

## Analysis of Internal Audit Practices and Organizational Commitment Towards the Effectiveness of Internal Control and Its Impact on Fraud Prevention In BUMN

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### Abstract

*BUMN, as a state-owned company, aims to gain profit and provide services and benefits to the community. However, BUMN governance has been in the spotlight due to the rampant corruption cases, such as those that occurred in Jiwasraya and Asabri. Data from the KPK shows that between 2017 and 2023, there were 143 corruption cases in BUMN/BUMD. This study aims to examine and analyze the influence of internal audit practices and organizational commitment on the effectiveness of internal control and fraud prevention in BUMN. The research method uses associative causal with a quantitative approach. Data analysis was carried out using Partial Least Square Structural Equation Modeling (PLS-SEM) with the Smart PLS application. The research instrument used a questionnaire with respondents of the Audit Board of Indonesia (BPK) who conducted audits of BUMN, so that it is expected to provide more independent answers for measuring each variable. The results of the study indicate that internal audit practices have a significant positive effect on the effectiveness of internal control and fraud prevention. Organizational commitment also has a significant positive effect on the effectiveness of internal control, but does not have a significant effect on fraud prevention. Internal control effectiveness does not mediate the effect of internal audit practices or organizational commitment on fraud prevention. The implications of the research results are the importance of improving internal audit practices and organizational commitment as an effort to improve the effectiveness of internal control, although the implementation of fraud prevention requires an additional integrated approach.*

**Keywords** internal audit practices, organizational commitment, internal control effectiveness, fraud prevention

### INTRODUCTION

State-Owned Enterprises (BUMN) as state-owned companies, not only have the goal of making a profit but also to provide services and benefits to the community. Currently, the management of BUMN has received a lot of public attention, especially with the emergence of corruption cases in several BUMNs, including the latest cases in state-owned insurance companies, Jiwasraya and Asabri. According to corruption case data released by the Corruption Eradication Commission (KPK), between 2017 and 2023, there were a total of 143 corruption cases in BUMN/BUMD. The large number of corruption cases shows that BUMN is an organization that is vulnerable to corruption and other fraud. The 2019 Indonesian Fraud Survey (ACFE Indonesia Chapter 2019) revealed that BUMN is the organization that is most harmed by fraud after government organizations.

In order to minimize corruption, the organization's internal control system must be maximized. The internal control system aims to support the achievement of company or organization performance goals, increase value for stakeholders, and ensure operational effectiveness and efficiency, reliability of financial reports, feasibility of operational and



financial controls and compliance with applicable laws and regulations. The internal control system also functions to manage and control risks properly so that healthy and safe operational activities are created. A good internal control system is expected to support the achievement of established performance targets, increase management confidence, encourage compliance with regulations, and minimize the risk of loss.

Organizations must have a robust internal control system to minimize fraud risk, and the role of internal audit is to assess those controls. In the BUMN environment, the Ministry of BUMN of the Republic of Indonesia has issued Regulation of the Minister of BUMN Number PER-2/MBU/02/2023 concerning Guidelines for Governance and Significant Corporate Activities of BUMN. The Regulation of the Minister of BUMN stipulates that the Board of Directors is obliged to establish an effective internal control system to secure the company's investments and assets.

Internal control weakness in BUMN can also be seen from the results of the BPK audit of BUMN which revealed many findings related to weaknesses in internal control. The total number of problems with weaknesses in internal control in BUMN revealed in the Summary of Audit Results of the Supreme Audit Agency (IHPS BPK) for 2018-2023 was 3,061 problems as shown in table 1.

**Table 1. Summary of Audit Results of the Audit Board of Indonesia (BPK IHPS) 2018-2023**

Description	Types of Examination Findings			Amount
	Weaknesses of Internal Control System	Non-Compliance with Legislation	Economic Findings, Efficiency and Effectiveness (3E)	
Semester I 2018	281	223	38	542
Semester II 2018	362	357	47	766
Semester I 2019	339	242	50	631
Semester II 2019	153	152	14	319
Semester I 2020	388	235	49	672
Semester II 2020	210	134	34	378
Semester I 2021	199	54	43	296
Semester II 2021	304	282	99	685
Semester I 2022	466	272	144	882
Semester II 2022	203	143	23	369
Semester I 2023	156	91	36	283
	<b>3,061</b>	<b>2.185</b>	<b>577</b>	<b>5,823</b>

Source: Summary of Audit Results of the Republic of Indonesia Audit Board 2018-Semester I 2023

Based on the data above in table 1. shows the Gap Phenomenon that there are findings of internal control weaknesses which are the most common types of findings when compared to other types of findings. The Summary of BPK Audit Results outlines the causes of weak internal control, especially:

- a) Weaknesses in supervision or monitoring activities, whether carried out by direct superiors or internal control units (internal auditors); and
- b) Management has not established the required control activities in internal policies or standard operating procedures. This shows that management's commitment to improving internal control is still inadequate.

