



RESEARCH ARTICLE

Internal Audit Function and Good Corporate Governance as Determinants of Fraud Prevention in Islamic Banking: A Case Study of Bank Syariah Indonesia Banda Aceh

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Abstract

This study examines the influence of the internal audit function and Good Corporate Governance (GCG) on fraud prevention within an Islamic banking institution. Employing a quantitative research design with multiple linear regression analysis, data were collected from employees of Bank Syariah Indonesia Banda Aceh through structured questionnaires. The findings reveal that both internal audit and GCG have a positive and statistically significant effect on fraud prevention, both partially and simultaneously. Among the two variables, GCG demonstrates a more dominant contribution in strengthening fraud prevention mechanisms. These results indicate that effective governance structures, supported by risk-based internal audit practices, enhance the bank's fraud risk management system. This study contributes to the growing body of literature on fraud prevention, particularly within the context of Islamic banking institutions.

Keywords

Internal Audit; Good Corporate Governance; Fraud Prevention; Islamic Banking; Risk Management.

1 | INTRODUCTION

Fraud remains a critical issue in the banking sector, including Islamic banking institutions, because of its capacity to disrupt financial stability, weaken stakeholder confidence, and damage institutional reputation. Fraudulent activities generate not only direct financial losses but also long-term consequences for credibility and public trust. Once confidence declines, recovery becomes difficult, particularly in financial institutions that depend heavily on reputation and reliability. For banks, integrity is a fundamental asset, and any indication of misconduct may influence customer behavior, investor decisions, and regulatory scrutiny. In Indonesia, financial misconduct continues to occur across banking and non-banking institutions, indicating persistent weaknesses in supervision and internal control mechanisms (Aprilia, 2023). The recurrence of such cases suggests that preventive measures require continuous reinforcement and systematic evaluation. Increasing transaction complexity, technological advancement, and digital banking services further intensify exposure to fraud risk. These developments demand stronger monitoring systems and adaptive risk management practices. Islamic banks operate under regulatory requirements while also adhering to Sharia principles, creating additional governance and compliance obligations. Beyond meeting conventional banking standards, they must ensure alignment with ethical principles and Sharia supervision. Such dual responsibilities necessitate effective internal control structures, clear accountability, and consistent oversight to reduce opportunities for misconduct and safeguard institutional sustainability.

Effective fraud prevention requires the integration of strong internal audit functions and sound corporate governance practices. Preventive efforts cannot rely solely on formal regulations; they require structured supervision, consistent monitoring, and clear lines of accountability throughout the organization. Internal audit and governance mechanisms operate as interconnected components that reinforce control effectiveness and ethical conduct. When properly implemented, both mechanisms reduce opportunities for misconduct and strengthen institutional discipline. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) (2017) states that enterprise risk management plays a central role in mitigating fraud risk by aligning internal control activities with strategic objectives and organizational risk appetite. A structured risk management framework enables systematic identification, assessment, and response to potential threats before they escalate into significant losses. Alignment between strategic planning and control activities also enhances organizational resilience. The Institute of Internal Auditors (IIA) (2020) emphasizes the importance of the Three Lines Model in clarifying roles and responsibilities in risk oversight. A clear separation between operational management, risk monitoring functions, and independent assurance strengthens accountability, minimizes control weaknesses, and supports sustainable fraud prevention.

The internal audit function serves as an independent assurance mechanism that evaluates the effectiveness of internal controls, risk management processes, and governance structures within an organization. Positioned separately from operational management, internal auditors provide objective assessments that help ensure policies and procedures are properly implemented. Through regular audits, compliance reviews, and risk-based evaluations, they identify control weaknesses, assess exposure to fraud risk, and recommend corrective actions to management. Such activities strengthen accountability and improve the reliability of financial reporting. Empirical evidence indicates that internal auditors play an important role in detecting and preventing fraudulent activities through structured examination and continuous monitoring procedures (Bonrath & Eulerich, 2024). Their involvement enhances early detection of irregularities and supports the development of preventive control mechanisms. Good Corporate Governance (GCG) complements the internal audit function by promoting transparency, accountability, responsibility, independence, and fairness in organizational management. These governance principles reduce information asymmetry, limit managerial opportunism, and strengthen oversight by boards and supervisory bodies (González & García-Meca, 2014; Velte, 2023). Strong governance practices create an environment where ethical conduct is reinforced and opportunities for fraud are minimized.

