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### Internal Control And Fraud Prevention In Online Business In Indonesia

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#### ABSTRACT

It is undeniable that online business in Indonesia has gone a rapid development, which is inseparable from internet technology development. Nonetheless, there is assurance internal controls that are effective and sufficient are applied in online businesses. Given the fraud problems in online business, internal control is certainly demanded. This paper aims to investigate information in online business and to determine the consequence of internal control of online business on fraud prevention and detection in Indonesia economy development, particularly online business. This research employed qualitative descriptive method using analysis, data as well as taking advantage of prevailing theories as underpinning information. Secondary data sources used are research journals and are based on the "Experian Global Fraud and Identity Report APAC published in 2019-2020". The Experian Global Fraud and Identity Report APAC published in 2019 explains that 50% of businesses included in Indonesia suffered losses due to online fraud over the past 12 months. In 2020, Experian reported that 48% of Indonesian companies annually experienced an increase in fraud losses due to inability to recognize consumers.

#### INTRODUCTION

According to the Indonesian people, online business has become common place because of the proliferation of these activities. Both businessmen, who are just starting out and those who have been in the business for a long time, online business can be used by anyone. When the internet was introduced commercially in 1999, online business began to experience movement. Indonesia, penetrated online business when it entered the 1990s so that it developed following increasingly sophisticated technological developments. Internal controls that are applied effectively and efficiently have been implemented by business actors as part of their online business activities.

According to Jusuf (2014), internal control is a series of activities that are designed, then applied and maintained by those who have been given responsibility for managing and other officers to ensure the achievement of entity goals which include:

- 1) Reliability of financial reporting
- 2) Operation efficiency and effectiveness
- 3) Compliance with laws and regulations

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The system carried out on internal control includes the structure within the organization, the size and method established to manage organizational wealth, encourage efficiency and compliance with management policies and check the accuracy and strength of data (Mulyadi, 2016). The internal control

function based on the State Auditing Standards (2007) acts as the front line in managing assets and detecting fraud, errors, distortions and violations of applicable laws and regulations. Then, the internal control system in an organization is structured by the structure, size and method of the organization that is regulated by the management line in order to protect the assets owned by the organization, check the accuracy in compiling data and the reliability of accounting data, usability, and ensure compliance with policies issued by the organization management. So that it can be concluded, it is important to have internal controls to protect company assets and avoid fraud by certain elements.

According to The Association of Certified Fraud Examiners (ACFE) (2016), fraud is an act of violating the law by certain elements knowingly and intentionally for the purpose of manipulation or forwarding incorrect reports to other related parties. This action is often carried out by those who intend to obtain group or personal benefits, from inside or outside the organization, indirectly or directly, which ultimately harms other parties.

As a step to overcome fraud in the online business environment, there is a need for supervision at the internal level of the online business. Weak internal controls carried out by online businesses will result in a greater risk of fraud. The stronger the internal control, it will reduce the number of online business fraud and vice versa, if the control is weak, the number of fraud will be higher. This paper aims to examine the effects of internal control, fraud, and on the prevention and detection of fraud in online businesses in Indonesia.

## **MATERIALS AND METHODS (Arial 10)**

### **1. Online Business**

In English terms, online business has the equivalent of electronic business or e-business. This term is defined as a business activity using the internet. Another definition of online business is a business that uses the internet to sell services or products (Hendarsyah, 2015). Internet networks can be in the form of smartphones (smartphones), computers, tablets, and devices that are connected to the internet network. In short, it can be interpreted that online business is a business activity carried out by utilizing network assistance to market services and products needed by buyers with the aim of making a profit. In general, online business activities are very similar to offline businesses, the difference can be seen from the media used, namely with the help of the internet.