Fraud can be occur due to weaknesses in internal control, which can trigger perpetrators to commit fraud (Putri Kesuma, 2024). The weaknesses of internal control have an impact on the occurrence of various violations of provisions, loss of assets and company losses. The existence of effective internal control is part of the company's fraud prevention efforts. The stronger the company's internal control, the stronger the fraud detection (Ikhwan Mansyuri et al., 2023). This is in accordance with the ACFE-Indonesia Chapter in the 2019 Indonesian fraud survey which stated that the existence of a strong control system is necessary as a preventive measure in overcoming fraud.

Several studies conducted previously still have a research gap, research results gap, previously showed that the effectiveness of internal control has a positive effect on fraud prevention. Internal control has an important role in preventing risks, providing reliable financial information, strengthening compliance and improving operational efficiency (Anh et al., 2020). The better the implementation of internal control, the less likely the occurrence of fraud can be (Putri Kesuma, 2024). Internal control is needed by the company to protect the assets and funds of shareholders in the company. Internal control has a significant influence on fraud prevention (Ozigbo, 2015). Internal control has an effect on fraud prevention in the Bandung Provincial Government, which means that the better the internal control, the better the fraud prevention (Widilestariningtyas et al., 2016). Internal control and anti-fraud awareness significantly affect fraud prevention. This means that fraud can be prevented by building good internal control and by increasing anti-fraud awareness to all parties in the organization (Yuniarti, 2017).

Previous research revealed the influence of organizational commitment on fraud prevention. Organizational commitment has an effect on the effectiveness of the government's internal control system (Rajagukguk, 2020a). There is a negative influence between organizational commitment and employee fraud, moderated by the effectiveness of the internal control system (Manurung et al., 2015a). Organizational commitment has a negative and significant effect on the tendency to commit fraud (Anggara et al., 2020).

The novelty of this research is by referring to existing literature. This study emphasizes the difference with previous studies in measuring the influence of internal audit practices and organizational commitment and the effectiveness of the internal control system on fraud prevention directly and the influence of internal audit practices and organizational commitment on fraud prevention indirectly, namely with the effectiveness of internal control as a mediator variable.



The rampant cases of fraud in BUMN encourage the author to contribute to efforts to prevent fraud in BUMN, especially through the role of internal audit and building the effectiveness of internal control. This study was conducted by collecting questionnaire data from respondents who were BUMN examiners at the Audit Board of The Republic of Indonesia (BPK RI). BPK RI is a state institution tasked with examining the management and responsibility of state finances, includes BUMN as a separated state finance. The duties and responsibilities of BPK is conducting examinations that includes financial examinations, performance examinations and examinations with specific objectives.

Based on the description of the phenomena and research background, the formulation of the problem in this research is as follows:

- 1) Is there any influence of the company's internal audit practices on the effectiveness of internal control?
- 2) Is there any influence of the company's internal audit practices on fraud prevention?
- 3) Is there an influence of organizational commitment on the effectiveness of the company's internal control?
- 4) Is there any influence of organizational commitment on fraud prevention?
- 5) Is there any influence of the effectiveness of the company's internal control on fraud prevention?
- 6) Does internal control effectiveness mediate the effect of internal audit practices on fraud prevention?
- 7) Does internal control effectiveness mediate the effect of organizational commitment on fraud prevention?

## LITERATURE REVIEW

### **The Influence of Internal Audit Practices on the Effectiveness of Internal Control**

Internal audit is an independent and objective consulting and assurance activity designed to add value and improve an organization's operations. Internal audit helps organizations achieve their objectives by using a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. (Coso, 2013). Internal audit affects the effectiveness of internal control, especially in the monitoring aspect. Internal audit practices have a positive influence on the effectiveness of internal control as revealed in the study (Fadzil et al., 2005; Nurmaulidiya & Suryani, 2019; (Widyaningsih, 2010); Indriyani & Mappanyukki, (2022). So the hypothesis is formed as follows.

H1: Internal Audit Practices Have a Positive Influence on Internal Control Effectiveness

### **The Influence of Organizational Commitment on Internal Control Effectiveness**

Commitment held by employees encourages employees to give their best for the company. Increasing organizational commitment is part of building a company's control environment. Previous research shows that organizational commitment has a positive and significant effect on the effectiveness of the internal control system. From the test results, it

is known that partially organizational commitment has a positive and significant effect on the effectiveness of the internal control system (Bimrew Sendekie Belay, 2022).

Different results were obtained from other studies that concluded that organizational commitment had no effect on internal control. Some things that cause organizational commitment to have no effect on internal control are the lack of employee awareness of their commitment to the company, they work as much as they can according to their respective responsibilities, there is no sense of belonging to the company and they do not feel like they are part of the company.(Aisyah et al., 2019). So the hypothesis is formed as follows.