Within Islamic banking, governance mechanisms are reinforced through the application of Sharia compliance requirements and Islamic corporate governance frameworks. Beyond complying with general financial regulations, Islamic banks must ensure that contracts, financing structures, and operational activities adhere to Sharia principles. The presence of a Sharia Supervisory Board strengthens oversight by reviewing policies, monitoring transactions, and ensuring alignment with religious and ethical standards. Such supervision enhances institutional credibility and supports ethical consistency in business practices. Islamic corporate governance promotes justice, transparency, accountability, and social responsibility as guiding principles in managerial conduct. These values shape decision-making processes and encourage responsible leadership (Najib & Rini, 2019; Melsiana & Kabib, 2023). The integration of ethical commitments with formal governance structures fosters a control environment that discourages misconduct and reinforces organizational discipline. Despite regulatory reforms and institutional restructuring within the Islamic banking industry, empirical evidence at the branch level remains scarce. Research focusing on operational governance practices after major consolidation processes, including the merger that established Bank Syariah Indonesia, is still relatively limited, particularly in regional branches.

This study addresses the existing research gap by examining the influence of the internal audit function and Good

Corporate Governance on fraud prevention at Bank Syariah Indonesia Banda Aceh. While previous studies tend to emphasize national trends or industry-wide evaluations, analysis at the branch level remains relatively scarce. A branch-level assessment enables closer observation of how governance mechanisms and audit practices operate in daily activities and internal control implementation. The results are expected to support the development of more effective fraud prevention policies and strengthen institutional control practices within Islamic banking operations.

2 | BACKGROUND THEORY

The Impact of Internal Audit on fraud prevention

Internal audit is an independent and objective activity designed to provide assurance and consulting services aimed at improving the effectiveness of internal control, risk management, and organizational governance. From the perspective of Agency Theory, the existence of an internal audit function serves as a monitoring mechanism to minimize conflicts of interest between management (agents) and owners or stakeholders (principals). This oversight function is particularly crucial in the banking industry, including Islamic banking, which is characterized by complex transactions and high operational risk. According to the Institute of Internal Auditors (IIA, 2020), internal audit operates within three primary lines, providing independent assurance regarding the effectiveness of governance, risk management, and internal control processes. In the context of fraud prevention, the internal audit function plays a vital role in evaluating the effectiveness of internal control systems, identifying procedural weaknesses, and detecting potential irregularities at an early stage. This approach aligns with the concept of fraud prevention, which emphasizes systematic efforts to reduce opportunity one of the core elements of Fraud Triangle Theory. Effective monitoring mechanisms can therefore narrow the space for abuse of authority and fraudulent behavior (Irianti *et al.*, 2022). Empirical evidence supports this relationship. Melsiana and Kabib (2023) found that internal control contributes to reducing fraud levels in 13 Islamic banks. Similarly, Farocho and Nugroho (2022) reported that internal audit has a positive and significant effect on fraud prevention in rural banks (BPR) in Semarang City and Demak Regency. Chairunisa (2020) also demonstrated that audit committees exert a positive and significant impact on reducing fraud in Islamic commercial banks in Indonesia. These findings suggest that the more effective the internal audit function, the stronger the fraud prevention mechanism within the organization. Based on the theoretical foundation and empirical evidence, the first hypothesis is formulated as follows:

H1: The internal audit function has a significant effect on fraud prevention.

The Impact of Good Corporate Governance (GCG) on fraud prevention

Good Corporate Governance (GCG) refers to a governance system grounded in the principles of transparency, accountability, responsibility, independence, and fairness in organizational management. In Islamic banking, the implementation of GCG functions not only as a structural oversight mechanism but also as an instrument to safeguard integrity, Sharia compliance, and institutional reputation sustainability. Effective corporate governance mechanisms have been shown to reduce of financial misconduct within organizations (González & García-Meca, 2014). Conceptually, GCG strengthens supervisory structures through mechanisms such as the board of commissioners, audit committees, and transparent reporting systems. The implementation of sound governance principles is expected to reduce information asymmetry and limit opportunities for fraudulent activities. With effective oversight structures, organizations are better positioned to foster a culture of compliance that minimizes opportunistic behavior. Good Corporate Governance (GCG) plays a significant role in reducing financial misconduct by strengthening oversight mechanisms and enhancing accountability (Velte, 2023). Empirical findings further reinforce this argument. Rafada and Muhammad (2025) as well as Melsiana and Kabib (2023) found that Islamic Corporate Governance significantly reduces fraudulent activities in Islamic commercial banks in Indonesia. Similar findings were reported by Sriyani *et al.* (2025) and Farocho and Nugroho (2022), who concluded that Good Corporate Governance has a significant effect in reducing fraud. These empirical results imply that better governance practices are associated with lower levels of fraud occurrence. Accordingly, the second hypothesis is formulated as follows:

