

## The Phenomenon of Internal Audit Supervision in Fighting Corruption and Creating an Anti-Fraud Culture in Corporations in Indonesia

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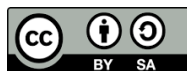
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### ABSTRACT

Indonesia was shocked by the disclosure of a scandal in a corruption case involving a prominent company engaged in aviation services. This is closely related to the public's question regarding how and to what extent the internal audit function within a company can fight against corruption and create an anti-fraud culture within the company itself. In fact, the phenomenon of internal auditors in eradicating corruption and creating an anti-fraud culture in a corporation can create two sides of a knife with common interests. These interests are supported by one side of the internal auditor and another in terms of culture and regulations that are less supportive of creating anti-fraud and anti-corruption. Two main factors that weaken the internal auditors the lack of integrity due to conflicts of interest between internal auditors and company employees, and the lack of individual capabilities in the technological era. Various ways can be done by the Government and stakeholders, as regulators, to optimize the role of internal auditors in eradicating corruption and creating an anti-fraud culture.

*Keyword: Internal Audit, Corruption, Anti-Fraud Culture*

### 1. INTRODUCTION

The profile of corruption in Indonesia, especially in public corporations, needs to be reviewed after the disclosure of the scandal involving two state companies within a circle of private companies in Indonesia and one Indonesian state airline

within a circle of foreign companies. This condition is inseparable from the negative side of corrupt behavior and low values of basic human tradition, achievement, power, stimulation, hedonism, conformity, security, self direction, universalism, and benevolence.

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All companies in Indonesia that are involved in corruption cases or other fraudulent acts already have an internal audit division that is directly responsible to the Board of Directors and the company's Audit Committee. Ge et.al. (2014) argue that strong internal control can reduce corruption in the corporation. ACFE (2008) states that internal audit has an important role in its authority to detect fraud and corruption schemes. In addition, organizations having an internal audit function can strengthen the effectiveness of internal controls (The IIA et.al., 2008) and the internal audit function is better able to perform early detection and find fraud than other functions in an organization (Ferguson & Coram, 201).

It cannot be denied that in Indonesia there are several types and cycles of corruption, including the impacts it causes. This is closely related to the causes of corrupt behavior which include the level of integrity, individual ability, social attitude, and corporate politics that exist in the company's internal auditors. In addition, it is also necessary to look at the aspects of the internal auditor's responsibility function as stated in the regulations issued by the Government, authorities, or the company concerned.

## **2. LITERATURE REVIEW AND HYPOTHESIS**

According to The IIA (2017), internal auditors are independent and objective assurance and consulting activities which are designed to add value and improve organizational operations. Corporations generally employ internal auditors. Internal auditors must be independent in conducting audit activities and have an obligation to report the audit results to the audit committee and the Board of Directors. Internal audit standards used by internal auditors refer to IIA International Standards for the Professional Practice of Internal Auditing and regulations issued by the governmental authority where the corporation is located.

### **Organizational Culture**

According to Wirawan (2007) in Saputri (2016), organizational culture is the norms, values and habits of the organization that have grown and been developed for a long time by the founders, leaders and members of the organization which are socialized and taught to new members and applied in organizational activities so that they influence the mindset, attitudes, and behavior of organizational members in achieving organizational goals. Therefore, this organizational culture can also be influenced by the presence of corporate politics in the company.

### **Corporate Politics**

Corporate politics may according to the Indonesian dictionary, politics is knowledge about state or state administration and all matters and actions (policies, tactics, and etc) as well as how to act in facing or dealing with a problem. In the Indonesian dictionary, a corporation is defined as a huge company or business entity, or several companies managed and run as one large company.

Corporate operations are closely related to politics outside and within the corporation, regulation (Veldman, 2013) and economy as the main domain in power and knowledge (Apeldoorn and De Graff, 2018). Widjojanto (2017) explains that corporate and political corruption are related to one another, so the corporate corruptors come only from the corporation. There may even be cooperation between parties who have the authority attached to certain political positions and parties who represent corporate interests to exploit and misuse the existing resources of the corporation that come from state finances for their own personal and group interests.

### **The Policeman Theory**

According to Ittonen (2010), the policeman theory claims that auditors are responsible for seeking, finding, and preventing fraud. However, until the 20th year, the responsibility of auditors to detect fraud is

still a hot topic to be discussed, especially when a fraud case is revealed. This theory prioritizes detection on financial statements.

### Agency Theory

Agency theory states that auditors are appointed for the benefit of third parties or management (Watts and Zimmerman, 1978, 1986a, 1986b in Ittonen, 2010). In this theory, corporate management is an agent that seeks contributions from business actors such as bankers, shareholders, employees, etc. From the perspective of the internal auditor, employees who are given contracts with wages that are as effective as possible, by corporate management must provide feedback to management. Reciprocity is in the form of improvements that can close the loopholes for fraud and corruption the institutional the interests of corporate management.

