MITIGATING THE RISK OF EMBEZZLEMENT OF COMPANY CAPITAL BY AN EMPLOYEE : IMPLEMENTING FRAUD PREVENTION MEASURES TO PROTECT THE PROCUREMENT PROCESS FOR BUYING LAYING CHICKEN FEED AT DAZ FARM

Arkananta Wirananda

Master of Business Administration Program, Institut Teknologi Bandung
Correspondence E-mail: arkananta_wirananda@sbm-itb.ac.id

Abstract

This research investigates the financial and operational challenges faced by DAZ Farm, a small-scale laying hen farm in West Java, Indonesia, with a particular focus on fraud risk and its impact on business sustainability. The research identifies fraudulent activities committed by an employee, highlighting weaknesses in inventory management, financial oversight, and employee accountability. Using a descriptive qualitative methodology, the study applies the Fraud Triangle, Risk Matrix, and Business Process Flowchart as analytical tools to uncover systemic vulnerabilities and prioritize solutions. Data collection involves in-depth interviews with key stakeholders and analysis of operational and financial records. The findings reveal that key risk factors include a lack of internal monitoring systems, manual record-keeping, and insufficient employee ethics training. High-risk issues such as dual roles for employees and inadequate segregation of duties create opportunities for fraud. Recommendations include implementing automated inventory and financial tracking systems, enhancing employee training, and establishing whistleblowing mechanisms. This study provides actionable insights to mitigate fraud risk, ensuring the operational and financial integrity of small-scale agricultural businesses.

*Keyword: **Risks Of Capital Abuse, Prevention Of Fraud To Protect The Process, Procurement Of Laying Chicken Feed At Daz Farm***

1. INTRODUCTION

DAZ Farm, established in 2019, is a medium-scale poultry operation located in West Java, Indonesia. Despite its potential, the farm has faced significant challenges in fraud prevention and operational efficiency. The fraudulent activities carried out by an employee revealed systemic issues, such as poor financial oversight and manual processes vulnerable to manipulation. The problem escalated, resulting in financial strain and disruptions in supplier and customer relations.
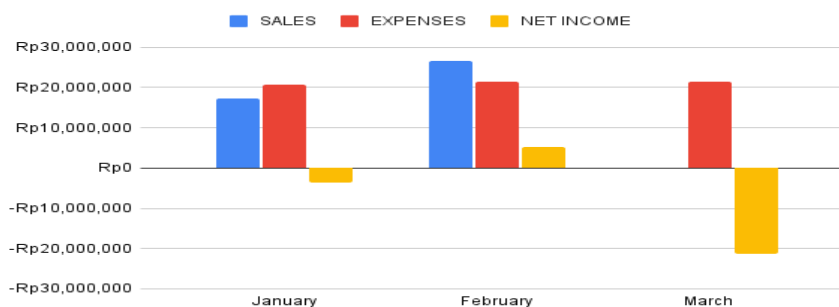
Source : DAZ Farm Internal Data

MITIGATING THE RISK OF EMBEZZLEMENT OF COMPANY CAPITAL BY AN EMPLOYEE : IMPLEMENTING FRAUD PREVENTION MEASURES TO PROTECT THE PROCUREMENT PROCESS FOR BUYING LAYING CHICKEN FEED AT DAZ FARM

Arkananta Wirananda

The global poultry industry, including Indonesia, has seen tremendous growth due to increasing demand for affordable protein sources. However, smaller operations like DAZ Farm often struggle with limited resources and lack of modern infrastructure. Addressing these challenges is crucial for enhancing the farm's sustainability and supporting Indonesia's agricultural goals. This research aims to identify the root causes of fraud at DAZ Farm, evaluate critical risks, and propose actionable strategies to mitigate fraud and improve operational efficiency.

2. LITERATURE REVIEW
2.1 Theoretical Foundations
2.1.1 Risk Mitigation

Risk mitigation focuses on reducing the likelihood and impact of risks through procedures, supervision, training, and contingency planning (Hery, 2015:78). According to Hery (2015:79), there are four strategies:

1. Risk Avoidance: Avoiding risks by stopping certain operations, as long as they do not create new risks or create significant lost opportunities. This strategy only works for risks that are not yet inherent in the business

2. Risk Sharing/Transfer: Transferring risks (eg, fire risks) through agreements, but ensuring careful drafting to avoid creating counterparty risks. Fraud-related risks are more difficult to transfer effectively

3. Risk Mitigation (Reduction): Using cost-benefit analysis to reduce high-priority risks (eg, red zone risks). This approach often combines several treatments to optimize resource allocation.

