

# The effect of the performance of the audit committee, internal audit, and manager religion on the implementation of good corporate governance and their implications on fraud

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## Abstract

The main objective of this research is to analyze the performance of the audit committee, internal audit, and religiosity of the manager on the implementation of good corporate governance (GCG) and its implication for fraud. The study was conducted at State-owned enterprises (SOEs) in Indonesia. The population of this research is all SOEs in Indonesia, and the number of samples is 89 SOEs (based on the Slovin formula). The sampling method used a simple random sampling technique. The research data was obtained by submitting a list of questions to the selected respondents. Respondents consist of the chairman of the audit committee or members of the audit committee, the head of internal audit or members of internal audit, the corporate secretary, and the finance director (financial manager). The data were analyzed using the SEM-PLS model. The research proves that the performance of audit committees and internal audits affects the implementation of GCG, while the religiosity of managers does not affect the implementation of GCG. The research also proves that the performance of the audit committee and the implementation of GCG affect fraud, while internal audit and religiosity of managers do not affect fraud.

**Keywords:** *Audit committee, Fraud, Good corporate governance, Internal audit, Religiosity of managers*

**JEL Classification:** G38, M42, M48

## INTRODUCTION

The economic crisis that occurred in mid-1997 and the emergence of various financial scandals in international companies profoundly impacted the economy. The crisis even affected the collapse of the political regimes in power in several countries in Asia. The analysis conducted by various international organizations and government regulators in many countries found that the main cause of the economic crisis was weak good corporate governance (GCG) in many companies (Gusnardi, 2011).

The failure to implement the principles of GCG has been one of the triggers of the financial crisis in the last 10 years (Fikri, 2014). GCG reflects a country's economy. However, many companies in Indonesia still have not applied the principles of GCG on an ongoing basis, which has the potential to trigger a financial crisis. Implementing

GCG in a good and sustainable manner can affect the decision-making process and balance the framework and overall understanding of company management.

Efforts that must be made to achieve GCG are fulfilling the characteristics of transparency, accountability, and participation in various social, political, and economic activities. From an economic perspective, one indicator of openness, accountability, and participation is the low level of fraud that occurs in economic activity at various levels of economic actors. Therefore, the factors that must be considered in order to achieve the goal of clean government are needed to reform a set of integrated information systems, including reforms of the budget system, information systems, audits, and institutional reforms so that the accounting sector can play a more optimal role.

State-Owned Enterprises (SOEs) as agents of development can become the driving force that can help accelerate the recovery of the national economy through applying the principles of GCG. SOEs need a healthy business culture and strong management commitment to survive in global competition, so a culture of GCG or corporate governance is needed. Many companies have gone out of business because GCG principles have not been realized (Heryana & Novrita, 2012).

The efforts made by the government in realizing the principles of GCG to improve company performance, especially SOEs in Indonesia, was the issuance of the Decree of the Minister of State-Owned Enterprises Number: KEP-117 / M-MBU / 2002 concerning the implementation of GCG practices in Business Entities. State-owned (SOEs) Article 2 requires SOEs to implement GCG consistently.

Applying the principles of GCG in SOEs will encourage forming a clean, transparent, and professional management work pattern (Effendi, 2016) so that fraud in BUMN can be avoided or minimized. According to Tunggal (2010:231), one way to prevent fraud can be by improving organizational culture, which can be done by implementing the principles of GCG. Research conducted by Eferakeya et al. (2016) and Gusnardi (2011) states that the audit committee influences the prevention of fraud, and Abbott et al. (2000) found that the audit committee affects fraudulent financial reporting. The two main characteristics of the audit committee will reduce the possibility of fraud on financial statements.

Research conducted by In'airat (2015) which examined the relationship between GCG and fraud in Saudi Arabia, stated that the implementation of GCG reduced the level of fraud. Tuek & Klikovac (2012) conducted a study related to corporate governance on the prevention and detection of fraud in Croatia and found that there is an influence between corporate governance and the prevention and detection of fraud

Wefa's (2017) and Gusnardi's (2011) research results state the influence of implementing GCG and fraud. Where if GCG is implemented correctly, fraud can be prevented and detected.

