Fraud Prevention Through Internal Control and Moral Sensitivity
(A Case Study at State-Owned Banks)

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ABSTRACT: Fraudulent behavior includes any unethical or harmful behavior that affects people, organizations, and environment. The purpose of this study is to examine how internal control, as well as sensitivity and morality can prevent fraud from occurring. There are four state-owned banks participating in this study. To collect the data, questionnaires were distributed to and completed by 100 workers of state-owned banks. Additionally, this study implemented multiple linear regression analysis as its methodology. The findings of this study demonstrate that internal control has a positive and significant impact on preventing fraud with a t count > t table, specifically 4.239 > 1.66023 with a significance value of 0.000, less than 0.05, and moral sensitivity has a positive and significant impact on preventing fraud with a t count > t table, specifically 1.998 > 1.66023 with a significance value of 0.048, less than 0.05.

Keywords: Fraud Prevention, Internal Control and Moral Sensitivity

INTRODUCTION

The primary function of a bank is to receive deposits from its customers and disperse the funds as credits to public. In other words, Banks are intermediaries between depositors and borrowers. A crucial matter that is likely to arise in a company, particularly in a banking industry, is a fraud in financial reports. Since the amount of funds collected from the public is huge, this can be a loophole for individuals to commit fraudulent for the sake of obtaining not only personal but also group benefits. On the other hands, acts of fraud can also be detrimental to other parties involved in the process (Haryadi, 2021).

On September 15, 2022, Antara News reported a case of embezzlement amounting to Rp. 1.9 billion from customer funds committed by a former employee of Sultra Bank. The Financial Services Authority (OJK) has conducted an investigation and found that the perpetrators embezzled funds from 107 accounts, including personal accounts, school accounts, Community
Empowerment Institutions (LPM), and Operational Cooperation (KSO) the customers registered at the Southeast Sulawesi Regional Development Bank.

A research conducted by Person (1995) as cited in (Annafi & Yudowati, 2021) stated that companies with low level of profitability tend to record high income but low expenses in order to increase their profitability. The following are the data on the profitability of four State-Owned Enterprise (BUMN) banks as measured using Return on Assets (ROA).

Table 1. Bank Name

<table>
<thead>
<tr>
<th>No</th>
<th>Bank name</th>
<th>Year 2019</th>
<th>Year 2020</th>
<th>Year 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>PT Bank Negara Indonesia (Persero) TBK</td>
<td>1.86</td>
<td>0.47</td>
<td>0.87</td>
</tr>
<tr>
<td>2.</td>
<td>PT Bank Rakyat Indonesia (Persero) TBK</td>
<td>2.43</td>
<td>0.97</td>
<td>1.19</td>
</tr>
<tr>
<td>3.</td>
<td>PT State Savings Bank (Persero) TBK</td>
<td>0.07</td>
<td>0.31</td>
<td>0.41</td>
</tr>
<tr>
<td>4.</td>
<td>PT Bank Mandiri (Persero) TBK</td>
<td>2.08</td>
<td>1.00</td>
<td>0.17</td>
</tr>
</tbody>
</table>

Source: Annual Report, reprocessed in 2023

From the data provided, it appears that the profitability of the four state-owned banks had fluctuated from 2017 to 2022. Nevertheless, profits generation tends to decrease. It indicates the unsuccessful operation and management of the banks as profits are shrinking. Another research conducted by (Arifin & Agustami, 2016) claimed that low profitability might trigger companies to commit fraud in their financial statements. To prevent the unlawful acts from occurring, it is important that companies implement a strong compliance with established operational standards. (Badara & Saidin, 2014; Rustendi, 2018; Sutaryo et al., 2022) further stated that to achieve this, internal control needs to be implemented with the aim of assisting management in carrying out activities according to the established and well-planned procedures.

Organizations should set up more effective internal controls to realize a strong deterrence against fraud. The protection of assets, the assurance of the accurate managerial and financial reporting, the improvement of regulatory compliance, and the decrease in the risk of loss, irregularities, and violations are all key functions served by effective internal controls. Several studies (Kuntadi et al., 2023) show that internal control has a positive effect on fraud prevention. Fraud prevention is an important measure because the costs are lower than treating the incurred fraud. In fact, cheating can be considered a disease, thus prevention is better than cure. Inabilities to handle fraud practices to recur, resulted in greater losses that certain parties take advantage of. Hence, the successful and effective prevention of fraud help minimize more losses.

