THE EFFECT OF INTERNAL CONTROL AND ORGANIZATIONAL CULTURE ON EARLY WARNING FRAUD

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Abstract. The bank is a business organization that has a high risk of fraud. This study aims to examine the influence of internal control and organizational culture on the early prevention of potential fraud based on the perceptions of bank employees. The population was banks listed on the Indonesia Stock Exchange. The sampling method uses a combination method, namely random sampling for bank selection and convenience sampling for respondents who are willing to participate in research. The number of sample banks that responded were 13 banks and the number of respondents was 51 people. Variables were measured by the Likert scale and data analysis used partial least square (PLS). The results showed that internal control and organizational culture have a significant positive effect on early warning fraud. The stronger the internal control and healthy organizational culture, the higher the bank's ability to detect early fraud that might occur.

Keywords: internal control, corporate culture, fraud, bank, Indonesia

1. INTRODUCTION

The national financial industry, especially banking, is currently overshadowed by acts of crime that manipulate information with the aim of making profits (fraud) committed by internal and external parties. Recently Fair Isaac Corp (2019), a data analysis company issued the following press release: (a) Card-not-present and application fraud ranked by banks as most concerning, (b) 74 percent of Asia Pacific (APAC) banks surveyed believe that cases of fraud in their country will increase moderately or significantly in 2019, (c) Rioritizing risk management over customer convenience, more than 50 percent of APAC banks' continue to simply block cards on the first fraud alert. Only 6 percent will keep the card open while trying to confirm fraud with the customer, dan (d) Overall fraud losses remain the leading indicator for 80 percent of fraud departments at APAC banks. Only six percent of APAC banks ranked customer satisfaction as their number one metric.

According to FICO (2019), nearly three of the four banks in the Asia Pacific anticipate that fraud in their country will increase in 2019. FICO surveyed 50 executives from financial institutions across the region at the Annual Asia Pacific Fraud Forum held in Bali, Indonesia. Of the banks surveyed, 54 percent said there would be a moderate increase in fraud in 2019 while 20 percent said there would be a significant jump. The Financial Services Authority has also noted that there were 108 cases of banking crime for almost two years (2014-2016), the following can be seen from the Table 1.1 below.

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Table 1.1
Cases of Crime in Banking for the 2014-2016 Period

Year	Cases	Case Type
2014	59 cases	- 55% Credit Cases
		- 21% Recording Engineering
2015	23 cases	- 15% Fundraising
		- 5% Transfer of Fund
2016	26 cases	- 4% Assest Procurement

Source: Website Otoritas Jasa Keuangan, 2018

Nelson (2018) conveyed in the socialization event the handling of alleged banking crime at the anti fraud forum, that:

Banking operational activities have a high complexity of irregularities, both administratively and leading to crime or fraud. The most types of fraud cases in banking are credit cases, including credit card data breach, incorrect listing, and others. Fraud actors are usually persons who are authorized to make decisions, and are related to handling banking operations.

The Association of Certified Fraud Examiners Indonesia (2017) in collaboration with the White Collar Crime Research and Prevention Center (P3K2P) in 2016 conducted a survey of fraud in Indonesia. This survey was conducted by distributing questionnaires to Certified Fraud Examiner (CFE) certificate holders and practitioners who were experienced in fraud checks. Table 1.2 below describes the findings above.

Table 1.2
Case Findings by ACFE 2017 Indonesia

Number	Fraud Type	Total Cases	Percentage
1	Corruption	178	77%
2	Asset misappropriation	41	19%
3	Financial Statement Fraud	10	4%

Source: ACFE Indonesia, 2017

ACFE Indonesia (2016) states that there are differences in the results of these surveys with surveys conducted by global ACFE. The global ACFE reports that the financial statement of fraud is the most detrimental fraud. This is because in Indonesia financial report crime has not been revealed much, such as the crime of information fraud on the stock exchange, as well as crimes due to tax information fraud. Also reported, that acts of corruption can be detected in a span of less than 12 months. Corruption acts can be detected through reports from internal employees of the company itself.

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Research on fraud has been carried out by Meliana and Trie (2019) on what motivates banking crimes in Indonesia. Evidence was taken from various banking crime cases that occurred in Indonesia in 2017 - 2018. Based on the analysis, it was found that almost 50% of banking fraud occurred in state banks and 80% of banking fraud perpetrators were at the management level. Research on prevention and fraud detection like Ida (2017) by looking at the effectiveness of internal controls in preventing fraud at Bank Mandiri. The study resulted in the effectiveness of internal controls affecting the prevention of fraud. However, the following year the research was carried out again by Fitri (2018) with different results. The results of these studies indicate that internal control does not affect the prevention of fraud.

Fraud prevention studies by looking at organizational culture are still rare. Cut (2018) concluded that organizational culture influences fraud prevention, the existence of a good organizational culture will shape the people involved in the organization having a high sense of belonging. Based on the phenomenon and previous research, the researcher aims to confirm the theory to obtain empirical evidence about the influence of internal control and organizational culture on fraud enforcement. The research questions are formulated as follows (1) whether Internal Control has an effect on Fraud Early Warning, (2) whether Organizational Culture has an effect on Early Warning Fraud. This study is expected to provide empirical evidence on how the influence of Internal Control and Organizational Culture can be an effective function in detecting fraud in banking companies in Indonesia, can help better company performance and companies can develop further and be able to become a reference for regulators to issue policies that more appropriate and in accordance with what is needed by the public in an effort to detect Early Warning Fraud.

2. LITERATURE REVIEW AND HYPOTHESIS

2.1. Agency Theory

Agency theory describes the relationship between shareholders as principals and management as agents. Management is a party contracted by shareholders to work in the interests of shareholders. Because they are chosen, the management must account for all their work to shareholders. Agency theory perspective is the basis used to understand internal control issues, and organizational culture. The theoretical agency results in an asymmetrical relationship between owners, managers and customers to avoid the relationship that the asymmetry requires a concept that is an internal control concept and an organizational culture that aims to make the company healthier

Jensen dan Meckling (1976) describe agency relationships as:

Agency relationship as a contract under which one or more person (the principals) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent.

2.2. Internal Control

According to ISA 315 Paragraph 4c in Theodorus (2015: 93):

Internal Control is a process that is designed, implemented and maintained by management and other employees to provide adequate insurance regarding the achievement of the entity's goals regarding financial reporting, effective and efficient operations, and compliance with laws and regulations per law.

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According to The Committee of Sponsoring Organizations (COSO) in Louwers, Ramsay, Sinason, Strawser & Thibodeu (2015:173):

Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to providen reasonable assurance regarding the achievement of objectives in the following categories: reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable lawsand regulations.

According to The Committee of Sponsoring Organizations (COSO) in Louwers, Ramsay, Sinason, Strawser & Thibodeu (2015: 173), the internal control component consists of: (1) the control environment is the responsibility of top management to clearly state the values of integrity and unethical activities that cannot be tolerated, (2) risk assessment where the company must identify and analyze the factors that create business risk and must determine how to manage these risks, (3) control activities to reduce fraud, management must design policies and procedure to identify certain risks faced by the company, (4) Information and communication so that the internal control system must be communicated and informed to all company employees from top to bottom, and (5) Monitoring so that the internal control system must be monitored periodically, if there is a significant shortfall, it must be immediately reported to top management to the board of commissioners. Arens, Elder & Beasley (2008:292) said that internal control is very important in effective control for management in order to fulfill: (1) Reliability of financial reporting, (2) Compliance with applicable laws and regulations, dan (3) Effectiveness and efficiency of operation

2.3. Organizational Culture

Soekanto (2005) in Busro (2018: 3) defines culture as a value system embraced by a supporter of the culture which includes abstract conception of good and bad, right and wrong. Or, institutionally the values adopted by an organization are adopted from the organization better through reinventing and re-organizing. Based on the above understanding, it can be said that a strong culture will support the creation of a positive achievement for its members. Strong culture will be adhered to by supporting community members. Culture that is internalized by the leadership will affect the behavior system of its subordinates, both within the organization and outside the organization.

