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INTERNAL CONTROL PART OF FRAUD PREVENTION IN ACCOUNTING INFORMATION SYSTEM

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Abstract

This article aims to determine the internal Control section of the monitoring Fraud. Internal Control is the internal Control as a process that is influenced by the board of directors, management obtained from the information, and the employees are designed to provide assurance to ensure that the organization's objectives will be achieved. Information sub-system integrates both physical and non physical are interconnected and work together in harmony to achieve a goal of process data into information. In the complex internal control can be from the accounting information system, covering the scope of accounting transactions that cover all parts of the company, and the procedures in the process from the transaction until it generates financial reports. Accounting fraud in a behavior in which a person takes or intentionally dishonestly capitalize on others. Fraud or cheating which is a barrier to use resources efficiently, effectively and economically, so it is an important concern of management and the board of directors of the organization. From an accounting standpoint, cheating is a false depiction of the material facts in a ledger or financial statements.

Keywords: Internal Control, Fraud, Accounting information system, Monitoring

INTRODUCTION

Accounting information helps parties in and outside the company to make investment decisions, evaluate performance, monitor activity, and as a measure for the purpose of regulation (Hansen and Mowen, 1995: 35). By using accounting information, internal party would obtain information relating to the past and the future , such as forecasting (forecasting) which includes annual plans , strategic , and several alternative decisions (Azhar Susanto : 2008), determining the cost of products / services (Hansen & Mowen, 1995 : 35). Utilization of accounting information as a basis for making various types of decisions such as those mentioned above as stakeholders understand very well that the essence of the accounting information has been qualified as a decision - useful -information, ie information that is useful for decision-making (Kieso et al , 2012: 5).

Accounting information "useful" or "qualified " is the accounting information that fit with the needs of users of information (Wang & Strong, 1996) or the accounting information that can redirect the user to the actions expected (Hall : 2011), or accounting information which has characteristics, quality attributes that make the accounting information be worth to the wearer (O'Brien : 1996 : 365). Quality accounting information useful information to assist users in making decisions that benefit (Gellinas , 2012: 19). Conversely, if the accounting information is not qualified, then the accounting information becomes useless (Kieso et al , 2007: 41). In practice, there are still many problems about the quality of information systems that are not in the business entities as well as on non- business entities .

At binis entities, as happened in the company Vivera Group, where the system has not been integrated inter- division company, thus affecting the effectiveness of the work process (Dedy Rochimat , 2012) . At the PT . Avesta Continental Pack, the system is not integrated, resulting in more and more time is needed to process the data, decision making becomes slow and inhibit the growth of the company in the future (Karlis Berry , 2011). Problems. Events fraud gave the realization that regulation and accounting standards that have been designed ketatpun not been able to prevent accounting fraud. As disclosed by Healy and Palepu (1993 : 3) that the quality of the financial statements are not determined by the number of accounting standards governing , but more important is the commitment and support of management and the parties concerned.

Accounting scandal at Enron Corp., World Com, and some public companies in the United Ainerìka that occurred around 2001 and 2002 have made the public accounting profession lost the confidence of the business community. Commission Securities and Exchange Commission (SEC), an independent agency that has primary responsibility for regulating and supervising the implementation of regulations in the field of securities trading on the stock exchanges in the United States, the SEC publish on its website regarding the accounting scandals that occur on every day abuses listed on the stock exchanges in the United Ainerika. Various accounting scandals are very seized the world's attention, because America.

States are known to have an organization that is advancing the accounting profession associations, particularly the America Institute of Certified Public Accountants (AICPA), it is also still a lot of experienced financial irregularities committed by the management company.

Financial irregularities committed by the management company Enron Corp. and other companies in the United States involves the role of public accountants, one of which is a public accounting firm Arthur Andersen. The involvement of the public accounting firm Arthur Andersen in the abuse scandal raises many questions about the integrity of the public accounting profession.