Although various policies and regulations are in place, cases of fraud, irregularities in state finances, and poor governance are still common among SOEs in Indonesia. Up to 2013, there were 510 cases with a total value of Rp. 2.69 trillion (BPK RI, 2013)

These cases show the weak supervision of related parties within these companies, including supervision by the audit committee and internal audit. This fraud case indicates that the company/SOEs is not implemented the principles of GCG (Pranoto, 2019).

Regulation Number IX.1.5 in the attachment to the Decree of the Chairman of Bapepam Number: Kep-29 / PM / 2004 states that: "The Audit Committee is a

committee formed by the Board of Commissioners to assist in carrying out its duties and functions". The Audit Committee plays an important role in realizing GCG because it is the "eye" and "ear" of the board of commissioners overseeing the company's running. An effective audit committee is one aspect of assessment in implementing GCG. To realize the principles of GCG in a public company, the principles of transparency, accountability, responsibility, independence, and fairness must be the main basis for the audit committee's activities (Effendi, 2016).

The attributes of the audit committee consist of size, independence, meeting frequency, expertise, and compensation plans (Al-Baidhani, 2016; Salloum et al., 2016). Previous studies have shown that the audit committee affects the implementation of GCG (Abdullah et al., 2018; Drogalas et al., 2016; Gusnardi, 2011; Al-Baidhani, 2016; Salloum et al., 2016).

Furthermore, the Internal Audit Professional Organization Consortium states that an internal audit is an independent and objective assessment function of activities carried out within an organization. Internal audit helps an organization achieve its objectives through a systematic and orderly approach to evaluate and improve the effectiveness of internal control systems, risk control, and good governance processes to support the realization of a healthy company. Previous studies have found that internal audit positively affects corporate governance (Karagiorgos et al., 2010; Abdullah et al., 2018; Drogalas et al., 2016; Gusnardi, 2011). Internal audit also plays a role in preventing and detecting fraud (Petrascu & Tleanu, 2014; Gusnardi, 2011; Zarkasyi, 2008)

So that in addition to the audit committee and internal audit, another factor that influences the implementation of GCG is the religiosity factor. Religiosity is the level of one's conception and commitment to religion. Religious people will carry out religious orders and avoid religious prohibitions (Glock & Strak, 1966; Stratta et al., 2013). Religious managers will try to carry out religious orders and will not violate religious rules. So, they are afraid to do unethical things that are not in accordance with the rules. A religious manager will try to implement the principles of GCG in the company.

GCG is universally very closely related to the teachings of existing religions. The principles of GCG are in line, especially with Islamic teachings. The moral dimension of the implementation of GCG, among others, lies in the principle of accountability, the principle of responsibility, the principle of transparency, and the principle of fairness. (Effendi, 2016).

Kim & Daniel (2016) researched the relationship between religion and corporate governance in 32 countries, and the research results showed that religion positively affected the implementation of corporate governance. Research by Hasan et al. (2017) states that fees and religiosity affect the independence of the sharia supervisory board in realizing GCG. Experimental research by Bloodgood et al. (2008) shows that the more religious a person is, the more he will not cheat. Aydemir's (2010) study states that religious people will carry out business ethics, and the possibility of cheating is very slight.

