

Fraud Control to Strengthen Internal Control Systems in Local Government

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ABSTRACT

The purpose of this research is to analyze the existence and application of the Fraud Control Plan attributes in the work environment of the organization. The research method in this research is descriptive qualitative with a case study at government agencies in Bone Bolango Regency, Gorontalo Province that implements the Fraud Control Plan control tool. The results of this study that this government agencies has a good assessment in realizing the performance of Good Governance in the criteria of "Sufficiently adequate" in an indication of a reduction in fraud and an increase in employee performance in the organization. the important value of the presence of fraud control for agencies is the accountability of each attribute value reflects the transparency of each activity. Control of each agency is more controlled and positively directed and further minimizes the occurrence of fraud. The value that can be drawn from this research is the achievements that have been made optimally so that they can be properly maintained, and for elements that have not been fulfilled so that they can be corrected immediately in accordance with local government procedures and policies. The next researcher should consider the other methods used.

Keywords: Fraud Control; Internal Control System, Local government; Performance

INTRODUCTION

Today's fraud is still a phenomenal conversation that must remain a concern of organizational management so as not to cause losses even to the point of bankruptcy. This fraud is a problem for countries throughout the world and occurs in almost all sectors, both government and public and non-public sector organizations. State-Owned Enterprises (BUMN) and Regional-Owned Enterprises (BUMD) are also not spared from accounting fraud. (Zimbelman, Albrecht, Albrecht, & Albrecht, 2014) As we know, a person who tries to enrich himself through the power he has and deliberately misuses the organization's economic resources is a form of fraud ((Darori, 2017; Wuryandini, Pakaya, & Husain, 2022). It is different with (Putra, Saitri, & Gunadi, 2019) that committing fraud is the same as corruption where this has captured a lot of public attention, so that accounting fraud is mostly carried out by irresponsible people who only want to manipulate data on financial statement misstatements. Examination of accounting fraud must be carried out every period because financial information reflects the economic resources of an organization. (Ar'Reza, Wardoyo, & Putri, 2020) stated that fraud is a deviation that can be carried out by two parties, namely internal or external within the company. Organizations need internal auditing as it is a tool to prevent and detect fraud early. By conducting an internal audit, previously bad controls will become good, weak ethical policies will become strong, delegation and failed task authorization will be corrected.

The trend of accounting fraud has developed in various countries, including Indonesia, whose corruption index ranks 96th out of 180 countries in the world (International 2017). Among many evidence of fraud that occurred corruption including one of them. (Munidewi, Suryandari, & Suryawan, 2019) explained that there are many preparations that must be made by an organization if it suffers losses due to the impact and the consequences of this are unavoidable. Accounting fraud committed by individuals or groups is triggered because they want financial reports to look good in the eyes of the public, especially investors. Various strategies were carried out, for example the case of the Enron company in 2001 which suffered bankruptcy due to manipulation of financial reports with large profits even though they did not match real conditions.

Argues that fraud is an act that only thinks about personal gain by taking advantage of other people by acting in a bad way. (Runtunuwu & Tussabaha, 2020) the complexity of fraud problems facing the world, including the Indonesian government. The need for internal control from an early age is intended to prevent major fraud from occurring. It has become a trend that organizations that have implemented fraud prevention have not fully succeeded restore a healthy initial condition if the fraud that occurs is too large. This impact can cause losses and even bankruptcy. A fraud Control Plan (FCP) is a control specifically designed and implemented to prevent, prevent and facilitate disclosure of incidents that indicate corruption. Seeing the above phenomenon, the Financial and Development Supervisory Agency (BPKP) has developed a system that functions to prevent, detect early and respond to fraud with the Fraud Control Plan (FCP). The purpose of the FCP is to improve the implementation of management in government organizations through the use of the results of studies conducted by Financial and Development Oversight Agency (BPKP).

BPKP Gorontalo representatives themselves have carried out socialization and guidance in several government agencies. Seeing the sad condition of fraud that continues to occur, BPKP continues to implement a corruption eradication strategy with several approaches, one of which is the Preventive strategy. In implementing this preventive strategy, BPKP has designed guidelines for the prevention and detection of fraud originating from

common practices in the United States, Australia, and New Zealand called the Fraud Control Plan (FCP) to be implemented in Indonesia.

