



## Fraud prevention and detection practices in the perspective of Jember Regency internal auditor



Ari Fahimatussyam Putra Nusantara<sup>(a)</sup>, Gugus Irianto<sup>(b)</sup>, Yeny Widya Prihatiningtias<sup>(c)</sup>

<sup>(a,b,c)</sup>Accounting Department, Faculty of Economics and Business, Brawijaya University, Malang, Indonesia

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### ABSTRACT

*This study aims to understand the practice of fraud prevention and detection by government internal auditors in Jember Regency. This study uses interpretive qualitative research methods with an ethnomethodology approach. Data collection was carried out through interviews with six supervisors/auditors as key informants. The results of this study show that fraud prevention by the Jember Regency internal auditor is carried out in the consulting activities and reviewing the work plan and budget (Rencana Kerja dan Anggaran, RKA) of Regional Government Organization (Organisasi Perangkat Daerah, OPD). The detection of fraud by the Jember Regency internal auditor is carried out through regular audits and community complaint services, where the community complaint service will be explored by the Jember Regency internal auditor by conducting a special inspection. Thus, the results of this study show that the government's internal auditors have an important role in fraud prevention..*

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## Introduction

The government as a state organizer trusted by the public in managing state finances is inseparable from the threat of fraud. Acts of fraud on government agencies is a phenomenon that often occurs. The Association of Certified Fraud Examiners (ACFE), in its report titled Report to the Nation, ranks the most commonly found fraud in various sectors. The results of the ACFE report in 2016 revealed that fraud in the government sector came second, after the banking sector and financial services. This phenomenon is caused by public sector organizations having a fairly complex bureaucratic structure, low employee integrity, and a weak control system (Sulastrri & Simanjuntak, 2014). The types of fraud that often occur in the government system in Indonesia include goods procurement markups, gratuities, embezzlement of assets, fictitious activities/events, inappropriate auction arrangements, illegal levies, lack of volume/spectra in project development, fictitious salaries and embezzlement of government treasury (Faisal, 2018; Rustendi, 2017). Regarding cases that are detrimental to the country, various attempts have been made to deal with these matters through the existence of law enforcement agencies such as the Corruption Eradication Commission, the Attorney General's Office and the Indonesian Police (Syahrina, Irianto, & Prihatiningtias, 2017). Prevention efforts have also been carried out including mandating each government agency to have an Internal Control System team, build various electronic systems to support the process of transparency and accountability in the implementation of government activities, as well as payment of performance benefits made in an effort to increase income and arouse work enthusiasm, government employees.

Internal auditors are part of internal controls whose function is to help in the prevention, detection, and investigation of fraud in an organization (Perry & Bryan, 1997). Regional Inspectorates are internal government auditors who are responsible for providing guarantees and assessments of the fairness and reliability of financial statements presented by the Regional Apparatus Organization (OPD). Information about the performance of the OPD is highly dependent on the results of the Inspectorate's auditor's assessment so that the Inspectorate is the party considered responsible for detecting the possibility of material and non-material fraud or errors.

\* Corresponding author. ORCID ID: 0000-0001-5724-1380

Detecting fraud is not easy, it requires a professional attitude that possessed by internal auditors. Organizations that have an internal audit function will be better able to detect fraud and reduce the chance of the possibility of fraud (Coram, Ferguson, & Moroney, 2008; Hogan, Rezaee, Riley, & Velury, 2008). Internal audit represents an efficient line of defense in the fight against fraud, both in its role in the prevention and detection of fraud (Petraşcu & Tîeanu, 2014). This is because the internal auditor is the best position to detect fraud (Hillison, Pacini, & Sinason, 1999; Salleh & Ahmad, 2015). The things that can be done by internal auditors in preventing fraud is to improve the organization's internal controls, attend fraud control training, provide fraud complaint services and establish a public sector forensic department (Drogalas, Pazarskis, Anagnostopoulou, & Papachristou, 2017; Ghazali, Rahim, Ali, & Abidin, 2014; Kummer, Singh, & Best, 2015; Othman, Aris, Mardziah, & Zainan, 2015; Salleh & Ahmad, 2015; Tonye & Ebimobowei, 2018)