### Institutional Theory

The institutional theory explains how organizational structures and organizational practices are formed through changes caused by normative pressures from internal and external organizations, such as law and regulation (Zucker, 1987 in Endaya, 2018). Arena and Azzone (2007) found a relationship between law and regulation (coercive isomorphism) and the characteristics adopted by the internal audit department. According to Arena et al. (2006), regulations influence the development of internal audit, and this influence will be stronger if these regulations are enforced. Meanwhile, on other occasions there is a positive relationship between top levels and the effectiveness of the internal audit authority (Arena and Azzone, 2009)

### Fraud Pentagon Theory

The fraud pentagon theory proposed by Crowe (2011) is the third development of the fraud triangle theory proposed by Cressey (1953) which was later developed into the fraud diamond theory by Wolf & Hermanson (2004). The fraud pentagon theory changes the supporting factor for

fraud in the fraud diamond theory (from the capability to become competence) and adds one supporting factor, namely arrogance. Therefore, there are five factors that support the occurrence of fraud, or better known as the fraud pentagon, consisting of:

- a. Competence. According to Crowe (2011), competence is a skill or ability of an employee who has understood the gaps in the company's internal control and has long observed the social situation in the company by making plans to fulfill his personal interests secretly.
- b. Opportunity. This supporting factor arises because of a gap in the company's internal control which employees then use to take advantage by committing fraud.
- c. Pressure. Tuanakota (2012) explains that pressure is caused by an uncomfortable condition that provides a stimulus for someone to commit fraud.
- d. Rationalization. Rationalization is a form of thought manifested in the form of an attitude of justification for the fraud committed.
- e. Arrogance. Crowe (2011) explains that arrogance is an attitude in which a person feels that he is a senior who has the power of superiority, so he considers that company policy and internal control do not apply to him.

## 3. METHODS

### Research Method and Design

This research uses a qualitative research method. The approach used is based on a historical approach and an ethnographic approach. The historical approach is based on three primary sources: the applicable laws and regulations, accessible and credible information in the form of news presented by the media, and a court decision that has legal force.

### Types and Sources of Data

The types of data used in this study are primary and secondary data as supporting data. The data sources were obtained based

on the answers to research application permits distributed to 100 public companies listed on the Kompas 100 index for January 2020 and to 153 companies that were not listed on the Stock Exchange, which included State-Owned Enterprises (SOEs) nationally and Regional-Owned Enterprises (ROEs) in Jakarta Province, Yogyakarta, and East Java.

However, the companies that answered the research application permit and were willing to be the research subjects consisted of only 34 public companies listed on the Stock Exchange and 51 companies that were not listed on the Stock Exchange, with the following table:

The sample of companies listed on the stock exchange is divided into four categories. The first category is subsidiary companies represented by two companies in the banking sector and two companies in the property, real estate and building construction sector. The second category is Regional-Owned Enterprises (ROEs) represented by two companies in the banking sector. The third category is State-Owned Enterprises (SOEs) represented by one company in the basic industry and chemical sector, four companies in the infrastructure, utilities, and transportation sector, three companies in the mining sector, and three company in the property, real estate and building construction sector. While the fourth category is private companies represented by one company in the agriculture sector, four companies

in the banking sector, three companies in the basic industry and chemical sector, two companies in the consumer goods industry sector, three companies in the infrastructure, utilities, and transportation sector, one company in the mining sector, and three companies in the trade, services, and investment sector.

In addition, the sample of companies that are not listed on the Indonesia Stock Exchange is divided into 3 categories. The first category is subsidiary companies represented by 1 company in the basic industry and chemical sector. The second category is Regional-Owned Enterprises (ROEs) represented by 3 companies in the banking sector, 4 companies in the infrastructure, utilities, and transportation sector, 3 companies in the insurance sector, 1 company in the mining sector, 7 companies in the property, real estate, and building construction sector, and 1 company in the trade, services, and investment sector. The third category is State-Owned Enterprises represented by 4 companies in the basic industry and chemical sector, 13 companies in the infrastructure, utilities, and transportation sector, 6 companies in the insurance sector, 1 company in the mining sector, 4 companies in the property, real estate, and building construction sector, and 3 companies in the trade, services, and investment sector.

**Table 1. List of Industrial Sector Companies Listed on IDX**

Industrial Sector	Subsidiary	ROEs	SOEs	Private
Agriculture	-	-	-	1
Banking	2	2	-	4
Basic Industry and Chemical	-	-	1	3
Consumer Goods Industry	-	-	-	2
Infrastructure, Utilities, and Transportation	-	-	4	3
Mining	-	-	3	1
Property, Real Estate and Bulding Construction	2	-	3	-
Trade, Service, and Investment	-	-	-	3
Total	4	2	11	17

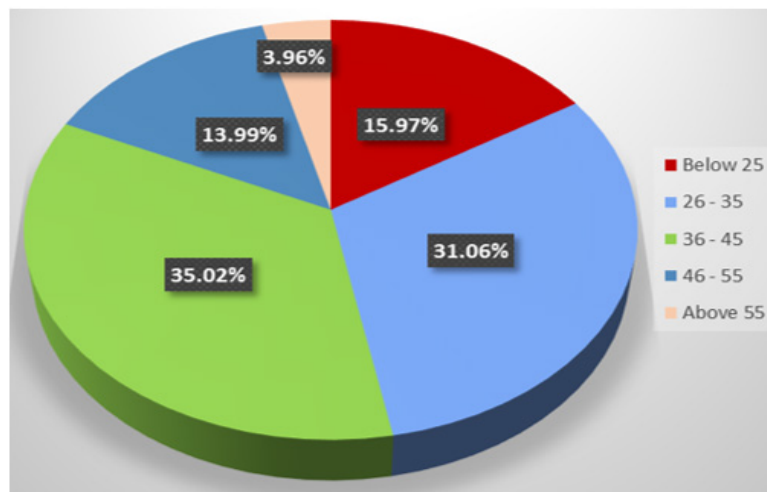
Source: Researcher's Descriptive Analysis, compiled (2020)

Table 2. List of Industrial Sector Companies not Listed on IDX

Industrial Sector	Subsidiary	ROEs	SOEs
Banking	-	3	-
Basic Industry and Chemical	1	-	4
Infrastructure, Utilities, and Transportation	-	4	13
Insurance	-	3	6
Mining	-	1	1
Property, Real Estate and Bulding Construction	-	7	4
Trade, Service, and Investment	-	1	3
Total	1	19	31

Source : Researcher's Descriptive Analysis, compiled (2020)

Figure 1. Distribution of Respondents Based on Age



Source : Data Processed (2020)

The use of companies listed and not listed on the Indonesia Stock Exchange aims to increase the variety of more relevant research results.