H2: Good Corporate Governance has a significant effect on fraud prevention

The Simultaneous Effect of Internal Audit Function and Good Corporate Governance on Fraud Prevention

The internal audit function and Good Corporate Governance represent two complementary oversight mechanisms within an organizational governance system. Internal audit focuses on operational evaluation and technical internal control processes, whereas GCG provides a structural and normative framework for decision-making and strategic supervision. The synergy between these mechanisms is expected to strengthen fraud prevention systems in a comprehensive manner. Empirical studies by Melsiana and Kabib (2023) and Farocho and Nugroho (2022) indicate that the combined presence of effective internal supervision and sound governance practices contributes to reducing fraud risk. The integration of robust internal audit functions with strong governance structures is likely to narrow opportunities for misconduct while enhancing organizational accountability.

Based on the theoretical arguments and empirical evidence, the third hypothesis is formulated as follows:

H3: The internal audit function and Good Corporate Governance simultaneously have a significant effect on fraud prevention

3 | METHOD

This study employed a quantitative approach using a field research design. The quantitative approach was selected because the study aimed to examine the causal relationships between independent and dependent variables in a measurable and objective manner. Field research was conducted by collecting data directly from the research site, ensuring that the data obtained represented the actual empirical conditions of the research object. This study falls under the category of explanatory (causal) research, which seeks to explain cause-and-effect relationships between two or more variables. According to Sugiyono (2021), causal research focuses on identifying the influence of independent variables on dependent variables. In this study, the independent variables consisted of Internal Audit (X1) and Good Corporate Governance (X2), while the dependent variable was Fraud Prevention (Y).

1) Population and Sample

Population refers to the entire set of objects or subjects possessing specific characteristics determined by the researcher to be studied and from which conclusions are drawn (Sekaran & Bougie, 2019). The population of this study comprised all employees of Bank Syariah Indonesia, Daud Beureueh 1 Branch Office, Banda Aceh, totaling 36 individuals. The sample was determined using a full sampling technique (census sampling) under the non-probability sampling method, whereby all members of the population were included as research respondents. This technique was chosen due to the relatively small population size, allowing the researcher to obtain a more comprehensive and representative overview of the population's condition. Accordingly, the total sample consisted of 36 respondents

2) Type and Source of Data

The data used in this study were primary data collected directly from respondents through questionnaire distribution. The research instrument was developed based on indicators representing each research variable. Variable measurement was conducted using a Likert scale with a defined scoring range to assess respondents' perceptions of the statements provided.

3) Data Analysis Technique

The data were analyzed using multiple linear regression to measure the effect of independent variables on the dependent variable. Data processing and statistical analysis were performed using the Statistical Package for the Social Sciences (SPSS) version 28.0. The regression model was formulated as follows:

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + e$$

Where:

Y = Fraud Prevention

a = Constant

β_1, β_2 = Regression Coefficient

X1 = Internal Audit

X2 = Good Corporate Governance

e = Error term

Prior to hypothesis testing, the data were examined through validity and reliability tests of the research instrument, as well as classical assumption tests, including normality, multicollinearity, and heteroscedasticity tests. Hypothesis testing was subsequently conducted using the t-test to examine partial effects and the F-test to assess simultaneous effects, with a significance level of 5%.

4 | RESULTS AND DISCUSSION

4.1 Results

4.1.1 Validity Test Results

The validity test aimed to evaluate whether each questionnaire item accurately measured the intended research variables. Establishing item validity is important to confirm that the instrument reflects the constructs of Internal Audit (X1), Good Corporate Governance (X2), and Fraud Prevention (Y) in a consistent manner. The testing procedure employed a product-moment correlation analysis by comparing the calculated correlation coefficient (r-count) for each item with the critical correlation value (r-table). An item is considered valid when the r-count exceeds the r-table at the specified significance level. The degree of freedom (df) was calculated using the formula $n - 2$. With a total sample of 36 respondents,

the df equaled 34. At a 5% significance level, the r-table value was 0.329. The statistical output is summarized in Table 1. The results indicate that all questionnaire items produced r-count values higher than 0.329. Each indicator for Internal Audit, Good Corporate Governance, and Fraud Prevention satisfies the established validity criteria. Therefore, the measurement instrument is considered statistically appropriate for subsequent reliability testing and further analytical procedures.

