Fraud Prevention Through Risk-Based Auditing at Bali Village Credit Institutions

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*Abstract---*The Village Credit Institution Empowerment Agency needs to build risk management at the Village Credit Institution to effectively implement risk-based performance audits. The Village Credit Institution Empowerment Agency must guide to develop policies related to fraud prevention at the Village Credit Institution to secure public money. The informants in the study were the coordinators of the Village Credit Institution Empowerment Institution of Tabanan Regency, Badung Regency, and the Chairperson of the Village Credit Institution Empowerment Institution of Bali Province. Selection of informants using snowball sampling technique. The case study analysis unit uses a thematic analysis approach, where the themes carried are risk management, risk-based performance audits, and fraud handling at the Village Credit Institution Empowerment Agency. The results of the analysis and explanations from informants show that risk management at the Village Credit Institution in Tabanan and Badung Regencies still needs improvement, including risk management policies, and risk registers. The Tabanan and Badung Regency Village Credit Institutions Empowerment Institutions in preparing audit plans have not been based on risk registers. The Bali Province Village Credit Institution Empowerment Agency has not made a fraud control policy for Village Credit Institutions. The results of this study provide theoretical and practical implementation of risk-based performance audits and fraud prevention. Theoretical implementation is related to strengthening risk management theory, risk-based auditing, and fraud prevention, and practical implementation in the form of information to Village Credit Institutions and Village Credit Institutions Empowerment Institutions related to matters in increasing the role of risk-based performance audits in preventing fraud.
*Keywords---*Fraud Prevention, Risk Management, Risk-Based Performance Audit.

Introduction

There are a number of modes carried out by fraudsters in the management of Village Credit Institutions that can be proven in court, including playing fictitious credit, providing loans without collateral with fantastic amounts and providing loans using the names of customers who have paid off and distributing credit not with the principle of prudence (Balipost: 2022). This form of fraud is a form of fraud.

Fraud is an act that is hidden. The fraud incident was revealed after a long time, the incident occurred. According to The Association of Certified Fraud Examiners (ACFE), classifies fraud in three levels called the Fraud Tree,

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which are as follows (Albrech et al., 2012). The three levels are asset misappropriation, fraudulent statements, and corruption.

The existence of fraud control is the existence of policies, regulations, guidelines, technical instructions, implementation instructions, guidelines, standard activity procedures (SOP) or fraud control design forms. The purpose of fraud control is to prevent, detect early, and respond to fraud risks and events effectively and support the achievement of organizational goals. The strategies used in controlling fraud are prevention, detection, and response. Prevention strategy is the overall effort, means, and methods in managing organizational resources to prevent the realization or occurrence of risk factors and causes of fraud risk. Detective strategy is the overall effort, methods, and resources in managing organizational resources to identify, find, and determine the existence and occurrence of fraud. Response strategy is the overall effort, methods, and methods in managing organizational resources to reduce the likelihood of occurrence and/or reduce the level of impact of fraud that will, is or has occurred (BPKP: 2021).

Internal control is a policy or procedure carried out to provide assurance that company goals can be achieved and to reduce the possibility of security threats in information (Suarcaya et al., 2018). Internal control is carried out to provide adequate assurance related to the objectives of several categories, namely the effectiveness and efficiency of activities, the reliability of financial statements, and compliance with applicable rules and regulations (Fitri et al., 2019). Effective internal control tends to reduce accounting fraud where the higher the internal control system, the lower the tendency of accounting fraud (Suartana & Mertyani, 2018).

Village Credit Institution managers need to take control measures over the risk of fraud/fraud occurrence. These actions are intended to reduce the potential for fraud / reduce the likelihood of fraud to occur, and reduce the impact of fraud occurrence. In controlling, it can be done by increasing the role of internal auditors (Supervisors). Internal auditors can conduct risk-based performance audits when identifying the occurrence of fraud/fraud, and audits with specific objectives to measure the impact of fraud occurrence. Internal auditors who supervise the Village Credit Institution in Bali Province based on the Bali Regional Regulation are carried out by the Village Credit Institution Empowerment Agency (Lembaga Pemberdayaan Lembaga Pengkreditan Desa).

