Optimizing audit of plantation state-owned enterprises in Medan to minimize the risk of losses due to fraud

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Abstract. As one of the plantation icons in Indonesia, North Sumatra has oil palm as the main commodity. The management of plantations in North Sumatra is represented by PTPN II, PTPN III, and PTPN IV headquartered in Medan, the capital of North Sumatra. With a good synergy of Plantation State-Owned Enterprises (SOEs) management and proper supervision, can contribute to the development of the city and increases state revenues. PTPN IV has an internal auditor unit under the board of directors. Optimizing the role of internal auditor in Plantation SOEs can minimizes losses due to fraud, can foreign exchange and contribution for national development. This research used a normative legal method. The results show that Plantation SOEs have contributed greatly to the development of Indonesia. The internal auditors of Plantation SOEs in Medan apply a single supervision system under the board of directors. In its implementation, the internal auditor unit at PTPN IV is still got involved in fraud practices that can harm the company. Also affected both corporate income and contribution of Plantation SOEs to the development of Medan. Recommends to establish an independent and integrated external auditor unit, outside the company’s internal structure, but still under the Ministry of SOEs.

1. Introduction
Indonesia has abundant natural resources and productive lands which, if properly utilized and well managed, can increase the foreign exchange and prosperity of the people. The productive areas are used by businessmen to establish a business entity whose activities are engaged in the plantation sector.

The plantation crops that are in great demand include: oil palm, coconut, rubber, cotton, coffee, cocoa, sugar cane, tea, tobacco, pepper, cloves, cinnamon, and others, which are spread in 34 provinces in Indonesia. North Sumatra, which is in great demand of oil palm plantations, becomes the largest producer of oil palm. There are 1.1 million hectares area of oil palm and 2.1 hectares area of oil palm plantation in North Sumatra, producing up to 15.8 tons of fruit bunches and 5.5 tons of crude palm oil [1].

One of the companies engaged in oil palm plantation is PT Perkebunan Nusantara IV (PTPN IV), which is a state-owned enterprise located in Medan, North Sumatra. PTPN IV has 30 business units producing oil palm, one unit producing tea, one unit of oil palm plasma plantation, and one workshop business unit (PMT Dolok Ilir) which spread in 9 districts: Langkat, Deli Serdang, Serdang Bedagai, Simalungun, Asahan, Labuhan Batu, Padang Lawas, Batubara, and Mandailing Natal.

PTPN IV has 16 units of palm oil mill (POM) with a total capacity of 635 tons of fresh fruit bunches per hour, 2 units of tea factory with a total capacity of 155 tons of fresh tea leaves per day, and 2 units of palm kernel crushing plant with a capacity of 405 tons per day. The income of PTPN IV
in 2016 was IDR 5.65 trillion with a net profit of 528.26 billion and the total assets of 14,558 trillion. With such a large amount of income, Medan as the legal domicile of PTPN IV will benefit economic growth.

The obstacle for the company to increase the income is fraud, both in small and large scales. It is difficult to detect fraud because the internal auditors do not work optimally in carrying out their duties. The most frequent fraud on oil palm production is embezzlement and stealing involving internal and external personnel of the company.

This research focuses on PTPN IV, considering that fraud practices still massively occur in that company, such as embezzlement, corruption, collusion and nepotism, and stealing of oil palm fruit bunches, that does not only involve supervised personnel but also the auditors themselves. The auditors intentionally do not report the fraud due to the conspiracy between the fraudsters and the company’s internal auditors. About the problems elaborated above, this paper discusses how to optimize the role of the internal auditors in the Plantation SOEs to minimize company losses due to fraud so that the Plantation SOEs can contribute to local revenue that supports the income and development of Medan City.

2. Method
This research used a normative legal method using the primary legal materials, namely legislation and regulations of the Minister of State-Owned Enterprises as the source of data. The data were analyzed to find out the responsibility and the role of the internal auditors in overcoming fraud at PTPN IV in Medan.

3. Results and discussion

3.1. Plantation state-owned enterprises and economic growth in Medan
The economic growth in Medan is influenced by many factors, one of which is the income from plantation state-owned enterprises. State-owned enterprises are established to counterbalance private companies, produce higher investment ratios, increase capital, transfer technology, improve the labor sector, and produce affordable goods. The establishment of state-owned enterprises is one of the government’s strategies to improve social welfare and efficiency. However, some of the state-owned enterprises are run inefficiently, leading to economic problems in the country.

By 2017, the total number of state-owned enterprises in Indonesia is 115, 14 of which are engaged in plantation: PTPN I up to PTPN XIV [2]. Three of them are located in North Sumatra province: PTPN II, PTPN III, and PTPN IV, whose offices are in the administrative area of the Local Government of Medan.