4.1.2 Reliability Test Results

The reliability assessment was performed using the Cronbach's Alpha (CA) coefficient to evaluate the internal consistency of each measurement instrument applied in the study. Internal consistency reflects the extent to which items within a construct measure the same underlying concept in a stable and consistent manner. A construct is deemed reliable when the Cronbach's Alpha value exceeds 0.60, indicating an acceptable level of consistency among the indicators. Conversely, a value below 0.60 suggests insufficient reliability and signals the need for instrument refinement. The detailed results of the reliability analysis are summarized in Table 1.

Table 1. Reliability Test Results

| Variable | Indicator | Cronbach's Alpha | Threshold | Interpretation |
|---------------------|--|------------------|-----------|----------------|
| Internal Audit (X1) | Good Corporate Governance / Fraud Prevention | 0.935 | 0.60 | Reliable |
| | | 0.799 | 0.60 | Reliable |
| | | 0.704 | 0.60 | Reliable |

Source: SPSS Output (2025)

The results indicate that the Cronbach's Alpha values for Internal Audit (X1), Good Corporate Governance (X2), and Fraud Prevention (Y) are 0.935, 0.799, and 0.704, respectively. All values exceed the threshold of 0.60, indicating satisfactory internal consistency. Therefore, it can be concluded that all questionnaire items used in this study are reliable and suitable for further analysis.

4.1.3 Classical Assumption Tests

The normality test was carried out to determine whether the regression model met the assumption of normally distributed residuals. Graphical analysis was employed, including the histogram and the normal probability plot (P-P Plot), as illustrated in Figure 1 and Figure 2. The histogram provides a visual representation of the distribution pattern of the residuals, allowing observation of symmetry and bell-shaped characteristics. Meanwhile, the P-P Plot compares the cumulative distribution of standardized residuals with the expected normal distribution. A distribution that closely follows the diagonal line indicates that the normality assumption has been satisfied.

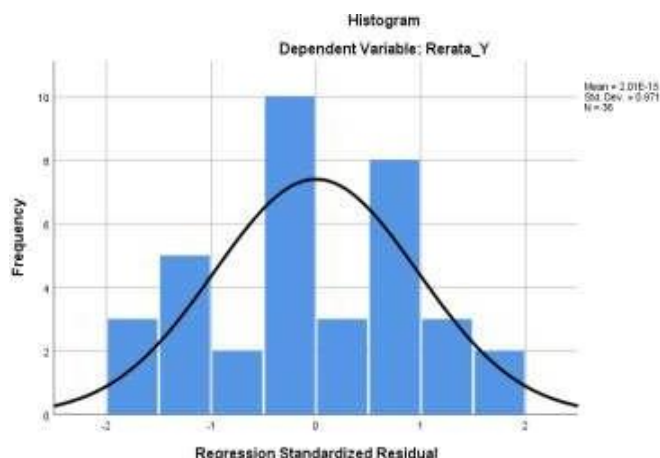


Figure 1. Histogram Graph

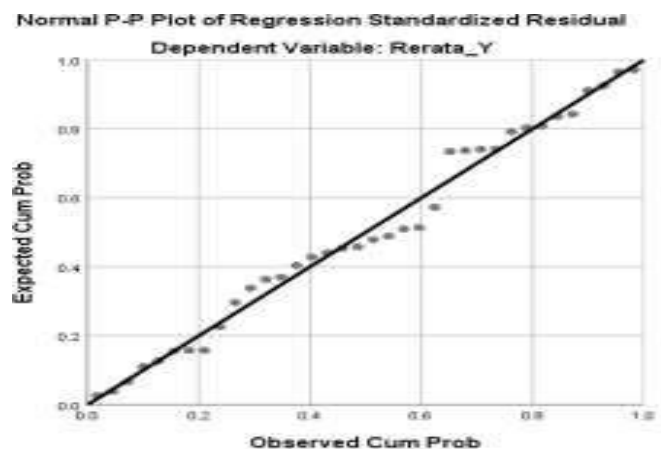


Figure 2. P-P Plot Graph

The histogram in Figure 1 shows that the data curve follows a standard normal distribution pattern, indicating that the regression model in this study is normally distributed or close to normal. This means that the residuals are distributed normally. Meanwhile, the normal probability plot in Figure 2 demonstrates that the data points align closely along the diagonal line, further confirming that the residuals follow a normal distribution.