The goal of fraud prevention is to lessen or eliminate the causes of fraud, so internal audit plays a crucial function in ensuring the efficacy of internal control in a business. Internal audits have the capacity to identify 15% of fraud instances and prevent 75% of fraud cases, as reported by the 2018’s Report from The Nations Global Study on Fraud and Abuses. Thus, internal audit plays a critical role in deterring and combating fraud.

Internal audit is an independent function within the company, aimed at conducting inspections. The presence of internal audit is designed to improve company performance and it plays an
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important role, not only in improving internal control processes and but also in ensuring the smooth operation of the organization.

It is obvious that moral sensitivity helps prevent individuals from fraudulent acts and behaviors (Armelia & Wahyuni, 2020). Moreover, the management needs to design programs aimed at improving personal ethics for the individuals within the organizations comply with the established rules and the right actions. In other words, fraud prevention efforts can automatically be strengthened when there is a change in individual attitudes and behavior as emphasized by (Kartadjiemen & Indriyati, 2021) who also encourage workers to perform better than just fulfilling administrative requirements.

Furthermore, the effects of internal control, whistle blowing mechanisms, and organizational commitment to fraud prevention with individual morality as a moderating variable were studied by (Anggoe & Reskino, 2023) who added internal control factors and morality sensitivity as contributing factors to prevent fraud. Additionally, Kanada's investigation on the impact of internal control system implementation, human resource competency, and individual morality on fraud prevention resulted in a number of encouraging findings (Kunradi et al., 2023). The researcher is triggered to investigate how internal control and sensitivity affect fraud prevention.

LITERATURE REVIEWS

1. Theory of The New Fraud Triangle Model
In 1950, Donald Cressey, a criminologist, conducted the first research on fraud with the aim of understanding that there are reasons behind a person's actions (Cressey, 1950). He discovered that there are three key motivators for fraud: pressure, opportunity, and justification. The Fraud Diamond Theory, created by (Wolfe & Hermanson, 2004), is one of numerous novel hypotheses on fraud, according to (Mansor & Abdullahi, 2015; Rahmawati & Kassim, 2020). This theory is an extension of Cressey's fraud theory by adding the capability factor as one of the causes of individuals' committing fraud. A form of such violations is committing fraud in financial management. In addition, (Wahyuni & Budiwirjaksono, 2017) explained that the triangle theory was put forward by Cressy who categorizes three fraud conditions, namely pressure, rationalization, and opportunity.

Further theory was developed by ( Kassem & Higson, 2012) whose research aimed to expand the knowledge of external auditors about fraud. The Cressy triangle model is a significant one as it is proposed as a new triangle model on fraud prevention external auditors should consider when assessing fraud risks (Beri et al., 2013; Kumar et al., 2018; Stark et al., 2022). He discovered that there are three key motivators for fraud: pressure, opportunity, and justification. The Fraud Diamond Theory, created by (Wolfe & Hermanson, 2004), is one of numerous novel hypotheses on fraud, according to (Mansor & Abdullahi, 2015).
The occurrence of fraud is influenced by three factors that form a triangle of conditions. This is explained in research by (Rahmatika, 2020) and (Rahmawati & Kassim, 2020), and confirmed by the implications of the fraud triangle theory in Statements on Auditing Standard (SAS) No 99, Consideration of Fraud in Financial Statement Audit and Arens et al in (Sarwoyo & Agoes, 2014):

a. Pressure
   Pressure is a motivation that drives someone to commit fraud, be it in need of money, the desire for a certain lifestyle, or other related factors.

b. Opportunity
   Opportunity occurs when a person is in the right time and conditions to allow him commit fraud. Factors such as excessive responsibilities, weak internal control mechanisms, insufficient training and supervision, and inadequate standards can create opportunities for perpetrators to practice acts of fraud.

c. Rationalization
   Rationalization is a mental process used by perpetrators of fraud to justify their actions. They think that what they are doing is lawful, even though it is seen as immoral, and they are convinced the money they stole will be repaid or returned.