INTERNAL CONTROL

Some of the statements relating to the internal Control system put forward by Messier et al (2010: 290) states Internal Control is design and affected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectivities in the following categories: (1) Reliability of financial reporting, (2) Effectiveness and efficiency of operations, and (3) Compliance with applicable laws and regulations. Likewise, Bodnar and Hoopwood (2010: 138) states: Internal Control is a process ... designed to provide reasonable assurance regarding the achievement of objectivities in the following categories: (a) realibility of finacial reporting, (b) effectiveness and efficiency of operations, (c) compliance with applicable laws and regulations. While Elder et al (2010: 290) states: A system of internal Control consists of policies and procedures designed to provide management with reasonable assurance that its Achieves company objectives and goals. Reviews these policies and procedures are often called controls, and Collectively they comprise the entity's internal Control.

Then Azhar Susanto (2008 : 95) states system of internal Control as a process that is influenced by the board of directors, management, and employees that is designed to give assurance to ensure that the organization's objectives will be achieved through : (1) the efficiency and effectiveness of operations, (2) presentation of financial statements are to be believed, (3) adherence to laws and regulations.

From some statements of internal Control over , the concept of internal Control within the context of this research is aimed at the concept of the quality of information systems, so that the internal Control system means as methods, policies and procedures designed and influenced by the board of directors, management and employees to provide reasonable assurance that activities and facilities accounting information systems function naturally to organize the activity of the inputs, processes and activities in order to produce quality accounting information and storage activities. Management goal of designing and making an effective internal Control system, is as follows (Elder et al , 2010: 290)."

1. Reliability of financial reporting. Management bore both legal and professional responsibility to ensure that the information is fairly stated in accordance with the reporting requirements as generally accepted accounting principles (GAAP). The purpose of effective internal Control over financial reporting is fulfilling its financial reporting responsibilities.
2. The efficiency and operational effectiveness. Control of the company will encourage the use of resources efficiently and effectively to optimize the company's suggestions. An important goal of internal Control is to obtain financial and non-financial information that is accurate about the company's operations for the purposes of decision making
3. Compliance with laws and regulations. All public companies are required to issue a report on the effectiveness of the implementation of internal Control over financial reporting. In addition to comply with the law, public organizations, non-public, and nonprofit organizations are required to comply with various laws and regulations ".

Besides the above-mentioned objectives , Marshall B. Romney and Paul John Steinbart (2006 : 192) states that the purpose (objective) of internal Control are as follows :

1. Protecting the assets of the company, including preventing and detecting the acquisition of assets that is not authorized
2. Maintain records sufficient for the company's assets can be reported accurately and fairly.
3. Presentation of information reliably and accurately
4. Maintain reasonable assurance that the financial reporting in accordance with accounting standards.
5. Increase and improve the efficiency of corporate operations , including creating the belief that the company's revenue and expenditure has been carried out in accordance with accounting standards and based on authorizations and authorizations of management and directors .
6. To encourage compliance with established policy management
7. Comply hukup and regulations.

Hereinafter, components and sub-components of internal Control are as follows:

1. Control environment (the control environment) consisting of actions, policies, and procedures that reflect the attitude of top management, directors, and owners of the entity as a whole regarding the internal Control and its importance for the entity. To assess the control environment is to understand the sub-subcomponent of the control environment as follows:

a. Integrity and ethical values

b. Commitment to competence

c. Philosophy and style of management operations organizational structure

d. Participation BOC or Audit Committee

e. Manner of assigning authority and responsibility

f. Human resources procedures

2. The process of risk assessment entity (the entity's risk assessment process) is an action by management to identify and analyze the risks relevant to the preparation of financial statements in accordance with standards (GAAP or IFRSs).

3. Control activities (the control activities) is a policy or procedure, other than those already included in the other four components, which helps ensure that the necessary measures have been taken to address the risks in order to achieve the objectives of the entity. In general, control activities are divided into the following five types:

a. Adequate segregation of duties

b. The appropriate authorization of transactions and activities

c. Documents and records adequate

d. Physical control over assets and records

e. Independent performance audit

4. The information and communication system (the Information Systems and communications). The purpose of information and communication systems of the entities is to initiate, record, process, and report entity transactions done it as well as maintain accountability of the related asset. Accounting information and communication systems has several subcomponents, which usually consists of classes of transactions such as sales, sales returns, cash receipts, and so on

5. Monitoring (monitoring). Monitoring activities related to the quality assessment of internal Controls on an ongoing basis or periodically by management to determine that the control has operated as expected, and has been modified in accordance with changing conditions. Information is considered derived from a variety of sources, including a study of the internal Control, internal auditor reports, exception reporting on control activities, reports from regulators, the feedback from operational personnel, and customer complaints about the amount of the bill.