4. Risk Acceptance: Accepting unavoidable risks inherent in the business after ensuring mitigation is impractical or expensive, supported by strong justification.

To prevent a repeat of the fraud at DAZ Farm, this strategy must be integrated into a robust risk management framework, prioritizing oversight and accountability.

2.1.2 Risk Management

risk management is a field of study specifically focused on how organizations apply measures to systematically and comprehensively map all issues using a management approach (Irham, 2010).

2.1.3 Risk Mitigation

Strategy aimed at minimizing negative impacts that have occurred, This process is closely linked to internal controls, as both involve actions to prevent risks (preventive actions) or implement early warning systems or alert systems, In any company, various risks can arise and potentially disrupt operations, and these risks can be identified, measured, and ultimately minimized, making them controllable risks (Opan Arifudin, 2020) in risk management activities, identifying a risk requires a series of processes, These processes include several stages of risk mitigation, starting from recognizing risks to making final decisions on how to handle them, The stages of risk mitigation are as follows:

- Risk Identification: a part of risk management that provides a structured process to determine how risks may impact the goals of individuals or organizations

- Risk Measurement: the next step after identifying risks, aiming to assess the magnitude of the risks identified, and this step evaluates the level of risks faced by individuals or organizations, estimates the impact of these risks on performance, also determines the priority and relevance of the risks to current conditions, if a risk cannot be identified, it cannot be measured and consequently it cannot be controlled.

- Risk Monitoring: Identifying, analyzing, and planning for risks are essential parts of project planning, and the risk management does not stop there, practical experience and losses may necessitate changes to plans and decisions regarding risk handling, and continuous monitoring of the process, starting from risk identification and measurement is critical to ensure the effectiveness of chosen responses and to identify new or changing risks, when a

risk occurs, the chosen response should be appropriate and effectively implemented.
- Risk Control   : a tool for decision-making to reduce or avoid risks faced by businesses.
- Risk Limit Setting: Policies and procedures for setting risk limits are established based on clear rules and guidelines for all business activities. (Saryanto,2021)

2.1.4   Risk

Risk refers to the probability of events or situations that could cause disruption or instability in a company's operations and long-term viability, and it encompasses a variety of factors that can influence a business's performance and success, originating both internally and externally. (Sajjad et al, 2020). Risk is understood as the possibility of gaining or losing something valuable, with value encompassing various elements such as physical health, social standing (goodwill), or financial wealth, and taking risks whether knowingly or unknowingly can lead to an increase or loss of value either in a visible or invisible manner (Stamatis, 2019)

2.1.5   Root Cause Analysis

There are at least two main stages in RCA, The first stage is called the diagnostic stage, and the second is the solution stage. In the diagnostic stage, there are five steps to follow: defining the problem, understanding the process, identifying potential causes, collecting data, and analyzing data, In the solution stage, there are also five steps which is identifying possible solutions, selecting a solution to implement, implementing the solution, evaluating the impact of the solution, and embedding the change into the culture (Okes, 2019).

2.1.5.1 Fraud Triangle Analysis

The first element, pressure, is the main trigger that encourages someone to consider fraud. pressure does not always come from personal financial problems, but can also arise from targets that are too high at work, intense competition, or the threat of losing a job, in other words this pressure often comes from pressing needs or unrealistic expectations. (Albrecht et al, 2010). The second element, opportunity, refers to conditions or weaknesses in the system that allow fraud to occur. opportunities often arise due to lack of supervision, weak internal control, or an organizational culture that is permissive of minor violations, and these opportunities are aspects that can be controlled by the organization by increasing supervision and strengthening internal policies (Wells, 2011).

The last element rationalization is a justification or justification made by the perpetrator to feel that his actions are not wrong. fraud perpetrators often feel "entitled" to do so, for example because they feel that the salary they receive is not appropriate or they are only "borrowing" company money and without this rationalization, individuals tend to find it difficult to violate moral or legal norms (Dorminey et al, 2012).