The implications of the fraud triangle theory in this study are used to explain the variables that trigger fraud. By properly understanding these aspects, institutions can implement effective and preventive measures to prevent fraud from occurring and to achieve their goals.

2. Fraud Prevention

Fraud can be defined as an act involving irregularities and violations of the law carried out intentionally to achieve certain goals (Fiorino et al., 2015; Hardinto et al., 2020; Lai, 2016; Nguyen et al., 2020). Individuals who have integrity will resist bribery, especially if led by leaders or officials with integrity who strongly refuse bribes. In this context (Salsabila & Kuntadi, 2022) (Salsabila & Kuntadi, 2022) also states that acts of fraud are under five conditions, namely:

1) A misrepresentation of information,
2) Facts with material impacts,
3) An intention to commit fraud,
4) Justifiable dependency, and
5) The occurrence of damage or loss as a result of fraud.
3. Internal control

Internal control plays a very important role in achieving company goals effectively and efficiently. The bigger the company, the more important the role of internal control is in maintaining its success. According to (Maruta, 2016), internal control is a series of policies and procedures designed to protect company assets from misuse, to ensure the availability of accurate and adequate accounting information, and to ensure compliance with laws and management policies (Farochi & Nugroho, 2022; Irawati et al., 2019; Mahrani & Soewarno, 2018; Widuri et al., 2019).

COSO (The Committee of Sponsoring Organizations of the Treadway Commission) describes internal control as a process that permeates the operational activities of the organization and is an integral part of basic management.

4. Moral Sensitivity

Morale is a person's mental and emotional attitude toward performing duties and demonstrating devotion to a social group. Moral sensitivity is the understanding of how one's actions affect other people (Armelia & Wahyuni, 2020). This includes awareness of the actions and how those actions may affect the parties involved. Moral sensitivity involves the abilities to imagine scenarios correctly, to understand the consequences of a series of events, to show empathy, and to take a role.

The Four Component Rest Model was first introduced as a result of research in moral psychology. This model is then developed as the hypothetical components that form the basis of every moral action. There are four basic psychological processes that individuals engage in to behave morally: moral sensitivity, moral judgment, moral motivation, and moral character.

The theory of cognitive moral development introduced by Kohlberg in 2006 illustrates that moral judgments and reasons can be assessed through three levels consisting of: pre-conventional level, conventional level, and post-conventional level.
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Hypothesis

The Effect of Internal Control on Fraud Prevention

Fraud prevention is generally carried out through activities that involve establishing policies, systems, and procedures to help ensure that the necessary actions have been taken by the board of commissioners, management, and other personnel in the company or organization to achieve organizational goals, such as operational effectiveness and efficiency, report reliability, financial statements, and compliance with applicable laws and regulations.

The Control System Framework developed by Simons in 1995, as cited in (Al-Fithrie, 2015), emphasizes the importance of formal and information systems in maintaining or changing activity patterns. The framework consists of a belief system, a boundary system, a diagnostic control system, and an interactive control system, working together for the sake of the organization with the aim of achieving goals and innovation (Savalena, 2020). Another study by (Nisak & Kurniawan, 2013) revealed that internal control plays a crucial role in fraud prevention. This demonstrates that an improvement in the internal control system is a sign of successful fraud prevention. It is concluded that the internal control system and the prevention of fraud have a beneficial relationship. Thus, the hypothesis is formulated as follows:

H1: The Internal Control System Has a Positive and Significant Influence on Fraud Prevention.

The Influence of Moral Sensitivity on Fraud Prevention

Morality refers to personal or cultural values, ethical codes, or social mores that distinguish the right from the wrong deeds. In the context of the apparatus, morality plays an important role as a commitment to carry out the tasks of government and development administration in accordance with the constitution which supports the interests of the people, the transparency, the accountability, and the freedom from corruption (Aranta, 2013).