H2: Organizational Commitment has a positive effect on the Effectiveness of Internal Control

### **The Impact of Internal Audit Practices on Fraud Prevention**

The internal audit function is a key factor in anti-fraud activities, supporting management programs to prevent, detect and respond to fraud.(KPMG Forensics, 2014). Organizations with an internal audit function detect and report fraud more frequently than organizations without an internal audit function.(Coram et al., 2008). Previous research also concluded that internal audit has a positive influence on fraud prevention efforts. (Olatunji & Adekola, 2017; Petraşcu & Tieanu, 2014; Roemkenya Madolidi Handoyo & Indah Bayunitri, 2021). So the hypothesis is formed as follows.

H3: Internal Audit Practices Have a Positive Influence on Fraud Prevention

### **The Influence of Organizational Commitment on Fraud Prevention**

Organizational commitment is related to the desire of individuals in the company to remain in the company and give their best for the development of the company. Thus, individuals or employees who have a high commitment to the company should prevent themselves from committing fraud that has a negative impact on the company.

Several previous studies have concluded mixed results Wicaksono and Urumsah's (2017) study concluded that organizational commitment has a positive but insignificant effect on the desire to commit fraud (fraud intention). Employees who have high commitment, want to make the organization look better, this includes doing anything including fraud.So the hypothesis is formed as follows.

H4: Organizational Commitment has a positive effect on Fraud Prevention

### **The Influence of Internal Control Effectiveness on Fraud Prevention**

Internal control according to COSO-Internal Control Integrated Framework (2013) is a process carried out by the board of directors, management and other personnel, which is designed to provide reasonable assurance regarding the achievement of operational objectives, reporting objectives and compliance. An effective control system reduces the risk of not achieving company objectives, at an acceptable level of risk, and provides reasonable assurance regarding the achievement of entity objectives. Regarding the relationship between internal control and fraud prevention, previous studies generally conclude that effective internal control has a positive effect on fraud prevention efforts.(Agyemang, 2011;



Ndege Joseph et al., 2015; Ozigbo, 2015; Satria, 2020; Taufik, 2019; Widilestariningtyas et al., 2016). So the hypothesis is formed as follows.

H5: Internal Control Effectiveness has a positive effect on Fraud Prevention

### **Internal Control Effectiveness Mediates the Effect of Internal Audit Practices on Fraud Prevention.**

Internal audit focuses on internal control and management compliance with applicable policies and procedures in the company. In addition, internal audit is also responsible for providing advice on how to improve the internal control system and suggestions for improvements needed (Shamsuddin & Johari, 2014). Related to fraud detection, Internal Audit can be a detection and preventive action. Internal auditors can help prevent fraud by examining and evaluating the adequacy and effectiveness of the internal control system (Graham, 2015).

In addition to measuring the relationship between internal audit practices and fraud prevention directly, this study will also measure the indirect influence of internal audit practices on fraud prevention through the variable of internal control effectiveness. So the hypothesis is formed as follows.

H6: Internal Control Effectiveness is Able to Mediate the Influence of Internal Audit Practices on Fraud Prevention.

### **Internal Control Effectiveness Mediates the Effect of Organizational Commitment on Fraud Prevention.**

High organizational commitment has an impact on the desire of employees to give their best for the company, including playing a role in the internal control system so as to prevent fraud that has a negative impact on the company. The higher the organizational commitment, the lower the level of fraud, but if the effectiveness of internal control is low, it increases fraud (Manurung et al., 2015); Nurlaela, E., Mappanyukki, R., & Surjandari, D. A. (2021). So the hypothesis is formed as follows.

H7: Internal Control Effectiveness is Able to Mediate the Influence of Organizational Commitment on Fraud Prevention.

### **Research Framework**

Based on the discussion regarding theoretical basis and previous research, the following is a framework of thought according to the following diagram:

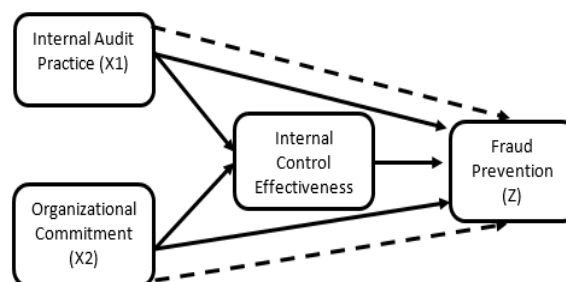


Figure 1 Framework of Thought

## METHOD

### Subjects and Objects of Research

#### Research Subject

The subject of research in scientific terms can also be called a data source. When researchers use survey and interview techniques in data collection, the data source can refer to the respondents (Mochamad Nasrullah et al., 2023). The subjects in this study are BPK auditors who are external auditors who routinely conduct audits/examinations on BUMN.