#### Data Collection Technique

Data collection techniques used in this study are through questionnaires, in-depth interviews, and interviews using VoIP technology such as Skype and Google Duo with several sources who initially filled out questionnaires and were willing to provide information and used online data search techniques. According to Iacono et.al. (2016), VoIP technology is the best method used in data collection for qualitative research. AlKhateeb (2018) recommends the use of Skype and other VoIP technologies in qualitative research considering its advantages such as cost

effectiveness, convenience of informants and time flexibility in conducting interviews.

All data collection results are then analyzed using the Microsoft Excel Professional Plus 2019 Pivot Table application and the Nvivo v12 Pro application based on the data base or big field data obtained.

#### 4. RESULTS AND DISCUSSION

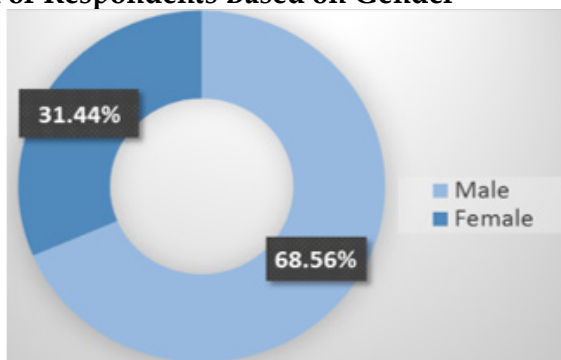
Before explaining the research results, it is necessary to explain the demographics of the respondents. Demography is the study of human populations in terms of size, density, location, age, gender, race, occupation, and other statistics (Kotler & Keller, 2016 in ACFE Chapter Indonesia, 2017).

This demographic analysis aims to provide an overview the data collected

by researchers in the form of primary or secondary data as supporting information about respondents. The data collected were 808 questionnaires. The questionnaire given to the respondents, on average, is only allowed no more than 15 questionnaires for each respondent in the company that has been selected.

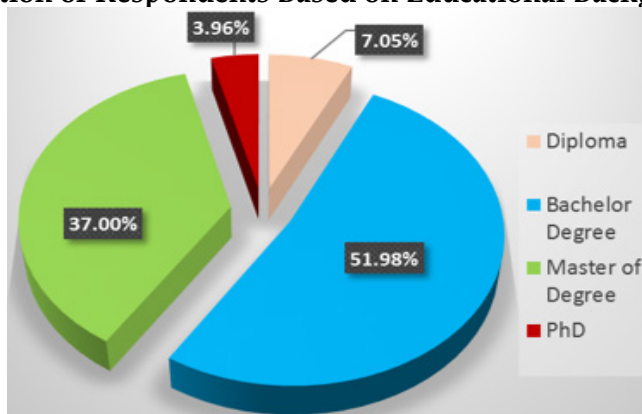
Based on the position, 176 respondents or 21.78% are junior staff, 143 respondents or 17.70% are senior staff, 200 respondents or 24.75% are junior executives, 166 respondents or 20.54% are senior executives, 57 respondents or 7.05% are head of department, 38 respondents or 4.70% are deputy head of division, 28 respondents or 3.47% are head of division.

**Figure 2. Distribution of Respondents Based on Gender**



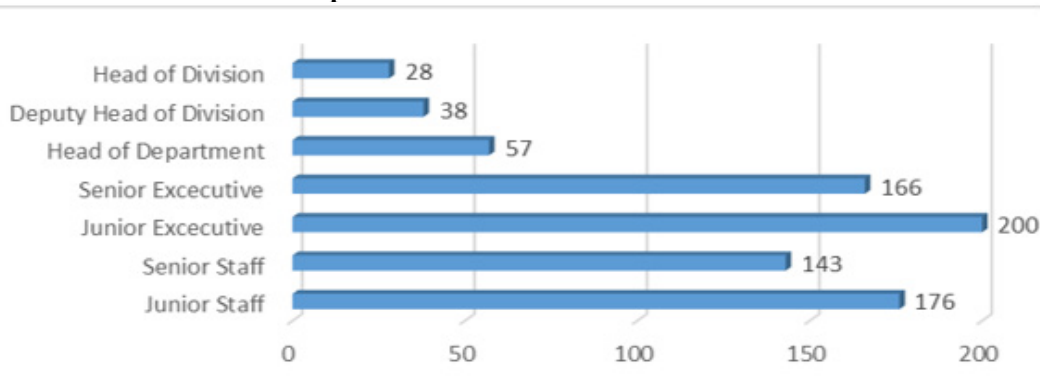
Source : Data Processed (2020)