Morality is the ability to discriminate between good and wrong based on a person’s cultural values, ethical standards, or societal morals. As a dedication to help manage government and development in line with the constitution, morality is crucial to the state apparatuses in order to prioritize the interests of the people, and to be open, responsible, and free themselves from corruption (Aranta, 2013). Below is the next hypothesis:

H2: Moral Sensitivity Has a Positive and Significant Influence on Fraud Prevention

METHODS

This study aims to analyze the influence of internal control and moral sensibility on fraud prevention. This is a quantitative research with a descriptive approach, conducted on state-owned bank employees, including Bank BNI, BRI, BTN, and Mandiri. The population in this study comprised employees of the four state-owned banks.
As the number of population cannot be determined with certainty, the number of samples refer to a recommendation by Aaker (1995) which states that for an infinite population, the ideal number of samples with a 95% confidence level and a 10% sampling error rate must reach at least 100 respondents. Therefore, to support this study, 100 respondents were used to measure fraud prevention with internal control and moral sensitivity as independent variables (Nuryadi, 2023). The secondary data were obtained through questionnaires sent to and completed by 100 employees. As for the statistical tools, SPSS 20 is chosen, and the analytical tests include descriptive statistics, validity tests, reliability tests, normality tests, heteroscedasticity tests, and multicollinearity tests to answer the hypotheses that have been made. Additionally, the t-test, f-test, and r-test are used for hypothesis testing.

The data analysis technique using multiple regression analysis is selected to measure the effects of multiple independent variables on the dependent variable with the formulation as follows:

\[ Y = \alpha + \beta PI + \beta MS + e \]

Where:
\( Y = \) Fraud Prevention  
\( \alpha = \) Constant  
\( \beta = \) Regression Coefficient  
\( PI = \) Internal Control  
\( MS = \) Moral Sensitivity  
\( e = \) Error rate

The variables examined in this study consist of independent variables: internal control and morality sensitivity, the dependent variable: fraud prevention. The measurements of these variables are explained below:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Indicator</th>
<th>Scale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Control</td>
<td>1. Control environment</td>
<td>Ordinal Scale</td>
</tr>
<tr>
<td>(X1)</td>
<td>2. Risk assessment</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. Control activities</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4. Information and communication</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5. Monitoring activity</td>
<td></td>
</tr>
<tr>
<td>COSO (2017)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Moral Sensitivity</td>
<td>1. Modeling</td>
<td>Ordinal Scale</td>
</tr>
<tr>
<td>(X2)</td>
<td>2. Situational</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. Environment</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4. Self</td>
<td></td>
</tr>
<tr>
<td>Santrock (2003)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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<table>
<thead>
<tr>
<th>Fraud Prevention (Y)</th>
<th>Ordinal Scale</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Reducing situational pressures that give rise to fraud</td>
<td></td>
</tr>
<tr>
<td>2. Reducing the opportunity to commit fraud</td>
<td></td>
</tr>
<tr>
<td>3. Reducing the justification for committing fraud by strengthening the integrity of the auditor</td>
<td></td>
</tr>
</tbody>
</table>

**RESULTS AND DISCUSSIONS**

**Descriptive Results**

This research was conducted by distributing questionnaires to 100 respondents from state-owned bank employees. Based on the hypothesis previously formulated, further discussion about the research variables and how they affect other variables is carried out.

**1. Descriptive Statistics**

<table>
<thead>
<tr>
<th>Descriptive Statistics</th>
<th>Means</th>
<th>std. Deviation</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prevention_Fraud</td>
<td>11.6100</td>
<td>2.02955</td>
<td>100</td>
</tr>
<tr>
<td>Internal control</td>
<td>20.9100</td>
<td>3.16577</td>
<td>100</td>
</tr>
<tr>
<td>Moral_Sensitivity</td>
<td>15.2700</td>
<td>2.86693</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: SPSS Output 20 (2023)

From the data table above, it can be concluded that the highest mean value for the internal control variant is 20.9100, while the lowest is for fraud prevention variable with a value of 11.6100. The highest standard deviation lies in internal control at 3.16577 whereas the lowest is on fraud prevention variable, with a value of 2.02955.

**2. Validity test**

Validity test is a test to measure whether or not a questionnaire is valid as a research instrument. Testing was carried out with the Pearson correlation test using SPSS program. The decision criteria is declared valid if the significance value 0.00 or below 0.05. Therefore, it can be concluded that all question items on the questionnaire were considered valid.
3. **Reliability Test**

Reliability test is a test used to see if the variable has a high reliability value. Variables with high reliability means that Cronbach's alpha ≥0.70 and the composite reliability values ≥0.70.