The discovery of fraud incidents that befell the Village Credit Institution, made public confidence in the Village Credit Institution as a village financial institution to save their funds decreased. To prevent fraud, the Village Credit Institution needs to improve governance over the management of public funds (Power, 2009). One way to improve governance as mandated by the Bali Regional Regulation is through supervision conducted by the Village Credit Institution Empowerment Agency. By following the development of existing supervisory science, supervision carried out by the Village Credit Institution Empowerment Agency must be based on the inherent risks of the Village Credit Institution. Among the inherent risks is the risk of fraud. So, it is necessary to know fraud prevention through risk-based audits at village credit institutions in Bali.

Literature review

Auditor ability is the main factor that influences auditors in detecting fraud. Auditors who conduct investigative examinations have specialized knowledge and experience in financial audits, performance audits, investigative audits, and audits to calculate state financial losses, and prepare audit reports. An auditor who is an expert in accounting and crime auditing can identify fraud. Experienced auditors have practical knowledge gained from various previous audit situations, which increases their ability to recognize patterns and indications of fraud (Candraningtyas, 2014).

The risk management program is carried out to increase stakeholder confidence in the organization's financial reporting and as an effort to reduce organizational risk. The role of internal audit in implementing risk management programs is to ensure that risk management is maintained. External auditors are provided with a customized audit risk model based on the organization's risk management. From these conditions, it can be stated that risk management is the solution to the fraud crisis (Messier Jr, 2014).

The Governance of the Pecatu Traditional Village Credit Institution has carried out its roles and responsibilities as the Village Credit Institution Supervisory Board as an internal auditor in carrying out business supervision and control, has used risk management to maximize performance. Tri Hita Karana and Catur Purusa Artha as cultural elements become the operational basis in managing the business risks of the Pecatu Traditional Village Credit Union. This is reinforced by the awig-awig and Perarem of Pecatu Traditional Village as the basis for culture-based risk management (Suartana & Jati, 2017).

With a risk-based audit, the risks that exist in the company can be estimated and suppressed before the risk occurs, and also unknown risks can be known by the company (Widodo, 2018). With a risk-based audit, the risks in the OJK can be estimated and suppressed at the level of occurrence before the risk occurs, and also unknown risks

can be known by the OJK. In conducting risk management, OJK creates a risk profile so that later each existing risk can be assessed, evaluated, and mitigated effectively. In addition, OJK also uses standards to conduct risk-based audits, namely ISO 9001: 2015 and the Internal Audit Capability Model for Public Sector (IACM) (Matthew, 2018).

Good internal control can minimize the possibility of bad debts in the cooperative. This is because good control means that the cooperative can know its capacity to provide credit so that excessive credit does not occur. The internal audit function has a negative effect on non-performing loans in Palopo City Cooperatives (Nataludin & Lindasari, 2023).

Internal audit has a significant influence on fraud prevention efforts. This finding is supported by the results of quantitative data analysis from several studies that show a positive and significant correlation between the role of internal audit and fraud prevention. The role of internal audit makes a major contribution to fraud prevention efforts, which can be seen from the results of data analysis conducted (Petraşcu & Tieanu, 2014). Internal Audit has a positive and significant effect on fraud prevention at the Village Credit Institution in Blahbatuh District. This indicates that here the management of the Village Credit Institution as an internal audit has carried out the supervisory function based on applicable procedures and rules (Hong, 2023).

Fraud or fraud in a business environment has a special meaning, namely an intentional lie, incorrect reporting of company assets, or manipulation of financial data so that it benefits certain parties. Fraud that is usually carried out is manipulation of records, eliminating documents, or mark-ups that are detrimental to public or company finances. Fraud is not sufficiently handled by prevention, but fraud must also be detected as early as possible (Widaningsih & Hakim, 2015).

The role of internal auditors has an important role in evaluating control system activities, and providing input for improvement often has a significant role in overseeing company operations. In general, auditors can only check whether the company's financial statements are by PSAK, where the financial statements are the result of these operational activities.

The role of internal auditors influences fraud detection. This shows that the higher or better the role of internal auditors in carrying out audits properly, the higher or better the efforts to detect or get early indications of fraud. Likewise, on the contrary, if the role of the internal auditor is still low or not good in carrying out his duties, fraud cannot be detected properly. It can be concluded that the better the role of internal auditors makes fraud prevention more effective (Ginanjar & Syamsul, 2020).

