

Evaluation of Internal Audit in Reducing SOP Violations and Fraud at PT XYZ

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ABSTRACT

From 2016 to 2017, there were cases of procedural violations and embezzlement for the tax payments at PT XYZ. This study aims to evaluate the internal audit and internal control in PT XYZ' tax payment cycle by using 5 (five) important factors, namely Segregation of Duties, Policies and Procedures, Documentation, Oversight and Review and User Access and Rights, in establishing and proving the effectiveness of the firm's internal control. This research is a case study with a qualitative approach conducted at PT XYZ with the unit of analysis at the tax division. The data collection method was done through a semi-structured interview, checklist, and documentation, with descriptive qualitative analysis being the data analysis technique applied. The results of this study indicated that the internal control system at PT XYZ has a significant weakness in the cash disbursement process on tax payments which opens up opportunities of manipulation (fraud) by certain employees of the tax division. Additionally, the tax division is outside the scope of internal audit work which shows inadequacy and ineffectiveness from the design of the internal control system. PT XYZ's internal audit team substantially does not have the competence to reach the "expert" level in accordance with the criteria outlined by the IIA, as the function to prevent fraud is still being managed aptly but the aptness is only constrained for the 3S activities: Service, Sales, and Spare parts.

Keywords: *Internal Audit, Internal Control, Standard Operating Procedure, Fraud*

1. INTRODUCTION

Fraud risk is a threat faced by every company which may either come from the external or internal environment of an organization. The Association of Certified Fraud Examiners (ACFE) defines internal fraud or occupational fraud as a type of fraud that occurs when internal company parties, such as employees, managers, or executives, intentionally commit fraud to enrich themselves by misusing company assets. To reduce the risk of fraud, every organization must develop and have an adequate and efficient internal control system, which comprises three primary functions: (1) preventive control, (2) detection control, and (3) corrective control (IAI, 2015). Preventive control is a control carried out by the company to prevent a problem, detection control is a control that is carried out when issues have occurred, and detection is carried out to find problems that cannot be stopped. Lastly, corrective control is carried out when prevention and detection of problems cannot be executed, so problem-solving and improvement of existing conditions need to be carried out.

The risk identification process aims to find, identify and describe the risks faced by the company in achieving organizational goals. Relevant information is needed in identifying company risks, in particular, to find out whether the source of risk can be relied on by the company or not. After identifying risks, risk analysis is conducted to further understand the nature and characteristics of the existing risks,

and this analysis can be influenced by differences of opinion, bias, risk perception, and assessments, thus good communication is needed to make a competent decision (ISO 31000). Moreover, risk evaluation is implemented to support decisions on how to handle risks and the actions taken to prevent the loss that comes along with the risk. Risk management involves an iterative process from selecting risk treatment options, planning and implementing risk treatment, assessing the effectiveness of risk management, and assessing whether the remaining risks are acceptable (ISO 31000).

Identifying risks owned by the company is followed through in stages under predetermined steps and is supplementary applied to the company's Standard Operating Procedure (SOP), a document that contains a series of instructions for various office administration processes that include procedures for carrying out work, time for carrying out work, places, and actors who play a role in the work, which also serves as a guideline used as a tool in measuring the effectiveness of the company's work processes (Insani, 2010). SOP violations can trigger fraud that causes material and non-material losses for the company because the activities are not performed while following the standards that the company has implemented. For example, in risk identification, identification is carried out with a predetermined process since everyone who is responsible for the risk must thoroughly understand the subject and have knowledge on overcoming it.

At the end of 2017, PT XYZ, a family ownership company and an Authorized Motorcycle Dealer engaged in the 3S (Sales, Service, and Spare parts) automotive sector with its head office in Semarang City, experienced an underpayment due to SOP violations and fraud in the form of tax payment embezzlement committed by the Tax Manager which is in charge and responsible for bookkeeping and tax payments. This information was obtained from an initial interview with one of the personnel at PT XYZ. The company's money, approximately Rp. 2.1 billion, which should have been used to pay Pajak Pertambahan Nilai (PPN) was used for personal interests by the Tax Manager without the knowledge of the President Director. Considerably, further cases showed that the tax manager appointed in 2010 embezzled money from tax payments right at the beginning of 2016 until the July of 2017.