<table>
<thead>
<tr>
<th>Table 4. Reliability Test</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Reliability Statistics</strong></td>
</tr>
<tr>
<td>Cronbach's Alpha</td>
</tr>
<tr>
<td>.734</td>
</tr>
</tbody>
</table>

Source: SPSS Output 20 (2023)

From the test results, it can be seen that the Cronbach's alpha value is above 0.70, which is 0.734. Thus, each variable shows high consistency and stability of the instrument and can be used to measure variables with good reliability.

4. **Classic Assumption Test**

   a. **Normality Test**

   Based on the picture above, it can be identified that the regression model has fulfilled the assumptions stated earlier. The regression model in this study is considered normal, since the points approach the plot line.

   b. **Multicollinearity Test**

   The multicollinearity test is used to measure whether or not the regression model indicates a strong correlation between the independent variables. The method used in assessing the multicollinearity test is by looking at the variance inflation factor or the VIF value which does not exceed 10.
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<table>
<thead>
<tr>
<th>Model</th>
<th>Non-standardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>3,787</td>
<td>1.202</td>
<td>3,150</td>
<td>002</td>
<td></td>
</tr>
<tr>
<td>Internal</td>
<td>.271</td>
<td>.064</td>
<td>.423</td>
<td>4,239</td>
<td>.000</td>
</tr>
<tr>
<td>control</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Moral_Sensit</td>
<td>.141</td>
<td>.071</td>
<td>.199</td>
<td>1998</td>
<td>048</td>
</tr>
<tr>
<td>ivity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Fraud Prevention

Based on the independent variables comprising the value of internal control and moral sensitivity, the VIF value is within the tolerance limit, which does not exceed 10, so that multicollinearity does not occur in the independent variables of this study.

c. Heteroscedasticity Test

To ascertain if the regression model has heteroscedasticity, the heteroscedasticity test is utilized. Heteroscedasticity must be absent in order for a regression model to be effective. And one of the methods used to see whether or not there is heteroscedasticity is by looking at the graph plots. If the plot shows dots that spread out, it means that there is no heteroscedasticity in the variable, and if it forms a certain pattern, this indicates that the regression model is influenced by heteroscedasticity.

Figure 4. Heteroscedasticity Test

From figure 4, it can be concluded that in this study there was no heteroscedasticity, since the dots spread randomly and a clear or regular pattern was not formed.
5. Hypothesis testing

Table 6. Regression of Coefficient

<table>
<thead>
<tr>
<th>Model</th>
<th>Non-standardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>std. Error</td>
<td>Betas</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>3.787</td>
<td>1.202</td>
<td>3.150</td>
<td>0.002</td>
</tr>
<tr>
<td>1</td>
<td>Internal control 0.271</td>
<td>0.064</td>
<td>0.423</td>
<td>4.239</td>
</tr>
<tr>
<td></td>
<td>Moral Sensitivity 0.141</td>
<td>0.071</td>
<td>0.199</td>
<td>1.998</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Fraud Prevention

Source: SPSS Output 20 (2023)

Based on the results, a constant value of 3.787 is obtained, an internal control value of 0.271 and a moral sensitivity value of 0.141. So that the multiple linear regression equation can be written as follows:

\[ Y = 3.787 + 0.271 (X_1) + 0.141 (X_2) \]

From this equation, all independent variables, namely internal control and moral sensitivity, have a positive coefficient so that it can be interpreted that the increased internal control and moral sensitivity will affect fraud prevention. In other words, all variables have an influence on variable Y.

a. F test

Table 7. F test

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>MeanSquare</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>125,728</td>
<td>2</td>
<td>62,864</td>
<td>21,619</td>
<td>.000b</td>
</tr>
<tr>
<td>Residual</td>
<td>282,062</td>
<td>97</td>
<td>2,908</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>407,790</td>
<td>99</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Fraud Prevention

b. Predictors: (Constant), Moral_Sensitivity, Internal_Control

Source: SPSS Output 20 (2023)

The F-test value here shows the number of 21.619 with a significance value of 0.000 < \( \alpha \) 0.05, which indicates that both internal control and moral sensitivity have a significant effect on fraud prevention at the \( \alpha \) level of 0.05.
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b. T-test