The heteroskedasticity test aimed to determine whether the residual variance remained constant across all observations in the regression model. Consistent variance is required to ensure that the estimated coefficients are efficient

and that statistical testing remains valid. The assessment was carried out using a scatterplot of standardized residuals against standardized predicted values, as displayed in Figure 3. A random and evenly dispersed pattern of points around the horizontal axis indicates homoscedasticity. In contrast, a systematic pattern, clustering, or funnel-shaped distribution suggests heteroskedasticity, which may reduce the reliability of parameter estimation and hypothesis testing accuracy.

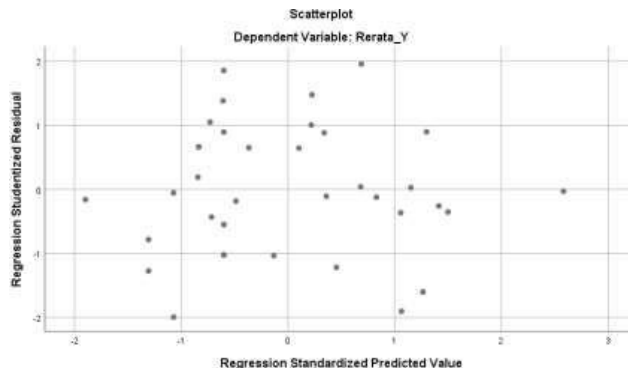


Figure 3. Heteroskedasticity Diagram

As illustrated in Figure 3, the regression model does not exhibit heteroskedasticity. The scatterplot shows that the residual points are randomly distributed and do not form a discernible pattern or systematic structure. The spread of points appears relatively even across the range of predicted values, indicating constant residual variance.

The multicollinearity test was performed to identify whether strong correlations occur among the independent variables in the regression model. Excessive correlation can inflate standard errors and weaken the statistical significance of the estimated coefficients. To detect this issue, tolerance values and the Variance Inflation Factor (VIF) were examined for each predictor. A tolerance value above 0.10 indicates that a variable shares limited variance with other predictors, while a VIF value below 10 suggests that multicollinearity is not problematic. These benchmarks confirm that each independent variable retains sufficient independence, ensuring stable coefficient estimation and reliable hypothesis testing. The detailed results are reported in Table 2.

Table 3. Multicollinierity Testing Results

| Model | | Coefficients ^a | |
|-------|----------------|---------------------------|-------|
| | | Tolerance | VIF |
| 1 | (Constant) | | |
| | Internal Audit | 0.993 | 1.007 |
| | GCG | 0.993 | 1.007 |

a. Dependent Variable: Fraud Prevention (FP)

Source: SPSS Output, 2025

All independent variables show VIF values < 10 (Internal Audit = 1.007; GCG = 1.007) and tolerance values > 0.10 (Internal Audit = 0.993; GCG = 0.993). These results indicate that there is no multicollinearity among the independent variables, so the regression model is suitable for further analysis.

4.1.4 Multiple Linear Regression Test Results

The multiple linear regression analysis was conducted to examine the effect of the independent variables on the dependent variable simultaneously. The statistical procedure was performed using SPSS version 28.0 to ensure accurate computation of regression coefficients, significance levels, and model fit indicators. Through this analysis, the direction and magnitude of the relationship between variables can be identified, allowing for a clearer interpretation of their influence. The regression output provides information regarding the unstandardized coefficients, standardized coefficients, t-values, and significance probabilities. These results form the basis for evaluating the proposed hypotheses and determining whether each independent variable has a statistically significant effect on the dependent variable. The detailed regression results are displayed in Table 3.