It is suspected that the root cause of the phenomenon at PT XYZ is the internal audit team that apparently does not audit tax division regularly, ergo exhibiting the ineffectiveness of the internal audit performance. Meanwhile, the role of internal audit should purportedly be to investigate and assess the effectiveness and efficiency of the procedures for the activities of an organization, supposing the company's internal audit performance runs effectively (Mulyadi, 2002). In that case, the company will be able to investigate problems that may occur or are happening, and the company will be able to minimize the risks that may possibly arise. The ineffectiveness of internal audit at PT XYZ is considerably just one among the others that caused the violations of SOP and the embezzlement of tax payments that caused a huge loss for the company.

The aforementioned case demonstrates how important it is when the internal auditing is functioning at its full potential with less hindrances as much as it is feasible. Previous research entitled by Rustandy, et al. (2019) discusses the internal audit function in preventing fraud in an organization using the fraud triangle concept and involving research subjects from the Satuan Pengawasan Intern (SPI), governance, risk, and compliance, law and research & development. The study results found that the company's internal audit was considered good in conducting audits and fraud prevention. Furthermore, previous research conducted by Drogalas, et al. (2017) discusses the relationship between the effectiveness of internal audit, internal audit responsibilities, internal audit training, and fraud detection in several companies, involving company members as research respondents. In this study, it was found that there was a significant relationship between the effectiveness of internal audits and the detection of fraud in a company.

This study discusses the effectiveness of internal audit and internal control related to the ability to see employee compliance with SOP and the internal audit function in identifying a fraud that occurred. Using the 5 (five) important

factors for internal control, namely Segregation of Duties, Policies and Procedures, Documentation, Oversight and Review and User Access and Rights. Thus, the research gap in this study is the focus, subject, and basic concepts that are different from those used in previous studies by Rustandy, et al. (2019) and Drogalas et al. (2017). Based on the background described above, this study discusses the internal control and internal audit of PT XYZ in reducing the risk of fraud such as violation of SOP that caused the phenomenon at PT XYZ. The fraud committed by a company member caused material and financial losses, non-material. The following are some of the problems formulated to answer this phenomenon, namely:

1. Is the internal control for PT XYZ's tax payment cycle adequate and effective? Is it equipped with SOP?
2. How is the competence and independence of PT XYZ's internal audit in carrying out its functions?

2. LITERATURE REVIEW

2.1 Fraud

The IIA (2020), states that fraud is an illegal act characterized by fraud, concealment or confidentiality, and breach of trust. These actions are not dependent on threats of violence or physical force and fraud is carried out by someone to obtain money, property, and services for personal gain. Fraud can also be defined as a person's attempt to obtain money, land, goods, or trust for personal gain by using tricks, manipulation, and deception (Petrascu and Tieanu, 2014). According to Sukanto in Rustandy et al. (2019), fraud is fraud that is carried out intentionally by someone who causes harm to other parties but provides benefits to the perpetrators of fraud.

According to ACFE in Umar et al. (2015), fraud is classified into three types: asset abuse, corruption, and financial statement fraud. However, the fraud that occurs can involve two or even more forms of fraud simultaneously in a case. According to Priantara (2013), fraud prevention is a step in eliminating all opportunities that exist to commit fraud. Prevention can be developed by implementing risk management, internal control, and honest corporate governance. Fraud prevention can be done by developing an adequate internal control structure, ensuring that the company's control activities are effective, enhancing the corporate culture, and ensuring that the internal audit function is effective. Effective internal control can control the company's operations and internal auditors can function in providing useful advice for management to prevent fraud with its capabilities and competencies (Priantara, 2013).

2.2 Internal Control

Internal control is a control process that is attached to every activity, including activities in business processes. There must be a balance between each activity in the business process and the control process, if an imbalance occurs it will result in inefficiency in business processes or fraud or fraud, both of which are detrimental to the company. In the 1900s, internal control systems began to receive attention, in particular, and Grady (1957) described the definition of internal control as:

“Internal accounting control comprises the plan of organization and the coordinated procedures used within the business to:

1. Safeguard its assets from loss by fraud or internal errors.
2. Check the accuracy and reliability of accounting data that management use in making decisions.
3. Promote operational efficiency and encourage adherence to adopted policies in those areas in which the accounting and finance departments have responsibility directly or indirectly.

Khikmah et al., (2019), stated that internal control is an important part of company management in managing risk which is divided into administrative control and accounting control. And every organization must understand the function of internal control which is a process inherent in the organization's operational activities (IAI, 2015). Internal control can be described as a process designed to provide reasonable assurance and influenced by those charged with governance, management, and other members of the company (AICPA, 2019). Such confidence may relate to the reliability of financial reporting, the effectiveness and efficiency of operations as well as compliance with applicable laws.