The definition of organizational culture according to Kinicki and Fugate (2013: 32) is:

Organizational culture is the set of shared, taken for granted implicit assumptions that a group holds and that determines how it perceives, thinks about, and reacts to its various environments.

Robbins & Coulter (2010: 256-257) propose seven primary characteristics that shape organizational culture, namely: (1) Innovation and risk taking, (2) Attention to detail, (3) Result orientation, (4) Orientation of people, (4) Team organization, (6) Aggressiveness, and (7) Stability.

2.4. Fraud Theory

According to ISA 240.11 in Theodorus (2014:308):

Fraud is an intentional act by someone or some person between management, TCWG (those charged with governance), employees, or a third party, by cheating to obtain unjustified profits or illegal / unlawful profits.

According to Stuart (2014:149):

Fraud is a misstatement in the financial statements could be caused by unintentional is responsible company (errors) or intentional acts of the company (fraud).

The definition above can be interpreted that, fraud that is misstated in the financial statements can be caused by the company's accidental responsibility (mistake) or the company's intentional action (fraud).

Whereas, according to *Association of Certified Fraud Examiners* (ACFE):

Fraud is an act that is against the law that is intentionally carried out for a specific purpose (manipulation or giving a false report to another party) carried out by people from inside or outside the organization to gain personal or group benefits that directly or indirectly harm the party other.

Fraud is that implies a deviation and illegal act, which is done intentionally for certain purposes such as deceiving or misleading to other parties, which is done by good people from within or from outside the organization. A number of conceptual and empirical studies have been carried out on corporate fraud. This section provides a brief explanation of the reviews of relevant literature available divided into two subsections. The first sub-section discusses red flags: the fraud indicators while the second summarizes research studies on fraud detection and prevention companies.

According to Mangala & Kumari (2015) that:

Red flags are specific indicators representing potential theft occurrences and psychology of committing fraud. Red flags are events and conditions indicating motivation and opportunity for potential or actual fraud occurrences (SA 240). SAS 99 enhanced auditors' responsibility and required that auditors should focus over red flags while auditing. Primary duty for fraud detection remains with management while auditors have secondary role. Auditors should conduct brain storming sessions for better understanding of client's business and possible occurrence of fraud.

The statement above can be interpreted that, red flags are specific indicators that indicate the potential for theft and psychology of fraud. Red flags are events and conditions that indicate motivation and opportunities for potential or actual fraud (SA 240). SAS 99 increases auditor responsibility and requires that the auditor must focus on the alarm when auditing. The main task for detecting fraud remains with management, while auditors have a secondary role. The auditor must conduct brainstorming sessions for a better understanding of the client's business and the possibility of fraud. There are various ways to classify red flags as in Table 2.1 below.

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Tabel 2.1
Categorisation of Red Flags

Dimention	Propounded by	Constituents	Used Further
Fraud Triangle	Cressey (1953)	• Pressure • Opportunity • Rationalisation	Albrecht & Romney (1986); Heiman-Hoffman (1996); Wilks & Zimbleman (2002); Stalebrink & Sacco (2007); Kassem & Higson (2012); Murphy & Dacin (2011); Della-portas (2013); Moyes et al. (2013); Yucel (2013); Mohamed & Jomitin (2014); SAS 99; SA 240
Fraud Risk Assessment Hierarchy	Apostolou & Hassell (1993); Apostolou et al. (2001)	• Management characteristics and influence over control environment • Industry condition • Operating and financial stability characteristic	Apostolou & Hassell (1993); Apostolou et al. (2001); Smith et al. (2005); Hegazy & Kassem (2010); Gullkvist & Jokipii (2013);
Fraud Diamond	Wolfe & Hermanson (2004)	• Incentive • Opportunity • Rationalisation	Omar & Din (2010); Anandarajan & Kleinman (2011); Tugas (2012); Dilla et al. (2013); Gbegi & Adebisi (2014); Yusof & Lai (2014)

		• Capability	
Fraud Pentagon	Marks (2009)	• Pressure • Opportunity • Rationalisation • Competence • Arrogance	Tugas (2012)
3 C's Model	Razaee & Riley (2010)	• Condition • Corporate Culture • Choice	Zhou & Kapoor (2011); Gupta & Gill (2012)

Source: Review of Literature in Mangala & Kumari, 2015

Red flags have been categorized in many ways as in Mangala & Kumari (2015), that Fraud Financial Statements have been discussed according to the categorization of risk assessment hierarchies and danger signs related to assets misappropriation divided into two categories, namely susceptibility of assets to misappropriate and inadequacy of control. The fraud risk assessment hierarchy divides financial reports related to red flags into three categories: management characteristics and influence over environment control, industry condition and operating and financial stability characteristics disseminated by Apostolou & Hassell (1993) and Apostolou et al (2001) in Mangala & Kumari (2015). Razaee & Riley (2010) in Mangala & Kumari (2015) presented a 3C model to categorize red flags for financial report fraud as conditions (representing the benefits of fraudulent actions must exceed costs), corporate culture (corporate governance mechanisms) and choices (depending on management strategic intention). A broad literature review has helped Mangala & Kumari (2015) identify significant red flags in various categories of corporate fraud as illustrated in Figure 2.1.
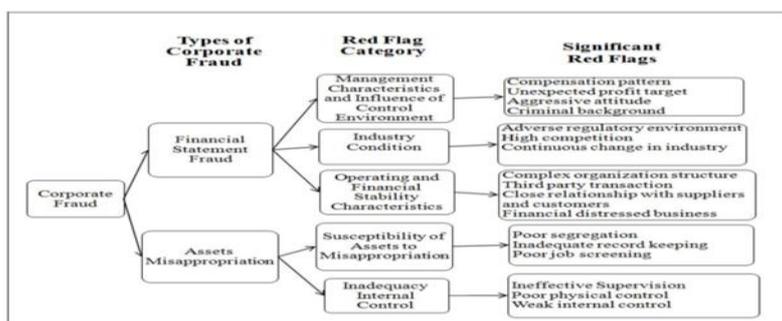
Source: Review of Literature in Mangala & Kumari, 2015

Figure 2.1

Category-Wise significant Red Flags

Red Flags Category oleh Mangala & Kumari (2015), as follow:

Management Characteristic and Influence Over Control Environment

Management characteristics indicate management capabilities, attitudes and motives that compel management to commit fraud. Many researchers such as Apostolou & Hassell (1993), Apostolou et al (2001), and Hegazy & Reimer (2010) examined the influence of management characteristics of over fraud occurrence. The research found as follows: (a) Compensation pattern, (b) Unexpected profit target, (c) Aggressive attitude, and (d) Criminal Background.

Industry Condition

Industrial conditions combine economic and legal effects of environmental factors outside business organizations. Some researchers namely Apostolou et al. (2001), Smith et al. (2005), and Moyes et al. (2006) in Mangala and Kumari (2015) found that industrial conditions related to the least significant variables. However, Apostolou & Hassell (1993) in Mangala and Kumari (2015) claim that industrial characteristics have more influence than operating characteristics. New and adverse regulatory environments in a country positively influence the involvement of business companies in fraudulent activities. High degree of competition and rapid change in industrial environment as factors that contribute to fraud.