Based on the above, the components of internal Control in the context of this study refers to the components and sub-components as described above, namely: (1) control environment, (2) risk assessment, (3) control activities, (4) Information and communications systems, and (5) monitoring. To ascertain whether the elements or components of the internal Controll system implemented in specific applications contained in any transaction cycle organization, it takes control of transaction processing (transaction processing control) (Bodnar and Hopwood, 2010: 149). According to Bodnar and Hopwood, for the purpose of control transaction processing, internal Controls can be grouped into a common control (general control) and control the application (application control) (Bodnar and Hopwood, 2010: 149). General controls (general control) is designed to ensure that processing information held within a reasonable control and consistent environment. General controls will have an impact on the effectiveness of the application and transaction processing functions involved in using accounting information system (Nash and Heagy, 1993: 485). Broadly speaking, the general control consists of (Bodnar and Hopwood, 2010: 149):

1. Plan data processing organizations (The plan of the data processing organization). Type of control, teridri of:

a. Separation of duties (segregation of duties), the separation between the functions otoriasasi, custody, recording and processing of transactions.

b. The function of processing the transaction also must be separated with the following functions: system analyst (system analysts), programmers (programmers), the operator of the computer (computer operators), data storage and computer programs (librarian), and inspectors of data (data control clerk).

2. The general operating procedures (General operating procedures). Type of control consists of: description for each function in the transaction processing system (definition of responsibility), personnel are reliable (reliability of personnel), training of personnel (training of personnel), the competence of the personnel (competence of personnel), rotational assignments (rotation of duties), form design (forms design).

3. Equipment control features. Type of control include: backup includes files and procedures available if the original data is lost, damaged and can not be used . Recovery is the capability to rebuild the master files-f (backup and recovery): Transaction trail, the availability of manual or machine reader with a view to explore the status and content of each record transactions backward or forward, and between the output, processing, and inputs (sources) ; Error -Source Statistics, the accumulated information about the kinds of errors and origin of the error.

4. Control access to equipment and data (equipment and the data access control . Type of control include : secure custody , namely the provision of security to information assets are treated the same as the security against the cash sepeerti intangible assets and so on. Dual Access / Dual Control, two independent actions, in together or conditions required before treatment is allowed.

While controlling the application (application control) is designed to control accounting applications to ensure completeness (completeness) and accuracy (accuracy) of transaction processing, authorization accuracy and validity (validity) consisting of (Nash and Heagy, 1993: 485):

1. Control inputs (input controls), designed to protect or detect errors in the input stage in the processing of transactions. Type of input control consists of: approval, formatted input, endorsement, cancellation, exception input, password, transmittal document, batch serial numbers, control registers (batch control log), amount control total, document control total, line control total, hash total, control, visual verification, cheking sequences, overflow checks, format checks, completeness check, reasonablesness test, limit check, validity check, dating, expiration, key verification.

2. Control process (processing controls). Is designed to provide assurance that the processing has been conducted in accordance with the specification of the intended and that there are no missing or incorrect transaction is entered into the data processing. The type of process control include: Mechanization, the default option, batch balancing, run-to-run totals, balancing, matching, clearing accounts, Tickler files, redundant processing, processing summary, trailer labels, automated error correction.

3. Control output (output controls). Type of control outputs include the following items : reconciliation, suspense file, suspense account, periodic auditing, discrepancy reports, upstream resubmission .

Control transaction processing can also be grouped into preventive, the detection / search (detective) and correction (corrective) (Bodnar and Hopwood, 2010: 155). Control prevention (preventive control) is a measure to prevent mistakes and fraud before the error or fraud occurred. Detective control is the act of finding errors and fraud after the error / fraud occurred. While the correction control is action taken to correct the error (Bodnar and Hopwood, 2010: 155).

Based on the above , the dimensions and indicators of internal Controll used in this study include : (1) Common Control (Bodnar & Hoopwod, 2010: 149) and (2) Control of the application (Nash & Heagy , 1993: 485).

