

Analysis of Company Internal Control in the Occurrence of Fraud at Delta Artha Sidoarjo People's Credit Bank (BPR)

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ABSTRACT

Objective: The purpose of this study is to determine how the company's internal control system prevents fraud, as well as whether the implementation of the company's internal controls is running effectively for the company. **Method:** This study uses a data analysis method, namely descriptive qualitative method. The data collection techniques applied in this study are as follows: 1) Interviews, 2) Observation, 3) Documentation, 4) Triangulation. The population in this study is the heads of operational divisions and LPN, and internal auditors at BPR Delta Artha bank. **Result:** The results of this study indicate that the company's internal control at BPR Delta Artha Sidoarjo is running well. The company establishes strict policies/regulations, conducts periodic checks, and provides strong data protection to enhance security. **Novelty:** The benefits of this research are expected to serve as a model for internal control in the banking sector.

INTRODUCTION

The advancement of the times presents challenges that must be faced, especially by companies. Companies will face various challenges in running their business, which do not always run smoothly, so there are several obstacles that can hinder a company from achieving its objectives. One of the obstacles in a company achieving its goals is fraud within the company. Fraud is an act caused by negligence and deliberate violation of the law with the aim of obtaining profit by deception, involving individuals, groups, and organizations as perpetrators, which can harm others/multiple parties, but usually without physical violence [1].

Fraud can occur in the banking sector. Fraud occurs due to conditions that can trigger fraud in the banking sector. These three conditions of fraud are described by the fraud triangle theory, consisting of: pressure, opportunity, and rationalization [2]. Pressure is interpreted as the drive that causes someone to commit fraudulent acts. Pressure can come from financial and non-financial factors; opportunity is defined as the chance to commit or conceal fraud and avoid punishment. Fraud without opportunity is impossible even if there is high pressure; rationalization is the defense of someone's bad behavior. Rationalization not only justifies an action but also includes certain thought patterns and a series of reasons behind the action [3].

Many fraudulent actions occur in companies, particularly in Indonesia's banking sector. In the banking industry, fraud can harm banks both materially and morally. Banking is an industry that receives great trust from its customers, so fraud committed by internal bank actors has the potential to trap customers and the bank. Smuggling cash

reserves stored in vaults by unauthorized parties, cash fund smuggling, is one example of fraud that can harm the bank/company. Additionally, positions to process fake loans, manipulate data and/or customer credit application documents, units of withdrawn goods not returned to the bank/business, and other assets that harm the bank/company are also examples [4].

Fraud must be managed to avoid losses for the company. Addressing the risk of fraud requires good internal control within the company. The Committee of Sponsoring Organizations (COSO) has published the Enterprise Risk Management Integrated Framework, which includes supporting components for good internal control. These five components are: internal environment, risk assessment, control activities, information and communication, and monitoring activities [5]. Internal control is the most effective method used by a company to minimize or even eliminate the opportunity for fraud by members of the company. The positive impact of internal control is seen in its effectiveness in preventing fraud, meaning a proper evaluation of internal control can prevent fraud, while weak internal control creates opportunities for perpetrators to commit fraud, so internal control also affects the prevention of fraud [6].

Fraud can also be uncovered by internal auditors. Internal auditors can detect fraud because there are early signs and they can plan effectively to uncover fraud. The success of internal auditors in detecting fraud can be influenced by independence, with independence as a key aspect. Internal auditors can easily detect fraud if they maintain good independence [7].

Internal auditing can also prevent fraud; therefore, internal audit and internal control can work together to prevent fraud. This combination can bring significant benefits, such as: 1) identifying potential fraud, because internal audit can detect weaknesses in internal control systems that could be exploited by fraud perpetrators. Internal audit also provides recommendations to correct such issues; 2) strengthening the structure of internal control, through in-depth evaluation by internal audit of the bank's internal control systems and providing recommendations to improve existing control measures; 3) raising awareness of potential fraud, as the collaboration between internal audit and internal control strengthens understanding of possible fraud in the bank, and encourages employees to be more cautious with unethical behavior; and 4) creating a fraud reporting system, as both internal audit and internal control can establish an anonymous and easily accessible system for reporting potential fraud. This allows employees to report potential fraud without fear of retaliation [8].