This research is based on the many cases that have occurred in public and non-public sector-oriented agencies that have committed acts of violation and fraud. This research is based on the research of (Simeon & Simeon, 2018), that there were cases of banks in Nigeria committing fraud, with the failure of internal auditors as supervisors and external auditors who were unable to uncover cases, and conducted quantitative research. Researchers conducted a different study using descriptive qualitative methods in government agencies in Bone Bolango district that received public recognition regarding the services provided. Previous research from (Ubaidillah, Mulyani, & Effendi, 2013) took a sample at PT Gojek where internal control has been carried out well even though fraud practices are still high. Different results from (Mohamed & Handley-Schachler, 2015) in their paper, it gives the result that it provides a generative understanding of the need for responsibility and improvement in controlling fraudulent financial reporting in public entities. And then (Adesina, Erin, Ajetunmobi, Ilogho, & Asiriwuwa, 2020) shows the importance of forensic auditors who are competent in their field to carry out internal controls in preventing fraudulent financial statements in Nigerian banks.

This research is a further research carried out by taking different research objects with case study at the public service agency of Bone Bolango Regency. The purpose of this research is to analyze the existence and application of the Fraud Control Plan attributes in the work environment of the organization. The research method in this research is descriptive qualitative with a case study at government agencies in Bone Bolango Regency, Gorontalo Province.

LITERATURE REVIEW

Public Interest Theory

(Mohamed & Handley-Schachler, 2015) uses the theory of public interest in reviewing their research, as is the case with this research which examines government agencies that provide services to the public. In the context of stakeholder theory, there will be pressure to commit fraud reporting within internal control. Public service agencies can work optimally in accordance with organizational goals if they can position all elements so that they can become servants and not just to be served. Service is the basis of stewardship theory in the sense that all the behavior of members of the organization can be formed from a sense of having to work together and coordinate with each other prioritizing common interests rather than self-interest and always prioritizing a sense of serving the community, (Davis, Schoorman, & Donaldson, 1997) (Davis et al., 1997)

Government agencies are also not allowed to provide false information to the public, namely the public and other stakeholders because these agencies will be audited annually by internal auditors, namely the Inspectorate, BPKP and external auditors, namely the Supreme Audit Agency.

Fraud Control Plan

Based on Statement of Auditing Standards (PSA) No. 70, fraud is defined as deviation. The fraud tree is described by (Tuanakotta, 2017) as a fraud map or fraud classification method in various forms of fraud classification displayed on the fraud tree. Fraud tree has three main branches, corruption, misuse of assets, and fraud in financial reports. The Fraud Control Plan (FCP) is a control designed for organizations to prevent and facilitate the detection of fraud by implementing specific, regular and measurable implementations

of several attributes. The existence of an integrated anti-fraud policy will provide a maximum role for the internal control of an organization. Based on the Regulation of the Deputy Head of the Financial and Development Supervisory Agency for Investigation Number 1 of 2021 concerning Consultancy on Fraud Control, the FCP stages consist of socialization and diagnostic assessment, technical guidance on FCP implementation, and FCP evaluation. These stages are the flow in the implementation of the FCP:

Outreach and Diagnostic Assessment

Socialization is the process of providing, adapting, adjusting, introducing and elaborating information regarding fraud control. Furthermore, diagnostic assessment is the process of identifying, analyzing and evaluating the existence and implementation of FCP attributes.

FCP Implementation Technical Guidance

Technical guidance is an activity of providing to assistance in form of advice and advice so that there is a process of transferring knowledge and technology in order to solve technical problems in the field of fraud control. The technical nature of the guidance provided by the BPKP implies that the assistance provided requires certain expertise, in this case expertise in the field of fraud control.