Methods

Qualitative research through a steady case was used as the research method in this case. The approach taken uses qualitative descriptive analysis. The research begins with an inductive thinking process to be able to portray social facts or phenomena. After successfully photographing social facts and phenomena, then observation is carried out with analysis up to the level of theorization of what was previously analyzed. The selection of the descriptive analysis method is based on the concept that the descriptive format is very appropriate for use in research that analyzes problems in depth (Bungin, 2008). The research analyzes how risk-based performance audits on Village Credit Institutions conducted by the Village Credit Institution Empowerment Agency can reduce the impact of fraud.

In this study, data source triangulation was applied. Triangulation with data sources is the process of testing the quality of information obtained from interviews through comparing data from interviews and observations, related official documents, and information submitted personally. The form of documentation analyzed is the performance audit report of the Village Credit Union Empowerment Institution. Meanwhile, method triangulation is the process of testing information or data obtained using different methods (Bungin, 2008). In the method triangulation process, checking the suitability of information obtained through interviews is compared with information obtained through observation methods. For example, checking the results of interviews in the form of risk-based performance audit implementation compared to the performance audit report. The suitability of the data obtained from the documentation is checked again by comparing the results of observations and interviews until the author gains confidence in what will be concluded and disclosed in the research results.

Result and Discussion

3 (three) themes are used as research objects in this study. These themes are risk management, risk-based auditing and fraud control carried out by the Village Credit Institution Empowerment Agency on Village Credit Institutions in Tabanan Regency and Badung Regency. This research was conducted to prove the signaling and sensitizing theory and the moral agency theory. Signaling and sensitizing theory to describe whether the auditors of the Village Credit Institution Empowerment Agency can provide accurate assessments to provide consideration for the risks faced by

the Village Credit Institution. Moral agency theory, whether in conducting audits, auditors of the Village Credit Institution Empowerment Institution can maintain the quality of audit results so that they can provide a real picture of the management performance of the Village Credit Institution.

Risk management at the village credit institution

Based on the results of interviews with informant T1, who is the Chairperson of the Bali Province Village Credit Institution Empowerment Agency, T2 as the coordinator of the Badung Regency Village Credit Institution Empowerment Agency, and T3 as the Sub coordinator of the Tabanan Regency Village Credit Institution Empowerment Agency, it is known that the Village Credit Institution in Bali Province has not implemented risk management. The management of the Village Credit Institution controls risk by using the Village Credit Institution health management form in the form of a list of the Village Credit Institution management statements. The form is used by the Village Credit Institution Empowerment Agency to determine the health level of the Village Credit Institution.

The risk management assessment/statement made by the management of the Village Credit Institution did not go through the risk management process starting from the preparation of risk management policies, risk identification, assessment, action plans, to ongoing monitoring of the risk register. The risk register prepared by the management of the Village Credit Institution was prepared by following the list in the management statement contained in the audit guidelines of the Village Credit Institution Empowerment Agency.

Health condition of village credit institutions in Bali

Based on data from the Bali Province Village Credit Institution Empowerment Agency as of May 2024, Bali Province has 1,439 Village Credit Institutions spread across nine districts/cities, with the largest number of Village Credit Institutions in Tabanan Regency with 311 Village Credit Institutions and the least in Denpasar City with 35 Village Credit Institutions. Of the existing Village Credit Institutions, 44% or 631 Village Credit Institutions are in the healthy category. While the Village Credit Institutions that were in operation in May 2024 are no longer operating, as many as 103 Village Credit Institutions or 7%, and most are in Tabanan district, as many as 36 Village Credit Institutions. A total of 138 Village Credit Institutions or 9.59% are categorized as unhealthy, 263 Village Credit Institutions or 18.28% are categorized as less healthy and 291 Village Credit Institutions or 20.22% are categorized as quite healthy.

Risk-Based performance audit

Risk-based performance audits are carried out through three stages, namely the stage of assessing the effectiveness of risk management implementation, compiling an audit universe based on risk registers that have been assessed for maturity, and conducting individual audits with planning, implementation, and reporting stages.