#### Research Object

The object of research or also called the research variable is something that is of concern to the researcher (Abubakar, 2021). The object of this study is the research variables, namely internal audit practices, organizational commitment, effectiveness of internal control systems and fraud prevention in BUMN audited by BPK RI.

#### Research Design

The research approach is the causal associative research method carried out by quantitative methods. Causal associative research aims to determine the causal relationship between two or more variables, where one variable (independent variable) affects another variable (dependent variable). Quantitative methods use research data using numerical measurements (numbers) that are analyzed using statistics.

#### Population and Sample

The population used in this study were the auditors of the Audit Board of Indonesia (BPK) at Auditorium of State Finance VII (AKN VII). AKN VII is an audit unit at echelon I level tasked with conducting state financial audits at State-Owned Enterprises (BUMN). The number of auditors in AKN VII is 251 people. The data on the auditor population in AKN VII is as follows.

**Table 2. Examiner Population at AKN VII**

Position	Number of Employees	Information
Principal Examiner	1	The Principal Expert Examiner has the main task and function of controlling the quality of the examination.
Associate Examiner	27	The Intermediate Expert Examiner has the main task and function of controlling the technical examination.
Junior Examiner	155	The Junior Expert Examiner has the main task and function of leading the examination.
First Examiner	68	The First Expert Examiner has the main task and function of carrying out the examination.
<b>Total</b>	<b>251</b>	



The sample determination in this study used purposive sampling technique, then the number of samples selected is 183 examiners. Where the criteria used as samples in this study are as follows:

**Table 3. Criteria for Determining Research Samples**

Criteria	Information
Examiner with minimal role as junior examiner	Examiners with the role of junior examiner have carried out the role of leading the examination so that they are expected to have sufficient understanding of the control system, risk assessment and fraud.
Inspector with work experience of more than 5 years.	Auditors with more than 5 years of work experience are expected to have sufficient understanding of the role of internal auditors as well as sufficient understanding of the audited entity (auditee).

### Method of collecting data

Data collection in this study was carried out using survey techniques (field research), namely by providing questionnaires that were directly distributed to respondent criteria using statement items that had been limited in providing answers with a weight of 1 to 5 for the level of agreement or disagreement.

### Data Analysis Methods

Data analysis method is a way to answer the problem formulation or test the hypothesis in a study. Data analysis is done by the Partial Least Square (PLS) method using SmartPLS software. PLS is one of the Structural Equation Modeling (SEM) solution methods.

## RESULT AND DISCUSSION

### Respondent Characteristics

#### Respondent Identity Based on Functional Position

Respondent characteristics based on position are divided into functional positions, namely Junior Expert Examiner and Middle Expert Examiner. The characteristics of the respondents can be seen in table 4 as follows.

**Table 4. Respondent Characteristics by Position**

Category	Frequency	Percentage
Junior Expert Examiner	83	90.22%
Associate Expert Examiner	9	9.78%
<b>Amount</b>	<b>92</b>	<b>100.00%</b>

Source: Researcher Processed Results, 2023



Table 4 shows that the research respondents based on their positions are Junior Expert Examiner and Middle Expert Examiner. The most research respondents are concentrated in the position of Junior Expert Examiner with a percentage of 90.22% and the least in the position of Middle Expert Examiner (9.78%). Junior Examiner and Middle Examiner are examiner positions that carry out minimal functions as team leader and technical controller. The selection of respondents at the junior examiner and middle examiner levels is to ensure that respondents have a comprehensive and adequate understanding of the BUMN being audited/examined.

## Measurement Model or Outer Model

### Validity Test

Several stages of testing carried out through validity tests are Convergent Validity, Average Variance Extracted (AVE), and Discriminant Validity. The explanation of each test is as follows.

#### a) *Convergent Validity*

A statement item is considered convergently valid if its loading factor is greater than 0.70 (Ghozali, 2018). The results of the SEM PLS test on all indicators in the questionnaire show that several indicators (statement items) are invalid or the outer loading value is below 0.7 as follows.

**Table 5. Test Results outer loading**

Variables	Indicator	Indicator Description	Statement	Loading Factor Value
Internal Audit Practice	X.1.3.2	Internal Audit Work Scope	The scope of internal audit work at BUMN does not include investigative examinations of fraud.	0.530
Internal Control Effectiveness	Y.1.2	Efficiency and effectiveness of company operations	The BUMN that I audited has a corporate health value in the Good/Very Good category.	0.668
Internal Control Effectiveness	Y.2.1	Reliability of Financial Reports	The BUMN Financial Report that I audited obtained an Unqualified Opinion on the published financial report.	0.318
Internal Control Effectiveness	Y.2.7	Reliability of Financial Reports	The BUMN that I audit has systematic financial reports that can be understood by users.	0.667



Invalid indicators are then removed/excluded from the research model. After the indicators are removed from the model, the outer model is retested, so that there are no more indicators with a value  $< 0.7$ .