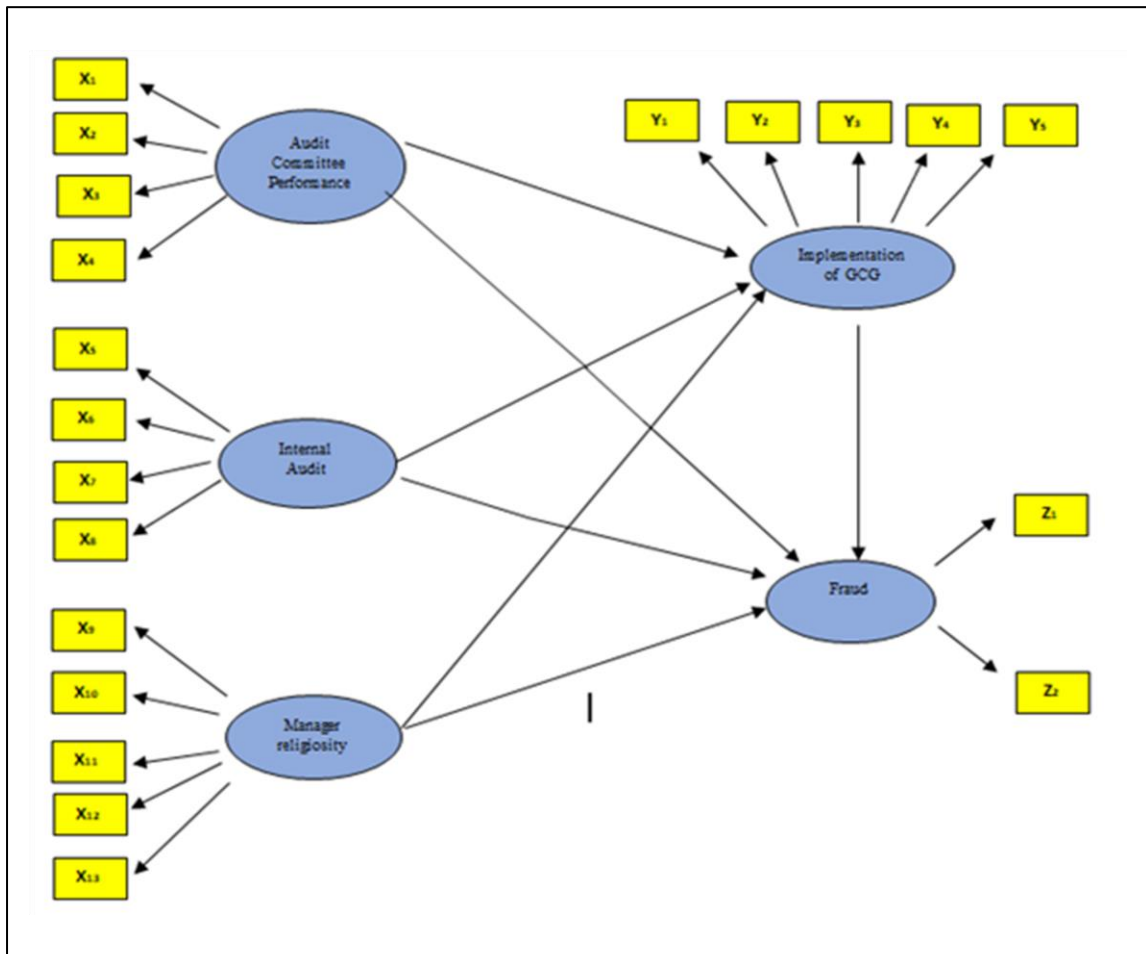
In order to improve the implementation of GCG and prevent fraud in SOEs in Indonesia, it is important to conduct a study related to the influence of the performance of the audit committee, internal audit, and religiosity of managers on the implementation of GCG and its implications for fraud in SOEs in Indonesia.

**METHODS**

This research is survey research. The population of this research is all SOEs in Indonesia, which are 115 SOEs. The number of samples is 89 SOEs (based on the Slovin formula). The sampling method used a simple random sampling technique.

The research data was obtained by submitting a list of questions to the selected respondents. Respondents consist of the chairman of the audit committee or members of the audit committee, head of internal audit or members of internal audit, corporate secretary, and finance director (financial manager)

The data analysis method used to prove the hypothesis is a component-based or variance-based structural equation modeling (SEM) known as Partial Least Square (PLS) with a model framework as given in Figure 1.



**Figure1.** Research model framework

Notes:

X1 – X4 = Audit committee performance indicators

X5 – X8 = Internal audit indicator

X9 – X13 = Manager's religious indicators

Y1 – Y5 = GCG implementation indicators

Z1 – Z2 = Fraud indicator

The operational definitions of variables for the indicators used in the model are given in Table 1.