Risk-Based performance audit planning

The Village Credit Institution Empowerment Agency has an annual supervision plan. The schedule contains information that is the object of the audit in the year concerned, but the Village Credit Institution Empowerment Agency has not made a strategic plan related to audits for 5 years. The audit plan contains the location of the audit and when the audit is planned to be carried out, in the supervision plan, there is no description of the risk considerations that are used as initial information in preparing the audit plan. The audit plan of the Village Credit Institution Empowerment Agency is made by considering risk factors in the form of how much the value of assets managed by the Village Credit Institution and the health level of the Village Credit Institution that it assists. Village Credit Institutions that have large assets or that have health in the unhealthy category are the focus of the audit. Initial planning is done by planning how many audits will be conducted by each district/city, Village Credit Institution coordinator.

Implementation of risk-based performance audits

In conducting the audit, the auditors of the Village Credit Institution Empowerment Agency conducted the audit based on the audit guidelines which contained the Village Credit Institution compliance assessment form, Village

Credit Institution Health Assessment, Cas Opname, Cash Security Check, ABA Administration Check, ABA Current Account Check, ABA Savings Account Check, ABA Depositor Account Check, Credit Management Rules Check, Sald Reconciliation, Customer Distribution and BMPK, Check on Earning Assets Quality (Credit), Problem Credit Check, Examination of Interest and Penalty Calculations, Examination of ATI Administration, ATI Procurement, Depreciation, Book Value and Condition, Examination of Transactions and Administration of Other Assets, Examination of Other Asset Balances, Examination of Savings Administration, Examination of Savings Customer Distribution, Examination of Savings Account Balances, Examination of Deposit Administration, Examination of Customer Distribution and Deposit Balances, Examination of Administration of Loans received, Examination of Reconciliation of Loan Accounts received, Examination of Miscellaneous Liabilities & Interbank Liabilities, Examination of Income, Examination of Expenses. The test forms are then documented in the Audit Working Paper. At the end of each form filling, a response is requested from the head of the audit, and if a problem is found, a follow-up on the problem is requested to the auditor. The test form is first given to the auditee to be answered, and during the examination, the auditor/examiner validates the contents that have been answered by the auditee.

Risk-Based performance audit reporting

The audit report prepared by the auditor of the Village Credit Institution Empowerment Institution contains an overview of the Village Credit Institution, information about the audit of the Village Credit Institution, a description of the results of the audit, and conclusions and suggestions. The general description of the Village Credit Institution contains information about the Decree of Establishment of the Village Credit Institution, LD Organization and Management and Financial Statements of the Village Credit Institution. Information about the examination of the Village Credit Institution contains the Legal Basis for Examination, Purpose and Benefits of Examination, Scope of Examination, and the time of examination. The description of the results of the examination contains information related to the substantive examination of the examination of assets and liabilities, risk management assessment and the results of the examination of the operations and performance of the Village Credit Institution. and at the end of the report contains the conclusion of the problems found by the auditor and the suggestions given by the auditor to the leadership of the Village Credit Institution to be followed up.

Handling fraud at village credit institutions

In implementing fraud handling in the Village Credit Institution by the Village Credit Institution Empowerment Agency, this research uses the parameters in the Diagnostic Assessment of fraud control-FCP working paper at BPKP. A fraud control plan or FCP is a fraud control strategy that is summarized in a document and authorized by the Head of the Fraud Risk Owning Entity. In the implementation of fraud control or FCP, it contains 10 attributes, namely anti-Fraud policies, anti-Fraud organizational structures, standards of behavior and discipline, Fraud risk management, employee care, fraud incident reporting systems, whistleblower protection, customer and community care, investigation procedures, and disclosure to external parties. In this study, the attributes in the FCP are used in measuring the implementation of fraud control carried out by the Village Credit Institution and the Village Credit Institution Empowerment Agency.

Conclusion

Risk management coaching at the Village Credit Institution by the Village Credit Institution Empowerment Agency of Tabanan Regency and Badung Regency has not been based on guidelines that serve as the basis for the management of the Village Credit Institution to conduct risk management. Risk management at Village Credit Institutions in the Badung Regency and Tabanan Regency is currently limited to a risk management statement that has been standardized by the Village Credit Institution Empowerment Agency, the form is used by the Village Credit Institution Empowerment Agency in measuring the health of the Village Credit Institution.