### Reliability Test

A group of indicators that measure a variable has good composite reliability if it has Cronbach Alpha and composite reliability  $\geq 0.70$  (Ghozali, 2018). The results of the reliability test for this study can be seen in the following table.

**Table 6. Reliability Test Results**

Variables	Cronchbach Alpha	Composite Reliability	AVE	Information
Internal Audit Practice (X1)	0.948	0.949	0.599	Reliable
Organizational Commitment (X2)	0.953	0.957	0.705	Reliable
Effectiveness of Internal Control System (Y)	0.942	0.946	0.614	Reliable
Fraud Prevention (Z)	0.970	0.972	0.668	Reliable

Source: Processed from data testing results using SmartPLS, 2023

From the table above, it can be seen that each variable has a Cronchbach Alpha and Composite Reliability value above 0.7, as well as the Average Variance Extract (AVE) results for each variable above 0.5. These results indicate that each variable of Internal Audit Practices (X1), Organizational Commitment (X2), Internal Control Effectiveness (Y) and Fraud Prevention meets the reliability criteria.

### Structural Model or Inner Model

#### a) Determination Coefficient Test (Adjusted R2)

The R<sup>2</sup> results of 0.67, 0.33, and 0.19 indicate that the model is "good", "moderate", and "weak" (Ghozali, 2018). The results of the Determination Coefficient test in this study can be seen in the following table.

**Table 7. Results of the Determination Coefficient Test**

Variables	Adjusted R2
Internal Control Effectiveness (Y)	0.665
Fraud Prevention (Z)	0.753

Source: Processed from data testing results using SmartPLS, 2023

Table 7 shows that the coefficient of determination (Adjusted R2) is 0.665, which means that the variable of Internal Control Effectiveness is simultaneously influenced by the variables of Internal Audit Practices and Organizational Commitment by 66.50% and the remaining 32.50% is explained by other constructs outside those studied in this

study. The coefficient of determination (Adjusted R<sup>2</sup>) is 0.753, which means that the variable of Fraud Prevention is simultaneously influenced by the variables of Internal Audit Practices, Organizational Commitment, and Internal Control Effectiveness by 75.30% and the remaining 13.50% is explained by other constructs outside those studied in this study. Therefore, the coefficient of determination (Adjusted R<sup>2</sup>) is more or close to 67%, so the influence of all exogenous constructs X<sub>1</sub> and X<sub>2</sub> on Y and X<sub>1</sub>, X<sub>2</sub>, and Y on Z is quite strong.

### b) F Test (Goodness of Fit)

The statistical model describes how well or fits a set of observations that the Standardized Root Mean Square Residual (SRMR) < 0.10 the model will be considered a good fit. (Ghozali, 2018).

**Table 8. Results of the F (Goodness of Fit) Test**

Information	Saturation Model	Estimation Model
SRMR	0.083	0.083
NFI	0.609	0.609

Table 8 shows that the SRMR value shows 0.083 which means < 0.10. This means that the model built in the study is Fit or suitable. The NFI value also shows 0.609 which is close to 1 so that the model built is Fit or suitable.

### c) t test

The value of testing the research hypothesis can be shown in table 9 and for the results of the research model.

**Table 9. Hypothesis Test Results through Path Coefficients**

Variables	Path coefficient	P values	T statistics	Confidence Range Interval	
				Lower Limit	Upper Limit
<b>Direct Influence</b>					
Internal Audit Practices (X.1) -> SPI Effectiveness (Y)	0.165	0.036	2,101	0.008	0.313
Internal Audit Practices (X.1) -> Fraud Prevention (Z)	0.843	0,000	13,062	0.702	0.959
Organizational Commitment (X.2) -> SPI Effectiveness (Y)	0.703	0,000	10,104	0.553	0.825



Variables	Path coefficient	P values	T statistics	Confidence Range Interval	
				Lower Limit	Upper Limit
Organizational Commitment (X.2) -> Fraud Prevention (Z)	-0.145	0.186	1,323	-0.352	0.083
SPI Effectiveness (Y) -> Fraud Prevention (Z)	0.189	0.082	1,741	-0.029	0.396
<b>Indirect Influence</b>					
Internal Audit Practices (X.1) -> SPI Effectiveness (Y) -> Fraud Prevention (Z)	0.031	0.201	1,278	-0.002	0.096
Organizational Commitment (X.2) -> SPI Effectiveness (Y) -> Fraud Prevention (Z)	0.133	0.093	1,682	-0.016	0.294

Source: Processed from data testing results using SmartPLS, 2023

Analysis of test results *Path Coefficients* as follows:

1. Hypothesis 1

The first hypothesis tests whether internal audit practices have a positive effect on the effectiveness of internal control. The test results show that the p value is 0.036 or lower than 0.05 (5%) and the t statistic value is 2.101 or greater than 1.96 with a path coefficient of 0.165. This means that the First Hypothesis (H1) is accepted, namely Internal Audit Practices (X1) have a significant effect on SPI Effectiveness (Y). The positive path coefficient of 0.165 indicates a positive effect where every increase in the internal audit practice variable will increase the achievement of objectives (effectiveness) of the internal control system.