Operating and Financial Stability Characteristic

These fraud risk indicators relate to the nature, financial condition, and profitability of a business company. Smith et al (2005) in Mangala and Kumari (2015) found operating and financial stability as a significant indicator of financial statement fraud. Close relationships with suppliers and third party transactions significantly predict fraud (Gullkvist & Jokipii, 2013 in Mangala and Kumari, 2015).

Susceptibility of Assets to Missappropriation

To cover up illegal actions, the opportunity for misuse of assets increases. In addition, research reveals that employees in business companies do most of the fraud.

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Inadequate Internal Control System

Research has revealed that poor internal control is one of the most important factors in cases of fraud (Moyes et al., 2006, ACFE, 2012, and Mohamed & Jomitin, 2014 in Mangala and Kumari, 2015). The organization's internal control system is an important tool for fighting fraud (Jessup & Noblet, 2012 in Mangala and Kumari, 2015).

2.5. Effect of Internal Control on Early Warning Fraud

According to the Committee of Sponsoring Organizations (COSO) in Louwers, Ramsay, Sinason, Strawser & Thibodeu (2015:173):

Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to providen reasonable assurance regarding the achievement of objectives in the following categories: reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable lawsand regulations.

According to Karyono (2013:47) explain the relationship between internal control and prevention of fraud as follows:

The main prevention of cheating is by establishing an internal control system in every organizational activity. Internal control in order to effectively prevent fraud must be reliable in the design of its control structure and healthy practices in its implementation.

Meliana & Trie (2019) has conducted an exploratory study of what motivates banking crimes in Indonesia using qualitative methods based on statistical data from the FSA. Based on the results of the analysis, it was found that internal supervision in banks was weak. The low level of internal control and customer trust in the banking system is an opportunity to carry out criminal acts by the perpetrators. Research on internal control with fraud prevention has also been carried out by Sitawati & Hadri (2018), Ida (2017), Adetiloye, Olokoyo & Taiwo (2016), Hari (2016), Dwi and Irma (2015), and Higgins (2012). From the study found and concluded that internal control has an effect on prevention of fraud (fraud).

So, internal control is a process and actions that are influenced by the board of commissioners, management, and other business unit personnel, which are designed to obtain adequate confidence in the reliability of financial reporting, compliance with laws, and applicable regulations, effectiveness and efficiency operations carried out in the company to secure the company's assets, test the truth and accuracy in recording, as well as to encourage compliance with all policies outlined by the company's leadership. Internal control is very important in detecting financial fraud that risks harming the company. If the effectiveness of control is higher, it can reduce fraudulent tendencies, but if the internal controls that are implemented are not effective and are not in accordance with the conditions of the company, the level of fraud will be higher.

2.6. Effect of Organizational Culture on Early Warning Fraud

The definition of organizational culture according to Kinicki and Fugate (2013: 32) is:

Organizational culture is the set of shared, taken for granted implicit assumptions that a group holds and that determines how it perceives, thinks about, and reacts to its various environments.

Culture in the company can prevent fraud in accordance with Amin's theory (2012: 59), that a culture of honesty and high-value ethics can prevent deficiencies in an organization. Research on organizational culture on fraud prevention has been carried out by Cut (2018). The conclusion of the study is that organizational culture has a significant positive effect on fraud prevention. The study was also supported by Vollmer (2018), Osemeke (2017), Imoniana & Murcia (2016), and McConnel (2012). Organizational culture reflects the character of an organization, guidelines for all members of the organization in carrying out their duties. Strong culture is a tool for competing in an organization, if culture in an organization has bad habits, it will have a negative impact on the organization itself, making it difficult for the organization to achieve the goals to be achieved. The culture in the company provides information about how employees should behave.

A good organizational culture will not open the slightest opportunity for individuals to commit fraud, because a good organizational culture will shape the people who are in the organization have a sense of belonging (sense of belonging) and a sense of pride to be part of the organization (sense of identity) Thus it can be said that a good organizational culture is very important in preventing fraud. Preventive action can be applied through a well-developed work culture where the culture will produce good fundamental values of the organization such as upholding honesty, integrity and so on, with a good organizational culture and anticipation of fraud it will increase customer confidence in the bank that, where one of the goals of banking is to increase customer trust. The connection between organizational culture and prevention of fraud is very close. The habits that exist in the company greatly influence the attitude or behavior of members of the organization, each member will behave according to the habits or culture that is applied in the organization. A good cultural climate will create good behavior for everyone in the organization. If a company considers fraud to be a natural or common thing, then every person in the company will commit fraud because the event rationalizes such actions as normal or normal actions. Therefore, it can be said that the better the culture in the company, the better the level of fraud prevention. Based on the formulation of the problem that has been written before, this research is a retest of several previous studies, where this study intends to examine the influence of internal control and organizational culture on early warning fraud. So, illustrating the framework of this study can be seen in Figure 2.2 below.
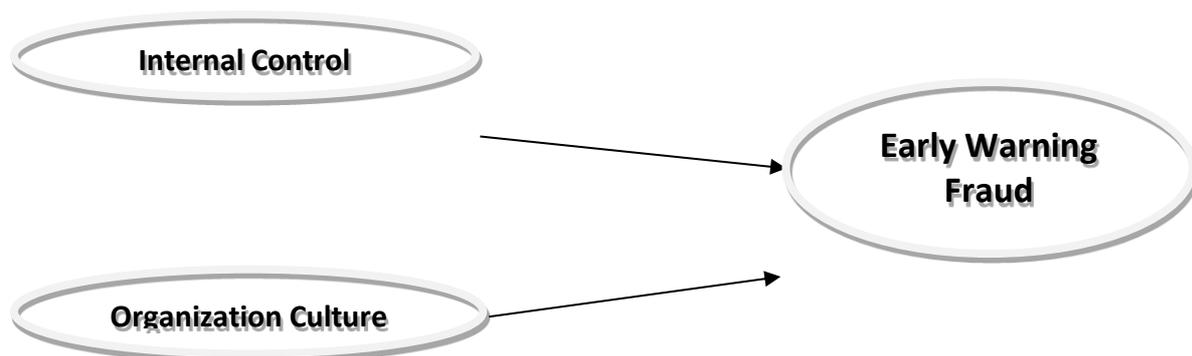

Figure 2.2

Framework for Research Thinking

Based on the above framework, the research hypothesis can be formulated to be tested as follows:
H1   : There is a positive influence of Internal Control on Early Warning Fraud.
H2   : There is a positive influence of the Organizational Culture on Early Warning Fraud.

3. RESEARCH METHODS

This type of research is quantitative research, which aims to test hypotheses. To explain the nature of a particular relationship, or determine differences between groups or freedom (independence) two or more factors in a situation (Sekaran, 2015). In accordance with the research objectives, the research design used in this study is causal design. Causal design is useful for finding the cause of one or more problems (now, 2015). The sampling technique in this study was conducted by purposive sampling, data collection using research instruments, data analysis is quantitative in order to test the hypothesis that has been set. Based on the time, this research is a single sectional study, namely research conducted at one time period and to collect related data in order to find answers to research questions.