Previous literature studies related to the analysis of internal control in preventing fraudulent actions in banking include research on the effect of internal control and good corporate governance on fraud prevention (2022). Internal control has a positive and significant effect on fraud prevention. The more effective internal control is implemented in a company or organization, the greater the efforts to prevent fraud within that company or organization. If an organization or company's objectives align as intended, the implementation of internal control can be considered effective and can maximize fraud prevention [9].

Based on the study entitled “The Effect of Internal Control on Fraud Prevention: A Case Study at Bank Rakyat Indonesia (BRI) Sukabumi Unit in 2019,” internal control influences the prevention of fraud. Establishing a strong internal control system is a duty for any organization that wants its business operations to be free from deviant behavior that could harm the organization. Implementation of internal control is an element of risk management that must be carried out by every employee to achieve organizational objectives. Therefore, internal control must be consistently applied to build continuity and trust among stakeholders and the public [10].

This study differs from previous literature because it focuses on internal control applied to the banking sector, particularly in rural banks (BPR), which is considered important for company sustainability and to observe whether the internal control applied can prevent fraud.

The purpose of this study is to determine how the company’s internal control system prevents fraud and whether the implementation of internal control is running effectively for the company.

RESEARCH METHOD

This study uses a data analysis method, namely descriptive qualitative method. In this method, the focus is on collecting, arranging, and analyzing data to provide an actual description of how the internal control system operates at BPR Delta Artha Sidoarjo. The data collection techniques applied in this study include the following steps:

- a. Interviews – a meeting between two individuals aimed at exchanging information and ideas through a question-and-answer process. This allows construction of meaning related to the research topic.
- b. Observation – a process involving monitoring and recording various biological and psychological processes. In this context, the focus is on direct observation of situations or events related to the research.
- c. Documentation – includes notes regarding events that have occurred. The types of documents used may include images, writings, or monumental works. Document study is used as a complement to observation and interview methods in qualitative research.
- d. Triangulation – an approach in data collection that combines multiple techniques and data sources comprehensively.

The population in this study is the heads of operational divisions, LPN, and internal auditors at BPR Delta Artha, who are involved in internal control to prevent fraud at Delta Artha Sidoarjo Bank.

RESULTS AND DISCUSSION

Results

Internal Control at Bank Delta Artha

Annual audit program: BPR Delta Artha Sidoarjo begins control by creating an audit program at the start of the year. This program sets the schedule and audit activities

at the head office, branches, and cash offices. The program arranges a flexible audit schedule based on field conditions.

Error and fraud handling: The bank conducts daily checks of transactions to address human error. System errors are corrected by checking system parameters. Until now, no intentional fraud has been found, but internal auditors coordinate with relevant departments to detect indications of fraud from reports received.

Evaluation by SKAI: The Internal Audit Work Unit (SKAI) evaluates findings and communicates with the board if needed, especially if significant errors are identified. Regular meetings are held to discuss findings and resolutions.

Use of technology: The bank still uses manual methods to detect fraud but has implemented strict access control policies to protect data. Password replacement policies occur every 3–6 months.

Preventive and reactive controls: The bank applies preventive control by complying with OJK and BI regulations, and reactive control by handling customer complaints and performing routine checks on error-prone sections.

Internal audit fraud prevention: Internal auditors understand various aspects of the bank's business, including business types and transaction nature. Auditors must have the ability to conduct in-depth analysis and determine the extent of necessary evaluation.

KPI implementation: The bank applies Key Performance Indicators (KPI) to measure employee performance. Employee errors result in sanctions such as reduced allowances and warning letters (SP).