PTPN IV has a large number of small working units or plantation estates (afdeling). However, the time to conduct an audit to each unit is very limited and can only be conducted once a year adjusted to its respective potential. This condition has caused a loss for the company because the role of internal auditors of Plantation SOEs in overcoming fraud cannot be made optimally.

3.2. Fraud at PTPN IV
The types of fraud that commonly occur at PTPN IV are: (i) fraud of reports, including fictitious income, time discrepancy, hiding of obligations and costs, improper disclosures, and valuation of improper assets; (ii) fraud of assets, including cheating on cash, inventory, and other assets; and (iii) corruption, including conflict of interest, gratification, bribery, and embezzlement of oil palm fruit bunches.

The audit system in Plantation SOEs generally does not meet the independence standards of corporate audit and GCG (Good Corporate Governance) standards. PTPN IV has a single audit system (i.e., internal audit system or IAS) whose position is under the structure of the board of directors. This system potentially makes the role of the internal auditor not optimal and enables them to get involved in the fraud practice.
Based on the research conducted at PTPN IV, it was found that the internal auditors composed of commissioners, legal divisions, and IAS with the duties and functions to control the operations and the fraud practices in Plantation SOEs. However, they are involved in embezzling oil palm fruit, leading to economic losses.

In the case of embezzling oil palm, the investigation reported that the internal auditors were involved. The Head of the Oil Palm Processing Unit at Kebun Dolok Sinumba Palm Oil Mill, who should supervise the workers in the scaling section, got involved in the fraud practice. He did not check the shipment of fruit bunches to the mill. Therefore, due to his negligence in supervising, the shipment of the fruit bunches to Dolok Sinumba Palm Oil Mill did not arrive at the destination because it was embezzled to another party.

The fraud at PTPN IV has involved many parties, including the drivers of trucks, employees, traders, and internal auditors. The internal auditors intentionally did not check the scaling and did not report the embezzlement practice. This action fulfills the omission offense that can be imposed with Article 164 of the Criminal Code, allowing embezzlement and not reporting it.

Fraud is a crime covering the misuse of one’s power, authority, or position. It includes all types of coercive, tactile, cunning, hidden, dishonest, guile, deceptive, fraud, and omission actions whose victims are not only individuals, but also companies, legal entities, or corporations [3].

Almost all companies or organizations are potential to be attacked by fraud. This crime can cause financial loss to PTPN IV. Regardless of the type of business, fraud can occur in all places and levels, from the administrative level to the management or board of directors level. Plantation SOEs are generally unaware of and underestimate the threat of fraud.

The fraudsters usually involve stakeholders of the company, such as employees, staff, commissioners, and directors. Together they arrange a strategy to trick detection. The difficulty of identifying fraud at the management level and strategic positions is due to the conflict of interests. The research findings show that the inability of the internal auditors to monitor and control in preventing and eradicating fraud at PTPN IV was caused by the involvement of top management in strategic positions, for which the internal auditors were unable to take any action.

3.3. Poor internal audit system in plantation state-owned enterprises
The poor internal audit system at Plantation SOEs was caused by the regulation defining the position of IAS in the internal organization under the board of directors. Article 67 of Law of the Republic of Indonesia Number 19 of 2003 concerning State-Owned Enterprises defines that IAS in each SOE is established as the internal audit system headed by a chairperson responsible to the president director. Article 1 paragraph 6, Article 108 paragraph (1) and (2), Article 114 paragraph (1), (2), (3), and (4) of Law of the Republic of Indonesia Number 40 of 2007 concerning Limited Liability Companies mandate the internal auditor unit to be under the board of commissioners’ responsibility.

The poor GCG system also causes inefficiency of the State-Owned Enterprises [4]. The internal auditors at the plantation SOEs as recommended by the GCG are still unable to realize people’s welfare even though Regulation of SOEs Number: Per-01/MBU/2011 concerning Implementation of Good Corporate Governance (GCG) in SOEs has been implemented [5]. Law of the Republic of Indonesia Number 19 of 2003, Government Regulation Number 45 of 2005, Regulation of SOEs Number: Per-01/MBU/2011, and Regulation of SOEs Number: Per-14/MBU/2012 need to be revised because they do not regulate technical fraud prevention schemes.

According to the Regulation of SOEs Number: Per-14/MBU/2012, the duty of external auditors (inspectorate) is to supervise IAS through auditing, reviewing, evaluating, monitoring, and other supervising activities. However, the function of the external auditors is still unable to detect fraud because it only relies on administrative and prosecution instruments. Even though there is an Inspectorate Unit of Echelon I of the Ministry of State-Owned Enterprises as the external auditors, it is still unable to prevent fraud optimally. Therefore, an independent and integrated external audit model is recommended to be established at PTPN IV.
The internalization of the audit concept of Plantation SOEs generally needs to be reviewed. Commissioners and internal auditors are still considered insufficient to monitor fraud. Independence is staked between the willingness of internal and external parties, namely the Ministry of State-Owned Enterprises and the public. Since the IAS receives recompense from the companies under its supervision, it is still difficult to be independent.