2.1.5.3 Risk Matrix Concept

The importance of a risk matrix in building a uniform understanding of risk across an organization, and with a standardized scale a risk matrix allows all stakeholders to have the same view of risk priorities, thus facilitating the mitigation and decision-making process (Purdy, 2010). Risk matrix can also help organizations identify "hidden" risks that may not be immediately visible, By placing these risks in the matrix, organizations can decide whether the risk requires immediate mitigation or can be tolerated for a while (Pritchard, 2015). risk matrix has limitations in measuring complex risks, and in their paper in the Risk Analysis Journal, they explain that risk matrix is often too simple to capture the interactions between risks that influence each other, they recommend the use of more sophisticated models to handle risks that have many variables (Hubbard, 2010).

International Journal of Economic, Business, Accounting, Agriculture Management and Sharia Administration | **IJEBAS**
E-ISSN: 2808-4713 | https://radjapublika.com/index.php/IJEBAS

International Journal of
Economic, Business, Accounting, Agriculture
Management and Sharia Administration (IJEBAS)

2030

MITIGATING THE RISK OF EMBEZZLEMENT OF COMPANY CAPITAL BY AN EMPLOYEE : IMPLEMENTING FRAUD PREVENTION MEASURES TO PROTECT THE PROCUREMENT PROCESS FOR BUYING LAYING CHICKEN FEED AT DAZ FARM

Arkananta Wirananda

2.2 Conceptual Framework

The theoretical framework for DAZ Farm addresses the significant financial and operational risks caused by employee-related fraudulent activities, these fraudulent behaviors such as
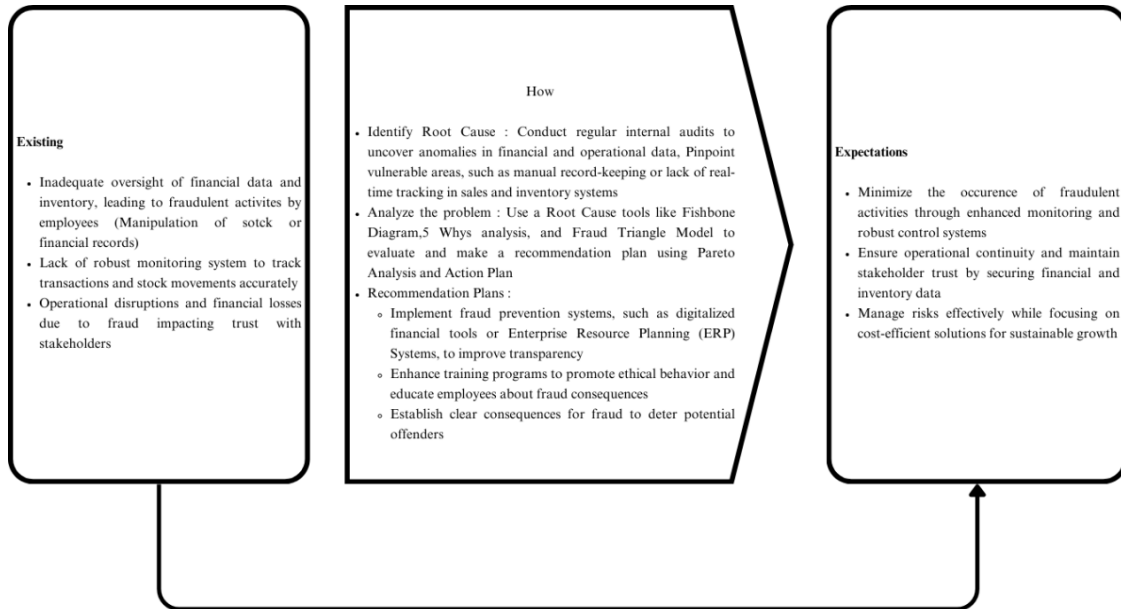
manipulation of stock records, falsification of financial data, and gaps inventory tracking have led to operational disruptions, financial losses, and a deterioration of stakeholder trust, the absence of a robust monitoring system further aggravate the situation, allowing vulnerabilities to persist and reducing operational efficiency