Table 3. Multiple Linear Regression Test Results

| Coefficients ^a | | | | |
|---------------------------|-----------------------------|---------------------------|---|------|
| Model | Unstandardized Coefficients | Standardized Coefficients | t | Sig. |

| | B | Std. Error | | Beta | |
|----------------|------|------------|------|-------|------|
| 1 (Constant) | .885 | .561 | | 1.578 | .124 |
| Internal Audit | .330 | .096 | .415 | 3.449 | .002 |
| GCG | .464 | .100 | .561 | 4.662 | .000 |

a. Dependent Variable: Fraud Prevention

Source: SPSS Output, 2025

Based on the results, the regression equation can be formulated as follows;

$$Y = 0,885. +. 330_1X_1 + 0.464_2X_2 + e.$$

The interpretation of the regression coefficients is as follows:

- 1) The constant value of 0.885 indicates that if the Internal Audit (X1) and GCG (X2) variables are zero, the expected Fraud Prevention (Y) score is 0.885.
- 2) The Internal Audit coefficient (0.330) implies that for every one-unit increase in the Internal Audit variable, Fraud Prevention is expected to increase by 0.330 units, holding other variables constant.
- 3) The Good Corporate Governance coefficient (0.464) implies that for every one-unit increase in GCG, Fraud Prevention is expected to increase by 0.464 units, assuming other variables remain constant.

4.1.5 Hypothesis Testing Results

Hypothesis testing was carried out through partial (t-test) and simultaneous (F-test) procedures based on the multiple linear regression output shown in Table 5. The partial test examines the individual influence of each independent variable on fraud prevention. The internal audit variable obtained a calculated t-value of 3.449, exceeding the t-table value of 2.034, with a significance level of 0.002, which is below 0.05. These findings indicate that H_{01} is rejected and H_{a1} is accepted. Internal audit exerts a positive and statistically significant effect on fraud prevention at Bank Syariah Indonesia, Daud Bereueh 1 Branch, Banda Aceh. The Good Corporate Governance (GCG) variable produced a calculated t-value of 4.662, greater than the t-table value of 2.034, with a significance level of 0.000, also below 0.05. H_{02} is therefore rejected and H_{a2} is accepted, confirming a significant partial effect of GCG on fraud prevention. The F-test assesses the joint effect of internal audit and GCG on fraud prevention, as reported in Table 4.

Table 4. Simultaneous Test (F-test) Results

| ANOVA ^a | | | | | | |
|--------------------|------------|----------------|----|-------------|--------|-------------------|
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 1.655 | 2 | .827 | 18.271 | .000 ^b |
| | Residual | 1.494 | 33 | .045 | | |
| | Total | 3.149 | 35 | | | |

a. Dependent Variable: Fraud Prevention (FP)

b. Predictors: (Constant), Internal Audit, GCG

Source: SPSS Output, 2025

The F-test results indicate that the calculated F-value is greater than the F-table value ($18.271 > 3.280$), with a significance level of 0.000. Since the significance value is less than α (0.05), H_{03} is rejected and H_{a3} is accepted. These findings suggest that simultaneously, both Internal Audit and Good Corporate Governance (GCG) variables have a significant effect on fraud prevention at Bank Syariah Indonesia, Daud Bereueh 1 Branch, Banda Aceh.

The coefficient of determination (R^2) test was conducted to measure the proportion of variance in the dependent variable that can be explained by the independent variables included in the regression model. The simultaneous test results are presented in Table 5. The R^2 value indicates how well internal audit and Good Corporate Governance collectively account for variations in fraud prevention. A higher R^2 value reflects stronger explanatory power of the model. In addition, the adjusted R^2 provides a more accurate estimate by considering the number of predictors used in the analysis. These results demonstrate the overall effectiveness of the regression model in explaining fraud prevention.

Table 5. Determination Coefficient Test (R^2 test) Results

| Model Summary ^b | | | | |
|----------------------------|--------------------|----------|-------------------|----------------------------|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | 0.725 ^a | 0.525 | 0.497 | 0.21279 |

a. Predictors: (Constant), Mean_X2, Mean_X1

b. Dependent Variable: Mean_Y

Source: SPSS Output, 2025

The R Square (R^2) value of 0.525 indicates that 52.5% of the variation in the dependent variable, fraud prevention at Bank Syariah Indonesia, Daud Bereueh 1 Branch, can be explained by the independent variables, namely Internal Audit and Good Corporate Governance (GCG). The remaining 47.5% of the variation is attributed to other factors that are assumed to influence fraud prevention in the Islamic banking sector but are not included in this research's model.