One of the local governments that are working to carry out the commitment to prevent fraud is the local government of Jember Regency. As contained in Neraca (2017), Indonesia Corruption Watch provides support to the Government of Jember Regency to create a zone of integrity free of corruption. To find out more about the efforts made by the regional Inspectorate which is the government's internal auditor in preventing and detecting fraud especially in Jember Regency, it is necessary to conduct a study of the efforts made by the regional Inspectorate to prevent and detect fraud. In connection with the efforts made by Jember Regency, there are positive implications of these efforts. The complaints of several OPD employees with the phrase "civil servants are now dry" are one of the implications of the implementation of the efforts made by the Jember Regency Government. This shows the seriousness of the Jember Regency Government in realizing a corruption-free zone.

This study aims to understand the practice of fraud prevention and detection by government internal auditors in Jember Regency. This research is trying to follow-up on previous studies conducted in government, namely by carrying out suggestions submitted by the researcher. Previous research has mostly been carried out using quantitative methods to determine the effect of fraud prevention and detection measures in government. Therefore, this study will examine more deeply the ways in which government internal auditors prevent and detect fraud using the ethnomethodology approach. The ethnomethodology approach will uncover the daily activities of individuals, especially aspects of social interaction. This research is expected to contribute to the prevention and detection of fraud by government internal auditors as early as possible.

## **Literature Review**

The phenomenon of fraud has always been interesting to discuss up to now. Acts of fraud occur in almost all government sectors and the private sector both in developing countries and in developed countries. Various studies on fraud and the creation of control system models for the prevention of fraud have been carried out (Abdallah, Maarof, & Zainal, 2016; Dewi, 2017; Hermiyetti, 2010; Mujib, 2017). However, fraud is still common among the people. Singleton & Singleton (2010) revealed that in the Association of Certified Fraud Examiners (ACFE), fraud is categorized into three groups namely corruption, asset misappropriation, and fraudulent financial reporting. According to Albrecht, Albrecht, Albrecht, & Zimelman (2012) the most common type of fraud against organizations is asset misappropriation which fall into two categories, namely theft of cash and thefts of assets. Albrecht et al. (2012) also explained that a second major type of occupational abuse or fraud committed against organizations is corruption. Corruption can be broken down into the following four scheme types among other bribery, conflict of interest, economic extortion, and illegal gratuity.

Singleton & Singleton (2010) explains that KPMG found that fraud against organizations was significantly reduced when proactive anti fraud measures, such as hotlines and ethics training, were implemented. Irianto, Novianti, Rosalina, & Firmanto (2009) revealed that a good organizational system, good integrity and a good ethical environment can be a determining factor in one's ethical behavior which means that if all three aspects are applied then actions that lead to fraud can be avoided. Ghazali et al. (2014) conducted a study on fraud and its prevention to the central and regional governments in Malaysia. This research provides a solution that fraud prevention can be done by providing toll-free telephone facilities for fraud complaints, providing computer security policies and codes of conduct, preventing conflicts of interest, and investigating fraud policies. The results of this study indicate that fraud is a significant problem and the main causes of fraud are poor management systems and economic pressures.

Kummer, Singh and Best (2015) found that there are three very effective instruments for detecting fraud in nonprofit organizations namely fraud control policies, whistle-blower policies, and recording fraud risks. The results of this study also found that commonly used instruments such as fraud risk assessment, code of ethics, training on fraud awareness, fraud control plan, and internal control review had no effect in detecting fraud. Othman, Aris, Mardziah, & Zainan (2015) conducted research on fraud detection and prevention methods and the results revealed that operational audits, improved audit committees, improved internal controls, implemented fraud complaints policies, staff rotations, fraud hotlines, and forensic accountants are mechanisms for prevent and detect fraud in the public sector.

Rezaee (2005) revealed that internal auditors are the first line of defense in the fight against fraud because auditors are very familiar with the organization's environment. Salleh & Ahmad (2015) found that internal auditors were considered the most frequent reason for fraud. This study also discusses the most effective steps in preventing and detecting fraud including increasing the involvement of internal auditors, carrying out Islamic values, increasing internal control, top management to model appropriate behavior and establishing whistleblower policies. Drogalas, Pazarskis, Anagnostopoulou, & Papachristou (2017) conducted a study of the effect of effectiveness of internal audit, auditor responsibility and auditor training on fraud detection. The results of the study found that the

effectiveness of internal audit, auditor responsibility and auditor training had a positive and significant effect on fraud detection. This research emphasizes that internal auditors have an important role in detecting fraud for companies operating in countries experiencing economic crisis. Noviani and Sambharakreshna (2014) discuss fraud prevention in government organizations. The results of the study conclude that the role of internal auditors, the ethical behavior of auditors, whistleblowers and hotlines has a significant influence on fraud prevention in government. This shows that the increasing role of internal auditors, the increase in fraud prevention in government will also occur.