According to Tuanakotta in Handoyo and Bayunitri (2021), the internal control implemented in the company has the aim of implementing strategic goals that support the mission of a company, financial reporting objectives to ensure that financial statements are free from material misstatement and can be completed in a timely and effective manner, operational objectives to control and secure the operations of the entity and the objectives of compliance with laws and regulations. Internal control is a supporting factor for companies that are able to realize the achievement of goals, formation and protection of values (Khikmah et al., 2019). Internal control is a process inherent in organizational operational activities and IAI (2015) describes three important functions of internal control as preventive control, detective control, and corrective control.

2.3 Internal Control for Family Company

Suárez (2017) conducted research on internal control for family businesses and family businesses or a family company is a business entity that is established, managed and controlled by the head and family members. The majority of family companies in the world, because of their characteristics, there are several things that can cause family companies to not meet the company's strategic objectives, including human error, cost-benefit factors, all of which reduce the effectiveness of the company's internal controls. According to Arifin in Yudha (2016), the ownership characteristics of companies in Indonesia are still dominated by families, where families can come from the founding family or outside the company's founders. Pershad (2017), putting a special attention to the importance of internal control for small and medium enterprises, there are simply five factors that are important to establish and prove the effectiveness of internal control, namely Segregation of Duties, Policies and Procedures, Documentation, Oversight and Review, and User Access. and Rights.

Creating a separation of duties is the most important part (Pershad, 2017). Segregation of duties that must be carried out, if no separation is carried out will reduce the effectiveness of internal control. For example, the duties and responsibilities of saving money, proposing payments, and authorizing payments, if these three tasks and responsibilities cannot be held by one person, but are distributed to several people separately if this separation of duties is carried out automatically there will be a control process on the function, storage, submission, and authorization (custodian, preparation, and authorization). In small and medium-sized companies with limited human resources, these three tasks may be held by one person as long as that person is the owner of the company, but if the company's business has become large even though it is still a family company, to reduce risk, the company must design control adequate internal management supported by standard operating procedures (SOP) and competent resources. SOP is a general set of instructions from the company's performance processes that can be used as a basis for certain procedures (Sutton, 2010).

Pershad (2017) describes that maintenance of supporting documentation needs to be done to develop effective internal controls, company standard documentation allows for a faster and more efficient review of accounting documents by management and this is an important aspect of detecting a fraud. The next step that must be taken by the company is supervision and review, all activities carried out by each member of

the company must be monitored and reviewed to avoid manipulation (Pershad, 2017).

2.4 Internal Audit Competency

An auditor needs competence in carrying out an audit to provide satisfactory performance results, and competence can be influenced by the auditor's expertise, knowledge, experience, and skills (Haryanto and Susilawati, 2018). The Institute of Internal Auditors (IIA) develops a concise and clear internal audit competency framework for internal auditors at every career level, this framework defines four knowledge areas focusing on regulations, specific functions, and key skills with different levels of competence, ranging from general understanding, applied knowledge to experts.

According to the IIA (2020), internal audit competencies are divided into four parts: professionalism, performance, environment, and leadership and communication. Professionalism is a competency that demonstrates authority, credibility, and ethical behavior in valuable internal audit activities with seven knowledge areas:

- Mission of internal audit
- Internal audit charter
- Organizational independence
- Individual objectivity
- Ethical behavior
- Due professional care
- Professional development

The second part of the framework is performance. Performance is the required competence in planning and implementing internal audits performed following applicable regulations or standards. Within the framework developed by the IIA (2020), performance has seven knowledge areas:

- Organizational governance
- Fraud
- Risk management
- Internal control
- Engagement planning
- Engagement fieldwork
- Engagement outcomes

Furthermore, the competence required by the auditor is the environment. This competency is used to identify and address existing risks in the industry and the company's operating environment. IIA (2020) groups the environment into five knowledge areas, including

- Organizational strategic planning and management
- Common business processes
- Social responsibility and sustainability
- Information technology
- Accounting and finance

The last part of the internal auditor competency framework developed by IIA is leadership and communication. These competencies are needed in providing strategic direction, effective communication, establishing relationships, and managing personal and internal audit processes. The knowledge area in leadership and communication consists of four points (IIA, 2020):

- Internal audit strategic planning and management
- Audit plan and coordinating assurance efforts
- Quality assurance and improvement program
- Communication

3. RESEARCH METHODOLOGY

3.1 Research Strategy

In this study, the strategy used is a case study. According to Prihatsanti, Suryanto, and Hendriani (2018), case studies are used to answer the questions "how" and "why" and case studies usually focus on a particular phenomenon that occurs. Case studies are empirical methods that investigate contemporary phenomena in cases that arise in-depth in the context of life in the real world (Yin, 2018). Meanwhile, Denzin and Lincoln (2011) state that case studies have high conceptual validity for the phenomena that are the basis of the research.