FCP Evaluation

FCP evaluation is an activity of juxtaposing, comparing, and comparing the processes and results of implementing fraud control strategies with the aim of fraud control and determining the factors that influence the success or failure of FCP implementation within the framework of achieving organizational and national development goals. the fraud control plan is part of the expertise in accounting, auditing and fraud examination by taking into to account the three areas that are the domain of the internal auditor's role and function, namely governance, risk management and control.

The Committee of Sponsoring Organizations of The Treadway Commission (COSO, 2008) explained that in the fraud control plan, there are 10 elements of special attributes that are used to strengthen the internal control system and organizational governance as an effort to prevent and control fraud, including:

Integrated anti-fraud policy

A series of anti-fraud policies and lines of accountability prepared by management

Accountability structure

Organizational structure that is structured by dividing the duties and responsibilities of each line within the organization.

Fraud risk assessment

Assessment of fraud risks that occur within the organization

Employee concern

In the anti-fraud assessment, employees will be given an explanation regarding fraud that occurs in the work environment, employees must be able to correctly distinguish between forms of fraud.

Concern for customers and society

This form of fraud control is provided to stakeholders in the form of concern

Whistleblower protection

Protection provided to reporters from the reporting system, disclosure to external parties and investigative procedures.

Fraud reporting system

In this system, every incoming fraud complaint, whether from within or outside, will be processed to be answered by the internal control (Aris, Arif, Othman, & Zain, 2015; Tagora & Putriana, 2022)

External reporting

External reporting aims that when there is a serious fraud incident it will be reported to the authorities and processed in accordance with applicable laws. In this case the whistleblower will report according to standard procedures because it is feared that this report is only of dislike, envy and revenge. The authorities will conduct an investigation first, by collecting evidence from the reporter and concluding the results of the examination, then will process it in accordance with the legal regulations in force in a country.

Investigation Standard

This is how to manage an investigation of fraud detection.

Standards of Conduct and discipline

The tenth element is the foundation, because it is the elaboration of the rules regarding the disciplinary behavior of members of organization regarding fraud-denial values.

One of the unethical acts committed by individuals or groups, there is even an assumption that fraud is a normal thing to do and not a taboo thing to do, so that fraud which should have a negative impact on the organization and the environment is considered normal (Dinata, Irianto, & Mulawarman, 2018). If the organization does not take precaution as early as possible, it is certain that fraud that has already spread will be difficult to control and to overcome. As proved by Syahrina's research (2016) that fraud can occur due to two cultural factors, are profit-seeking culture and safety-seeking culture. This condition is one example that the emergence of fraud can occur because habits that are carried out in the company's operational activities. Another research conducted by Loveday (Nwanyanwu, 2018), found results that the national value system strengthens accountant ethics. The mindset and philosophy of society regarding the ethical behavior of accountants that reflect honesty, the value of knowledge and integrity that must be upheld to realize good corporate governance. While (Simeon et al., 2018) found that traditional auditing and forensic auditing have a significant relationship. Forensic audits are more effective to be implemented in institutions accompanied by an increase in traditional audits by conducting employee training and education to prevent fraud.

RESEARCH METHOD

In obtaining answers to factual information, the researcher uses descriptive analysis to examine the research subject, the object of research on thought, and the class of a present event. Qualitative data is data collected in form of narratives, schematics, or in form of images (Sugiyono, 2020). The research will be conducted by conducting surveys and interviews as data collection techniques. The subject of this study is from the government agencies in Bone Bolango district with the informant being the Head of the Internal Control System Sub-Section.

The fraud control plan consists of ten attributes that will be assessed for their existence and their application based on data in the form of applications or the form of supporting documents. The conclusion of the assessment and application of the ten attributes of the fraud control plan is carried out in stages and completely. The conclusions of the assessment results using program evaluation are categorized into three, namely 1) Inadequate, if there are no documents and applications applied, 2) Enough, if there is an application but no application but there are supporting documents on the contrary, 3) Adequate, if any application there are supporting documents and there is an application.