3 RESEARCH METHOD
3.1 Research Flow

The flowchart presents a comprehensive strategy to address fraud at DAZ Farm by uncovering its root causes and implementing effective solutions. The process begins by identifying key issues, such as financial irregularities, operational disruptions, and behavioral anomalies, which hint at potential fraudulent activities within the organization. Understanding these problems lays a strong foundation for the investigation, ensuring a targeted and well-focused approach. By studying relevant literature and applying theoretical frameworks like the Fraud Triangle, the research aligns with proven methodologies while contextualizing the unique challenges faced by DAZ Farm. Examining operational processes and potential risks provides valuable insights into organizational weaknesses that may have enabled fraud.

The investigation delves deeply into DAZ Farm's circumstances, utilizing descriptive qualitative research to analyze employee dynamics and internal processes. Interviews offer qualitative insights into organizational culture and possible oversight gaps, while internal data analysis, such as reviewing financial reports, reveals patterns indicative of fraudulent activities. This combination of qualitative and quantitative methods enables a thorough understanding of the underlying issues. The findings are analyzed using tools like the Fraud Triangle and Risk Matrix to identify the root causes and design actionable solutions. Recommendations include strengthening internal controls, conducting regular audits, providing employee training, and refining business processes to prevent future occurrences. By following this structured process, DAZ Farm can rebuild trust, improve operational efficiency, and create a secure environment that minimizes fraud risks moving forward.
.

3.2 Data Collection Methods
3.1.1 Interviews

An interview is a discussion between two people aimed at sharing information and ideas through a series of questions and answers to build understanding on a specific subject, The planned interviews will be in-depth, involving face-to-face meetings over a period of time to gather detailed insights and achieve the research objectives, These interviews are designed to enhance the qualitative data collected for the study.

3.2 Data Analysis Methods

This research adopts a descriptive qualitative analysis approach to investigate and address fraud issues at DAZ Farm. By integrating tools such as the Fraud Triangle, Risk Matrix, and Business Process Flowchart, the study systematically identifies root causes, prioritizes critical risks, and develops targeted solutions. Primary data is collected through in-depth interviews with key stakeholders, including farm owners, employees, and external agents, complemented by observations of operational processes. Secondary data, such as financial records and inventory logs, is cross-referenced to validate findings, uncovering systemic weaknesses like outdated tracking systems and poor oversight. The Fraud Triangle highlights the drivers of fraud—pressure, opportunity, and rationalization—emphasizing employee financial stress and weak internal controls. The Risk Matrix prioritizes risks based on their impact and likelihood, focusing on vulnerabilities such as a lack of automated systems and insufficient role segregation. Finally, the Business Process Flowchart is employed to redesign operations, introducing improved controls, automation, and clear responsibilities to mitigate fraud risks and enhance operational sustainability.

Key Points
- Research Approach: Descriptive qualitative analysis to address fraud issues.
- Primary Data Collection: In-depth interviews with farm owners, employees, and external agents; observations of operations.
- Secondary Data Analysis: Cross-referenced financial records and inventory logs to identify discrepancies and validate findings.

Key Tools Used:
- Fraud Triangle: Analyzes fraud drivers—pressure, opportunity, rationalization.
- Risk Matrix: Prioritizes risks based on likelihood and impact.
- Business Process Flowchart: Redesigns operations to strengthen internal controls and improve efficiency.

Findings:
- Systemic weaknesses include outdated tracking systems and insufficient oversight.
- Drivers of fraud include employee financial stress and poor internal controls.

Solutions:
- Improved internal controls and automated systems.
- Clear segregation of duties and defined employee roles.
- Long-term safeguards to prevent future incidents.

Outcome: Restores trust, enhances operational efficiency, and ensures sustainability

3.3 Research Design

The research design for DAZ Farm focuses on a structured and comprehensive approach to addressing the issue of fraud within its operations, The design adopts a descriptive qualitative methodology, which is well-suited for exploring the complex dynamics of fraud and identifying its root causes

MITIGATING THE RISK OF EMBEZZLEMENT OF COMPANY CAPITAL BY AN EMPLOYEE : IMPLEMENTING FRAUD PREVENTION MEASURES TO PROTECT THE PROCUREMENT PROCESS FOR BUYING LAYING CHICKEN FEED AT DAZ FARM

Arkananta Wirananda

4 RESULTS AND DISCUSSION
4.1   Analysis
### 4.1.1 Fraud Triangle Framework

The Fraud Triangle Model explains why fraud occurred at DAZ Farm by analyzing three key elements which is Pressure, Opportunity, and Rationalization, Each of these elements plays a significant role in motivating an individual to commit fraud, making it a valuable tool for understanding the root causes of the fraud issue in this case.