**Figure 3. Distribution of Respondents Based on Educational Background**



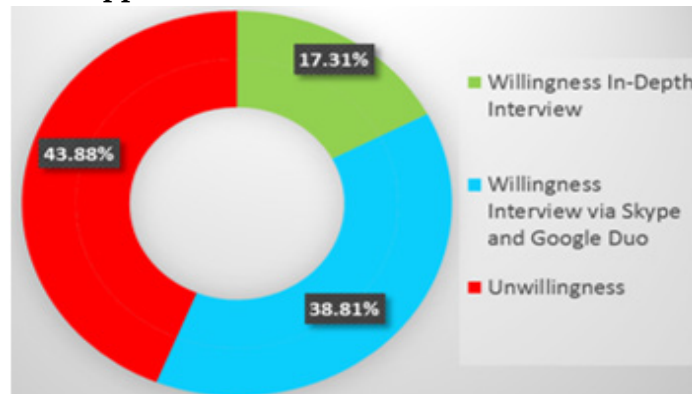
Source : Data Processed (2020)

**Figure 4. Distribution of Respondents Based on Position**



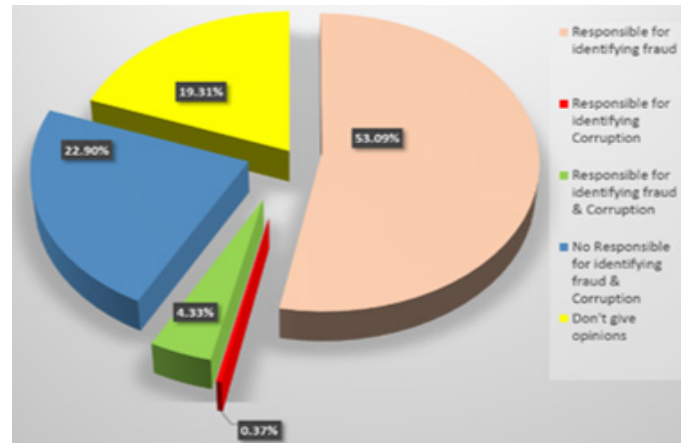
Source : Data Processed (2020)

Figure 5. **Distribution of Respondents Based on the Willingness to do In-Depth Interviews and Interviews Using VoIP technology assisted by Skype and Google Duo Applications**



Source : Data Processed (2020)

Figure 6. **Distribution of Respondents Based on Integrity with Responsibility for Job Description**



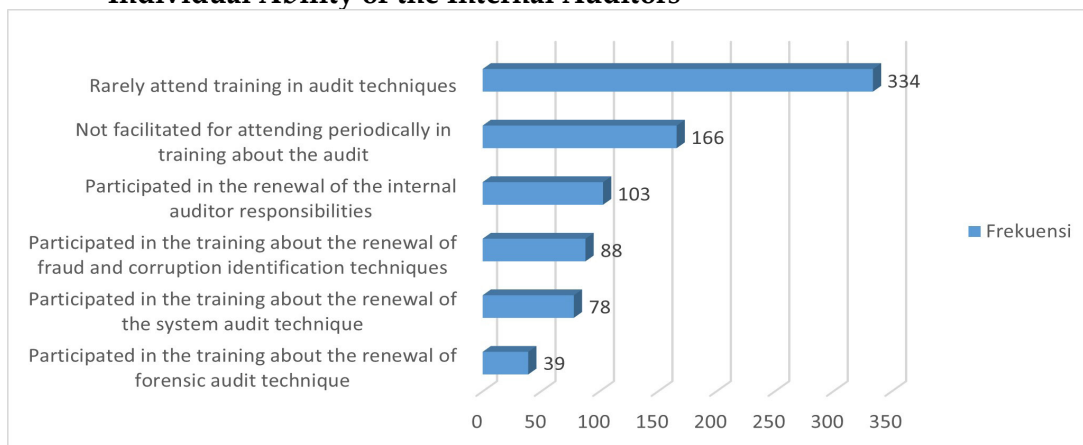
Source : Data Processed (2020)

Researchers found several conditions regarding the integrity aspects of respondents as internal auditors in fighting corruption and creating an anti-fraud culture. This condition is divided into three groups based on position. The junior auditor group includes the positions of junior staff, senior staff, and junior executives. The senior auditor group includes the positions of senior executive and head of department. The group of auditors as decision makers in the audit report includes the positions of deputy head of division and head of division. The respondents' answer related to the junior auditor group is as follows:

*"Our findings reveal that we are burdened with more audit work hours than our*

*seniors or bosses. However, in the process, many of the findings we provide as junior auditors are not included in the audit report. One of the reasons is that the type of findings is still observational, or the actual potential has been shown to indicate fraud or corruption. In addition, there is bargaining in meetings to discuss the audit findings, which will be written in the audit report. In fact, often the observational findings in the previous audit turn into a major condition not long after the audit is completed. The major condition appears before the next year's audit or is found to be a major condition when the internal audit is being carried out again."*

Figure 7. **Distribution of Respondents Based on Supporting the Improvement of Individual Ability of the Internal Auditors**



Source : Data Processed (2020)

The responses of respondents from the senior auditor group are as follows:

*“The temporary findings explained in discussion with the related work units can be issued later in the final examination report. One of the reasons is that the temporary findings have been answered by the repair process carried out directly by the related work unit. In addition, the preliminary findings that have been discussed are not fully included in the preliminary findings of the junior auditors. It is because we, as team leaders, have the authority to select preliminary findings if they are of quality and do not endanger the sustainability of our careers and our superiors in this company.”*