### **2. Internal Control**

According to Jusuf (2014), internal control is a series of activities that are designed, then applied and maintained by those who have been given responsibility for managing and other officers to ensure the achievement of entity goals which include:

1. Reliability of financial reporting
2. Operation efficiency and effectiveness
3. Compliance with laws and regulations

The system carried out on internal control includes the structure within the organization, the size and method established to manage organizational wealth, encourage efficiency and compliance with management policies and check the accuracy and strength of data (Mulyadi, 2016). Referring to this definition, internal control is:

1. Protect the organization's wealth
2. Ensure the reliability and accuracy of accounting data
3. Motivate efficiency
4. Ensure that management policies are complied with Objectives of Internal Control

Based on the Standards for The Professional Practice of Internal Auditing, Scope of Work, there are five objectives of internal control:

1. Comply with plans, policies, procedures, regulations and laws.
2. Reliability and integrity of information.

3. Economical use of resources.
4. Ensure asset safety.
5. Ensure the achievement of predetermined operational or program goals and objectives (Tunggal, 2013).

### 3. Fraud

Fraud is defined as a conscious misappropriation by an individual or group. This action can be carried out by those who are in one management directly or by using a third party. To achieve its goals, fraud uses lies to gain illegal profits. Fraud should contain acts that violate the law because there are various acts of fraud in it. In accounting, fraud can be an act related to criminal fraud with the aim of obtaining profits in the form of money from other persons who carried out the fraud. The Association of Certified Fraud Examiners or ACFE categorizes fraud into three parts when viewed based on the actions committed:

#### 1) Asset Misappropriation.

That is misappropriation or theft of company assets. This fraud is very easy to know because it can be calculated or weighed (defined value).

#### 2) Fraudulent Statements.

This type of fraud includes the act of engineering financial statements by company executives or government agencies in order to make a profit. For example, there are misuse of policy or authority (conflict of interest), bribery (bribery), economic extortion (economic extortion), and illegal gratuities.

### 4. Fraud Triangle Theory

According to the fraud triangle theory, there are three principles that cause people to commit fraud, represented as a fraud triangle. According to Tuanakotta (2010), the Fraud triangle is a concept proposed by Donald R. Cressey, the initiator of ACFE (Association of Certified Fraud Examiners). He explained that there are three reasons that make people carry out fraudulent activities; financial problems that are covered (pressure), rationalization of the perpetrators, and the moment to commit fraud. The correlation of these factors can be symbolized by the diagram below:

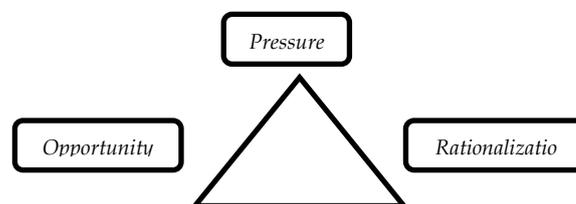


Image 1  
The Fraud Triangle Theory  
Source: Tunakotta, 2010

#### a. Pressure

Pressure can be defined into various meanings, one of which is a situation when individuals feel pressured. This factor can also be interpreted as a severe condition when individuals are faced with difficulties. Based on the level of fraud due to pressure, it consists of employee fraud and management fraud. Pressure can be exemplified by the desire for personal or collective gain. Pressure, according to Albrecht (2013) is divided into 4 categories, including:

- 1) Financial pressure
- 2) Work related pressure
- 3) Vice pressure
- 4) Other pressure

#### b. Opportunity

The opportunity to carry out fraudulent activities includes access to people, assets, computer systems and information that allows these individuals to carry out fraud and also cover up the violation at once. If viewed from the perspective of the organization, the emergence of opportunities to commit fraud can be through two things; Weak internal control

and the existence of situations beyond control. There are at least six variables that increase the opportunity for individuals to commit fraud in the organization, namely inefficiency in measuring performance quality, weak fraud detection and control, audit tracing that fails to control fraud perpetrators, indifference/apathy/inability, and access to fraud weak information (Albrecht, 2013).

c. Rationalization

The rationalization factor is the act of seeking justification by parties who are aware that they are trapped in an unfavourable situation. These individuals will try to make justifications so that the crimes they have committed are acceptable in the eyes of the public. Fraud persons will look for excuses so that what they do is considered normal/natural things are also done by other people, they consider what they are doing is a service to the organization, thus they consider what they receive should be more, they also assume that the action has a good purpose, namely overcoming problems which will then be returned (Karyono, 2013).