The first element, Pressure, refers to the financial strain faced by the employee involved in the fraud, In this case, Bendot, one of DAZ Farm's employees, experienced personal financial pressure due to his involvement in online gambling, Such pressures often push individuals to seek quick solutions, and with access to cash flow and inventory records, Bendot found DAZ Farm an easy target to address his personal struggles

The second element, Opportunity, highlights the weaknesses within DAZ Farm's systems and processes that allowed the fraud to occur, DAZ Farm lacked internal monitoring systems, real-time inventory tracking, and regular financial audits, These gaps in oversight gave Bendot the opportunity to manipulate inventory records and financial data without immediate detection, Additionally, poor segregation of duties allowed him to handle both cash and data, further increasing the chances of fraudulent behavior going unnoticed.

The third element rationalization involves the justification of unethical behavior, Bendot likely justified his actions by telling himself that the company wouldn't notice the missing funds or that he would repay them later, The lack of strict consequences for unethical actions at DAZ Farm and the absence of ethical training created an environment where such behavior could be excused, without understanding the long-term impact of fraud, employees like Bendot could rationalize their decisions as harmless or temporary

DAZ Farm Fraud Triangle Framework
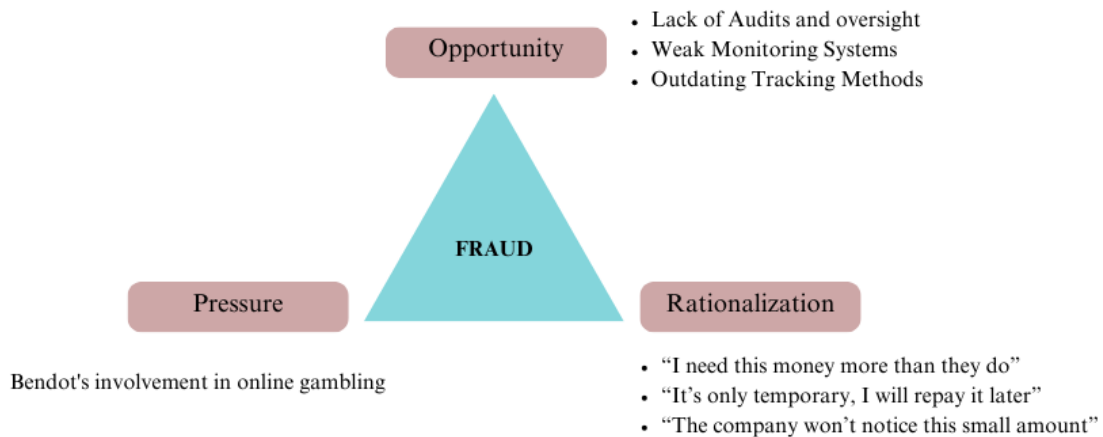
4.1.2 Risk Matrix

The Risk Matrix provides a structured way to evaluate and prioritize the fraud-related risks identified at DAZ Farm, and it categorizes risks based on their likelihood of occurrence and the impact they have on operations, helping DAZ Farm understand which risks require immediate attention. At the top of the risk matrix are critical risks such as weak internal monitoring systems, outdated manual financial tracking, and the lack of employee ethics training, These risks are marked as high in both likelihood and impact because they directly contributed to the fraud issue, The absence of automated systems and audits created vulnerabilities in monitoring cash flow and inventory while untrained employees failed to recognize the consequences of unethical behavior. Other high-priority risks include dual responsibilities for cash handling and data management and the absence of a whistleblowing mechanism, These risks were rated as high in impact because they enabled

manipulation of records and prevented early detection of fraud, Without clear systems to report suspicious behavior anonymously, employees had no means to flag unethical activities without fear of retaliation. Medium-level risks, such as inaccurate inventory management and weak penalties for fraud, are also important to address, While they may not have the same immediate impact as critical risks, they still contribute to creating opportunities for misconduct, Low-level risks, like unclear reporting lines and lack of backup employees, were identified as potential challenges that could escalate over time if not managed.