**Tabel 1.** Variable operational definition

No	Variable	Concept	Indicator
1.	Audit committee performance (X1)	The audit committee is a committee that works professionally and independently and is formed by the board of commissioners. As such, its task is to assist and strengthen the function of the board of commissioners (or supervisory board) in carrying out the supervisory function of the financial reporting process, risk management, audit implementation, and implementation of the audit committee, corporate governance in companies.	<ul style="list-style-type: none"> <li>• Roles and responsibilities of the audit committee</li> <li>• Requirements for Membership of the Audit Committee</li> <li>• Audit Committee membership meeting</li> <li>• Audit committee report</li> </ul>
2.	Internal audit (X2)	Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes	<ul style="list-style-type: none"> <li>• Independence</li> <li>• Professional skills</li> <li>• Implementation of inspection activities</li> <li>• Internal audit management</li> </ul>
3	Manager religiosity (X3)	Religiosity is the level of one's conception of religion and the level of one's commitment to his religion. The level of conceptualization is the level of a person's knowledge of his religion, and the level of commitment needs to be understood thoroughly so that there are various ways for individuals to become religious.	<ul style="list-style-type: none"> <li>• Confidence</li> <li>• Worship</li> <li>• Experience</li> <li>• Knowledge</li> <li>• Application</li> </ul>
4.	Implementation of Good Corporate Governance (Y)	GCG is a process and structure used by SOE organs to improve company business and accountability to realize shareholder value in the long term while taking into account the interests of other stakeholders based on laws and ethical values.	<ul style="list-style-type: none"> <li>• Transparency</li> <li>• Independence</li> <li>• Accountability</li> <li>• Accountability</li> <li>• Fairness</li> </ul>
5.	Fraud (Z)	Fraud includes acts of dishonesty, lying, or deception, which directs another party to give something of value or give up certain legal rights.	<ul style="list-style-type: none"> <li>• Fraud detection</li> <li>• Fraud prevention</li> </ul>

## RESULTS AND DISCUSSION

### Measurement model (outer model) evaluation

The measurement model (outer model) is a model that connects the latent variable with the manifest variable. In principle, measurement model evaluation measures how far the indicator (item) can explain the latent variable. Evaluation of the measurement model results (measurement model) consists of convergent validity, discriminant validity, and internal consistency reliability.

#### *Convergent validity*

Convergent validity is the principle that a construct's quantifiers (manifest variables) should be highly correlated. The rule of thumb that is usually used to assess convergent validity is that the loading value must be more than 0.7 for confirmatory research, and the loading value between 0.6-0.7 for exploratory research is still acceptable and the Average Variance Extracted (AVE) value must be greater than 0.5 (Chinn 1998). The loading factor and AVE value of the research model are given in Table 2.

**Tabel 2.** Convergent validity

Latent Variable	Indicators	Loading factor	AVE
Audit Committee Performance	X1.1	0.901	0.944
	X1.2	0.807	
	X1.3	0.907	
	X1.4	0.883	
Internal Audit	X2.1	0.939	0.938
	X2.2	0.979	
	X2.3	0.983	
	X2.4	0.983	
Manager religiosity	X3.1	0.897	0.766
	X3.2	0.905	
	X3.3	0.933	
	X3.4	0.866	
	X3.5	0.922	
GCG Implementation	Y1	0.885	0.837
	Y2	0.939	
	Y3	0.903	
	Y4	0.897	
	Y5	0.950	
Fraud	Z1	0.972	0.819
	Z2	0.965	

Based on Table 2, it can be seen that all indicators have a loading factor value greater than 0.70. Furthermore, the AVE value for all variables is greater than 0.5. This means that all indicators in each latent variable have met convergent validity.

**Discriminant validity**

Discriminant validity relates to the principle that different constructs' manifest variables should not be highly correlated. Discriminant validity testing can be done by means of cross-loading.

**Tabel 3.** Cross Loading

	Internal Audit	Fraud	Audit Committee Performance	GCG Implementation	Manager religiosity
<b>X1.1</b>	0.385	0.697	0.901	0.613	0.142
<b>X1.2</b>	0.255	0.584	0.807	0.419	-0.107
<b>X1.3</b>	0.510	0.799	0.907	0.709	0.205
<b>X1.4</b>	0.300	0.688	0.883	0.563	0.162
<b>X2.1</b>	0.939	0.498	0.313	0.642	0.436
<b>X2.2</b>	0.979	0.659	0.430	0.733	0.514
<b>X2.3</b>	0.983	0.616	0.439	0.706	0.505
<b>X2.4</b>	0.983	0.684	0.461	0.738	0.458
<b>X3.1</b>	0.421	0.175	-0.026	0.296	0.897
<b>X3.2</b>	0.430	0.187	0.087	0.253	0.905
<b>X3.3</b>	0.432	0.262	0.099	0.360	0.933
<b>X3.4</b>	0.294	0.124	-0.047	0.190	0.866
<b>X3.5</b>	0.537	0.447	0.283	0.493	0.922
<b>Y1</b>	0.656	0.618	0.521	0.885	0.321
<b>Y2</b>	0.622	0.785	0.619	0.939	0.429
<b>Y3</b>	0.771	0.734	0.578	0.903	0.356
<b>Y4</b>	0.618	0.794	0.499	0.897	0.370
<b>Y5</b>	0.665	0.892	0.815	0.950	0.320
<b>Z1</b>	0.680	0.972	0.793	0.870	0.281
<b>Z2</b>	0.549	0.965	0.752	0.757	0.319