RESULT

Table 1. Attributes of the Integrated Anti-Fraud Policy

No	Interview Questions	Availability of Supporting Documents		Availability of Supporting Applications		Evaluation
		Exist	Not Exist	Exist	Not Exist	
1	How is the implementation of government vision and mission contained in the Action Plan?	√		√		

The results obtained in the field show that this government agency has received a "good" category, because it has facilitated fraud prevention as early as possible. With the implementation in the work environment this is a good signal given by the leadership to be firm in making a "fraud prevention" policy.

Table 2. Attributes of Accountability Structure

No	Interview Questions	Availability of Supporting Documents		Availability of Supporting Applications		Evaluation
		Exist	Not Exist	Exist	Not Exist	
1	Is the establishment of the government Accountability Structure for the division of responsibilities in coordinating the implementation of anti-fraud policies clear and effective?	√		√		

This community service organization has carried out the implementation documents and applications of the main functions and responsibilities of each member of the organization. The accountability structure is formed by the internal control section to check every task carried out by each employee whether it has been going well or not.

Table 3. Attributes of Fraud Risk Assessment

No	Interview Questions	Availability of Supporting Documents		Availability of Supporting Applications		Evaluation
		Exist	Not Exist	Exist	Not Exist	
1	Has the company developed a strategy for assessing the risk of the possibility of certain fraud or fraud events occurring?	√		X		

For the fraud risk assessment, the results obtained were insufficient because they had not implemented applications in the risk management function, had made standard operating procedures but had not implemented risk evaluations that arise because there was no application support for creating databases for submitting reports to leaders.

Table 4. Attributes of Employee Concern

No	Interview Questions	Availability of Supporting Documents		Availability of Supporting Applications		Evaluation
		Exist	Not Exist	Exist	Not Exist	
1	What efforts are made by the company to improve the understanding of all employees when facing fraud?	√		√		

This public service agency has implemented a real action plan in its agency, this is evidenced by the results of research that maximize the availability of supporting documents and application support. This action is aimed at increasing awareness of employees to continue to increase awareness of fraud.

Table 5. Attributes of Concern for Customers and Society

No	Interview Questions	Availability of Supporting Documents		Availability of Supporting Applications		Evaluation
		Exist	Not Exist	Exist	Not Exist	
1	How are the actions taken by the management in realizing and increasing the Concern of Customers and the Community for Fraud prevention and control efforts?	√		√		

The internal control manager has worked well, this is evidenced by concrete evidence that is displayed in the field both in documents and applications, such as clear service flow banners, banners regarding file submission procedures for people who need services, the availability of comfortable service rooms, front office staff who are polite and friendly, and work on time and a website is available for people who need information online. the overall performance mentioned above is intended for the general public who need information and service assistance in accordance with the criteria for the type of service needed.

Table 6. Fraud Event Reporting System Attributes

No	Interview Questions	Availability of Supporting Documents		Availability of Supporting Applications		Evaluation
		Exist	Not Exist	Exist	Not Exist	
1	Does the company have an effective system and procedure for adequate internal reporting related to Fraud events?	√		√		

The data obtained by the research agency already has a reporting policy and mechanism and the internal control party in charge is ready to respond to any information or case reports that come from the complainant.

Table 7. Whistleblower Protection Attributes

No	Interview Questions	Availability of Supporting Documents		Availability of Supporting Applications		Evaluation
		Exist	Not Exist	Exist	Not Exist	
1	Has the company implemented appropriate mechanisms and policies to support and protect all efforts of the reporting party regarding fraudulent events that occur in the company it manages?	√		√		

An assessment of the points of protection for reporters that was obtained well, the organization has a mechanism that supports reporters so that reporters are safe, intimidation or threats in the internal environment of reported fraud cases.

4.1.8 Attributes of Disclosure to External Parties

No	Interview Questions	Availability of Supporting Documents		Availability of Supporting Applications		Evaluation
		Exist	Not Exist	Exist	Not Exist	
1	Has the company established and implemented the rules for reporting fraud incidents that occurred within the company to the authorized agency outside the company by the provisions of the legislation?	√		X		

This assessment is carried out to determine the extent to which the organization has determined deviations from the rules to outside authorities. The results obtained are in the "adequate" category with a policy regarding disclosure procedures, policies regarding losses incurred, sanctions that will be reported to external parties if it is a serious case.