Table 3.1
Operationalisation Variable

Nu.	Variable	Dimention	Indicator	Measurement Scale
1.	Internal Control (X1) • COSO in Louwers, Ramsay, Sinason, Strawser, Thibodeu (2015,73)	Control Environment	1. Value of integrity and ethics 2. Management philosophy and style of management	Interval
		Risk Assessment	3. Existence and Accuracy 4. Completeness 5. Assessment and Allocation	Interval
		Control Activities	6. Job Description 7. Assets Security 8. Accounting Records	Interval
		Information and Communication Systems	9. Classification 10. Punctuallity	Interval

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Nu.	Variable	Dimention	Indicator	Measurement Scale
		Monitoring	11. Frequency of activity evaluations 12. Reconciliation of financial statements	Interval
2.	Organization Culture (X2) • Robbins & Coulter (2012:80) • Taliziduhu in Tika (2011:114)	Seven Characteristics of Primer	1. Innovation and risk taking 2. Pay attention to details 3. Orientation to results 4. Individual orientation 5. Orientation to the team 6. Aggressiveness 7. Stability	Interval
3.	Early Warning Fraud (Y) Wise Significant Red Flag Category	Management characteristics and influence of Control Environmet	1. Compensation pattern 2. Unexpected profit target 3. Aggressive attitude 4. Criminal Background	Interval
		Industry Condition	5. Adverse regulatory environment 6. High competition	Interval

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Nu.	Variable	Dimention	Indicator	Measurement Scale
	(Corporate Fraud) • Mangala & Kumari (2015) • Razaee & Riley (2010)		7. Continuous change in industry	
		Operating and Financial Stability Characteristic	8. Complex organization structure 9. Third party transaction 10. Close relationship with auditor 11. Financial distressed business	Interval
		Susceptibility of Assets to Misappropriation	12. Poor segregation 13. Inadequate recoed keeping 14. Poor job screening	Interval
		Inadequacy Internal Control	15. Ineffective supervision 16. Poor physical control 17. Weak internal controls	Interval

Source: Results of literature review, July 2019

The population is banks listed on the Indonesia Stock Exchange. The sampling method uses a combination method, namely random sampling for bank selection and convenience sampling for respondents who are willing to participate in research, then the respondents will be calcified based on criteria (purposive sampling). The selection criteria for the sample are as follows: (a) Based on the Internal Audit Division, Corporate Management Risk and Internal Supervision, (b) Based on the level of position (the status of permanent employees), (c) Based on experience (minimum length of work more than 1 year), and (d) Based on education level (minimum Diploma 3). Variables are measured by the Likert scale and data analysis is measured using partial least square (PLS). In this study the author gives a weight assessment of the answers given by respondents from the questions posed using a Likert scale with the lowest value 1 and the highest 5.

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4. RESULTS AND ANALYSIS

The population in this study were all employees who worked for banking companies listed on the IDX, while samples were chosen based on the willingness of respondents required to participate in this study to fill out the questionnaire. The instrument used in this study is a questionnaire given directly and on-line to respondents who work in the internal audit division, management risk and internal supervision. The questionnaire sent to respondents is done in 2 ways, namely with Google Form (the link from the missionary: https://forms.gle/XDUmJzcDZ1VhjMyo7) which is sent online and delivered directly to respondents who work in banking companies listed on the Indonesia Stock Exchange. The questionnaires made on E-form and non-form were distributed as many as 140 questionnaires carried out from 26 June 2019 - 19 July 2019 to respondents who worked for Banking Companies listed on the selected Indonesia Stock Exchange (details can be seen in Table 4.1).

Table 4.1
List of Number of Banking Company Respondents listed on the Indonesia Stock Exchange

Bank Name	Questionnaire Sent	Return Questionnaire
Bank Umum Persero (Bumn Pemerintah)		
Bank Rakyat Indonesia (Persero), Tbk	15	7
Bank Mandiri (Persero), Tbk	20	17
Bank Negara Indonesia (Persero), Tbk	15	7
Bank Umum Swasta Nasional (Busn) Devisa		
Bank Danamon Indonesia, Tbk	10	1
Bank Central Asia, Tbk	10	3
Bank Mega, Tbk	10	1
Bank OCBC NISP, Tbk	10	1
Bank Jtrust Indonesia, Tbk	10	1
Bank Panin	10	3
Bank CIMB Niaga	10	3
Bank HSBC	10	1
Bank Pembangunan Daerah (BPD)		
BPD DKI	5	2
Bank DKI	5	4
Total	**140**	**51**

Source: Results of research data collection, July 2019

Based on Table 4.1 above, that of the 140 questionnaires sent to respondents there were as many as 51 questionnaires that had returned to the researchers. Of the 51 questionnaires it is feasible to be included in data processing because it meets the requirements to be used in statistical test applications, namely Partial Least Square (PLS) software with data of at least 30 and above (Lela, 2018). Respondents in this study included all employees / employees who worked for banking companies listed on the Indonesia Stock Exchange which would later be classified according to Table 4.2 below.

Table 4.2
Profile of Banking Company Respondents

Clasification	Total
Gender	
Man	28
Women	23
Study	
D3	8
S1	35
S2	7
S3	1
Division	
Audit Internal	20
Fraud Analis	5
Compliance	14
Investigator	3
Risk Management	9
Level	
Staff	38

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Supervisor – Asisten Manager	7
Head of Division/Manager	6
Length of work	
1 – 5	28
6 – 10	17
>11	6

Source: Results of research data collection, July 2019

4.1. Descriptive Statistics

4.1.1. Internal Control

Internal Control variables are measured using instruments from 12 statements with 5 Dimentionons. The following results from the descriptive statistical test of Internal Control variables can be seen in Table 4.3 below

Table 4.3
Internal Control Descriptive Statistics

Indicator	Mean	Std. Deviation
Control Environment		
The company has adequate standards of behavior and ethics	4.25	0.91
The company has a control structure that covers the framework of planning, implementation, control and supervision in achieving its objectives	4.21	0.94
Mean & SD Dimention	**4.23**	**0.93**
Risk Assessment		
Management has a way or technique to control the risks that occur and run effectively	4.11	0.90
The company has a part to identify risks to strengthen the internal control system	4.25	0.65

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The company is able to assess significant changes that can affect the internal control system	4.05	0.83
Mean & SD Dimention	**4.14**	**0.79**
Control Activities		
The company has a clear organizational structure in reflecting tasks for achieving company goals	4.11	0.93
The company applies certain procedures to provide physical security relating to assets	4.29	0.72
The company requires the use of accounting documents to ensure that every accounting transaction is properly recorded	4.29	0.87
Mean & SD Dimention	**4.23**	**0.84**
Information and Communication Systems		
The company requires that every transaction and activity that occurs has been properly summarized	4.25	0.89
The company has imposed a rule that every transaction and activity that occurs must be recorded on the appropriate date	4.39	0.72
Mean & SD Dimention	**4.32**	**0.80**
Monitoring		
The leader communicates the lack of internal control to the responsible party	4.17	0.86
The company's management conducts sudden checks on operations, accounting records and reports in an unspecified time	4.17	0.88
Mean & SD Dimention	**4.17**	**0.87**

Source: Primary data processed by Microsoft Excel, July 2019

Based on Table 4.3 shows, that the Internal Control variable with the fifth Dimentionon has a mean value of 4.00 and above (very high) and the standard deviation of 0.60 and above. This shows that Internal Control in the banking companies listed on the IDX has been influenced by the board of commissioners, management, and other business unit personnel, which are designed to obtain adequate confidence in the reliability of financial reporting, compliance with applicable laws and regulations, effectiveness and efficiency of operations carried out in the company to secure the company's assets, test the truth and accuracy in recording, as well as to encourage compliance with all the policies outlined by the leadership of the company.

This is in accordance with the Circular of the Financial Services Authority Number 35 / SEOJK.03 / 2017 Standard Guidelines for Internal Control Systems for Commercial Banks. The Standard Guidelines for Internal Control Systems for Commercial Banks cover at least 5 (five) main components, namely: supervision by management and culture of control, identification and risk assessment, control and separation of functions, accounting systems, information and communication as well as monitoring activities and corrective actions deviation.