While Venkataraman (2005 : 158) states that fraud as intentional errors were classified into two types, first, fraudulent financial reporting, which includes ; manipulation, falsification or alteration of accounting records or supporting documents and financial statements prepared , not present or deliberately omit events, transactions, and vital information and financial statements, and intentionally apply the wrong accounting principles. And second, misappropriation of assets, which include cash receipts embezzlement, theft of assets, and the things that cause an entity to pay for goods or services not received.

Furthermore, Green and Calderon (1999) states that most of the parties involved in conducting fraud trying to express the information that is material in one, using the method of accounting in accordance with accounting standards generally acceptable (GAAP), does not give details of bookkeeping, and made a mistake in interpretation such as the age of the assets. Based on these findings, the auditor should pay attention to these things, so that he is able to ensure that the financial statements are free of fraud. In addition, income is the most frequently used account object, either by reporting too high (overstate), as well as by reporting too low (understate), conducted with the aim to mislead the users of the information (Beasley, et al., 2000). Association of Certified Fraud Examiner (ACFE) in (Wells, 2005: 41), explains that there are three main types of Occupation's Fraud namely: a) Corruption; b) Asset Misappropriation; and c) Financial Statement Fraud.

a) Corruption (Corruption).

The perpetrators of corruption use their influence by working together with others for the benefit of oneself or others, as opposed to a task that should (in general example: accept a gift, and conflict of interest). Fraud of this kind often can not be detected because the parties to work together to enjoy advantage (symbiosis mutualism). Included is a conflict of interest (conflict of interest), bribery (bribery), receipt of unauthorized / illegal (illegal gratuities), and extortion economically (economic extortion).

b) Misuse of assets (Asset misappropriation).

This type of fraud in the form of theft or misuse of the organization's assets. (Example in general: skimming revenue, inventory theft, and fraud payroll). This type of fraud is easy to detect because it is tangible or can be measured / calculated (defined value).

c) Fraud financial reporting (Financial statement fraud).

Financial statement fraud, including action taken by an officer or executive of a company to cover the actual financial condition, by way of engineering information in the financial statements, as reported increased revenue, and lower liability or expense. This resulted mislead users of financial statements, such as shareholders, investors, government institutions and customers.

SUPERVISION FRAUD

Fraud can occur in every organization, in every sector of economic activity, and the perpetrators can be found at every level of the organizational structure. Fraud has a broad sense, such as the definition given in Black's Law Dictionary (Sixth Edition, 1990), quoted by the American Institute of Certified Public Accountants / AICPA (2005), namely as: "An intentional perversion of truth for the purpose of inducing another in reliance upon it to part with some valuable thing belonging to him or to surrender a legal right. A false representation of a matter of fact from, whether by words or by conduct, by false or misleading Allegations, or by concealment of that the which should have been Disclosed, the which deceives and is intended to deceive another so that he shall act upon it to his legal injury ... A generic term, embracing all multifarious means the which human ingenuity can devise, and the which are resorted to by one individual to get advantage over another by false suggestions or by suppression of truth, and includes all surprise, trick, Cunning, dissembling, and any unfair way by the which another is cheated ".