From 3, it can be seen that all indicators have the highest correlation with the measured latent variables. This can be seen from the loading factor value for the X1.1-X1.4 indicator, which has the highest correlation with the audit committee performance

construct, then the X2.1-X2.4 indicator, which has the highest correlation with the internal audit construct, then the X3.1-X2 indicator. X3.5 has the highest correlation with the manager's religiosity construct, further indicators Y1-Y5 which has the highest correlation with the GCG implementation construct, and the Z1-Z2 indicator, which has the highest correlation with the fraud construct. So it can be concluded that the model has good discriminant validity.

In addition to the cross-loading discriminant validity test, it can be tested using the Fornell Lacker criterion test by comparing the AVE root value with the correlation value between latent variables.

Tabel 4. Fornell Lacker criterion

Latent Variable	Internal Audit	Fraud	Audit Committee Performance	GCG Implementation	Manager religiosity
Internal Audit	0.971				
Fraud	0.638	0.969			
Audit Committee Performance	0.427	0.799	0.875		
GCG Implementation	0.728	0.843	0.672	0.915	
Manager religiosity	0.493	0.309	0.132	0.392	0.905

Notes: The shaded number is the root value of AVE

The results of the Fornell Lacker Criterion test in Table 4 show that the AVE root gain on the audit committee performance variable is 0.875 higher than the highest correlation between audit committee performance and GCG implementation. Then the acquisition of the AVE root on the internal audit variable is 0.971, which is higher than the highest correlation between internal audit and manager religiosity. The AVE root gain on the GCG implementation variable is 0.915, higher than the highest correlation between GCG implementation and manager religiosity. The AVE root of the fraud variable is 0.969, which is higher than the highest correlation between fraud and GCG implementation. So it can be concluded that the model has good discriminant validity.

**Internal consistency reliability**

Internal consistency reliability, better known as the reliability test, is carried out to test the instrument's accuracy, consistency, and accuracy in measuring constructs with composite reliability (CR) and reinforced with Cronbach alpha (CA). The rule of thumb that is usually used to assess construct reliability is that the CR value must be greater than 0.7 for confirmatory research, and 0.6-0.7 is still acceptable for exploratory research.

Tabel 5. Internal consistency reliability

Latent Variable	Cronbach's alpha	Composite reliability
Audit Committee Performance	0.898	0.929
Internal Audit	0.980	0.985
Manager religiosity	0.947	0.958
GCG Implementation	0.951	0.963
Fraud	0.934	0.968

Based on Table 5, it can be seen that each latent variable has a Cronbach's alpha (CA) value > 0.6 and Composite Reliability (CR) > 0.7, so it is reliable. This shows that all indicators already have consistency and accuracy in measuring each construct.

**Structural model (inner model)**

The structural model connects exogenous latent variables with endogenous latent variables or the relationship between endogenous variables and other variables. Its function tests the effect of one latent variable on other latent variables. Based on the full structural model testing using the bootstrapping method, which is shown in Figure 2.