The responses of respondents from the auditor group as decision makers are as follows:

*“The findings that are included in the audit report must have been notified to the related work unit which is known directly by the director in charge of them. In addition, we also provide a resume to the audit committee on the report. However, it is possible that the findings issued were in accordance with the wishes of the BOD or the audit committee board. We do this in order to create good corporate governance (GCG). Each audit report will be the basis for external examiners such as Public Accounting Firms, Regulators, police investigators and other related agencies*

*in the event of a fraud that breaks out into the mass media. We continue to strive to have integrity over independence as an internal auditor. However, we also position ourselves as employees who uphold the necessities of life and corporate image. However, we avoid imposing findings that the management disagrees with, because we don't want to be staffe one day.”*

Based on the answers above, the researchers have an assessment that junior auditors still have high integrity. The junior auditors may have highly idealistic thoughts. However, the level of audit positions in a corporation makes junior auditors have no power or not be included from the initial to final discussion of the audit findings, which will be outlined in the audit report. According to Mkenda (2013), on average, only 3.2% of junior internal auditors are involved in the final negotiations of audit reports relating to acts of corruption or fraud. Meanwhile, on another occasion, there is a possibility that the junior internal auditor has a level of understanding of the fraud that occurred, because in carrying out obligations, the independence of the internal auditors is not affected by audit politics (Neu et al., 2013).

When viewed from their educational background, the researchers do not doubt respondents' capabilities in carrying out their profession as internal auditors in a



corporation. However, the researchers try to look further the respondents' responses related to supporting the improvement of individual ability of the internal auditors.

Figure 7 above shows that 4.83% or thirty-nine respondents answered that they had attended training on updating forensic audit techniques, 9.65% or 78 respondents answered that they had attended training on updating of system audit techniques, 10.89% or 88 respondents answered that they had attended training on updating of fraud and corruption identification techniques, 12.75% or 103 respondents answered that they had attended training on updating of internal auditor responsibilities, 20.52% or 166 respondents answered that they were not facilitated to participate in regular audit technique training, and 41.31% or 334 respondents admitted that they rarely attended audit technique training.

Based on these demographic data, the researchers pay attention to the two components that should have the smallest composition value. However, the reality is that the components of "rarely attended audit technique training" and "not facilitated to participate in regular audit technique training" are the first and second largest components. The responses of the majority of respondents are as follows:

*"Under the busy auditing work, we ourselves sometimes don't remember whether we have attended training or updates on the latest techniques and issues related to fraud this year. In addition, sometimes we are lazy to ask the training division to be included if there is a seminar or training regarding the needs of the internal audit division. Laziness is caused by, when we submit an internal memo requesting to be able to attend the training or seminar, our application is often rejected, and the refusal is not only once, but several times. The reasons we got also varied, starting from the proximity of the internal memo request to the date of the seminar or training, the illegibility or late reading of our internal memo by the training division, to the reason that the*

*training budget for this year had run out. Even with an appeal from the training division to all divisions in the corporation to provide proposals to take part in training or seminars in 1 year, where our division submitted it at the beginning of the year with details on the date and title of the training or seminar, but the result was that nothing was realized that year, and nothing that we could follow. "*

*"The training that we want to take part in is actually about accounting standards which are always changing according to international standards. In particular, the regulations that will be enforced at this time are the Statement of Financial Accounting Standards (PSAK) 71 regarding the procedures for recognition and recording of financial instruments, which according to our friends in the Accounting Division that the PSAK will greatly affect the recording in financial statements. Currently, we do not yet understand the accounting records for the validity of PSAK 50 & 55, but now it will be replaced by PSAK 71. In examining financial statements related to this PSAK, we usually only ask for an explanation from the related Division accompanied by a written statement that the calculation of reserves or reversal reserves are in accordance with applicable accounting standards."*

The responses of respondents belonging to the senior auditors and decision-making auditors are as follows:

*"We have attended training or seminars about auditing, but what we doubt is training on system audits. We are not from an information technology education background, so sometimes we don't understand what is being discussed during training or seminars, especially about technical issues in finding something that is not suitable in the system. However, we understand that if there is a discovery of such fraud based on the logic and experience we have. Perhaps because we are old so that our grasp of the system audit technique is a little difficult*