Customer complaint system: The bank has implemented an online customer complaint system, which accelerates complaint handling.

Discussion

The control procedures implemented at BPR Delta Artha Sidoarjo to prevent fraud begin with creating an audit program at the start of the year. The audit program determines the audit activities to be conducted throughout the year at the head office, branches, and cash offices. The program arranges the audit schedule. Audit implementation in the field can vary depending on the situation and conditions. Audit timing may change and affect the audit team members assigned to the field.

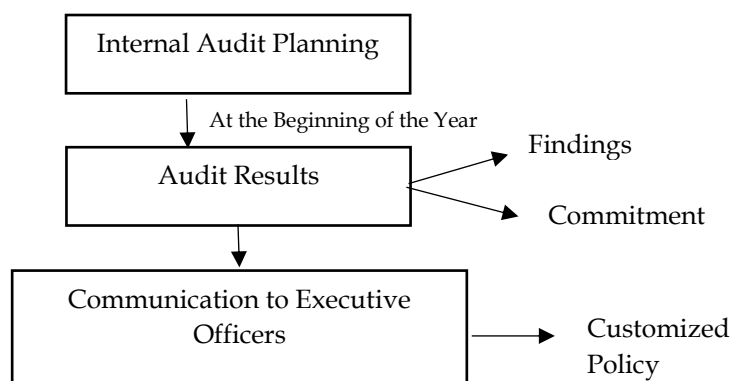


Figure 1. Internal Audit Work Procedure.

Internal audits handle audit findings related to fraud using several approaches, depending on the type of findings, such as human error, system errors, and intentional fraud. For human error, banks will conduct daily checks on transactions. Transactions made the previous day will be checked the next day to ensure there are no journal errors or balance imbalances. If the findings originate from system errors, the bank will check system parameters that may be incorrect and affect accounting calculations or records. To date, no findings related to intentional fraud have been found, while fraud is usually detected through indications from reports received. Internal auditors communicate with relevant departments, such as accounting and operations, to detect suspicious movements, such as complaints from customers regarding savings balances. The audit team will examine these reports and investigate further. In addition, internal audits also check existing records. This process may take longer because it requires examining and connecting various recorded data to find the cause of the problem.

Evaluation of internal controls by superiors related to findings, internal auditors are known as the Internal Audit Work Unit (SKAI) in the banking sector. SKAI plays an important role in the company as an independent assessor that evaluates operational performance. They are tasked with measuring and assessing the adequacy of internal controls and evaluating the efficiency and effectiveness of the company's performance[11]. If there are findings at the SKAI level, the step that must be taken is for colleagues to report to the SKAI management, then the SKAI management communicates about these findings to determine the next steps. Findings categorized as human error or system errors are usually resolved immediately. These findings are documented in writing, but resolved immediately. Control levels that have a lasting effect require communication with the board of directors, and the evaluation and resolution of these findings depend on the level of error. Not all errors are immediately communicated to internal executives; rather, they are assessed based on their severity. If the error is significant, communication with the board of directors is necessary. Usually, the directors will hold regular meetings according to a predetermined schedule to discuss the findings and their resolution. These meetings and evaluations will discuss what findings there are, how to resolve them, and where the errors lie. For example, if a staff member frequently makes mistakes, that staff member must be called in for further evaluation to determine the cause of the repeated errors.

The use of technology to detect fraud at Delta Artha Rural Bank (BPR) currently still relies on manual methods without the use of special tools due to the relatively small scope of operations. Every day, the output from the system is checked manually to ensure compliance with the rules applicable at the bank, including those issued by the Financial Services Authority (OJK) or Bank Indonesia. With this method, even though it is still manual, Delta Artha BPR strives to comply with applicable rules and regulations in an effort to prevent fraud.