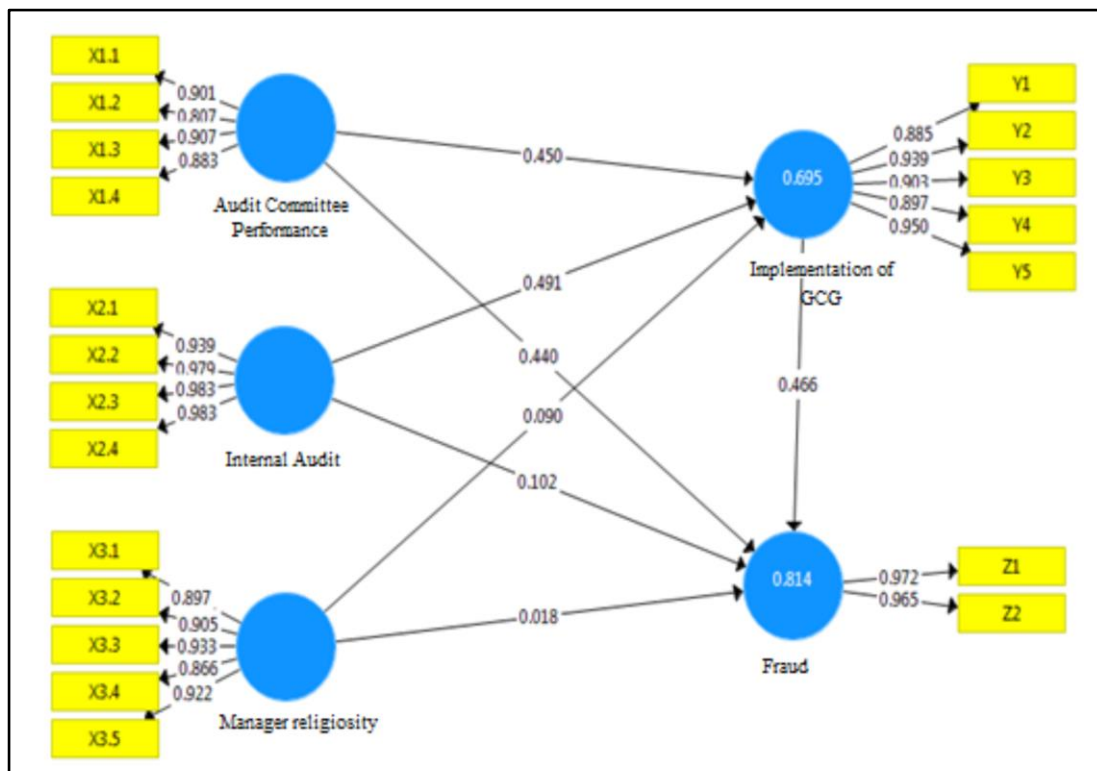


Figure2. Structural model (inner model)

### Hypothesis test

This study has 4 (four) main research hypotheses to be tested. Following are the results of the test recapitulation based on the path value (path coefficient) and the statistical t-value to answer the research hypothesis.

Table 6. Simultaneous and partial hypothesis testing

Simultaneous Hypothesis					
1	The performance of audit committee, internal audit, and religiosity of manager --> The implementation of GCG		R-square : 0,695	Hypothesis accepted	
2	The performance of audit committee, internal audit, the religiosity of manager dan Pelaksanaan GCG --> Fraud		R-square : 0,814	Hypothesis accepted	
Partial Hypothesis					
		Path Coefficient	t-Statistic	P-Values	Conclusions
1	The performance of audit committee --> The implementation of GCG	0.450	3.985	0.000	Hypothesis accepted
2	Internal audit --> The implementation of GCG	0.491	3.554	0.000	Hypothesis accepted
3	Religiosity of Manager --> The implementation of GCG	0.090	0.523	0.601	Hypothesis rejected
4	The performance of audit committee --> Fraud	0.440	3.673	0.000	Hypothesis accepted
5	Internal audit --> Fraud	0.102	0.652	0.515	Hypothesis rejected
6	Religiosity of Manager --> Fraud	0.018	0.190	0.849	Hypothesis rejected
7	The Implementation of GCG --> Fraud	0.466	3.058	0.002	Hypothesis accepted



### **Effect of the performance of the audit committee, internal audit, and religiosity of the manager on the implementation of good corporate governance**

The audit committee's performance, internal audit, and managerial religiosity affect the implementation of GCG in SOEs in Indonesia. These results can be interpreted that the performance of the audit committee, internal audit, and managerial religiosity will affect the implementation and application of the principles of good corporate governance.

The magnitude of the influence of the variables simultaneously can be seen from the coefficient of determination (R-square) found in Table 1. It can be seen that in the first sub-structure where the performance of the audit committee, internal audit, and managerial religiosity together has an effect of 69.5% on the implementation of GCG, and the remaining 30.5% are influenced by other factors not examined in this study.

GCG can be seen from the transparency and accountability in the company, which can be seen from the internal control within the company. Adequate internal control must provide reliable information, compliance with policies, procedures, laws, and regulations; asset security; use of resources economically and efficiently; achievement of the goals set. The audit committee's responsibilities include ensuring that the company's internal controls are running well. This responsibility can be carried out through the use of financial reports as well as discussions with management, internal audit, and external auditors. The active involvement of the audit committee in evaluating the implementation of improved internal control by management will encourage the emergence of a good control environment.