4.2 Discussion

4.2.1 The Effect of Internal Audit on Fraud Prevention at Bank Syariah Indonesia, Daud Beureueh 1 Branch.

The results of this study indicate that the internal audit function has a positive and significant effect on fraud prevention at Bank Syariah Indonesia (BSI), Daud Beureueh 1 Branch, Banda Aceh. These results explain that the effectiveness of the implementation of internal audits at BSI has implemented a mechanism for early detection and prevention of fraud risks systematically. The role of internal auditors is not merely administrative; it has strategic significance in safeguarding institutional integrity, Sharia compliance, and organizational reputation. The more effective the internal audit function, the stronger the organization's fraud prevention mechanism will be. This implies that the effectiveness of internal audit is closely related to risk management in mitigating fraud through risk-based auditing, continuous monitoring, and integration with organizational governance systems. According to Irianti, *et al* (2025), characteristics of internal audit such as independence, auditor competence, and scope of authority significantly affect the quality of fraud risk management. Similarly, Bonrath & Eulerich (2024) found that effective Internal audit plays a critical role in detecting and preventing fraud, particularly through enhancing risk management and internal control mechanisms. Theoretically, this finding is consistent with the Fraud Triangle Theory, where an effective internal audit helps reduce the "opportunity" element, one of the primary determinants of fraud.

The updated Three Lines of Defense model by The Institute of Internal Auditors (IIA, 2020) emphasizes that internal audit functions as the third line, providing independent assurance on the effectiveness of governance, risk management, and internal control. In the context of Islamic banking, internal audit not only ensures compliance with banking regulations but also guarantees alignment with Sharia principles, thereby narrowing opportunities for fraud. These results support the establishment of effective fraud risk management, which highlights the importance of an integrated internal control system in mitigating fraud risk (Moeller, 2011). Empirically, these findings align with Melsiana & Kabib (2023), who reported that internal control contributes to reducing fraud in 13 Islamic banks. Similarly, Farochi & Nugroho (2022) and Chairunisa (2020) found that internal audit mechanisms effectively suppress fraud levels in Islamic commercial banks. However, these results contrast with Rafada & Muhammad (2025), who reported that audit committees do not significantly affect fraud in Indonesian Islamic general banks.

Model Three Lines yang diperbarui oleh The Institute of Internal Auditors (IIA, 2020) menegaskan bahwa audit internal berfungsi sebagai lini ketiga yang memberikan assurance independen terhadap efektivitas tata kelola, manajemen risiko, dan pengendalian internal. Dalam konteks perbankan syariah, fungsi audit internal tidak hanya memastikan kepatuhan terhadap regulasi perbankan, tetapi juga menjamin kesesuaian dengan prinsip syariah, sehingga dapat mempersempit peluang terjadinya fraud. Hasil penelitian ini mendukung kerangka Fraud Risk Management (COSO, 2017) yang menekankan pentingnya sistem pengendalian internal yang terintegrasi dalam memitigasi risiko kecurangan.

4.2.2 The Effect of Good Corporate Governance on Fraud Prevention at Bank Syariah Indonesia, Daud Beureueh 1 Branch

The results of this study indicate that Good Corporate Governance (GCG) has a positive and significant effect on fraud prevention at Bank Syariah Indonesia (BSI), Daud Beureueh 1 Branch, Banda Aceh. GCG contributes more dominantly compared to the internal audit function. The implementation of GCG at BSI has a broader dimension because it is related to compliance with sharia principles and the institution's moral values. Therefore, the more consistently GCG principles are applied, the stronger the internal control system becomes, reducing the opportunities for fraud. Conceptually, GCG is a governance system that emphasizes transparency, accountability, responsibility, independence, and fairness. Implementing these principles helps reduce information asymmetry and limits opportunities for abuse of authority (García-Sánchez *et al.*, 2019). From the perspective of Agency Theory, good governance strengthens supervisory structures, thereby minimizing opportunistic behavior. These findings reinforce the notion that governance mechanisms serve as supervisory instruments within the framework of agency theory, aiming to reduce conflicts of interest and opportunistic actions (Saona *et al.*, 2020).

In the context of Islamic banking, governance structures carry additional dimensions related to Sharia compliance and institutional moral values. Islamic banking governance also includes Sharia supervisory mechanisms, which further enhance integrity and accountability. Accordingly, the implementation of GCG principles functions as a structural mechanism that limits both opportunities and motivations for fraud by improving organizational transparency and accountability. Empirically, these findings are consistent with Rafada & Muhammad (2025), who found that Islamic Corporate Governance reduces fraud in general Islamic banks in Indonesia. Similar results were reported by Sriyani *et al.* (2025), Melsiana & Kabib (2023), and Farochi & Nugroho (2022), demonstrating that effective corporate governance significantly contributes to mitigating fraud risk. Conversely, these results differ from Septiatin *et al.* (2025), who reported

that Islamic Corporate Governance has no significant effect on fraud in Islamic Business Units in Indonesia.