In today's digital age, data theft is a serious problem. If stolen data falls into the wrong hands, it can have a negative impact and cause harm to many parties [12]. Data protection at BPR Delta Artha is carried out by the IT department with a centralized

database system. Access control is implemented by giving each staff member access to the system with a controlled user ID. For example, each department is given access according to their needs through the CPS (Central Processing System). IT functions as an admin or super user that determines the access rights of each level. For example, the SKAI level can only access certain menus, while the operations department has different access. IT ensures that SKAI staff do not have access to operational transactions, as they do not have the rights to perform such transactions. The password replacement policy occurs every 3 to 6 months to enhance security. This password replacement aims to improve security, especially from hacker attacks that can paralyze the bank's operational and transaction systems.

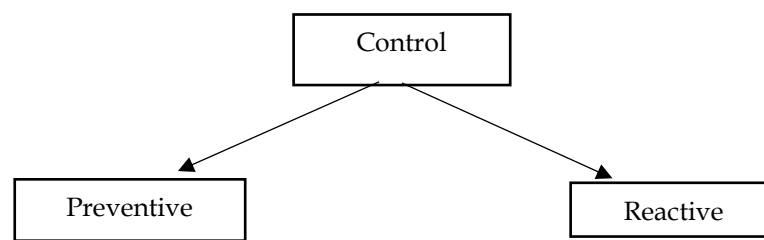


Figure 2. Control Types to Reduce the Risk of Fraud.

Specific measures to reduce the risk of fraud at BPR Delta involve preventive and reactive controls. Preventive controls work in conjunction with risk management and compliance to prevent fraud. Rules issued by the OJK and BI are implemented to control errors. These rules are designed to prevent fraud. Reactive controls are implemented when a customer files a complaint. The bank immediately conducts an investigation to address the issue and performs routine checks on areas prone to errors, such as the teller department. These checks can be carried out by the head teller or branch manager. Controls are carried out every day to ensure that no errors accumulate. These controls can be carried out before the end of the day or even during the day to prevent problems from accumulating. For example, keeping a daily log to record and follow up on findings.

Internal auditors need several things to carry out their duties in preventing fraud, namely understanding various aspects of the bank's business, including the types of businesses carried out and the nature of the transactions. This understanding is important for determining the appropriate audit plan. For example, auditors need to map savings transactions and assess their risk levels, as well as map operational levels to understand the areas that need to be audited. The level of auditor competence depends on the individual. This competence must be combined with the bank's internal policies in order to accurately evaluate potential problems. Internal auditors must have the ability to conduct in-depth analysis and determine the extent to which evaluation is necessary. With a deep understanding of the bank's business, strong competencies, and good evaluation skills, internal auditors can perform their duties effectively and ensure that the bank's operations are in accordance with applicable rules and standards.

The operational department monitors employee compliance with policies and procedures established by management. If fraud occurs, the operational department will monitor and investigate it. The company implements Key Performance Indicators (KPIs) as a measuring tool to reflect how effectively the company is achieving its goals. Key Performance Indicators can be measured on a daily, weekly, and monthly basis, which then provides an overview of the unit's performance over the annual period. This becomes the basis for future evaluation and planning. [13] Those who make mistakes will have their allowances reduced and will be given warnings in the form of warning letters (SP) 1, SP 2, and SP 3.

SP 1: given for poor attendance, such as frequent tardiness, absence from work for 3 consecutive days without a clear reason, failure to meet targets for 3 months, or failure to comply with SOPs.

SP 2: given if no improvement is made after SP 1, and the employee does not show a positive attitude and initiative to improve their performance.

SP 3: results in termination of employment based on a decree, if the violation can no longer be tolerated. This system aims to improve employee discipline and performance as a whole.

The operations division is also responsible for providing customer complaint services. The customer complaint system at Delta Artha Bank is already running well. Any customer can report a complaint online. This makes it easier for customers to submit complaints or suggestions and speeds up the resolution process. Internal control within the company is very important to ensure that the employee recruitment process at Delta Artha Bank Sidoarjo is carried out in accordance with established procedures. These procedures cover educational background, work experience, and other requirements. This is important to ensure that prospective employees meet the standards required by the company.