Control Environment

Based on Table 4.3 above, for the statement of the control environment are X1.1 and X1.2 with the average respondent answering the control environment with a mean value of 4.23 and a standard deviation of 0.93. This shows that the control environment in the banking companies listed on the IDX already has adequate standards of behavior and ethics and has a control structure that covers the framework of planning, implementation, control and supervision in achieving the objectives. The control environment is the responsibility of top management to clearly state the values of integrity and unethical activities that cannot be tolerated.

Risk Assessment

The company must identify and analyze the factors that create business risk and must determine how to manage these risks. Based on Table 4.3 above, for the statement of risk assessment Dimentionons are X1.3, X1.4 and X1.5. The average respondent answers risk assessment with a mean value of 4.14 and a standard deviation of 0.79. This shows that the risk assessment in the banking companies listed on the IDX already has a method or technique to control the risks that occur and run effectively, have a part to identify risks or the Risk Management section, and are able to assess significant changes that can affect the internal control system.

Control Activities

Control activities to reduce the occurrence of fraud, management must design policies and procedures to identify certain risks faced by the company. Based on Table 4.3 above, for statements of control activity Dimentionons are X1.6, X1.7 and X1.8. The average respondent answers control activities with a mean value of 4.23 and a standard deviation of 0.84. This shows that the control activities in the banking companies listed on the Stock Exchange already have a clear organizational structure in reflecting tasks for achieving company goals, implementing certain procedures to provide physical security related to assets and requiring the use of accounting documents to guarantee that each accounting transaction has been recorded appropriately.

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Information and Communication Systems

The internal control system must be communicated and informed to all company employees from top to bottom. Based on Table 4.3 above, for statements of information and communication system Dimentionons are X1.9 and X1.10. The average respondent answers information and communication systems with a mean value of 4.32 and a standard deviation of 0.80. This shows that the information and communication system in the banking companies listed on the IDX has been classified by requiring that every transaction and activity that has occurred has been properly summarized and timeliness that has imposed the rule that each transaction and activity that occurs must be recorded on the appropriate date.

Monitoring

The internal control system must be monitored regularly. If there is a significant shortfall, it must be immediately reported to top management to the board of commissioners. Based on Table 4.3 above, for supervision Dimentionon statements are X1.11 and X1.12. The average respondent answers supervision with a mean value of 4.17 and a standard deviation of 0.87. This shows that the supervision of the banking companies listed on the IDX has communicated the lack of internal control to the responsible party and that the company's management has carried out sudden checks on operations, accounting records and reports in an unspecified time.

4.1.2. Organizational Culture

Organizational Culture Variables are measured using instruments with 7 statements, from 7 indicators. The following results from the descriptive statistical test of Organizational Culture variables can be seen in Table 4.4 below.

Tabel 4.4
Organizational Culture Descriptive Statistics

Indicator	Mean	Std. Deviation
Innovation and Risk Taking		
The leadership encourages employees to express conflict openly as a media to make improvements or change strategies to achieve goals	3.96	0.91
Pay attention to details		
The leadership encourages organizational units to work in a coordinated way to improve the quality and quantity of work produced	4.09	0.90
Orientation to Results		

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Leaders are able to explain the expectations of the organization to members / employees to help achieve the mission of the leadership / organization to improve performance	4.03	0.89
Individual Orientation		
The leader is able to appreciate the freedom of each individual in expressing his opinion ideas for the progress of the organization / leadership	4.09	0.90
Orientation to the Team		
Pimpinan mampu menjelaskan mengenai tujuan organisasi kepada anggota/pegawai untuk membantu mencapai visi Pimpinan/organisasi guna meningkatkan kinerja organisasi/Pimpinan	4.01	0.90
Aggressiveness		
Pimpinan memberikan toleransi kepada anggota/pegawai untuk bertindak agresif dalam memajukan organisasi/Pimpinan	3.82	0.99
Stability		
Leaders give equal tolerance to members / employees freely and stably in order to advance the organization / leadership	3.94	0.92

Source: Primary data processed by Microsoft Excel, July 2019

Based on Table 4.4 shows, that the Organizational Culture variable with the 7 indicators has the lowest value an average of 1, while the highest value is 5 with a mean value of 3.00 and above (high) and the standard deviation of 0.80 and above. This shows that the Organizational Culture in the banking companies listed on the Stock Exchange is high on the beliefs, values, norms, habits, attitudes and behavior of members in an organization created or developed by a group of people who become joint guidelines for organizational interaction to solve internal and external problems. and become a differentiator between one organization and another organization.

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Innovation and risk taking

Based on Table 4.4 above, for the statement of indicators of innovation and risk taking is X2.1. The average respondent answers innovation and risk taking with a mean value of 4.09 (Very High) and a standard deviation of 0.91. This shows that innovation and risk taking in banking companies listed on the IDX have encouraged employees to openly express conflict as a media to make improvements or change strategies to achieve goals.

Attention to detail

Based on Table 4.4 above, for the statement of the indicator of attention to detail is X2.2. The average respondent answers attention to detail with a mean value of 3.96 (High) and a standard deviation of 0.90. This shows that attention to detail in the banking companies listed on the IDX has encouraged organizational units to work in a coordinated way to improve the quality and quantity of work produced.

Orientation to results

Based on Table 4.4 above, for the statement of the orientation indicator on the results is X2.3. The average respondent answers the results orientation with a mean value of 4.03 (Very High) and a standard deviation of 0.89. This shows the orientation on the results of the banking companies listed on the Stock Exchange have been able to explain the expectations of the organization to members / employees to help achieve the mission of the leader / organization to improve performance.

Individual orientation

Based on Table 4.4 above, for statements from individual orientation indicators is X2.4. The average respondent answers individual orientation with a mean value of 4.09 (Very High) and a standard deviation of 0.90. This shows that the individual orientation of the banking companies listed on the IDX has been able to appreciate the freedom of each individual in expressing their ideas for the progress of the organization / leadership.

Organization of the team

Based on Table 4.4 above, for the statement of the orientation indicator on the team is X2.5. The average respondent answers the orientation of the team with a mean value of 4.01 (Very High) and a standard deviation of 0.90. This shows the orientation of the team at the banking company listed on the IDX has been able to explain the goals of the organization to members / employees to help achieve the vision of the leader / organization to improve organizational performance / leadership.

Aggressiveness

Based on Table 4.4 above, for the statement of the aggressiveness indicator is X2.6. The average respondent answers aggressiveness with a mean value of 3.82 (High) and a standard deviation of 0.99. This shows that aggressiveness in banking companies listed on the Stock Exchange has tolerated members / employees to act aggressively in advancing the organization / leadership.

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Stability

Based on Table 4.4 above, for the statement of the indicator of stability is X2.7. The average respondent answers stability with a mean value of 3.92 (High) and a standard deviation of 0.92. This shows that the stability of the banking companies listed on the IDX has given equal tolerance to members / employees freely and stably in order to advance the organization / leadership.

4.1.3. Early Warning Fraud

Variable Early Warning Fraud measured using instruments from 17 statements with 5 Dimentionons. The following results from the descriptive statistical test of Organizational Culture variables can be seen in Table 4.5 below.