Table 9. Attributes of Investigation Procedure

No	Interview Questions	Availability of Supporting Documents		Availability of Supporting Applications		Evaluation
		Exist	Not Exist	Exist	Not Exist	
1	Has the company designed and established investigative procedures to ensure that detected fraud is handled and investigated systematically and professionally?	√		√		

This government agency has designed and established investigative procedures to ensure that detected fraud is handled and investigated in a systematic and professional manner. The existence of supporting documents in the form of decrees, work orders and other supporting documents, forms of investigation are not only in the form of material but also in the form of non-material which can be detrimental to agencies. Although there are still weaknesses in the absence of a security structure formed by an internal control structure.

Table 10. Attributes of Standards of Conduct and Discipline

No	Interview Questions	Availability of Supporting Documents		Availability of Supporting Applications		Evaluation
		Exist	Not Exist	Exist	Not Exist	
1	Has the company set standards related to employee behavior and discipline to support fraud prevention strategies/irregularities that occur?	√		√		

The company sets standards related to employee behavior and discipline to support fraud/deviation prevention strategies that occur, as evidenced by the existence of documents regarding work discipline, working hour rules, employee decrees, and sanctions for violations that have been submitted in writing and stated on the website application.

DISCUSSION

As we know that detecting fraud is not easy because it involves hidden action the fraudulent behavior itself and also fraud is unpredictable. Poor environment and weak oversight lead to fraud. The government must realize that the possibility of fraud is very large, so it must understand the characteristics, indications, or which parts are vulnerable to fraud. When the control department is negligent where the slightest gap will create opportunities. Fraud will grow from the small opportunity to take root into a big one. So that the internal control section must determine every policy and rules as the operational basis for employee performance. Fraud can affect to performance employees of an organization that will directly to organizational performance. So, fraud is often exposed because of report from employees within the organization where fraud occurs.

The government agencies in Bone Bolango has established policies in the internal control system of government organizations. In a clean government, the internal control system plays an important role, as stipulated in Government Regulation number 60 of 2008, that the government's internal control system is an integral process that leads to continuous actions and activities carried out by leaders and all employees to provide adequate assurance of achieving organizational goals through effective and efficient activities, reliability of financial reporting, safeguarding state assets, and compliance with laws and regulations. (Ernawatiningsih & Arizona, 2023) stated that the intervention of a supervisor is required. The supervisor's role is needed in carrying out supervision and conducting audits of accounting information systems that have been carried out by management, carrying out work planning, and implementing predetermined policies, making flow of procedures for work operations and organizational assets, to achieve efficient and effective results. (Danayanti, Mahaputra, & Sunarwijaya, 2020) stated in his research that internal control is the most crucial part of risk management that every company must implement to achieve company goals and it applies from small to large scale companies. This does not mean that with internal control, fraud can be avoided, but with good management, internal control will avoid major fraud risks. by implementing adequate internal control it will provide great benefits for all members of the organization, the delivery of information in internal control will be used as a guide in planning.

Supervisors carry out internal control tasks, the higher the role of the supervisor, the higher the level of effectiveness of internal control. Follow the service announcement that the government agencies service will provide excellent service for people who need service. Assessment criteria in the government agencies service include ten FCP attributes in implementing anti-fraud. Anti but anti-fraud policies get "adequate" results. The existence of documents and applications that support the implementation of the program makes this government agencies service have a very good performance as seen from the awards achieved this year. The attribute of the fraud risk assessment gets a value of "sufficiently adequate" because it only uses a risk assessment that is embodied in the document. Each incoming document will be processed under standard service procedures. (Fitria & Fidiana, 2018) found real incidents that in local governments there are still practices related to internal control systems that are still experiencing problems and weak supervision. Regarding the weakness of the internal control system, the research by (Pierre, Peters, & de Fine Licht, 2018) found that if the government does not carry out internal controls effectively and efficiently, it will result in general and overall performance.

