly affect fraud prevention, accounting for 91.8% or 0.918 of the observed variability. The fact that the adjusted *R*-square exceeds the 70% threshold implies a noteworthy and statistically significant impact of the exogenous structures – internal audit, internal control, and audit quality – on fraud prevention.

The *F*-square metric is employed to further assess the model's quality and gauge the relative influence of exogenous factors on endogenous variables. The measurement criteria for *F*-square are delineated as follows:  $f^2 = 0.02$  signifies a weak influence,  $f^2 = 0.15$  indicates a moderate influence, and  $f^2 = 0.35$  indicates a strong influence from exogenous on endogenous variables (Ghozali, 2014). Table 6 shows *f*-square values.

Table 6. F-square

Variable	IA	IC	AQ	FB
IA				0.354
IC				0.374
AQ				0.106
FP				

*Note:* IA = internal audit; IC = internal control; AQ = audit quality; FP = fraud prevention.

Table 6 delves into a detailed examination of the impact of internal audit, internal control, and audit quality on fraud prevention, offering insights through the associated  $f^2$  values for each test. Notably, Test 6 demonstrates a substantial and statistically significant  $f^2$  value of 0.354, highlighting the considerable benefit of internal audit on fraud prevention. Similarly, internal control reveals a noteworthy influence on fraud prevention, supported by an  $f^2$  value of 0.374. While audit quality demonstrates a more moderate impact, its significance is evident with an  $f^2$  value of 0.106.

In hypothesis testing, the direct scrutiny of variable influences entails a meticulous analysis of processed data facilitated by the advanced PLS 4.0 tool. Table 7 encapsulates the results of the hypotheses testing, offering valuable insights into the direct influence of the variables under examination.

Table 7. Path coefficients

Hypothesis	Path	T-Statistics	P-Values	Decision
<i>H1</i>	Internal Audit → Fraud	2.286	0.023	Accepted
<i>H2</i>	Internal Control → Fraud	5.772	0.000	Accepted
<i>H3</i>	Audit Quality → Fraud	1.388	0.166	Rejected

Table 7 includes the comprehensive findings obtained from the Smart PLS analysis. The results revealed that internal audit ( $t = 2.286, p = 0.023$ ) and internal control ( $t = 5.772, p = 0.000$ ) affect fraud prevention. Thus, H1 and H2 are accepted. In addition, audit quality has no significant effect on fraud prevention ( $t = 1.388, p = 0.166$ ). Thus, H3 is rejected.

#### 4. Discussion

Based on the hypotheses testing results, internal audit has a positive effect on fraud prevention ( $t = 2.286, p = 0.023$ ). Enhanced internal audits will inevitably be accompanied by effective fraud prevention. Four indicators are used to quantify internal audit variables: independence, professional competence, work scope, and execution of audit activities. According to Handoyo and Bayunitri (2021), internal audit functions as management supervision to assess the control system so that all management members can be held accountable effectively by making analyses, evaluations, recommendations, and reviews related to the activities analyzed to prevent fraud. The results align with Hussein (2018), who states that internal auditors influence fraud prevention, where better internal auditors will be followed by good fraud prevention. Brata and Aran (2021) and Petraşcu and Tieanu (2014) claimed that internal audits partially had a significant effect on fraud prevention. This proves that the internal audit owned by a company or agency greatly influences fraud prevention that could arise in a company or institution.

The results of hypotheses testing confirm that internal control has a positive and statistically significant impact on fraud prevention ( $t = 5.772, p = 0.000$ ). According to Bouheraoua and Djafri (2022), internal control represents all activities that must be carried out in an organization to achieve effective and efficient organizational operations, reliability of financial reports, and compliance with applicable regulations. Thus, there will be effective internal control when making decisions, considering applicable ethical values, carrying out appropriate authority and activities, determining clear organizational goals, communicating relationships between employees, and separating duties. Therefore, internal control has a positive and significant effect in fraud prevention (Nugrahanti et al., 2023). This study aligns with Rashid (2022) and Joseph et al. (2015), who found a moderately positive and statistically significant (real) relationship between internal control and fraud prevention. The efficacy of a firm or institution's internal control system significantly affects the prevalence of fraud within that entity.