Ellet (2018) suggests three types of case studies: problem-solving, decision making, and evaluation. This research is a case study with an evaluation type, where the case study aims to evaluate the performance of an organization or company to take an important decision or action, such as improving or maintaining the existing company's performance.

A case study approach with an evaluation type was chosen for this research because it follows the objectives achieved and finds out the causes of the phenomena that occurred in PT XYZ. Finding out how cases of embezzlement of payments can occur and how the role of internal audit in controlling activities carried out in the tax division where the issue occurs.

3.2 Research Approach

The qualitative approach was chosen because the purpose of this research is to understand how PT XYZ's internal control is and what the role of the company's internal audit team is. Qualitative research in this study was conducted by collecting data related to the objectives and answering the formulation of the problem that had been prepared. Then, analyze the data obtained and conclude from all the information obtained. These conclusions will produce recommendations that PT XYZ can use to evaluate the company's performance.

3.3 Data Collection and Research Instrument

In collecting data to answer the research problem, three data collection methods are used: semi-structured interviews, questionnaires in the form of checklist sheets, and methods of analyzing documents or documentation. This study uses data sources of primary data and secondary data, secondary data in the form of supporting documents such as the results of the decision on the case at PT XYZ, which became a phenomenon.

The interview is a method of collecting data that is carried out directly and face to face by one interviewer (author) and interviewee (respondent). Interviews were conducted with the President Director of PT XYZ because it is assumed that the respondents are parties who have a deep understanding, control, and understanding of the actual condition of the company. The interview topic includes three things related to each problem formulation and research objectives: internal control, internal audit, and PT XYZ's SOP. All information submitted by interview respondents is ensured to be free from conflict of interest so that the results of the information obtained from interviews follow the actual conditions.

The checklist in this study was conducted to determine the competence of PT XYZ's internal audit, and whether the company's internal audit team has met the characteristics of "expert level competence" following the criteria described by IIA in the internal audit competency framework. The checklist sheet is divided into four sections that define four knowledge areas: professionalism, performance, environment, also leadership, and communication. The checklist implementation process is carried out by discussing with members of the PT XYZ internal audit team. From the checklist sheets that the respondents have answered, information is obtained regarding the competence of the company's internal auditors. Then, a conclusion can be drawn from the data obtained and used to answer the formulation of the research problem.

Documentation is carried out to complement the use of the interview method previously carried out because the interview results obtained from the respondent will be more relevant to documents supporting the respondent's statement. In this study, the documents collected were in the form of documents, both documents from internal and external parties.

3.4 Data Analysis Technique

This study uses data analysis techniques in the form of descriptive qualitative analysis. According to Merriam (2009), the method of data collection in qualitative research can be done through interviews, observation, and documentation. Data analysis was done by finding and compiling data obtained systematically so that it is easier

to understand, then the data obtained is organized and then translated into units, analyzed, and arranged into patterns to make conclusions (Sugiyono, 2013).

Data analysis is a process to make data into data reason and the process involves combining, subtracting, and interpreting the data obtained through the interview process, observation, and documentation and then used to answer the problem formulation (Yin, 2018).

According to Irawati and Satri (2017), the stages carried out in the descriptive analysis qualitative are:

1. Formulate the problem to find the problem that occurs
2. Observing the existing documents
3. Conducting interviews with parties as the resources to analyze the problem
4. Comparing the results of the data obtained with the theoretical basis and identifying existing deficiencies or weaknesses
5. Provide recommendations for improvement on the findings of the problem

3.5 Unit Analysis

This study used a single case study unit analysis with single-unit analysis, where the research object is PT XYZ as a single case study and the tax division of PT XYZ as a single unit analysis, which is the focus of the research and answers the formulation of problems related to the company's internal control and internal audit evaluation in reducing SOP violations and fraud.