The audit committee and internal audit are crucial in creating good corporate governance. In addition to the role of the audit committee and internal audit in the implementation of GCG, other factors influence the implementation of GCG. This factor is religiosity. According to Jalaluddin (2001), religiosity is a condition that exists within a person that encourages him to behave in accordance with the level of obedience to religion. The more religious a person (in this case, the company leadership) is, the more they will want to implement the principles of good corporate governance. The concept of GCG universally is closely related to the teachings of existing religions, and the principles of GCG align with Islam's teachings in particular. The moral dimensions of the implementation of GCG, among others, lie in the principle of accountability, the principle of responsibility, the principle of openness, and the principle of fairness (Effendi, 2016). The synergy between the audit committee's performance, internal audit, and religiosity is expected to create good corporate governance, especially in SOEs in Indonesia.

### **Effect of audit committee performance on the implementation of good corporate governance**

The audit committee's performance positively affects the implementation of GCG in SOEs in Indonesia. These results can be interpreted that the better the audit committee's performance, the better the implementation of GCG will also prove that the audit committee can be maximally utilized in implementing the principles of good corporate governance. The results of this study support the results of research by Abdullah et al. (2018), Drogalas et al. (2016), Gusnardi (2011), Al-Baidhani (2019), Salloum et al. (2016)

The agenda discussed in the audit committee membership meeting at SOEs in Indonesia, among others, is related to performance evaluation, including evaluation of

the implementation (implementation) of good corporate governance. From the meeting, if there are deficiencies in the implementation of GCG, it can be evaluated for future improvements. This is in accordance with the research results that prove that the audit committee's performance affects the implementation of good corporate governance.

#### **The effect of internal audit on the implementation of good corporate governance**

The internal audit positively affects the implementation of GCG in SOEs in Indonesia. These results can be interpreted as that internal audit plays a role in encouraging the implementation of GCG in SOEs in Indonesia. The results of this study support the results of research conducted by Karagiorgos et al. (2010), and Abdullah et al. (2018).

One of the objectives of the internal audit is to assist the management of SOEs in Indonesia in improving the company's performance, especially from the control aspect, by carrying out inspection and management activities in the internal audit section as well as evaluating and improving the governance process. This is in accordance with the results of research which shows that the internal audit of 34 SOEs in Indonesia affects the implementation of GCG

#### **The effect of a manager's religiosity on the implementation of good corporate governance**

Manager's religiosity does not affect GCG in SOEs in Indonesia. This study's results align with the findings of Nakpodia et al. (2018). However, the results of this study are not in line with the findings of Kim & Daniel (2016) and Hasan et al. (2017), which show that the influence of manager religiosity does not affect good corporate governance.

The religiosity of the manager variable, simultaneously with the audit committee performance and internal audit variables, affects the implementation of good corporate governance. Still, partially the religiosity of the manager variable does not affect the implementation of GCG. As explained earlier, the internal audit variable has the greatest influence on the implementation of GCG, followed by the audit committee performance variable and religiosity of a manager being the variables that have the least influence on the implementation of GCG.

The higher the level of a manager's religiosity, the principles of GCG consisting of transparency, accountability, responsibility, independence, and fairness can be implemented and applied properly. However, this study's results state that the religiosity of managers does not affect the implementation of the principles of GCG in Indonesian SOEs.

#### **The effect of audit committee performance, internal audit, the religiosity manager, and the implementation of GCG on fraud**

The audit committee's performance, internal audit, manager religiosity, and the implementation of GCG affected fraud. These results can be interpreted as the audit committee's performance, internal audit, manager religiosity, and the implementation of GCG affect the detection and prevention of fraud in SOEs in Indonesia.

Based on the coefficient of determination (R-square), it can be seen that in the second sub-structure, it can be seen that the performance of the audit committee, internal audit, manager religiosity, and GCG implementation together have an influence of 81.4% on fraud. The remaining 18.6% is influenced by other factors not examined in this study.