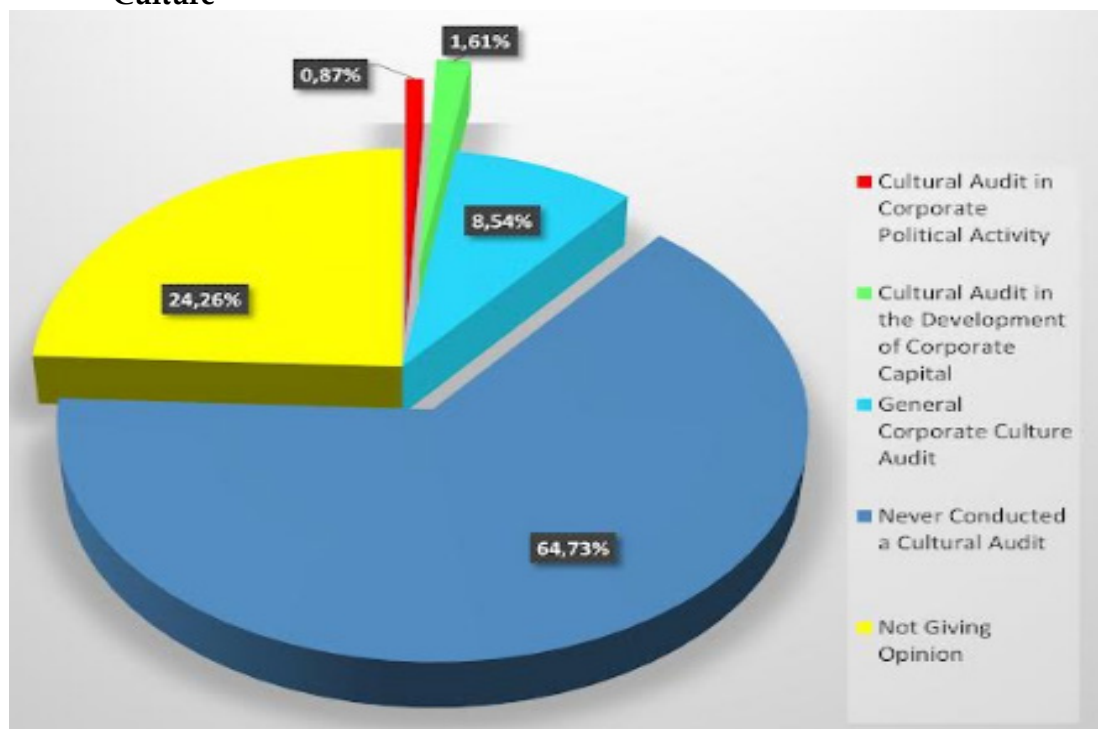
*to understand. Today's technology is very different from when we started as internal auditors."*

Based on these conditions, the researchers concluded that the respondents still lacked skills in auditing, especially recording and recognition in financial reports based on accounting standards & information technology systems. The skills of auditing information technology systems may be more controlled by the junior auditor group who are accustomed to being in contact with technology. Millennials have a high curiosity and a tendency to be attracted to new technologies, but they still need training from other generations who understand more about this technology (Linnes and Metcalf, 2017).

In addition, the researchers concluded that the majority of respondents still did not understand modern audit techniques, so that it could influence in detecting and gathering sufficient audit evidence

to prove fraud and corruption. Mkenda (2013) stated in his research that 88.3% of respondents lacked information technology skills in performing internal audit functions, such as accessing several government systems in identifying normal and abnormal electronic transactions against the suitability of their basic internal audit functions. The same thing was stated by Mkenda (2013) that 75% of respondents reported a lack of training and updating skills in modern forensic audit techniques, so that the internal audit staff did not prepare themselves to detect and collect relevant examination evidence. This condition is reinforced by the findings of ACFE (2020) that 32% of the lack of internal supervision is due to a lack of skills which can contribute to the creation of fraud. The high distribution of the lack of internal supervision with this background causes 22% of financial statement fraud, 15% of corruption, and 8% of embezzlement and misuse of assets.

Figure 8. Distribution of Respondents Based on Experience in Auditing Corporate Culture



Source : Data Processed (2020)

Based on respondents' answers, there is a relationship between the integrity of an internal auditor and corporate political culture. The researchers see that there is a concern from the internal auditors regarding their position if they voice firmly against the findings of their examination, especially if these findings point to the actions of an employee who has a position or closeness to the corporate director, or even if the fraud is committed by the director. This concern can be seen from several aspects, including some findings from junior auditors that have the potential to cause fraud but not to be included in the audit results report, so that junior auditors are not included in the negotiation discussion of the audit. In addition, there is also a concern that there will be a transfer to another division, so that there is a structural position in a corporation called a functional expert.

The response of the majority of respondents to the corporate culture audit is as follows:

*"In every internal audit assignment, it is advisable to always include an audit of corporate culture. We acknowledge that auditing corporate culture is a tough job for something that is actually soft and occurs in the daily operations of the company. After we finished doing routine checks and then continued with cultural audits, we presented the results of the examinations in truth. Furthermore, if the results are not appropriate or even bad, we provide suggestions for improvement and evaluation related to corporate culture. However, when we communicate with top management and middle management, we are often asked to drop or exclude the bad culture audit results from the list of examination findings, with the reason that it is a minor culture. However, it is the main supporter of the corporate business process. Culture is often the main focus is a large representation of prospective law advocate office borrowers when dealing with court cases. In addition, we often focus on the culture of employee remuneration, employee recruitment and*

*transfer, as well as gaps in the income received by employees at the same level. We admit that the main focus is actually part of the political culture that occurs in a corporation, but we wrap it up softer by examining the culture in general."*

The researchers conclude that the respondents' concerns are a part of the existing cycle of corporate political culture. This culture indirectly raises concerns for internal auditors which can affect their independence as internal auditors in a company. This condition is becoming increasingly apparent where political culture is increasingly rampant. This political culture does not support the bad results of the corporate culture audit and these results are not included in the audit report. This is in line with the findings of Ramkumar and Krafchik (2005) that politics and bureaucracy hinder the auditors' independence from performing the essential functions of their audit work. Internal auditors' lack of independence and resources can reduce sensitivity in identifying corruption and fraud (Ahmad and Taylor, 2009).

The reason why respondents from a corporation did not provide a copy of the Internal Audit Charter is that because they assumed that this study did not have the authority or right to obtain information on the copy. In addition, there were also several respondents from a corporation who did not provide a copy with the reason that because they had to ask permission to the Compliance Division or the Legal Division with a convoluted mechanism, so the researchers decided that the corporation did not provide a copy of the Internal Audit Charter.