Table 8. T-test

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>Model</th>
<th>Non-standardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>B</td>
<td>std. Error</td>
<td>Betas</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>1</td>
<td>3,787</td>
<td>1.202</td>
<td>3,150</td>
<td>.002</td>
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<td>.141</td>
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<td>1998</td>
<td>.048</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Fraud Prevention

Source: SPSS Output 20 (2023)

1. The Effect of Internal Control on Fraud Prevention

Looking at the t-value, the influence of internal control variables on fraud prevention has a t-value of 4.239 and a significance level of 0.000, where the t-value is smaller, at 0.05, this yields significant results. It indicates that internal control has a big impact on preventing fraud.

2. The Effect of Moral Sensitivity on Fraud Prevention

The t-value of the effect on the variable of moral sensitivity on fraud prevention with a t value of (1.998) and a significance threshold of 0.048 is smaller, with 0.05, meaning that a significant result is yielded. This implies that to some extent, morality and sensibility have a role in fraud prevention.

c. R-test

Table 9. R-test

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.555 a</td>
<td>.308</td>
<td>.294</td>
<td>1.70524</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Moral_Sensitivity, Internal_Control

b. Dependent Variable: Fraud Prevention

Source: SPSS 20 (2023)

It may be deduced from the table of R-Square values above that the coefficient of determination is equal to 0.294, or 29.4%. This suggests that the presence of internal controls and personal morals can be used to explain fraud prevention, whereas the remaining 70.6 impacted by fraud prevention factors is not covered in this study.
The Effects of Internal Control on Fraud Prevention

Based on the findings of the first hypothesis significance of t-test, H1 is accepted, in which the internal control variable had a value of 0.00 > 0.05 and a t count > t table had a value of 4.329 > 1.66023. Another conclusion that effective internal control deployment will boost fraud prevention is drawn. This concurs with the findings by Farochi and Nugroho (2022) which show favorable outcomes. The internal control procedure is put in place to give a sufficient assurance that the agency or business' objectives, including fraud prevention will be met. Additionally, the findings in this study are consistent with the Fraud Triangle Theory where separating chores assigned to each person in accordance with their roles and responsibilities prevent fraud from occurring.

The Effect of Moral Sensitivity on Fraud Prevention

The first hypothesis' significance is determined by the t-test findings, which show that the moral sensitivity variable has a value of 0.048 > 0.05 and a t count > t table with a value of 1.998 > 1.66023. H2 is approved in this study since it can be inferred that the moral-sensitivity variable has a positive and substantial impact on fraud prevention. The higher a person's level of moral growth, the clearer morality evident is, and this makes Kholbarg's theory of moral development crucial. Employees with high moral standards can avoid fraud practices in the Bank since morality is a quality or a set of general rules and values encompassing not only good and but also evil deeds. This is in line with a research conducted by Wonar et al., 2018.

CONCLUSIONS

The goal of this study is to investigate the impacts of internal control and moral sensitivity on fraud prevention. Thus, the following outcomes are highlighted:

1. Based on the analysis findings, it can be concluded that the internal control plays a positive and important role in preventing fraud. As a result, the first hypothesis (H1) put forward in this study is accepted. This suggests that the stronger an internal control system in an institution, the more possible fraud is prevented.

2. The results of the analysis indicate that moral sensitivity has a positive and significant effect on fraud prevention. This means that the second hypothesis (H2) proposed in this study is accepted. In other words, it can be concluded that the higher the moral sensitivity, the fewer fraud practices occur.

From the above conclusions, there are suggestions given to anticipate problems regarding internal control and moral sensitivity and to further improve the company and employees' integrity. They are as follows:

1. Companies need to further maximize internal control, especially in recruiting only reliable and trusted prospective employees.

2. All employees are reminded on the risks taken for getting involved in fraud practices.

3. Not only internal but also external audits are required to make fraud prevention more effective.
3. Companies should boost moral sensitivity among employees by providing training on self-development regarding moral sensitivity.

REFERENCES


Fraud Prevention Through Internal Control and Moral Sensitivity (Case Study at State-Owned Banks)

Ricky, Insani, Mahdi, Riani, and Bakri


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