2. Hypothesis 2

The second hypothesis tests whether internal audit practices (X1) have a positive effect on fraud prevention (Z). The test results show a p-value of 0.000 or lower than 0.05 (5%) and a t statistic value of 13.062 or greater than 1.96 with a path coefficient of 0.843. This means that the Second Hypothesis (H2) is accepted, namely that Internal Audit Practices (X1) have a significant effect on Fraud Prevention (Z). The Path Coefficient has a positive value of 0.843 indicating a positive effect where every increase in internal audit practices will increase Fraud Prevention (Z).

3. Hypothesis 3

The third hypothesis tests whether organizational commitment (X2) has a positive effect on the effectiveness of internal control (Y). The test results show a p value of 0.000 or lower than 0.05 (5%), and a t statistic value of 10.104 or greater than 1.96 with a path coefficient of 0.703. This proves that the Third Hypothesis (H3) is accepted, namely

Organizational Commitment (X2) has a significant effect on the Effectiveness of Internal Control (Y). The positive path coefficient of 0.703 indicates a positive effect where every increase in Organizational Commitment will increase the Effectiveness of the Internal Control System (Y).

#### 4. Hypothesis 4

The fourth hypothesis tests whether Organizational Commitment (X2) has a positive effect on Fraud Prevention (Z). The test results show that the p value is 0.186 or greater than 0.05 (5%) and the t statistic value is 1.323 or lower than 1.96 with a path coefficient of -0.145. This proves that Hypothesis 4 is rejected, namely Organizational Commitment (X2) does not have a significant effect on Fraud Prevention (Z).

#### 5. Hypothesis 5

The fifth hypothesis tests whether the effectiveness of internal control has a positive effect on fraud prevention. The test results show that the p value is 0.082 or greater than 0.000, the t statistic value is 1.741 or lower than 1.96 with a path coefficient of 0.189. This proves that Hypothesis 5 is rejected, namely Internal Control Effectiveness does not have a significant effect on Internal Control Effectiveness (Y).

#### 6. Hypothesis 6

The sixth hypothesis tests whether Internal Control Effectiveness (Y) mediates the Influence of Internal Audit Practices (X1) on Fraud Prevention (Z). The test results show a p value of 0.201 or lower than 0.05 (5%), a t statistic value of 1.278 or lower than 1.96 with a path coefficient of 0.031. This means that the Sixth Hypothesis (6) is rejected, Internal Control Effectiveness does not mediate the Influence of Internal Control Effectiveness on Fraud Prevention.

#### 7. Hypothesis 7

The seventh hypothesis tests whether Internal Control Effectiveness (Y) mediates the effect of Organizational Commitment (X2) on Fraud Prevention (Z). The test results show a p value of 0.093 or greater than 0.000 and a t statistic value of 1.682 or greater than 1.96 with a path coefficient of 0.133. This means that the Seventh Hypothesis (7) is rejected, Internal Control Effectiveness (Y) does not mediate the effect of Organizational Commitment (X2) on Fraud Prevention (Z).

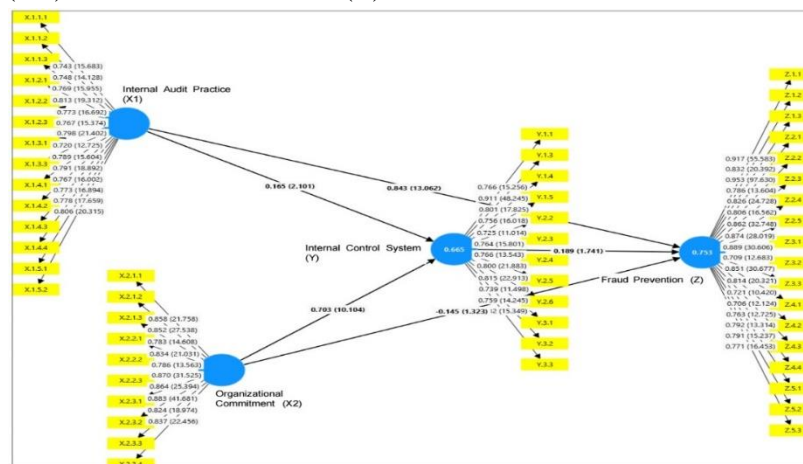


Figure 2. Research Model Results



The following presents an overview of the findings obtained from hypothesis testing.