Based on the research results, when conducting a risk-based performance audit, the Village Credit Institution Empowerment Institution of Tabanan Regency and Badung Regency conducted an audit based on a list of risk statements. In the list of risk management statements carried out by the management of the Village Credit Institution. The Village Credit Institution Empowerment Institution of Tabanan Regency and the Village Credit Institution Empowerment Institution of Badung Regency did not assess the maturity of the Village Credit Institution's risk management when conducting audit planning and compiling the audit universe. Audit planning is based on risk factors in the form of the value of assets managed by the Village Credit Institution and the health value of the Village Credit Institution based on the Village Credit Institution management statement form.

For several incidents of fraud that befell the Village Credit Institution in Bali Province, the Village Credit Institution Empowerment Institution of Badung Regency and the Village Credit Institution Empowerment Institution of Tabanan Regency took action to combat fraud. The actions are socialization related to fraud prevention to the leaders and administrators of the Village Credit Institution by involving APH, conducting routine audits of the Village Credit Institution and the PL-Village Credit Institution of Bali Province compiling SOPs for business processes carried out by the Village Credit Institution, especially for activities that have a risk of fraud by collaborating with consultants/experts. From the conditions above, there are still areas of improvement that can still be done by the Village Credit Institution and the Empowerment Institution of the Village Credit Institution of Bali Province, the Empowerment Institution of the Village Credit Institution of Badung Regency and the Empowerment Institution of the Village Credit Institution of Tabanan Regency in controlling the risk of fraud that may occur in the Village Credit Institution. The areas of improvement are by encouraging the Village Credit Institution to create anti-fraud policies, forming anti-fraud organizations, compiling standards of behavior and discipline, fraud risk management, increasing employee awareness, compiling a fraud incident reporting system, providing protection to fraud reporters, and conducting investigation procedures to disclose fraud.

Managerial implication

The results of this study provide theoretical/academic implications and practical implications. The theoretical implications produced in this study support the Signaling and Sensitizing theories and the moral agency theory. The implications of the Signaling and Sensitizing theory can be seen from the auditors of the Village Credit Institution Empowerment Institution in Tabanan Regency and Badung Regency, who must increase awareness and attention to risk, this risk attention is applied in risk management, which greatly influences the success of implementing risk-based performance audits. The results of risk management are important materials that will be used in preparing risk-based performance audit plans. As we know, good audit planning is the beginning of a successful audit implementation and vice versa. Meanwhile, the moral agency theory is illustrated when the auditor conducts a risk-based performance audit. Based on information, the auditor is responsible for protecting the interests of the community. This responsibility is carried out by ensuring that the process at the Village Credit Institution runs smoothly. The auditors of the Village Credit Institution Empowerment Institution in Tabanan Regency and Badung Regency are ensuring that the Village Credit Institution business process runs smoothly, are carried out by running an audit work program during the audit. The implementation of the work program is documented by the auditor of the Village Credit Institution Empowerment Institution in the audit work paper and submitted through the audit report.

Practical implications in this study can be seen from the conditions of risk management carried out by the management of the Village Credit Institution, which is not good. The poor risk management is because the management of the Village Credit Institution has not yet determined content, identified and assessed risks, evaluated risks, and monitored risks. Based on the statement of the Coordinator of the Village Credit Institution Empowerment Institution of Badung Regency, it was stated that the Village Credit Institution in Badung Regency does not yet have a risk list. This risk list is the object of the risk-based performance audit.

The Village Credit Institution Empowerment Institution has conducted a performance audit, where in carrying out the audit, the auditor tested the risk of the Village Credit Institution using a list of statements/statements of the Village Credit Institution management. The list contains risk management and is a guideline for the Village Credit Institution to state its risks. The list of risks in the Village Credit Institution management statement is liquidity risk, risk of loans given, operational risk, legal risk, and risk of owners and managers. The list of statements was made before the audit was conducted by the Village Credit Institution Empowerment Agency and was not supported by installed controls over existing risks and was used by the Village Credit Institution Empowerment Agency auditors in determining the level of performance of the Village Credit Institution.

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