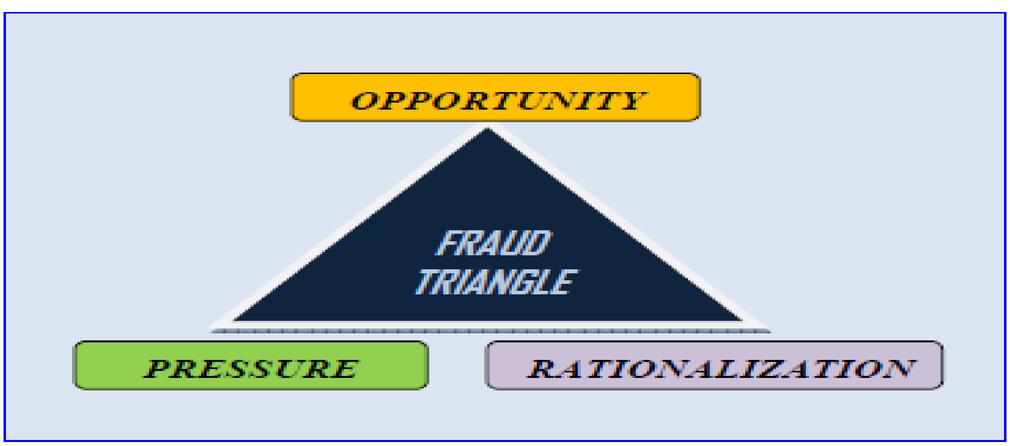
Definition Fraud is also given by the IIA (2006), that: "fraud encompasses an array of irregularities and illegal acts Characterized by intentional deception. It can be perpetrated for the benefit of or to the detriment of the organization and by persons outside as well as inside the organization ". Furthermore, The Association of Certified Fraud Examiners / ACFE (1999) also provide more specific occupational fraud. As for the definition of occupational fraud of the ACFE is: "the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the Employing an Organizations resources or assets."

Based on these definitions can be concluded that fraud is an act of unnatural intentional, committed by a person in every way to profit from other people in the wrong way or coercion is done with great finesse, cunning, and hidden which resulted others deceived, performed by people inside and outside the organization. Fraud is also an act of theft, which is done with full confidentiality, with abuse of office to transfer assets or resources that were stolen in assets or personal resources.

FACTOR INCENTIVES AND REASONS OF FRAUD

Common reference used to describe the factors driving someone doing fraud refers to the theory of Donald R. Cressey in 1940 include: opportunity, pressure and rationalization (Wells, 2005: 13 ; Tuanakotta 2007: 106 ; and Deddy S. Koesmana et al 2007). These three factors driving the fraud perpetrators are often called the fraud triangle, as shown in the following figure.

Figure 1. Fraud Triangle



Source : Wells (2005 : 13)

These three factors driving the occurrence of fraud can be explained as follows:

a) Opportunity. Fraud action depending on the position of the object of fraud perpetrators. The opportunity to commit fraud is always there at every position, there are small and have a chance anyone has a great opportunity. In general, the management of an organization / company has a greater opportunity to commit fraud as compared to its employees.

b) Pressure. In this case, the action more fraud depends on individual circumstances, concerning the financial stress and bad habits (such as gambling, drugs, excessive debt), as well as other harmful habits, such as excessive employment targets.

c) rationalization. Fraud occurs when someone builds a justification for fraud does. The offender will be looking for an excuse or justification that the fraud which does not act of fraud. Meanwhile, the cause of the occurrence of fraud in a company according to

Amrizal (2004) among others, as:

a) Internal Controls are weak or do not exist or do with loose or ineffective.

b) Employees hired without thinking about their honesty and integrity.

c) Employees governed, not well exploited, abused or placed under greater pressure to achieve financial goals and objectives.

d) commit fraud management model, inefficient or ineffective and do not obey the laws and regulations.

e) An employee who is believed to have personal problems to be solved, financial problems, family health problems, excessive lifestyle.

f) industry in which the company is a part has a history or tradition of the occurrence of fraud .

Furthermore, some of the causes of fraud are also described by Sukrisno Agoes (2005: 21), among others because of: a) the weakness of internal control; b) the existence of a conflict of interest (conflict of interest) from officials of the company; c) the company does not have a written policy regarding the "fair dealing"; d) the employee and company officials are dishonest; e) does not specifically sanction given to those who commit fraud; f) management are confident that the trust is not possible to cheat, but it often happens that the trust people who commit fraud; g) too weighed the specified target top management, so that the executive managers tend to report on the work better than the truth; h) bonuses based on performance will tempt managers to do window dressing implementing the division reports; and) the manager that his ambition is too big, so that the right and left elbow detriment of other managers.