**Table 10. Summary of Hypothesis Testing Results**

Hypothesis	t-statistic value	p-value	Testing
Internal audit practices have a positive impact on the effectiveness of internal control.	2,101	0.036	Accepted
Internal audit practices have a positive impact on fraud prevention	13,062	0,000	Accepted
Organizational commitment has a positive effect on the effectiveness of internal control	10,104	0,000	Accepted
Organizational commitment has a positive effect on fraud prevention	1,323	0.186	Rejected
The effectiveness of internal control has a positive effect on fraud prevention.	1,741	0.082	Rejected
Internal control effectiveness mediates the effect of internal audit practices on fraud prevention.	1,278	0.201	Rejected
Internal control effectiveness mediates the effect of organizational commitment on fraud prevention.	1,682	0.093	Rejected

Source: Processed from data testing results using SmartPLS, 2023

### The Influence of Internal Audit Practices on the Effectiveness of Internal Control

The results of the study indicate that there is a significant influence. This proves that internal audit practices have a positive effect on the effectiveness of internal control. The better the internal audit practices, the better the effectiveness of internal control. The effectiveness of internal control is measured by the achievement of its objectives, namely operational efficiency and effectiveness, reliability of financial statements and company compliance with statutory provisions. Thus, good internal audit practices support the achievement of these three company objectives.

Agency theory emphasizes the relationship between principal (owner) and agent (management). Agency theory is based on the axiom (1) the existence of information asymmetry between the principal and the agent, and (2) the principal and the agent have different interests. The principal expects the agent to manage the company in the interests of the principal (owner). However, because the agent has better information about the company and has different interests, the agent can act unethically and self-oriented and engage in fraud to increase personal wealth. The agent is interested in providing assurance to the principal that the agent does not act in a way that is detrimental to the principal. For this reason, the board of directors/management is required to build good and effective internal control. Internal audit functions to provide reliable and objective assurance regarding efficiency and effectiveness, governance, risk management and internal control (COSO, 2015).

### **The Impact of Internal Audit Practices on Fraud Prevention**

The test results show that Internal Audit Practices (X1) have a significant effect on Fraud Prevention (Z). The better the internal audit practices, the better the fraud prevention. The Fraud Triangle Theory states three main factors why a fraudster commits fraud, namely pressure, opportunity, and rationalization. Fraud prevention efforts are basically efforts to reduce the three factors that cause fraud. The internal audit function carries out functions that are primarily in preventing and prosecuting fraud.

One way to prevent and minimize fraud is to enhance the role of internal audit. Internal audit aims to assist organizations in implementing significant controls by examining the level of efficiency and effectiveness and encouraging continuous improvement. (Sawyer et al., 2012). Internal auditors are the most appropriate agents to realize internal control, risk management and good corporate governance, which provide added value to resources and the company (Abdelrahim & Al-Malkawi, 2022; Stojanovic & Andric, 2016).

### **The Influence of Organizational Commitment on Internal Control Effectiveness**

The test results show that organizational commitment (X2) has a positive and significant effect on the effectiveness of internal control. The better the organizational commitment, the better the effectiveness of internal control. Agency theory views the Board of Directors, management and employees of the organization as agents acting on behalf of the principal (owner or party providing trust). In the context of internal control effectiveness, agency theory can provide insight into how organizational commitment affects internal control performance. High organizational commitment can create goal alignment between agents (employees, management) and principals (owners or parties providing trust). With this alignment, agents tend to make more effort and be more responsible in carrying out their duties and responsibilities to achieve the goals desired by the principal or the company's goals. Internal control is a system that is built with the aim of avoiding risks that hinder the achievement of company goals (Cesario & Chambel, 2017).

Organizational commitment has a positive influence on internal control, which is also expressed in the results of previous research, including research Rajagukguk, (2020), T. E. Putri et al., (2023), Rifai & Mardijuwono (2020), Dermawan Sembiring et al., (2023). In addition, organizational commitment also has a positive effect on the quality of financial reports (Bachmid, 2018).

### **The Influence of Organizational Commitment on Fraud Prevention**

The test results show that organizational commitment does not have a significant effect on fraud prevention. Organizational commitment is an attitude that reflects employee loyalty to their organization. Employees of the organization express their concern for the organization and its continued success and well-being (Luthans, 2009). The fraud triangle theory states that three factors that cause fraud are pressure, opportunity and rationalization. Pressure can be in the form of financial needs, the need for better performance reports, pressure to achieve targets, pressure/frustration that comes from the work environment. Even in certain situations such as periods of crisis such as economic crises, the pressure to commit



fraud is even higher to meet company targets so that the company can survive (Vousinas, 2019).