Attributes of concern for employees also get an "adequate" assessment, supporting documents used in the form of decrees and letters of assignment to employees are given training related to service education and to improve performance to realize good governance. Evaluation of the achievement of performance targets in the government agencies service is in the form of holding regular meeting activities to evaluate the performance of each employee to prevent indications of fraud and deviant behavior. The next attribute, which is the fraud incident reporting system, also obtains "adequate" results for the documents used in the realization of this fraud prevention attribute by making answers to the level of customer satisfaction. This satisfaction survey is done through social media (WhatsApp) and banners and banners placed in the public service room. And there is the government agencies web that is provided for fraud control. Weak internal control systems that occur in the public and non-public sectors are of great concern to the nation. To produce optimal performance in a government can be measured from the results of work that has been done by employees compared to predetermined standards, employees are one of the important factors that support the achievement of organizational goals, (Eldayanti, Indraswarawati, & Yuniasih, 2020).

The whistleblower protection attribute returns "Adequate". This the agencies guarantees the confidentiality of the whistleblower in disclosing fraud. The application provided in the consumer satisfaction survey is intended to obtain reports related to urgent matters, the reporter will be guaranteed the confidentiality of his identity if there is a sense of dissatisfaction in terms of getting services from the front office. Attributes of disclosure to external parties in the government agencies service already have applications and documents in the implementation of fraud prevention. The government agencies service has provided an application in the form of a website and WhatsApp for communication and customer satisfaction surveys. This agencies website is used to convey information related to the services provided and the performance achieved. Printed mass media in the form of newspapers are also often used related to news delivery of performance results. This is done so that the public knows the development of news and performance.

The Investigation Procedure attribute gets "Adequate". The workflow of the government agencies is clear which is displayed in the Standard Operating Procedure (SOP). Handle problems from start to finish according to work instructions. Standard attributes of behavior and discipline get the value "Adequate". This government organization has established policies, standard operating procedures, and systems related to employee behavior and

discipline in supporting work programs and fighting fraud. There are sanctions for employees who violate ethics. This policy is realized in the form of documents and applications that can be accessed by employees through the website. The sanctions given are contained in the employee disciplinary decision letter in the form of verbal warnings and written warnings. (Shariha, 2014) in his research found a weakness in the auditor's function in understanding the supervision and training in carrying out their duties. (Erisnanto & Perdana, 2018) got the result that the entire Dr. Moewadi has carried out fraud prevention well but must still be accompanied by continuous development regarding reporting management, employee participation and reward-punishment.

The audit process is an important basis that must be applied in government, how it not be when the public sees that the budget must be spent appropriately, wisely and carefully. As we know that the audit is an ex post facto process that ensures that civil servants have acted within the limits they are in accordance with mandated by the leadership and according to the regulatory framework, Pieter. Fraud will occur in every sector without an audit process in proper internal control, it is impossible to create a government that is clean and free from corruption. Society wants transparency and accountability public, especially regarding financial management. This demand no doubt makes the government obliged to issue operational performance reports in each period. So that local governments have an obligation to carry out a good and adequate internal control system. This also applies to public service agencies in Bone Bolango district, with good performance, good results will also be obtained and of course the audit quality of the examining body or auditor will be obtained.

CONCLUSION

In a good control organization there is an internal auditor. The task of the internal auditor is to express his opinion and carry out inspections and collect audit evidence as outlined in the audit report. The application of ten attributes of the Fraud Control Plan to local government organizations must still be carried out on an ongoing basis. This is evidenced by the commitment within an organization to continue to get good ratings. There are still some attributes that do not have a supporting application to support the available documents. Fraud risk assessment attributes, employee care attributes, and customer and community care attributes have sufficient values.

Therefore, the recommendation given is to continue to make improvements in the implementation of the organization's internal control system to prevent and control the occurrence of fraud. For the implementation of the integrated fraud queuing policy attributes, accountability structure, whistleblower protection, fraud reporting system, external reporting, investigative standards, and behavioral and discipline standards, the FCP program evaluation has Adequate value. see the results of the research above internal control needs to be applied to the government environment. The next researcher can conduct future research using different research methods and different theories. Such as using the method of phenomenology, ethnography, and so on.

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