PREVENTION OF FRAUD

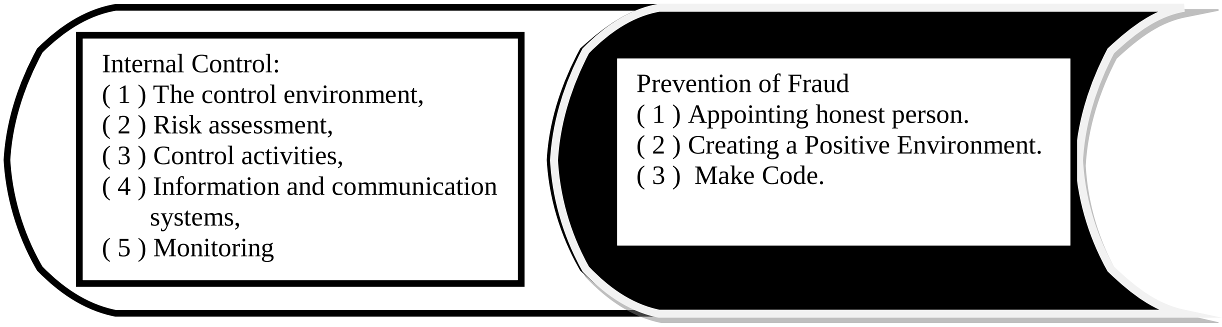
Management has primary responsibility to create a culture within a company's anti fraud. Graycar (2000), explains that the key to the prevention of fraud in each company associated with the development and improvement of an effective fraud control system. The foundations of such a system is a management philosophy that is sensitive to fraud risk. The main elements of the system include: recruitment of staff carefully, cultural integrity and the prevention of losses in the organization, and auditing regularly by internal audit.

In efforts to prevent fraud AICPA (2002a) published a SAS 99 entitled Consideration of Fraud in a Financial Statement Audit, an indication for auditors in detecting fraud. In the SAS 99 is also attached a guideline for the management of the company in efforts to reduce fraud in their company. Furthermore, AICPA (2002b) along with several professional organizations such as the Association of Certified Fraud Examiners (ACFE), Financial Executives International (FEI), the Information Systems Audit and Control Association (ISACA), The Institute of Internal Auditors (IIA) , the Institute of Management Accountants (IMA), and the Society for Human Resource management (SHRM) issued a guideline for management in order to prevent and detect farud, known as the antifraud Program management and Controls. These guidelines include identifying actions that need to be taken to prevent fraud in the organization, as follows: a) Culture of Honesty and Ethics ; b) antifraud Processes and Controls ; and c) Appropriate Oversight Process.

In line with several professional organizations above Albrecht and Albrecht (2004: 61-72) also suggests some fraud prevention programs in an organization that is as follows: a) Create a culture of honesty, openness, and program support personnel, including: (1) Hiring and always provide training on fraud awareness; (2) Creating a positive work environment; (3) Creating a code of conduct or code of ethics; and (4) Provide assistance to the personnel program. And b) Remove. Doing opportunity fraud, include, (1) Creating a good internal Control; (2) Reduce the potential for collusion; (3) Provide information to vendors regarding company policy; (4) To supervise personnel; (5) create a special line of reporting fraud; (6) creates expectations of law; and (7) Proactive fraud auditing. Likewise, the internal Control function, have an important role in risk management, this can be seen from the new definition of internal auditing issued by IIA in June 1999, which clearly states that the internal audit helps the organization to achieve its objectives, through a systematic approach and regularly to evaluate and improve the effectiveness of control management (IIA, 2004).

Likewise, the research Gusnardi (2007), concluded that the role of internal Control affect the implementation of fraud prevention, although the influence of the role of the internal Control on the prevention of fraud is still weak. Further studies Troy et *al. ,* (2009) concluded that internal Control is essential for the prevention of accounting fraud . So they suggest for the internal auditor and the external auditor is not only done some testing of internal Control in their work, but also to be able to investigate ways of internal Control in order to avoid fraud.

Figure 2. Internal Control and Fraud Prevention



Conclusion

Control functions, have an important role in the prevention of fraud, it can be seen from the new definition of internal auditing. In order to make prevention and detection Fraud, known as the antifraud Program Management and Controls. These guidelines include identifying action by organizations in fraud prevention, fraud prevention Key to any company associated with the development and improvement of an effective fraud control system. The foundations of such a system is a management philosophy that is sensitive to fraud risk. The main elements of the system include: recruitment of staff carefully, cultural integrity and the prevention of losses in the organization, and auditing regularly against fraudulent transactions by internal audit.

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