High organizational commitment illustrates the employee's desire to maintain the company's success and good name. The employee's sense of care and desire to maintain the company's performance can lead to rationalization of fraudulent actions on the grounds that the company's performance is still achieved. Fraud such as fraud on financial reports is sometimes carried out by management/employees so that the company's financial performance looks good in the eyes of stakeholders. The employee's desire to remain in the company can also be a pressure to commit fraud so that personal performance continues to look good.

### **The Influence of Internal Control Effectiveness on Fraud Prevention**

The test results show that the effectiveness of internal control has no effect on fraud prevention. The effectiveness of internal control is measured by the achievement of internal control objectives for the company. The results of the questionnaire show that respondents assess that BUMN in general has succeeded in achieving internal control objectives, namely operational efficiency and effectiveness, reliability of financial reports and compliance with regulations, but the achievement of these internal control objectives has no effect on fraud prevention.

In the factors that cause fraud based on the fraud triangle theory, namely pressure, opportunity and rationalization, the existence of effective internal control will suppress the opportunity factor so that fraudulent actions can be prevented or minimized. However, in this study the measure used is the achievement of internal control objectives which can also be caused by other factors outside of strong internal control.

Several previous studies have concluded the same thing as the findings of this study. Septiana et al., (2024) states that the effectiveness of internal control does not have a significant effect on the tendency of accounting fraud. The effect of internal control on fraud prevention is positive but not significant (Yasmin, 2021). There is no significant influence of the effectiveness of internal control on the tendency to commit financial reporting fraud (Vamela & Setiyawati, 2021). However, the findings of this study contradict the results of research conducted Lubis et al., (2024), Silalahi & Purnamasari, (2024), Nirmalasari & Sari, (2023), which states that there is a significant influence between the effectiveness of internal control and fraud prevention.

### **Internal Control Effectiveness Mediates the Effect of Internal Audit Practices on Fraud Prevention**

The test results show that the effectiveness of internal control does not mediate the effect of internal audit practices on fraud prevention. Although internal audit practices have an effect on the effectiveness of internal control, this effect does not have a direct impact on fraud prevention. Internal audit practices can suppress opportunity factors that cause fraud and monitor potential fraud by employees, regardless of the achievement of internal control objectives.



In BUMN audited by AKN VII in BPK, the effectiveness of internal control is not proven to mediate the effect of internal audit practices on fraud prevention. The implementation of internal control does not directly affect fraud prevention due to the inadequacy and ineffectiveness of control components. The relationship between internal audit practices, internal control, and fraud prevention in the government sector may be influenced by certain external or contextual factors.

### **Internal Control Effectiveness Mediates the Effect of Organizational Commitment on Fraud Prevention**

The test results show that the effectiveness of internal control does not mediate the effect of organizational commitment on fraud prevention. In other words, although organizational commitment has a significant effect on the effectiveness of internal control, its effect on fraud prevention is not significant. The variable of internal control effectiveness in the research model also does not strengthen the relationship between organizational commitment and fraud prevention. This finding indicates that good organizational performance and high commitment do not guarantee the effectiveness of fraud prevention. In addition, the factors that cause fraud, according to the fraud triangle theory (pressure, opportunity, and rationalization), are very complex and influenced by many elements.

This study has weaknesses, especially in measuring the effectiveness of internal control variables that focus on achieving internal control objectives. The objectives of internal control in this case operational efficiency, reliability of financial reports and compliance are influenced by many internal and external factors of the company other than the existence of good internal control, such as economic conditions, regulations and the determination of company targets. In other words, the measurement of the effectiveness of internal control does not directly indicate the implementation and existence of a good internal control system.

The data obtained from the survey/questionnaire is the perception or assessment of the BPK examiner/auditor. Several audit indicators in this study can be developed using assessments using primary data such as financial reports, performance reports and so on so that they are free from respondent subjectivity.

### **CONCLUSION**

BUMN directors, management, and stakeholders are advised to improve internal audit practices to prevent fraud. Improving professionalism through internal audit training and certification is essential, as is the adequacy of the necessary resources. Organizational commitment is needed to achieve operational efficiency, financial reporting reliability, and regulatory compliance, with attention to the balance between workload and facilities provided, as well as building an organizational culture.

However, increased commitment must be balanced with awareness of fraud and an anti-fraud system that involves all employees. This study shows that internal control objectives do not have a significant effect on fraud prevention, so BUMN needs to focus on



building a strong and sustainable internal control system. Internal audits must be more optimal in supervision, and the system must be evaluated continuously for improvement.

The results of the study also show that there are other factors that influence fraud prevention, outside of organizational commitment and internal control. Therefore, further research is recommended to identify other variables, both internal and external, that can influence fraud prevention.

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