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Definitions of Internal Controls & Fraud Prevention, Anti-Fraud Program

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Abstract

The study's main goal was to determine how internal controls affected the fight against fraud. Develop an initiative to assist businesses in reducing fraud while pursuing precise definitions of internal controls and fraud prevention. The study came to the conclusion that one of the most crucial elements of fraud prevention is the application of internal controls, and that following organizational rules considerably lowers the likelihood of fraud occurring and helps identify it when it does.

* Introduction

Internal control allows businesses to meet their operational and financial objectives. Internal control is defined as a procedure carried out by the company's board of directors, management, and employees to provide reasonable confidence regarding the company's operational efficiency and efficiency, financial reporting reliability, and compliance with laws and regulations. Internal controls are necessary (Asat et al., 2019).

Internal control techniques can be used to prevent fraud from occurring. The effectiveness of the internal control system that management designed with the goal of boosting the accuracy of financial reporting, operational efficiency and

effectiveness, and compliance with laws and regulations. Internal controls that are weak will promote fraud to occur. (Puryati & Febriani, 2020).

The system of internal control Implementation has an impact on fraud prevention; The regional internal control system implementation influences good governance; Good governance can mediate as a part of the relationship between the regional internal control systems implementation and fraud prevention. This is due to the fact that control in the internal control system incorporates both hard and soft controls to avoid fraud. Soft controls, such as the adoption of an ethical code and the promotion of ethical ideals, can help to avoid fraud (Taufik, 2019).

* Conceptual Framework

Fraud is a problem that affects businesses of all types and sizes all around the world (ACFE, 2018).

Internal control is a system that is designed to regulate an activity and serves as a guideline for an organization's operational actions. Internal control systems are commonly used by organizations to monitor and manage operational activities in order to prevent the misappropriation of resources. The policies and practices that ensure physical control of assets, proper authorizations, segregation of roles, independent checks, and proper documentation are known as good control procedures (Yuniarti & Ariandi,2017).

Fraud prevention and detection is a procedure of delivering sound ethical culture and effective internal control systems which may reduce the opportunity for fraud to take place in the organizations (Sule et al., 2019).

* Study Objective

The study aims to introduce from various sources about internal control and the steps that organizations take when building an anti-fraud program, as the researcher mentions his point of view on the issue of internal control and its importance.

* Definitions of Internal Controls & Fraud Prevention

1- Internal control is a process composed, performed, and controlled by those in charge of governance, management, and other employees to provide sufficient confidence in the achievement of an entity's objectives related to financial statement reliability, operational efficiency and effectiveness, and legal compliance. **Fraud prevention** include establishing and executing risk

management (particularly, fraud risk management), internal control, and honest corporate governance to eliminate chances or opportunities to commit fraud (Handoyo & Bayunitri, 2021).

2- Internal control is defined as the entire system of financial and other controls established by management in order to conduct the business of an enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard assets, and ensure the completeness and accuracy of records to the greatest extent possible. It refers to the steps taken by an organization to protect its resources from waste, fraud, and inefficiency, as well as to ensure the correctness and reliability of financial and operating data, ensure compliance with organization regulations, and assess the degree of performance in each division (Agyemang, 2016). The activities involved in establishing policies, systems, and procedures that support the knowledge that necessary actions have been taken by the company's board of commissionaires, management, and other personnel to provide adequate trust in the process of achieving its goals are commonly referred to as **fraud prevention**.

Operational efficiency and effectiveness, financial report reliability, and adherence to applicable rules and regulations are among the goals (Hamdani & Albar, 2016).

3- Internal control is the whole system of control, financial or otherwise, established by the management in order to carry on the business of an enterprise in an orderly an efficient manner, ensuring adherence to management policies, safeguarding the assets and secure as far as possible the completeness and accuracy of records (Elaiho et al., 2017). **Fraud prevention** refers to proactive measures initiated by an organization to avoid or stop the occurrence of fraud. Preventing fraud provides an environment where there is less opportunity for fraud to occur, considered as the most cost-effective way to deal with financial loss through fraud is prevention (Basiruddin et al., 2018).

My Definition of Internal Controls and Fraud Prevention: They are the procedures and rules taken and determined by the company that ensure business continuity with high efficiency and effectiveness, protect the organization's assets and ensure the reliability of financial records and

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protect them from fraud and potential risks and threats.

* Literature Review

* Design anti-fraud program

1- Al Furqan & Tobing study (2017)

According to Al Furqan & Tobing (2017), The corporation can take to reduce the risk of fraud is to take preventative measures.

* Grow Fraud Risk Awareness

Providing direction to all employees for everything that is allowed or not allowed, the impact if fraud occurs and the actions they should take if the fraud occurs, potential fraud that may occur and how prevention, as well as the sanctions applied when a fraud is found.

* Code of Conduct

Implementing a code of conduct. This code must also be accessible and disseminated on a regular basis so that all employees are aware of what is and is not permitted within the firm. Conflicts of interest, corruption, and other ethical norms may be prohibited by a code of conduct.