DAZ Farm Risk Matrix Table

No	Risk	Likelihood	Impact	Risk Level	Description
1	Weak Internal Monitoring Systems	High	High	Critical	Lack of real-time monitoring and control systems enables manipulation of records.
2	Outdated Manual Financial Tracking	High	High	Critical	Reliance on manual systems allows data errors, fraud, and delays to occur.
3	Lack of Employee Ethics Training	High	Medium	Severe	Employees lack awareness of ethical behavior, increasing fraud opportunities.
4	Absence of Regular Audits	Medium	High	Severe	Infrequent financial and inventory checks prevent early fraud detection.
5	Dual Responsibilities for Cash & Data	Medium	High	Severe	Employees with overlapping duties can manipulate both cash handling and data.
6	Absence of a Whistleblowing Mechanism	Medium	Medium	Moderate	No safe reporting system prevents employees from flagging suspicious behavior.
7	Inadequate Penalties for Fraud	Medium	Medium	Moderate	Lack of strict consequences allows unethical behavior to continue.
8	Employee Financial Pressure	High	Medium	Severe	Personal financial struggles (e.g., gambling debt) motivate employees to commit fraud.
9	Inaccurate Inventory Management	Medium	Medium	Moderate	Errors in stock tracking create opportunities for theft or manipulation.
10	Unclear Reporting Lines	Low	Medium	Sustainable	Lack of defined roles prevents clear oversight of financial processes.
11	Lack of Backup Employees	Low	Medium	Sustainable	Heavy reliance on specific employees can disrupt operations during fraud cases.
12	New Employee Screening Issues	Low	Medium	Sustainable	Ineffective hiring processes fail to identify candidates with risky behavior.
13	Poor Communication with Stakeholders	Medium	Low	Sustainable	Miscommunication with egg agents may lead to disputes over inventory or payments.

MITIGATING THE RISK OF EMBEZZLEMENT OF COMPANY CAPITAL BY AN EMPLOYEE : IMPLEMENTING FRAUD PREVENTION MEASURES TO PROTECT THE PROCUREMENT PROCESS FOR BUYING LAYING CHICKEN FEED AT DAZ FARM

Arkananta Wirananda

4.2 Business Recommendation

4.2.1 Recommended Business Process Model

The newly designed business process flow at DAZ Farm addresses operational inefficiencies and fraud prevention through clear roles, responsibilities, and robust controls. It begins with recruitment, requiring background checks and a code of ethics agreement to ensure ethical behavior and minimize vulnerabilities from the outset. Employee training is a critical step, providing workers with knowledge of fraud prevention measures, such as cash handling, inventory management, and reporting practices. This training fosters a culture of transparency and accountability while empowering employees to recognize and report suspicious activities, strengthening internal controls.

The process integrates digital systems for real-time transaction recording and automated financial monitoring. These systems enhance transparency, reduce manual manipulation risks, and detect discrepancies between sales reports and bank deposits. Regular audits, both internal and external, validate the alignment of financial and operational records and identify irregularities. Additionally, a customer feedback system allows issues like delivery or payment discrepancies to be reported, enhancing trust and accountability while serving as an early warning mechanism for potential problems.