Based on the results of the collection of copies of the Internal Audit Charter, data shows that most respondents from corporations listed on the Stock Exchange and banking financial institutions easily provide these copies. This condition is supported by at least three regulations that require the corporation to provide openness to the public to access and know

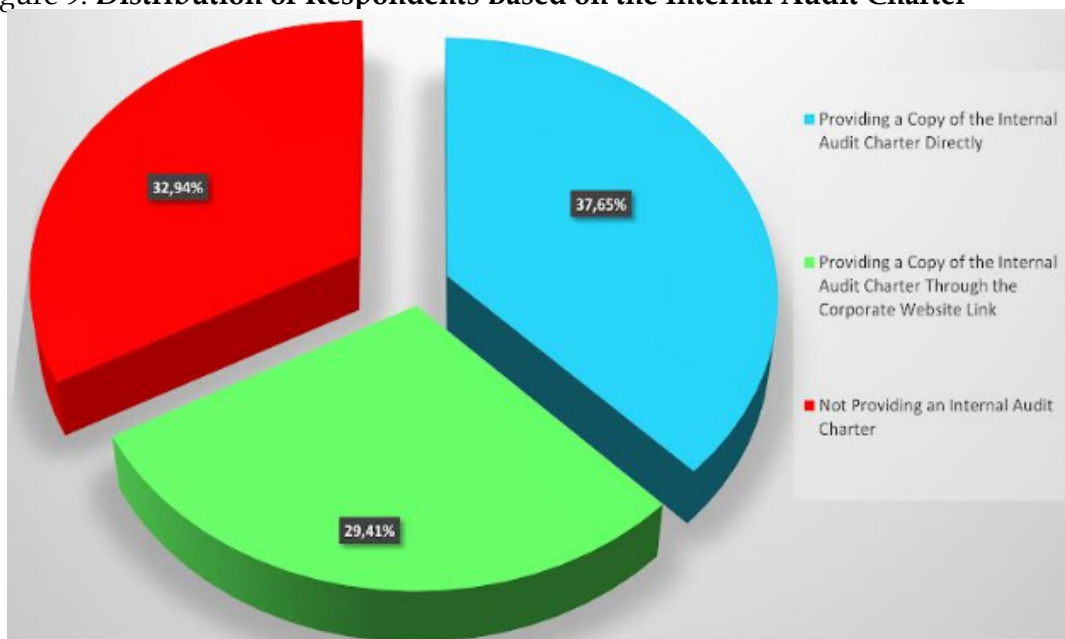
the target responsible for the performance of the Internal Auditor as described in the Internal Audit Charter. Based on the IPO guidelines issued by the Indonesia Stock Exchange, every company is required to have an Audit Committee and an Internal Audit Unit, where the derivative refers to the Decree of the Capital Market and Financial Institution Supervisory Agency Number: KEP-496 / BL / 2008 concerning the formation and guidelines for preparing an internal audit charter and Financial Services Authority Regulation Number 56 / POJK.04 / 2015 concerning the formation and guidelines for preparing an internal audit charter. Meanwhile, banking financial institutions refer to the Financial Services Authority Regulation Number 1 / POJK.03 / 2019 concerning the implementation of functions and internal audits in commercial banks.

The answers of the majority of respondents related to the duties and responsibilities set out in the Internal Audit Charter are as follows:

*“Our authority and responsibility as internal auditors are not specifically explained regarding the need to find indications of fraud or corruption starting*

*from planning to implementing internal audit activities. In the internal audit standard number 1000, government regulations, regional regulations and Financial Service Authority (OJK) regulations do not specify the findings of fraud and corruption during the audit process. However, we can indeed be asked directly by the corporate director to take special audit actions if necessary as stated in article 7 letter i POJK Number 56 of 2015. Therefore, we usually carry out audit activities that lead to efficient use of sources of funds, analyze the operational activities of the divisions that are examined, provide suggestions for improvements to our findings, monitor and analyze the follow-up improvements that have been suggested, monitor the level of compliance with reports to regulators, provide data on inspection requests, attach accountability for the use of funds paid to third parties, and evaluate the risk management system according to company policy. However, this last activity was greatly helped by the corporation’s establishment of a risk management division. This public activity aims to create Good Corporate Governance (GCG).”*

Figure 9. Distribution of Respondents Based on the Internal Audit Charter



Source : Data Processed (2020)

However, there were also several respondents' answers regarding the duties and responsibilities contained in the Internal Audit Charter as follows:

*"Our authority and responsibility can be said to be quite heavy. We are given the authority to carry out in-depth examination or investigation activities based on findings that indicate fraud and even corruption without having to wait for a special assignment from the director. We need to provide an internal memo to the director to carry out these activities. In addition, we are responsible for dealing directly with regulators and being at the forefront with the Legal Division in the event of fraud in a corporation that has hit the national news. We all have to be ready to take on this responsibility, as stated in the Corporate Internal Audit Charter which is automatically included in our job description".*

Based on these two answers, the researchers see differences in treatment between corporations in the structure of the contents of the Internal Audit Charter. However, this condition occurs because it is not regulated explicitly and clearly in the regulations regarding the authority and responsibility of internal auditors, which are inherent to carry out in-depth examination or investigation activities automatically when there is an indication of fraud and corruption. The main point in managing corporations, especially for SOEs, is the existence of the Decree of the Minister of SOEs Number Kep-117 / M-MBU / 2002 which was later refined by the Regulation of the Minister of SOEs Number PER-01 / MBU / 2011 concerning the Implementation of Good Corporate Governance in the State-Owned Enterprises (SOEs). This regulation was then followed by various state-owned enterprises, regional-owned enterprises, and public corporations listed on the Stock Exchange.