Table 4.5
Early Warning Fraud Descriptive Statistics

Indicator	Mean	Std. Deviation
Management characteristics and influence of Control Environmet		
The company carries out professional compensation programs for all employees	4.05	0.94
The company is able to create a climate of honest culture, openness, and mutual assistance between fellow employees and company management	4.05	0.81
The company applies rules of conduct and codes of ethics in employees that are clear, easy to understand and adhere to	4.09	0.85
The company has a policy for the recruitment of new employees in terms of background checks, verification of education, employment history, as well as personal references to prospective employees, including references to character and integrity	4.13	0.93
Mean & SD Dimention	**4.05**	**0.88**
Industry Condition		
The company carries out an objective evaluation of compliance with company values and standards of behavior, and each violation is dealt with immediately	4.00	0.89
The company is able to provide recognition and reward systems in accordance with the goals and results of performance, as well as equal opportunities for all employees	4.15	0.88

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The company carries out periodic objective evaluations of compliance with company values	4.03	0.87
Mean & SD Dimention	**4.06**	**0.88**
Operating and Financial Stability Characteristic		
The company has a complex organization and a clear separation of functions	3.94	0.88
The company cooperates with the Independent Examination Committee in combating fraud	4.21	0.87
The company is transparent and does not limit the auditor to access the information needed	4.15	0.85
The company has an assistance program for employees who have difficulties in financial problems due to the existing economic pressure	4.05	0.88
Mean & SD Dimention	**4.08**	**0.87**
Susceptibility of Assets to Misappropriation		
The company provides training in fraud awareness regarding ethical behavior of employees and management	4.11	0.81
The company is able to avoid and not tolerate any late reconciliation of financial statements	3.98	1.01
The company applies periodic checks to employees and company management on a regular basis	4.09	0.90
Mean & SD Dimention	**4.06**	**0.90**
Inadequacy Internal Control		
The company conducts training regularly for all employees regarding company values and rules of behavior	4.17	0.81
The company routinely imposes employee rotation on certain parts such as the Asset and Cash section	3.96	0.91
The company instilled the impression that every fraud would get sanctions	4.27	0.77

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Mean & SD Dimention	4.13	0.83

Source: Primary data processed by Microsoft Excel, July 2019

Based on Table 4.5 shows, that the Early Warning Fraud variable with the 17 indicators has a mean value of 3.00 and above (high) and a standard deviation of 0.70 and above. This shows that the Early Warning Fraud in banking companies listed on the IDX is high on integrated efforts that can reduce the occurrence of the causes of the Red Flags Category. Fraud that means a deviation and illegal act, which is done intentionally for certain purposes such as deceiving or misleading (mislead) to other parties, carried out by people both inside and outside the organization.

Management characteristics and influence of Control Environmet

Based on Table 4.5 above, statements from the Dimentionons of characteristic and influence management over control environment have indicators namely Compensation pattern (Y1), Unexpected profit target (Y2), Aggressive attitude (Y3), and Criminal Background (Y4). The average respondent answers stability with a mean value of 4.05 (Very High) and a standard deviation of 0.88. This shows that the management of characteristic and influence over control environments in banking companies listed on the Indonesian Stock Exchange has carried out a professional compensation program for all employees, able to create a climate of honest culture, openness and mutual assistance between employees and company management, enforcing codes of conduct and codes. ethics in the employee environment that is clear, easy to understand and adhere to and has a policy for the acceptance of new employees in terms of background checks, verification of education, employment history, and personal references of prospective employees, including references to character and integrity.

Industry Condition

Based on Table 4.5 above, for statements from Industry Condition Dimentionons it has indicators namely Adverse regulatory environment (Y5), High competition (Y6) and Continuous change in industry (Y7). The average respondent answers stability with a mean value of 4.06 (Very High) and a standard deviation of 0.88. This shows that the industry conditions in the banking companies listed on the IDX have carried out an objective evaluation of compliance with company values and standards of behavior, and every violation was dealt with immediately, were able to provide recognition and reward systems in accordance with the performance targets and results, and equal opportunities for all employees and carry out periodic objective evaluations of compliance with company values.

Operating and Financial Stability Characteristic

Based on Table 4.5 above, statements from the Operating and Financial Stability Characteristics have indicators such as Complex organization structure (Y8), Third party transactions (Y9), Close relationship with auditors (Y10) and Financial distressed business (Y11). The average respondent answers stability with a mean value of 4.08 (High) and a standard deviation of 0.87. This shows that operating and financial stability characteristics of banking companies listed on the IDX already have complex organizations and clear separation of functions, have collaborated with the Independent Examination Committee in combating fraud, transparency by not restricting auditors from accessing information needed, and having programs assistance to employees who have difficulties in financial problems due to the existing economic pressure.

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## Susceptibility of Assets to Misappropriation

Based on Table 4.5 above, statements from the Susceptibility of Assets to Misappropriation Dimentionon have indicators such as Poor segregation (Y12), Inadequate recoed keeping (Y13) and Poor job screening (Y14). The average respondent answers stability with a mean value of 4.06 (High) and a standard deviation of 0.90. This shows that the susceptibility of assets to misappropriation in banking companies listed on the Stock Exchange has provided training in fraud awareness regarding ethical behavior of employees and management, is able to avoid and not tolerate late reconciliation of financial statements and impose sudden checks on employees and company management periodically.

Inadequacy Internal Control

Based on Table 4.5 above, for statements from the Inadequacy Internal Control Dimentionon have indicators namely Effective supervision (Y15), Poor physical control (Y16) and Weak internal controls (Y17). The average respondent answers stability with a mean value of 4.13 (High) and a standard deviation of 0.83. This shows that inadequacy internal control in banking companies listed on the IDX has routinely conducted training for all employees regarding company values and rules of conduct, routinely imposes employee rotations on certain parts such as assets and cash and implies that every fraud will get sanctions.

4.2. Outer Models or Measurement Models

In this study, hypothesis testing used Partial Least Square (PLS) analysis techniques with the smartPLS 3.0 program. The following is a schematic of the PLS program model tested which can be seen in Figure 4.1 below.
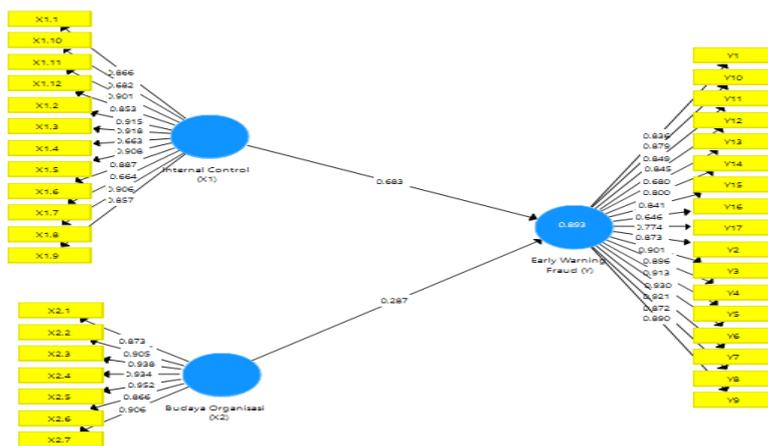
Source: Results of processing primary data using the SmartPLS 3.0 program, July 2019
Figure 4.1
Display of PLS Algorithm Results

The Internal Control variable (X1) consists of 5 Dimentionons with 12 statement indicators. The results of data processing can be seen in Table 4.6.

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Table 4.6
Outer Loading (covergent validity) Variable Internal Control (X1)

Indicator	loading factor
X1.1	0,86
X1.2	0,91
X1.3	0,91
X1.4	0,66
X1.5	0,90
X1.6	0,88
X1.7	0,66
X1.8	0,90
X1.9	0,85
X1.10	0,68
X1.11	0,90
X1.12	0,85

Source: Results of processing primary data using the SmartPLS 3.0 program, July 2019

Based on the results of data processing using SmartPLS 3.0 as seen in Table 4.6, that of the 12 indicators found on indicators X1.4, X1.7 and X1.10 has a value of loading factor <7.0 is considered sufficient and the rest has a value of loading factor> 7.0. Thus, there are no indicators that are eliminated from the Internal Control variable model (X1) because the loading factor value must be greater than 0.7 for confirmatory research, and for the initial stage of research on the development of the scale of measuring the loading factor 0.5 - 0 , 6 is still considered sufficient (in Ghozali, 2015: 165).