4.2.3 The Simultaneous Effect of Internal Audit and Good Corporate Governance on Fraud Prevention at Bank Syariah Indonesia, Daud Beureueh 1 Branch

The simultaneous test results indicate that the internal audit function and Good Corporate Governance (GCG) collectively have a significant effect on fraud prevention, with a coefficient of determination (R^2) of 52.5%. This implies that more than half of the variance in fraud prevention can be explained by these two variables. Overall, the findings confirm that strengthening the internal audit function and consistently implementing GCG are fundamental strategies at BSI, Daud Beureueh 1 Branch, Banda Aceh, to establish an effective fraud prevention system. Fraud prevention plays a crucial role in maintaining operational integrity, enhancing public trust, and ensuring institutional sustainability amid the dynamic risks of the banking industry. The results suggest that fraud prevention is multidimensional, requiring synergy between operational control mechanisms and organizational governance structures. The internal audit functions as a technical control and independent assurance mechanism, while GCG provides a structural framework that reinforces overall supervisory systems. The integration of both mechanisms forms a comprehensive fraud risk management architecture, as outlined in COSO (2017). Nevertheless, 47.5% of the variance remains explained by factors outside the study model, such as organizational ethical culture and Sharia compliance (Sriyani *et al.*, 2025; Melsiana & Kabib, 2023), whistleblowing systems (Rafada & Muhammad, 2025), technology-based controls, and employees' awareness and integrity levels (Septiatin *et al.*, 2025). Therefore, future research can develop a more comprehensive model by incorporating these additional variables.

5 | CONCLUSIONS AND FUTURE WORK

The study results indicate that both the internal audit function and Good Corporate Governance (GCG) have positive and significant effects on fraud prevention, both partially and simultaneously. These findings can be summarized as follows. First, the internal audit function proves to play a significant role in enhancing fraud prevention. The effectiveness of internal audit, demonstrated through auditor independence, competence, and the implementation of risk-based audit approaches, strengthens the internal control system and reduces opportunities for fraudulent activities. Consequently, internal audit functions as an independent assurance mechanism that supports organizational governance and risk management. Second, Good Corporate Governance exhibits a more dominant influence compared to internal audit, emphasizing that a robust governance structure acts as a structural mechanism to mitigate opportunistic behavior and fraud risk. This effect is realized through transparency, accountability, board oversight, and compliance with Sharia principles. In the context of Islamic banking, the implementation of GCG not only focuses on operational efficiency and oversight but also reinforces ethical values and trust (*amanah*) in accordance with Sharia principles. Simultaneously, the two variables account for 52.5% of the variance in fraud prevention. This finding suggests that effective fraud prevention requires the integration of operational oversight mechanisms and strategic governance frameworks. The synergy between internal audit and GCG forms a comprehensive and sustainable fraud risk management system. Overall, this study provides empirical contributions that enrich the literature on the determinants of fraud prevention in Islamic financial institutions, particularly regarding the integration of internal audit functions and corporate governance mechanisms.

First, as the research was conducted at a single branch, the generalizability of the findings remains limited. Future studies are recommended to expand the sample across multiple branches or conduct comparative studies between Islamic and conventional banks to obtain a more comprehensive understanding of the effectiveness of fraud prevention mechanisms. Second, the internal audit and GCG variables in this study only account for 52.5% of the variance in fraud prevention. This indicates that other factors may also influence the effectiveness of fraud prevention. Future research can consider additional variables, such as organizational ethical culture, whistleblowing systems, technology-based controls, leadership styles, and employee integrity, to develop a more comprehensive model. Third, this study employed a quantitative cross-sectional design, which limits the ability to capture the dynamic and ongoing nature of fraud prevention. Future studies could adopt mixed-method or longitudinal approaches to gain deeper insights into the development and effectiveness of fraud prevention mechanisms over time within Islamic banking institutions.

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How to cite this article: Iskandar, E., Ayumiati, Farhan, M., Riza, A., & Djalil, I. (2025). Internal Audit Function and Good Corporate Governance as Determinants of Fraud Prevention in Islamic Banking: A Case Study of Bank Syariah Indonesia Banda Aceh. *Indonesian Journal Economic Review (IJER)*, 5(2), 346–356. <https://doi.org/10.59431/ijer.v5i2.602>