4. RESULTS AND DISCUSSION

4.1 Result

4.1.1 Interview and Documentation

One of the documents used in this research is the SOP PPN payment applied by PT XYZ. And based on the results of the interview with the President Director of PT XYZ, the existing SOP on tax payment procedures, especially PPN is very clear, organized, and appropriate. Payment of PPN PT XYZ is always done monthly and PT XYZ's PPN payment procedure starts with stages as follows:

1. Tax staff make a summary of the previous month's PPN payment for payment made in the month (payment is made D+30 or one month after, for example, June PPN will be paid in July).
2. Then, the completed recap will be submitted by the staff to the Tax Manager of PT XYZ.
3. The company's Tax Manager will submit a summary of PPN payments and seek approval from the President Director.
4. The President Director checks the recapitulation, if there is an error, then The President Director will ask the Tax Manager to correct the summary. If there are no errors, the President Director will sign the recap of the PPN payment.

5. After the recap is signed, the Tax Manager submits the documents related to the purposes of issuing a check.
6. The Finance Manager issues a check for the amount of the PPN payment recap which has been approved by the President Director and submits the check to the company's courier who's in charge of making the PPN payment at the Bank.
7. The courier is responsible for cashing the check and the PPN payment at the Bank.
8. The proof of PPN payment will be given to Manager Finance.
9. The proof will be checked by the Finance Manager to ensure that PPN has been paid, by looking at the proof of payment (but not doing confirmation to the Bank or DJP).

From the existing SOP, the process of cash disbursements on tax payments PT XYZ is done manually and every step is also done involving the President Director so that control can be carried out simultaneously. The President Director of PT XYZ ensures that every member of the company has aware of the SOP for tax payments. For all tax division personnel, employees involved must understand payment procedures, duties, and responsibilities in every process. In the process of paying taxes, the company only involves staff, the Tax Manager, President Director, and the finance manager.

Meanwhile, the President Director also acts as a supervisor and provider of agreement. Although there is a clear definition of authority and responsibility in each process, there are still gaps that provide opportunities for committing fraud. The final process of paying taxes only stops until the finance manager receives proof of payment of tax payments without confirming to the bank or tax office. To reduce the chance of fraud, the financial manager or the President Director should re-check by doing confirmation with the bank and tax office.

4.1.2 Checklist

The checklist is carried out by discussing and providing a list of closed questions to a member of the internal audit team of PT XYZ, in which the checklist sheet is divided into four sections that define four areas of knowledge that focus on professionalism, performance, environment, as well as leadership and communication. The checklist process was carried out to determine the competence of PT XYZ's internal audit auditor which refers to the criteria described by the IIA in the internal audit competency framework. There are three levels of competence described by IIA in the internal audit competency framework, namely competency levels: general understanding, applied knowledge, and expertise. The following is a summary of the data obtained from the checklist process that has been carried out:

Table 1. Checklist Summary

Internal Auditor Competency	Total Criteria	of Fulfilled Criteria	Unfulfilled Criteria
Professionalism	7	2	5
Performance	23	4	19
Environment	11	3	8
Leadership & Communication	10	3	7

4.2 Discussion

4.2.1 *The Internal Control for PT XYZ's Tax Payment Cycle*

The results of the analysis of internal control for the cash disbursement process at tax payments show significant weaknesses:

1. The head or manager of the tax division only receives a recapitulation of PPN payments directly submitted to the Director, without any verification first.
2. There is no explanation on how the President Director approves or rejects PPN payment according to the recapitulation.
3. President Director is the only person who signs the check for PPN payment.
4. The payment is done by issuing a check and then cashing the check at the Bank.
5. There is no confirmation and crosscheck carried out by the President Director or Finance Manager to the relevant Bank and Tax Office.
6. The cash disbursements on the tax payments process are not included in the internal audit's scope. Therefore, the fraud done by the Tax Manager wasn't revealed even though the fraud method was very simple.

4.2.2 *The Competence and Independence of PT XYZ's Internal Audit*

Based on the answers obtained from the list of checklists regarding the competence of PT XYZ's internal auditors, it can be concluded that the PT XYZ internal auditor team does not have the "expert" level of competence in 4 areas of knowledge that focus on professionalism, performance, environment, as well as leadership and communication. Of the 51 characteristics, the company's internal auditor team only met 12 characteristics for competence at the expert level. According to the IIA (2020), if the internal auditor has competence at the expert level, it means that it is assumed that the auditor has a competency level of "general understanding" and "applied knowledge" in the same field of knowledge.