The Organizational Culture Variable (X2) consists of 7 question indicators. The results of data processing can be seen in Table 4.7.

Table 4.7
Outer Loading (covergent validity Organizational Culture Variable (X2)

Indicator	*loading factor*
X2.1	0,87
X2.2	0,90
X2.3	0,93
X2.4	0,93
X2.5	0,95
X2.6	0,86
X2.7	0,90

Source: Results of processing primary data using the SmartPLS 3.0 program, July 2019

Based on the results of data processing using SmartPLS 3.0 as seen in Table 4.7, that of the 7 indicators has a value of loading factor> 7.0. Thus, there are no indicators that are eliminated from the Organizational Culture variable model (X2).

Variable Early Warning Fraud (Y) consists of 5 Dimentionons with 17 question indicators. The results of data processing can be seen in Table 4.8.

Table 4.8
Outer Loading (covergent validity) Early Warning Fraud (Y)

Indicator	loading factor
Y1	0,83
Y2	0,87
Y3	0,90
Y4	0,89
Y5	0,91
Y6	0,93
Y7	0,92
Y8	0,87

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Y9	0,89
Y10	0,87
Y11	0,84
Y12	0,84
Y13	0,68
Y14	0,80
Y15	0,84
Y16	0,64
Y17	0,77

Source: Results of processing primary data using the SmartPLS 3.0 program, July 2019

Based on the results of data processing using SmartPLS 3.0 as seen in Table 4.8, that of the 17 indicators found in the indicators Y13 and Y16 the value of loading factor <7.0 is considered sufficient and the remainder has a value of loading factor> 7.0. Thus, there are no indicators that are eliminated from the Early Warning Fraud (Y) variable model because the value of the loading factor must be greater than 0.7 for confirmatory research, and for the initial phase of research to develop a scale measuring the value of factor loading 0.5 - 0.6 is still considered sufficient (in Ghozali, 2015: 165). The results of discriminant validity testing showed that cross loading variables> 0.70 are shown in Table 4.9.

Table 4.9
Discriminant Validity

IC (X1)	**0,84**	0,88	0,93
OC (X2)	-	**0,91**	-
EWF (Y)	-	0,88	**0,84**

Source: Results of processing primary data using the SmartPLS 3.0 program, July 2019

Another way to test discriminant validity is to compare the square root of AVE for each construct with the correlation value between constructs in the model. A good AVE is assumed to have a value greater than 0.5 (Ghozali, 2015). The result of AVE testing is that all contracts in the research model meet the validity requirements. The test results are shown in table 4.10.

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Table 4.10
Average Variance Extracted (AVE)

Variable	Average Variance Extracted (AVE)
Internal Control (X1)	0,70
Organizational Culture (X2)	0,83
Early Warning Fraud (Y)	0,71

Source: Results of processing primary data using the SmartPLS 3.0 program, July 2019

Based on the results of data analysis using PLS, the value of crobanchs alpha for Internal Control variables, Organizational Culture and Early Warning Fraud shows values above 0.7. This means that the contract is declared reliable. The results of the study are presented in Table 4.11 below.

Table 4.11
Value of Composite Reliability and Cronbach's Alpha

Variable	Composite Reliability	Cronbachs Alpha
Internal Control (X1)	0,96	0,96
Organizational Culture (X2)	0,97	0,96
Early Warning Fraud (Y)	0,97	0,97

Source: Results of processing primary data using the SmartPLS 3.0 program, July 2019

4.3. Inner Models or Structural Models

The structural model of this study can be seen in Figure 4.2 below:
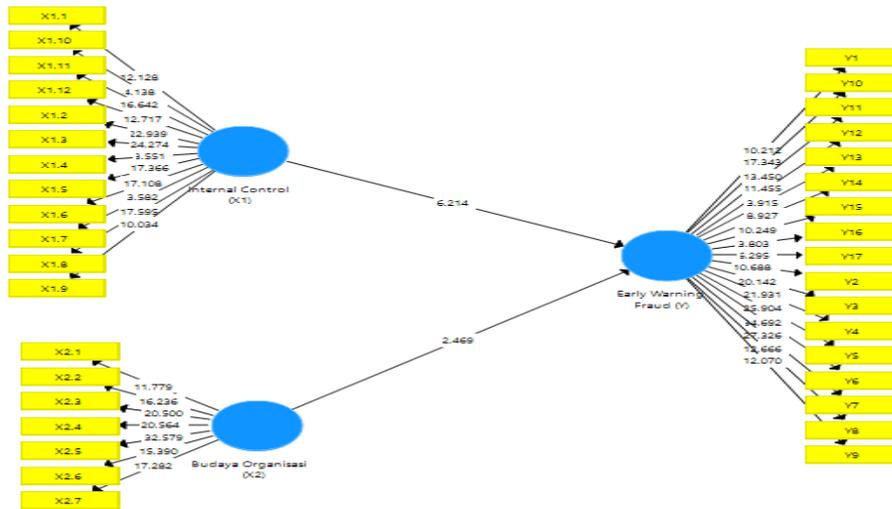
Source: Results of processing primary data using the SmartPLS 3.0 program, Juli 2019

Figure 4.2
Display of Bootstrapping PLS Results

The coefficient of determination aims to measure how far the ability of the model in explaining the variance of the dependent variable. If the value of the coefficient of determination is small or value below 0.500 (R2 ≤ 0.500) means that the ability of independent variables to explain the dependent variable is very limited. Whereas if the determination coefficient value is greater than 0.500 (R2> 0.500), it means that the ability of the independent variables provides almost all the information needed to predict the variation of the dependent variable (Ghozali, 2015). The following results are presented in Table 4.12.

Table 4.12
R-Square Value

	R Square	R Square Adj.
Early Warning Fraud	0,89	0,88

Source: Results of processing primary data using the SmartPLS 3.0 program, July 2019

Table 4.12 shows the R-square value of 0.89 for Variable Y (Early Warning Fraud), can be interpreted as X1 (Internal Control) and X2 (Organizational Culture) so it can explain Y (Early Warning Fraud) of 89%.

4.4. Hypothesis

Hypothesis testing can be seen from the value of t-statistics provided that if the t-statistic value is> 1.96 then the hypothesis can be accepted, but if the t-statistic value is below 1.96, the hypothesis will be rejected or in other words accept the null hypothesis (H0). The results of t-statistics can be seen in Table 4.13.

Table 4.13
Path Coefficient (mean, STDEV, T-Values)

	Original Sample (O)	Sample Mean (M)	STDEV	T Statistic	P Value
Internal Control (X1) – Early Warning Fraud (Y)	0,683	0,703	0,106	6,469	0,000
Organizational Culture (X2) – Early Warning Fraud (Y)	0,287	0,269	0,110	2,604	0,009

Source: Results of processing primary data using the SmartPLS 3.0 program, July 2019

From the output path coefficient results in this study indicate that the relationship between Internal Control (X1) and Early Warning Fraud (Y) and Organizational Culture (X2) with Early Warning Fraud (Y) is significant with statistical values of 6.469 and 2.604 (Statistics> 1). , 96). The value of P Value is 0,000 and 0,009 which indicates the direction of the relationship between Internal Control and Organizational Culture of Fraud Early Warning is positive. So the H1 and H2 hypotheses in this study were supported.