The Committee of Sponsoring Organizations (COSO) has published a report on the Enterprise Risk Management Integrated Framework, which includes components that support good internal control. The five components are internal environment, risk assessment, audit control activities, information and communication, and monitoring activities. The application of COSO in internal control at BPR Delta Artha is as follows:

Table 1. Comparison between COSO and internal control at BPR Delta Artha.

Committee of Sponsoring Organization (COSO)	Internal Control
Internal Environment	All employees implement internal controls in accordance with their respective duties and responsibilities, so that the company's vision and mission are carried out properly. In addition, to improve employee performance, performance training, employee promotions, etc. are provided. All

employees implement company SOPs and regulations issued by the OJK and BI.

Risk Assessment

Preventive controls are implemented by collaborating with risk management and compliance to prevent fraud. If a customer files a complaint, the employee concerned immediately checks to handle the issue and conducts routine checks on areas prone to errors, such as the teller section. These checks can be carried out by the head teller or branch manager. Controls are carried out daily to ensure that no errors accumulate.

Audit Activity Control

An audit program is created at the beginning of the year. This audit program determines the audit activities to be carried out over the next year, both at the head office, branches, and cash offices. This program regulates the audit implementation schedule. In order for internal auditors to prevent fraud, there are several things needed to carry out their duties, namely understanding various aspects of the bank's business, including the types of businesses carried out and the nature of the transactions. This understanding is important for determining the right audit plan.

Information and Communication

Internal auditors communicate with relevant departments, such as accounting and operations, to detect suspicious movements, such as complaints from customers regarding savings balances. The audit team will examine these reports and investigate further. In addition, internal audits also check existing records. This process may take longer because it requires checking and connecting various recorded data to find the cause of the problem. For control levels that have a continuous effect, communication with the board of directors is necessary. If the error is significant, communication with the

Supervisory Activities

board of directors is required. Usually, the board of directors will hold regular meetings according to a predetermined schedule to discuss the findings and their resolution. During these meetings and evaluations, the findings, solutions, and locations of the errors will be discussed.

In carrying out their duties, the operations department supervises employee compliance with the policies and procedures established by management. If fraud occurs, the operations department will monitor and investigate it. Those who commit errors will have their allowances reduced and will be given warnings in the form of warning letters (SP) 1, SP 2, and SP 3. Data protection at BPR Delta Artha is carried out by the IT department with a centralized database system. IT functions as an admin or super user that determines the access rights of each level. For example, the SKAI level can only access certain menus, while the operations department has different access. Password replacement policy occurs every 3 to 6 months to enhance security.

Implementing proper controls is a process that ensures the control or inspection of physical assets, proper authorization, separation of duties and independence, and proper documentation [14]. The internal control system implemented at Delta Artha Sidoarjo Bank is carried out by all employees in accordance with their respective duties and responsibilities, so that the company's objectives run smoothly. An effective internal control system is an important element in management and serves as the basis for healthy and safe operational activities. A strong internal control system helps companies maintain assets, provide reliable financial and managerial reporting, improve compliance with applicable regulations, and reduce the risk of loss, irregularities, and violations of prudential principles. Thus, a good internal control system supports company management in performing their duties better and ensures structured and safe operational activities [15].

CONCLUSION

Fundamental Finding : Based on the control procedures implemented at Bank Delta Artha Sidoarjo to prevent fraud, it can be concluded that this bank has a comprehensive approach to managing risk and ensuring compliance with applicable regulations. **Implication :** By creating an annual audit program, implementing strict internal controls, and utilizing technology for data protection, Bank Delta Artha Sidoarjo is able to optimize the company's internal controls efficiently. **Limitation :** This study does not examine the effectiveness of these controls over time or under varying operational conditions, which may limit the generalizability of the findings. **Future Research :** Future research is recommended to evaluate the long-term effectiveness of internal control measures and explore additional strategies to prevent fraud under diverse banking scenarios.

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