* Tone of The Top

The commitment and spirit of management to promote the culture and concern for antifraud on all levels of the firm is critical to the successful execution of an anti-fraud plan.

* Do a Background Check

One way to prevent fraud incidents early is to hire people with integrity, either as employees in the Head Office or as project managers.

* Build Effective Internal Control

With the effective internal control, the potential for fraud can be minimized.

* Make Anti-fraud Procedures

An entity must have a procedure that describes fraud definition, the mechanism of publication and communication of these policies, implementation of control forms for anti-fraud programs, training mechanism, procedures or steps in conducting proactive audits of fraud.

1- Astriana & Adhariani Study (2019)

The four steps of an anti-fraud plan are: awareness, prevention, detection, and a reaction that includes an investigation.

A- Fraud Awareness

Fraud awareness is a component of fraud prevention that aims to comprehend the nature and causes of deception. Situational and personal factors can also be behavioral red flags.

B- Fraud Prevention

Fraud cannot be eliminated, but it can be reduced to a manageable level

through a variety of preventative measures.

1- Increasing effort, such as background checks during the hiring process for new employees.

2- Increasing risk by implementing a whistleblower mechanism.

3- Reducing the rewards by punishing and sanctioning the perpetrators.

4- Using an employee counseling program to reduce provocation.

5- Eliminating excuses by establishing explicit guidelines.

6- Evaluate prior incidents when developing an ethics program.

C- Fraud Detection

The goal of fraud detection is to find out if there is any fraud in a company. The following methods can be used to detect fraud:-

1- Communication about fraud and misappropriation. A whistleblowing system exists to aid employees in reporting fraud.

2- Actions in the areas of auditing and supervision.

3- Fraud is sometimes discovered by accident, as a result of accusations from other employees or third parties.

D- Fraud Response

Organizations will execute a recovery to recoup losses caused by fraud. The following are the steps in a fraud investigation:-

1- The investigation, which is a procedure for gathering information on fraud after it has occurred. Auditing can be done regardless of whether or not fraud is occurring. However, the investigation is only carried out when there is a case of fraud.

2- Corrective action, Advanced investigation, prosecution of the criminals, and insurance evaluation of the current internal control system are examples of corrective activities that can be taken to reduce the negative impact of fraud.

2- Dzomira Study (2015)

Dzomira, S. (2015) say that There are four main components which forms an effective anti-fraud strategy: Prevention, Detection.

A- PREVENTION

* DEVELOPING A SOUND ETHICAL CULTURE

The mentality within an organization lays a good basis for both a high and low risk of fraud environment. Minor unethical practices such as petty cash theft and expense frauds would be overlooked, implying that larger frauds perpetrated at higher management levels would be treated similarly. The realization by

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suppliers, customers, workers, and the general public that the organization adheres to high ethical standards and has taken time to analyze its position on ethical issues is the foundation of a trustworthy organization.

* SOUND INTERNAL CONTROL SYSTEM

It could be considered that a strong internal control system is by a wide margin a most valuable fraud prevention technique. (Internal control responsibility, Internal control system and Pre-employment screening).

B- DETECTION

The majority of frauds are found by chance or by information acquired, either through a tip or a whistleblowing hotline. Everyone in the organization is responsible for detecting and reporting fraud and anomalies, and it is equally crucial that the organization has adequate reporting systems.

* How do we build an anti-fraud program from my point of view?

1- Risk Assessment

I believe this is the most neglected area of internal control. It is not necessarily intuitive. It is such a personal piece of the process; The organization must evaluate the specific business dealings and interactions to determine where it is most at risk for fraud.

2- Code of Conduct and Ethics

A code of conduct and ethics that is understandable and clear to all employees, culturally adapted to the community, reviewed, tested, and approved periodically.

3- Strong Internal Control System

A strong system of internal control is another valuable fraud prevention device since a preventative control can reduce opportunity and remove temptation from potential offenders.

4- Training and Education and awareness

Every employee at every level of the organization should be educated on corporate values and expected behaviors (Code of Conduct), procedures for reporting observed misconduct. The organization should educate employees about the methods of fraud schemes.

5- Monitoring

Don't create a brilliant program only. Allowing your program to develop and change with your firm ensures its effectiveness. Check to check if your employees are adhering to your policies.

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6- Responding to Fraud

It is a formal procedure for dealing with fraud that has been found or suspected.

* Conclusion

Poor internal controls lead to fraud. The implementation of good internal controls is expected to prevent fraud, so the organization can achieve its purposes. Moreover, internal or external possible risks in the organization can be minimized through adequate supervisions (Hamdani & Albar, 2016).

Internal control is a process that those in charge of governance, management, and other personnel design and implement to provide reasonable assurance about the achievement of the entity's objectives in terms of financial reporting reliability, operational effectiveness and efficiency, and compliance with applicable laws and regulations. As a result, internal control is developed and executed to handle recognized business risks that jeopardize the attainment of any of these goals (Haat et al., 2012).

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