4.5. Discussion

Based on the results of testing the first hypothesis it can be concluded that the Internal Control variable affects the Early Warning Fraud. This is in accordance with the hypothesis that Internal Control has an effect on Early Warning Fraud as Azhar (2013: 93) states that a comprehensive internal control system, implemented thoroughly and regularly monitoring the activities of an organization is an important step to maintain and detect risk of loss caused by financial fraud.

The Committee of Sponsoring Organizations (COSO) in Louwers, Ramsay, Sinason, Strawser & Thibodeu (2015:173):

"Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to providen reasonable assurance regarding the achievement of objectives in the following categories: reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable lawsand regulations."

Internal control has roles and functions that are very important in the operations of corporate organizations, one of which is to prevent fraud that can occur within the organization. This supports research conducted by Ida (2017) where the effectiveness of internal control has a significant effect on fraud prevention and research conducted by Adetiloye, Olokoyo & Taiwo (2016) who find that internal control is effective against fraud. Bank Indonesia requires that Indonesian banks have an effective internal control system in accordance with Bank Indonesia Regulation Number 14/27 / PBI / 2012 with effective internal control system implementation, among others, evidenced by: (a) having adequate internal policies, procedures and monitoring, (b) there is a limit on the authority and responsibility of the work unit related to the implementation of the AML and CFT program, and (c) the inspection is carried out to ensure the effectiveness of the implementation of the AML and CFT program by the internal audit work unit.

The Financial Services Authority also provides convenience for banks in Indonesia in meeting the internal control system standards for commercial banks listed in the Financial Services Authority Circular Number 35 / SEOJK.03 / 2017 Standard Guidelines for Internal Control Systems for Commercial Banks. In preparing the internal control system, the Bank must consider the total assets, products and services offered, including new products and services, operational complexity, office networks, risk profiles of each business activity, methods used for data processing and risk measurement, and related provisions . The Standard Guidelines for Internal Control Systems for Commercial Banks cover at least 5 (five) main components, namely: (a) management oversight and control culture, (b) Risk identification and assessment, (c) control and separation of functions, (d) accounting, information and communication systems; and (e) monitoring activities and deviation correction actions.

Based on the results of testing the second hypothesis it can be concluded that the Organizational Culture variable has an effect on Early Warning Fraud. This is in accordance with the hypothesis which states that Organizational Culture influences Fraud Early Warning where it is in accordance with the definition of organizational culture according to Kinicki and Fugate (2013: 32), namely:

"Organizational culture is the set of shared, taken for granted implicit assumptions that a group holds and that determines how it perceives, thinks about, and reacts to its various environments."

The definition above can be interpreted that, organizational culture is a common set, taken to provide an implicit assumption that groups hold and determine how they view, think, and react to various environments. This study supports the statement of Amin (2012: 59), that culture in companies can prevent fraud and research on organizational culture on fraud prevention that has been done by Cut (2018) with the conclusion that organizational culture has a significant positive effect on prevention of fraud due to Organizational culture in banking companies listed on the Stock Exchange is influenced by several elements that influence the formation of organizational culture, namely (Tika, 2010): (a) Basic assumptions, (b) Beliefs to be adopted, (c) Leaders or groups creating organizational culture (d) Guidelines for overcoming problems, (e) Sharing of values (sharing of value), (f) Inheritance (learning process), and (g) Adjustment or adaptation.

This is because in the Banking Company listed on the Stock Exchange in terms of Management, Shareholders, Directors and Commissioners must follow the fit and proper test for prospective controlling shareholders, prospective members of the board of directors, and prospective members of the bank's board of commissioners regulated by the OJK in the Authority Regulation Financial Services Number 27 / POJK.03 / 2016 concerning the Capability and Compliance Assessment for the Financial Services Institution's Main Parties and the Financial Services Authority Circular Letter Number 39 / SEOJK.03 / 2016 concerning the fit and proper test for prospective controlling shareholders, prospective members of the board of directors, and prospective members of the

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bank's board of commissioners. The fit and proper test is a process to assess / test the fulfillment of capability and propriety requirements in the framework of granting approval by the Financial Services Authority, hereinafter abbreviated as OJK, to parties that will control the Bank through ownership and / or management of the Bank which includes PSP candidates, prospective members of the Board of Directors and prospective members of the Bank's Board of Commissioners. Thus prospective PSP, prospective members of the Board of Directors, and prospective members of the Board of Commissioners of the Bank can only carry out their actions, duties, and functions after obtaining approval from the FSA.

Factors assessed in fit and proper tests include: 1. Integrity for prospective PSP, prospective members of the Board of Directors, or prospective members of the Board of Commissioners. Candidates must fulfill the integrity requirements as stipulated in Article 4 and Article 5 POJK Capability and Compliance Assessment. With the existence of Bank Indonesia Regulation Number: 14/8 / PBI / 2012 concerning Commercial Bank Share Ownership that in order to face the dynamics of regional and global economic developments, the national banking industry needs to increase resilience. That increasing banking resilience is carried out through increasing the application of prudential principles and good corporate governance. To improve the implementation of the principle of prudence and good corporate governance, a structuring of bank ownership structure is needed. Thus, structuring the ownership structure of the bank is carried out through the application of the maximum limit of share ownership so as to reduce the dominance of ownership which can have a negative impact on bank operations. The implementation of the maximum share ownership will also have a positive impact to encourage banking consolidation in order to strengthen the national banking industry.

In order to increase trust and protection of the community towards the banking industry, it is necessary to ensure that bank management is carried out by parties that are capable and appropriate (Fit and Proper) so that bank management is carried out in accordance with good governance as stipulated in Bank Indonesia Regulation Number : 12/23 / PBI / 2010 concerning Fit And Proper Test that in order to create a sound banking system, protect the interests of stakeholders and improve compliance with applicable laws and regulations, it is necessary to implement good corporate governance in the banking industry . To realize good corporate governance, the banking industry needs to be owned and managed by parties that always meet the requirements of capability and propriety.

However, when viewed internally the internal control and organizational culture of the banking company has not yet reached the entire line and branch of the company due to fraudulent acts carried out by its own internal parties such as fraud cases as follows: (a) In 2019 South Sulawesi Regional Bank BRI was arrested by police because it is suspected to be laden with customer money of Rp2.3 billion (b) In 2018 Bank BRI Teller in Gubeng Kertajaya Unit escaped customer funds worth Rp1.09 billion, (c) In 2018 cases of embezzlement of customer funds that occurred at BTN Pontianak Branch. The value of the loss from embezzlement of customer funds reaches billions of rupiah. Suratman (2018) stated that the Pontianak branch of Bank BTN must disclose why the banking system used is very easily penetrated by individual bank employees, and (d) In 2018, cases of abuse of authority discovered by OJK at PT Bank Bukopin Tbk (BBKP) revised the financial statements of the last three years, namely 2015, 2016, and 2017. The above cases should be a concern and learning for the banking world that fraud can be caused by internal controls that are not effectively implemented in all lines and branches as well as organizational culture that is not good will open opportunities for individuals to commit fraud.

5. CONCLUSIONS AND IMPLICATION

5.1. Conclusions

1.   Internal control has a positive and significant effect on the early warning system against potential fraud. If the bank's internal control gets stronger, the greater the bank's ability to detect potential fraud

2.   Organizational culture has a positive and significant effect on a company's ability to prevent fraud. Strong organizational culture provides support for the creation of work practices that have high integrity.

5.2. Implication

1.   Banks need to carry out continue evaluating to take care of the quality of the existing internal control systems because the technological development can make the internal control system that was once considered strong turns weak

2.   Organizational culture is an important key to maintaining the sustainability of the bank. Technological sophistication is not able to provide opportunities to do fraud if bank employees have high integrity.

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