### **The effect of audit committee performance on fraud**

The performance of the audit committee has an effect on fraud in SOEs in Indonesia. The results of this study are in line with research by Eferakeya et al. (2016), Gusnardi (2011), and Abbott et al. (2000). These results can be interpreted that the better (effective) the performance of the audit committee in 34 SOEs in Indonesia, the more fraudulent in Indonesian SOEs can be prevented and detected earlier.

One of the strategies to deal with fraud, according to PwC, is the audit committee's role. If the audit committee suspects irregularities or fraud in the company, the commissioner may assign the audit committee to conduct a special audit. Then the audit committee can request external assistance to conduct an investigative audit to reveal the occurrence of fraudulent practices.

### **The effect of audit internal on fraud**

Theoretically, one of the most effective ways to prevent fraud is to improve the internal control system. In this case, the most responsible for internal control is the management of an organization. In preventing fraud, various efforts must be made to discourage fraud perpetrators from committing fraud. If fraud has occurred, the impact that arises is expected to be minimized. Internal auditors are responsible for assisting in fraud prevention by conducting tests on the adequacy and effectiveness of the internal control system. However, the results obtained from this study state that internal audit does not affect fraud prevention. This indicates that internal auditors have not maximally tested the adequacy and effectiveness of the internal control system

This study's results align with the research by Hamdan et al. (2018). However, this finding differs from Petrascu & Tieanu (2004) and Gusnardi (2011), which state that internal audit affects fraud prevention.

### **The effect of religiosity of the manager on fraud**

Theoretically, one of the most effective ways to prevent fraud is to improve the internal control system. In this case, the most responsible for internal control is the management of an organization. In preventing fraud, various efforts must be made to discourage fraud perpetrators from committing fraud. If fraud has occurred, the impact that arises is expected to be minimized. Internal auditors are responsible for assisting in fraud prevention by conducting tests on the adequacy and effectiveness of the internal control system. However, this study found that internal audits did not affect fraud prevention. This indicates that internal auditors have not maximally tested the adequacy and effectiveness of the internal control system. This study's results align with the research by Hamdan et al. (2018).

### **The Effect of GCG on Fraud**

The implementation of Good Corporate Governance had an effect on fraud in SOEs in Indonesia. These results can be interpreted that fraud will be prevented and detected by implementing the principles of GCG in SOEs in Indonesia. The implementation of GCG in SOEs in Indonesia, of course, faces challenges, including internal SOEs, some of which still follow bureaucratic workflows, so the state must be committed to forcing SOEs to implement GCG in a transparent and accountable manner with a high level of professionalism and effectiveness. (Yuanjaya, 2019). The results of this study are in line with the research by In'airat (2015), Tuek & Klikovac (2012), Wefa (2017), and Gusnardi (2011).

## CONCLUSIONS AND LIMITATIONS

### Conclusions

The performance of the audit committee, internal audit, and religiosity of the manager simultaneously affect the implementation of good corporate governance (GCG) in State-Owned Enterprises (SOEs) in Indonesia, and the performance of the Audit Committee, Internal Audit, Religiosity of the manager, and the implementation of GCG on Fraud.

The audit committee's performance affects the implementation of GCG and fraud in SOEs in Indonesia. The better the performance of the audit committee, the better the implementation of GCG will also prove that the audit committee can be maximally utilized in relation to the implementation of the principles of GCG and to the detection and prevention of fraud.

The internal audit affects the implementation of GCG. Internal audit plays a role in encouraging the implementation of GCG in SOEs in Indonesia.

Internal audits do not affect fraud. This study also finds that the religiosity of the manager has no effect on the implementation of GCG, and the manager's religiosity variable has no effect on fraud.

### Recommendation

The Audit Committee is advised in order to further improve its performance in accordance with its duties and responsibilities to assist the board of commissioners in carrying out their responsibilities, especially in creating discipline and control within the company that can reduce the opportunity for fraud to occur. Improving the performance of the audit committee can be done, among others, by holding more frequent audit committee meetings (at least 4x a year) to be able to evaluate the performance of the audit committee concerning the implementation of GCG

The internal auditor is advised further to enhance professional capabilities through a systematic and regular approach to evaluate and improve the effectiveness of the internal control system, risk control, and good governance processes to support the realization of a free company from fraud. Increasing professional abilities, among others, by participating in training and workshops.

This study has not revealed all variables that can affect the implementation of GCG. It is better if further research is carried out, plus other independent variables such as the executive director and external auditor.

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