Finally, a continuous improvement phase ensures adaptability by updating policies based on audit findings and operational feedback. This flow strengthens internal controls, promotes transparency, and fosters an efficient operational culture. Solutions such as real-time transaction recording, training, and audits work cohesively to prevent fraud and build trust among employees, customers, and management
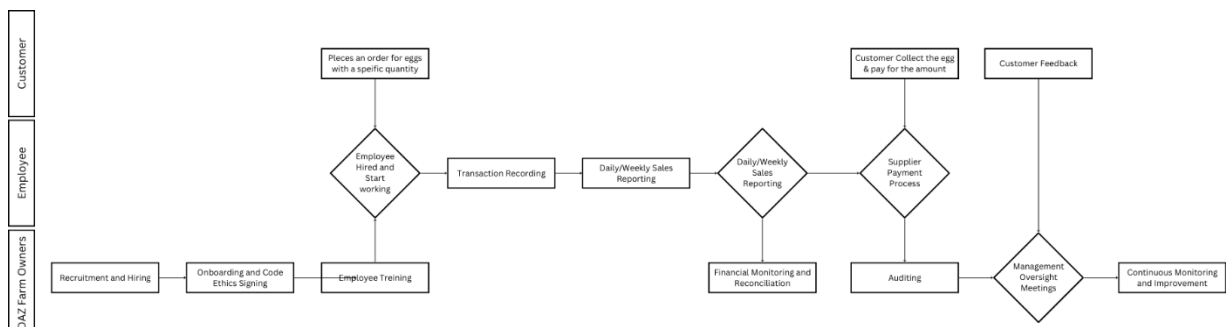
5 CONCLUSION

The analysis of fraud at DAZ Farm identified several systemic vulnerabilities contributing to financial and operational issues. Using the Fraud Triangle framework, the research revealed that employee financial struggles and gambling habits created pressure for unethical behavior. Opportunities arose from weak internal controls, including manual record-keeping, inadequate segregation of duties, and a lack of monitoring systems, allowing discrepancies in inventory and financial records to persist unnoticed. The absence of regular audits further exacerbated these vulnerabilities. Rationalization of fraudulent actions stemmed from a permissive environment lacking clear consequences and ethical training. Employees were not sufficiently aware of the seriousness of their actions or their impact on the business, making it easier to justify unethical behavior as harmless or temporary.

The Risk Matrix identified critical risks, such as the lack of automated systems, poor oversight, and dual roles in cash handling and data management. These risks were both likely to occur and had significant financial and operational consequences, making their resolution essential for DAZ Farm's sustainability. The Business Process Flowchart analysis highlighted inefficiencies in operational processes, with manual systems and unclear roles creating opportunities for mismanagement. Weak accountability mechanisms failed to enforce proper oversight, further enabling fraudulent activities. Addressing these vulnerabilities is critical to securing DAZ Farm's operations and ensuring its long-term success.

REFERENCES

Evans, C, &, (2021). Fraud patterns and detection strategies in agricultural supply chains, *International Journal of Agricultural Management*.

Fisher, L, &, (2021), Effective fraud risk assessments for farm operations, *Risk Management Journal*.

Free, C, M, (2015), Management control and fraud: The fraud triangle and the new fraud diamond, *Management Accounting Research*, 26, 45-55,

Gonzalez, P, &, (2019), Building trust to prevent fraud in agricultural teams, *Human Resources in Farming*,

H, Brown, L, W, (2021), Policy frameworks for preventing fraud in agribusiness, Policy and Ethics in Agriculture,

Hery, S, (2015), Risk Management: Strategies for Organizational Success,

Hubbard, D, &, (2010), The limitations of risk matrices for complex risk measurement, *Risk Analysis Journal*,

Hubbard, D, W, (2010), Problems with scoring methods and ordinal scales in risk assessment, *Risk Analysis*, 975-988,

Liu, G, &, (2020), Leadership's impact on fraud prevention in agriculture, *Management Perspectives in Farming*,

Mills, K, E, (2020), Graduate student literature review: Challenges and opportunities for human resource management on dairy farms, *Journal of Dairy Science,*

Mills, K, E, (2020), Graduate student literature review: Challenges and opportunities for human resource management on dairy farms, *Journal of Dairy Science,*

Munyaka, J, B, (2022), Inventory management concepts and implementations: A systematic review, *Journal of Supply Chain Management*,

Park, S, &, (2022), The role of ethical training in shaping employee behavior in agriculture, *Training Insights for Farming*,

Pritchard, C, L, (2015), Risk Management: Concepts and Guidance, *CRC Press*,

Puertas, R, &, (2019), Enhancing traceability and reducing fraud risks in agricultural operations, *Journal of Agricultural Systems*,

Saryanto, (2021), Risk Mitigation and Management in Modern Business, *Journal of Business Studies*,

Suprijatna, E, A, (2005), Ilmu Dasar Ternak Unggas Penebar Swadaya, Jakarta,