This study applies qualitative methods, namely descriptive research methods, by analyzing, leading to data, using concepts or theories as supporting material in completing this writing. In this study, the data used are observations made on Indonesian online businesses and reports from the 2019-2020 Experian Global Fraud and Identity Report APAC. This study uses the observation technique by making direct observations, looking closely at the institution and data that are related to the topic under study. The steps of data analysis in this paper include data reduction, data presentation, then draw conclusions or verification.

## **RESULTS AND DISCUSSION**

In 2019, Experian Global Fraud and Identity Report APAC report, it was found that 50% of businesses, including those in Indonesia, lost money due to online fraud in the last 12 months. In 2020, Experian reported that 48% of Indonesian companies annually bear increasing losses due to fraud, namely the inability to recognize consumers. Recent research from Experian found that businesses in Indonesia need to propose more than items that can be personally customized. Buyers expect the company to offer convenience and security in every transaction. It can be seen that consumers in Indonesia as much as 36% feel worried when they are not recognized in every online activity they do. The results of the report also indicate the main factor of appropriate consumer participation, namely through identification and introduction of consumers at any time. The information obtained in each activity will support the identity authentication process and create recognition. This will reduce the friction felt by buyers, which in turn will support their self-confidence, build a positive consumer experience, and their trust (Experian, 2020).

Other findings from the report related to the Indonesian market include:

1. 93% of consumers admit that protecting their personal data from possible theft or misuse of data that could lead to fraud is an essential aspect of creating a consumer experience.
2. 82% of consumers expressed the importance of security instructions when they are communicating or online activities.
3. 66% of consumers wish they had more control over their data usage.
4. Consumers 85% understand that their personal information is fundamental to the company.
5. Most consumers like the existing settings to enhance the consumer experience.
6. There are 23% of companies that place goods and offers for specific targets first.

### **Internal Control on Online Business Fraud Prevention**

Cheating is of an identical nature, in the field of online or offline business. The concept of the Fraud Triangle by Donald Cressey can be applied to research fraud, especially in the online business environment. According to Experian, companies that are in online business can use the following procedures to avoid fraud:

1. Entering Data That Doesn't Exist to Fraudsters

To complete identity authentication, actors in online commerce enter data that is in their own system rather than data that has been submitted by consumers on public channels. The scope of the information is previous customer data which includes previous orders, or data on the devices they use.

#### 2. Proactive

Online business actors can show their conventional nature when faced with advanced technology when authenticating, checking, or detecting fraudulent actions that may exist in their business environment. However, growing consumer expectations and increasingly advanced technology have resulted in fraud detection as an ongoing or constant step.

#### 3. Avoiding Separate IT Systems

When online business companies apply separate IT networks, it will make it difficult for online business actors to manage their data that comes from various sources, even serving as a barrier to efficiently avoid fraud, it can further create disharmony against business consumers.

#### 4. Transparency.

Transparency is another key determinant in building mutual trust. Indonesian consumers expect full transparency from businesses about how their information is used. These initiatives include educating consumers, communicating terms more concisely, and helping consumers feel in control of their personal data. Cultivating transparency is the appropriate media so that the company's goals can be met. To create harmony, it is necessary to be open in various aspects of the work situation and culture. More important is the ease of access to information.

## CONCLUSIONS AND SUGGESTION

From the data analysis of this research, it can be concluded that:

1. Online business is an activity by utilizing network intermediaries in the activities of buying and selling products and services needed by consumers with the aim of getting profit, in other words profit.
2. Internal control has a significant influence on self-control when deciding to carry out fraudulent procurement of goods. The effectiveness of the organization's internal control will have an influence on the obedience of the person in charge of procurement of goods and the organization's management to follow the rules outlined by the organization so as to avoid acts of committing fraud.

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