Furthermore, from the results of an interview with the President Director of PT XYZ on the second topic, internal audit, it is known that all of the company's internal audit personnel have an adequate understanding of their duties because they receive a briefing on their duties and responsibilities, performance standards and code of ethics

even though every employee who is the internal audit team does not have the educational background and professional experience of internal auditors.

From the results of interviews and checklist sheets, it can be concluded that the credibility of the performance of the company's internal auditor team need not be doubted, but for some matters such as the preparation of the framework, budget, procedures, standards, and performance sharing are regulated by the company's President Director, so that the planning and audit process does not completely independent and free from interference from other parties due to the involvement of the President Director.

From the results of the checklist sheet, the internal auditor team of PT XYZ is declared to have good competence and understand their respective duties and responsibilities in carrying out their duties in the 3S section. This is proven by the audit quality of the company which is considered good and the absence of fraud that occurs in the 3S scope which is the company's core business. PT XYZ's internal audit team always communicates findings in the field with related parties to improve the company's SOP and these findings are considered capable of improving the overall quality of SOP.

4.2.3 *PT XYZ's Internal Control and Internal Audit*

Internal control review in the tax division cannot be carried out by the company's internal audit because the scope of PT XYZ's internal audit team is only limited to operational activities in the company's main business, namely Sales, Service, and Spare parts. As described by Kumaat (2014) that internal auditors play an important role in realizing good company internal control to prevent fraud and the limited scope of PT XYZ's internal audit is one of the things that causes internal control in the tax division to be not optimal. Thus, PT XYZ's internal auditor team does not function effectively in related divisions and fraud prevention at PT XYZ cannot be carried out because there is no adequate internal control design.

In addition, PT XYZ's internal audit is considered not to have good competence to produce high-quality audit performance. The company's President Director stated that not all members of PT XYZ's internal audit have the level of education and professional experience as internal auditors or follow professional certification and continuing professional education. The process of disbursing cash on tax payments shows significant weaknesses. The payment process is a very important business process, although the President Director who is also the owner of the company is involved in the control process, but is limited to only approving the recapitulation

of check payments and signing checks for existing tax payments.

The monitoring and reviewing activities in the tax division are not carried out by the company's internal audit team because it's not included in the scope of the internal audit. From this, it can be concluded that the company's internal control design is inadequate and the internal control system at PT XYZ is considered ineffective. The internal auditors cannot ensure that the internal control in the corporate tax division is still adequate and functioning effectively so that the President Director is not aware of any irregularities or weaknesses in the tax payment process.

5. CONCLUSION AND RECOMMENDATION

Based on the results of the analysis that has been carried out above, here are several conclusions obtained from this study:

1. The Internal Control in the tax division is inadequate because is only carried out by the President Director and the employees' activity review in the tax division was only limited to providing procedures or SOP that are used for reference in controlling the performance of personnel in the tax division. In addition, the tax division is not included in the scope of internal audit, so the design of the internal control system is inadequate and ineffective.
2. PT XYZ's internal audit team does not have "expert level" competence in accordance with the criteria contained in the internal audit competency framework prepared by IIA.
3. PT XYZ's internal audit team is considered not independent because in the preparation of the company's audit performance program there are still other parties involved, especially the President Director.
4. PT XYZ's internal audit team is considered capable of carrying out its functions properly and preventing fraud only in the 3S field.
5. Internal audit has a role in the risk control process and affects the prevention of fraud in the organization. The competence of internal auditors also affects the quality of the audit performance carried out.
6. Cases of SOP violations and fraud in the form of embezzlement of tax money, occurred due to the lack of integrity of the perpetrators. However, this also happens because the company's internal audit function is not comprehensive and there is no initiative in conducting regular checks on the tax division.

Furthermore, some recommendations that can be given regarding the evaluation of PT XYZ's internal control and internal audit are as follows:

1. Even though PT XYZ is a family company that is fully controlled by the President Director, the company should have one or more people who are chosen by the President Director to exercise control outside of sales, service, and spare parts activities. PT XYZ should

develop an internal control and internal audit system that can be applied thoroughly in every division of the company. Currently, companies still tend to only use SOP for their internal control.

2. PT XYZ can improve its tax payment procedure to prevent fraud as was the case at the end of 2017. XYZ in improving the tax payment cycle, especially for PPN.

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