The hypothesis testing indicates no statistically significant impact of audit quality on fraud prevention ( $t = 1.388$ ,  $p = 0.166$ ). The audit quality variable is measured by five indicators, namely building integrity, creating exemplary leadership, minimizing opportunities, developing a good internal control system, developing collision prevention policies and systems, developing monitoring systems, hotlines, and whistle-blowing systems, developing reward systems, and punishment, and creating a balance of power. The results of this paper align with Umar et al. (2019), who state that for fraud prevention, audit quality is negative and insignificant. This contradicts Khan et al. (2023) and Arum and Wahyudi (2021), who found that audit quality positively and significantly affects fraud prevention. Audit quality has no effect due to other factors; for example, the results of audit findings are inaccurate in finding irregularities or fraud. This means that an auditor should guarantee that the audit results are accurate and there are no slightest errors.

This study suggests that the effectiveness of internal audit, internal control, and audit quality affect fraud prevention at the Inspectorate of North Sumatra Province. Therefore, routine internal audit and internal control activities are needed. Companies must cultivate and implement antifraud values and policies to be free from fraud and maintain the agency's image in the community. To improve the quality of internal audits, it is necessary to thoroughly test and evaluate the information, ensuring that all audited financial statements comply with government accounting standards.

## **Conclusion**

This study was conducted to analyze the effect of internal audit, internal control, and audit quality on fraud prevention at the Inspectorate of North Sumatra Province, Indonesia. Based on the data analysis, internal audits positively and significantly affect fraud prevention at the Inspectorate of North Sumatra Province, Indonesia. Internal control positively and significantly affects fraud prevention, and audit quality does not substantially affect fraud prevention.

This study carefully researched the relationships between internal audit, internal control, audit quality, and fraud prevention in North Sumatra Provincial Inspectorate, Indonesia. There results conclude that it is necessary to carry out more thorough testing and evaluation activities. This will ensure that all audited financial reports meet government accounting standards. To improve internal control, it is necessary to make control activities more effective by adding human resources, experts in accounting, so that there is a separation of functions between recording, receiving, spending, and storing finances. Moreover, it is necessary to add or improve/update an accounting information system. Future research can take more samples so that the results can represent the overall situation. Future research can also add other variables, such as good corporate governance, which can prevent fraud.

This paper is subject to various limitations. One drawback is the data collection approach, which involves employing a survey with questionnaire techniques. This might lead to discrepancies in perceptions between the respondents and the researchers regarding the items included in the questionnaire. The study used a questionnaire approach, so some respondents might not have taken this

survey carefully and thoughtfully and gave dishonest answers. Finally, the study only focuses on the internal audit, internal control, and audit quality variables. Other factors may influence fraud prevention, which requires further testing.

### **Author contributions**

Conceptualization: Henny Zurika Lubis, Maya Sari.

Data curation: Henny Zurika Lubis, Maya Sari, Andi Auliya Ramadhany, Debbi Chyntia Ovami, Istiqomah Rahmayati Brutu.

Formal analysis: Henny Zurika Lubis, Maya Sari.

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Methodology: Henny Zurika Lubis, Maya Sari, Andi Auliya Ramadhany.

Project administration: Henny Zurika Lubis, Andi Auliya Ramadhany, Debbi Chyntia Ovami, Istiqomah Rahmayati Brutu.

Resources: Istiqomah Rahmayati Brutu.

Software: Maya Sari, Debbi Chyntia Ovami.

Supervision: Henny Zurika Lubis, Maya Sari, Andi Auliya Ramadhany.

Validation: Maya Sari, Debbi Chyntia Ovami.

Visualization: Henny Zurika Lubis, Andi Auliya Ramadhany, Istiqomah Rahmayati Brutu.

Writing – original draft: Henny Zurika Lubis, Andi Auliya Ramadhany, Istiqomah Rahmayati Brutu.

Writing – review & editing: Henny Zurika Lubis, Maya Sari, Debbi Chyntia Ovami, Istiqomah Rahmayati Brutu.

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19<sup>th</sup> of March, 2024

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## ACCEPTANCE LETTER

Dear Henny Zurika Lubis,

We are pleased to inform you that your manuscript “Internal audit, internal control and audit quality on fraud prevention: Evidence from the public sector in Indonesia”, co-authored with Maya Sari, Andi Auliya Ramadhany, Debbi Chyntia Ovami, Istiqomah Rahmayati Brutu, has been double blind peer-reviewed and accepted for publication in the international journal “Problems and Perspectives in Management”, which is scheduled to be published in Volume 22, Issue 2, 2024.

With cordial regards,  
Katerina Maschenko

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