3.4. Optimizing the role of internal auditors in plantation state-owned enterprises in Medan to minimize losses due to fraud

The method of internal control in Plantation SOEs in Medan, especially at PTPN IV, should be done by establishing independent, honest, ethical, and responsible external auditors to control and identify fraud practices. Supervision will be more optimal if the position of the Plantation SOEs auditors is not within the structure of the company but the structure of the Ministry of SOEs and is carried out periodically and systematically.

The findings show that the internal auditors were still involved in the criminal act, both actively and passively in oil palm embezzlement. It is always possible for PTPN IV as one of the SOEs entities in Medan to conceptualize an integrated auditor model through the establishment of an independent external auditor.

Gradually PTPN IV could be threatened with bankruptcy if the fraud practices keep going without effective prevention efforts. The efforts to minimize the risk of loss must be prioritized through optimizing supervision. Pre-emptive and preventive efforts as early detection can help PTPN IV to minimize these risks, ensuring that internally PTPN IV can implement the principles of GCG and externally have an inspectorate system.

Auditors do not only ensure that senior management fulfills their responsibilities, but they can also serve as the hindrance for the senior management intending to commit fraud. Therefore, the model of an independent and integrated external auditor unit is an appropriate, rational, effective, and efficient alternative to optimize the role of internal auditors in preventing conspiracy, embezzlement, corruption, collusion and nepotism, and other fraud on oil palm production.

The internal audit model at PTPN IV, which only relies on IAS cannot be expected as the only way to minimize losses due to fraud. There are six structures that can be incorporated in the supervision system, namely the audit committee, board of commissioners, management, internal auditors, external auditors, anti-fraud specialist unit, and employees. Thus, in addition to internal auditors, each structure is also incorporated into external auditors.

The board of commissioners should act objectively and independently in observing the performance of directors. Besides, the board of commissioners can also work together with the external auditors in doing such observation. In addition to being able to monitor directly, the external auditors can also get information from the internal auditors and board of commissioners. Therefore, external auditors can obtain and provide accurate information to be analyzed and submitted to the Ministry of State-Owned Enterprises. Through such synergy, conflict of interest factor that triggers fraud at PTPN IV can also be detected earlier.

State-owned enterprises in a country have had anti-fraud agencies; however, the condition in which they do not have legal instruments requiring the SOEs to be transparent will harm the investors [6]. The transparency requirement is very important as an effort to prevent fraud, misleading statements, omission, embezzlement, and other fraud.

Most of the performance of SOEs in Indonesia have not implemented good corporate governance [7]. Fraud practices in Plantation SOEs are inseparable from violations to the principle of transparency [8]. Non-optimal management will prevent Plantation SOEs from being efficient [9].

Modern corporations are currently characterized by the failure of risk control and management systems [10]. To overcome the failure of the internal audit system, PTPN IV should emphasize the concept of prevention to minimize the potential loss because of abuse of power made by people who occupy strategic top-level management positions, such as directors, commissioners, staff, and other managerial positions.
The model of independent and integrated audit system which is recommended by this study to be applied in Plantation SOEs can, for instance, be adopted from the audit system model performed by Financial Services Authority (FSA). Internal auditors in the structure of such institutions as Bank Indonesia, Capital Market Supervisory Agency, insurance, pension funds, cooperatives, and other financial institutions, are conceptualized into an independent FSA supervisory institution.

4. Conclusions
The role of internal auditors in Plantation SOEs at PTPN IV in minimizing the loss of State-Owned Enterprises from fraud is neither efficient nor optimal because the structure of such internal audit system (IAS) is under the board of directors or under the organizational structure within the company it supervises and is responsible to the president director of the company. Therefore, it focuses more on administrative supervision. As a result, internal auditors are unable to detect potential fraud earlier and are even involved in fraud practices. The loss of Plantation SOEs due to fraud practices can hinder economic development in Medan because some of the supporting factors for the physical and economic development of Medan City are derived from the revenues of Plantation SOEs.

5. Recommendation
To minimize the risk of loss due to fraud practices through optimizing the role of auditors in Plantation SOEs generally and at PTPN IV in Medan City specifically, an independent and integrated external audit agency must be established excluding from the company’s internal organizational structure (Plantation SOEs). This alternative is the most appropriate, rational, effective, and efficient way to ensure that the role of the internal auditors becomes optimal and serious about preventing conspiracy, embezzlement, corruption, collusion and nepotism, and other fraud practices.

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