In particular, PER-01 / MBU / 2011 describes Anti-Corruption which must be upheld by Members of the Board of

Commissioners or Board of Supervisors, Directors and Employees of SOEs. However, it does not explicitly explain the role of internal audit in supporting the creation of an anti-corruption or anti-fraud culture in the corporate environment. Other regulations governing Regional-Owned Enterprises (BUMD) as outlined in Government Regulation Number 54 of 2017 describe the Internal Supervisory Unit, Audit Committee and other Committees. The duties of the Internal Supervisory Unit are only explained in general terms such as carrying out operational and financial audits of Regional-Owned Enterprises (BUMD) by assessing control and management, providing recommendations for improvements, making reports on routine inspections, and monitoring follow-up on audit results.

In the regulations, issued by the Regional Government at the Provincial Level, City Level, and Regency Level, which regulate the Guidance and Good Corporate Governance in Regional Owned Enterprises, the researchers found only two regulations governing the obligation to establish internal control including internal audit function and whistleblowing system. However, the researchers did not clearly find out the authority, duties and responsibilities of the internal auditors or the internal supervisory unit against fraud and corruption that occurred after a routine inspection.

Based on these conditions, the researchers concluded that the inequality in the structure of the contents of the Internal Audit Charter is different for each corporation, especially for the authority, duties and responsibilities for in-depth investigations which are indicated to have a risk of fraud and corruption. The Internal Audit Charter, which includes internal auditors' authority, duties, and responsibilities in preventing, detecting, and stopping fraud / corruption and creating an anti-fraud and anti-corruption culture, provides confidence that internal audit is the front line in preventing such

fraud and corruption from occurring. In addition, it is not surprising that most respondents answered that disclosing fraud and corruption in a business process in a corporation is not the authority and responsibility of an internal auditor. The respondents assumed that conducting investigations to reveal fraud or corruption could only be done if there was a particular assignment from the director.

Therefore, it is necessary to have regulations from the central government level and the supervisory regulators to provide an overview of the structure of the contents of the Internal Audit Charter in which the authority, duties and responsibilities are added to prevent, detect, and stop fraud / corruption and create an anti-fraud and anti-corruption culture. However, other important things to note are the comfort, safety and security of internal auditors in carrying out this mandate, so that the independence and integrity of the internal auditors in a corporation will increase. Thus the company becomes cleaner because can to minimize the occurrence of fraud and corruption.

## 5. CONCLUSION

Based on researchers' observations, the phenomenon of internal auditors in fighting corruption and creating an anti-fraud culture in a corporation can create two sides of the blade that have mutual interests. This interest is supported by one side of the internal auditor and one other side from the cultural and regulatory side that does not support the creation of anti-fraud and anti-corruption. Two main factors in terms of internal auditors' weaknesses are the lack of integrity due to conflict of interest as internal auditors and company employees, and the lack of individual ability in the technological era. This condition will get worse if it is supported by the other two main factors, such as a strong negative corporate political culture in creating an anti-fraud culture and the absence of regulations issued by regulators regarding the authority, duties

and responsibilities of internal auditors in preventing, detecting and stopping fraud as well as creating an anti-fraud and anti-corruption culture.

Researchers believe that these four factors are the main supporting factors in optimizing the performance of internal auditors performance in fighting corruption and creating an anti-fraud culture in a corporation. According to Mkenda (2013), the role of internal auditors in fighting fraud and corruption practices requires comprehensive action and a set of clear and firm regulations which are then integrated into the powers and responsibilities of internal auditors. In addition, adequate training on the issues and roles of the latest technology can support the increased effectiveness of internal auditors in detecting fraud and corruption. Apeldoorn and De Graaf (2018) state that a strong corporate political culture plays a crucial role in creating a capitalist society thirsty for power and knowledge to create the maximum profit for itself.

Therefore, researchers provide suggestions in optimizing internal auditors to fight corruption and create an anti-fraud culture are as follows. For the Government and Stakeholders as Regulators, there should be a revision of previously published regulations by including the following aspects. Adding the authority, duties and responsibilities of internal audit in preventing, detecting and stopping fraud and creating an anti-fraud and anti-corruption culture. Adding a clear legal protection in terms of security and sanctions for the consequences that will be faced by internal audit in carrying out the powers, duties and responsibilities of internal audit in preventing, detecting and stopping fraud and creating an anti-fraud and anti-corruption culture. The revision of regulations is carried out to require corporations to publish the Internal Audit Charter openly and transparently to the public, by sticking to point a.1. so that the structure of the contents of the Internal Audit Charter between corporations

has the same clear and firm objectives in fighting corruption and creating an anti-fraud culture.

For Internal Corporations, there should be a commitment from the corporation, especially the Human Resources Development Division, to conduct regular and comprehensive training for employees who serve as internal auditors. There should be a commitment and synergy from top management and middle management in creating a corporate political culture that is free from fraud and corruption. There should be a revision in the Internal Audit Charter by adding the authority, duties and responsibilities of internal audit in preventing, detecting and stopping fraud and creating an anti-fraud and anti-corruption culture.

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