This study uses a qualitative method with an ethnomethodology approach to examine more deeply the ways in which the government internal auditors prevent and detect fraud. The ethnomethodology approach will uncover the daily activities of individuals, especially aspects of social interaction. Using this approach, researchers can produce a picture of the way government internal auditors prevent and detect fraud.

## Research and Methodology

The research location was in Jember Regency, Jawa Timur Province, Indonesia. This research conducted at the Regional Inspectorate of Jember Regency. This research was done from October to December 2019. This research was done in interpretive qualitative research methods with an ethnomethodology approach. Ethnomethodology is a study of daily social practices that are taken for granted based on common sense. With the ethnomethodology approach, researchers can understand the daily activities carried out by internal government auditors to prevent and detect fraud in Jember Regency. Kamayanti (2016: 135) reveals that ethnomethodology sees social reality as a liquid, non-permanent or unstable condition. Or in other words, the social reality that is formed is influenced by the surrounding environment.

Data collection procedure was done in field research. The field research was conducted using in-depth interview with unstructured questions. Interviews are conducted in an unstructured and informal way so the researcher get deeper answers. In determining qualitative research using ethnomethodology methods, the thing that becomes an important point to achieve research success is to determine informants. The determination of the informant becomes an important point because it is expected to describe the purpose of the event or phenomenon in detail. According to Moleong (2012), an informant is a person who is willing to provide the information needed in research, both about the situation and conditions in the study and about other information related to the research. In this study, researchers chose informants who were considered to know the information and the problem in-depth and could be trusted to be a valid data source. Based on these criteria, the parties used as informants are those who are directly involved in the supervision activities at the Jember Regency Inspectorate. The list of selected informants can be viewed in Table 1.

During the interview, The researcher records the data deemed necessary as research data and records the informant's discussion with prior approval. With unstructured and informal interviews it is hoped that researchers will get accurate, valid and relevant information about the way the government internal auditors prevent and detect fraud. The recording of the interview was transcribed and processed by the method by Harold Garfinkel (1967). Garfinkel (1967: 4) divides the stages of analysis in ethnomethodology into three stages of analysis. The first stage is to find indexicality, the second stage is reflexivity that underlies practical action and the third stage is the achievement of contextual action to be analyzed. Indexicality analysis is the process of finding words or expressions that refer to certain individuals, times and places. The reflexivity analysis is the translation of indexicality in interactions between individuals in the community so that the indices that appear can be understood. A contextual action analysis is revealing practical daily activities that can be known and reported.

**Table 1:** List of Informants

No	Name	Position	Length of work
1	Mrs. R.	Former Secretary Inspector, Now Head of Regional Financial and Asset Management Agency (Badan Pengelolaan Keuangan dan Aset Daerah, BPKAD)	17 years
2	Mrs. S	Inspector Secretary	15 years
3	Mrs. N	Regional Assistant Inspector 1	17 years
4	Mrs. E	Regional Assistant Inspector 3	17 years
5	Mr. L	Regional Assistant Inspector 2	17 years
6	Mr. S	Functional Auditor (JFA)	10 years

**Source:** Author's study, processed from direct interview transcript with key informant.

## Results and Discussion

### *Consulting: The Role of The Inspectorate in Fraud Prevention*

Initially, the internal auditor acts as the watchdog or the eyes and ears of the regional head because the regional head needs certainty related to the implementation of the policies that have been determined to avoid deviant actions that might be detrimental such as

ineffective and inefficient budget management. Along with the paradigm shift, the Inspectorate as government internal watchdog (APIP) no longer only acts as a watchdog but also becomes a consultant. Changing the role of the Inspectorate from watchdog to consultant is expected to be able to provide coaching, guidance, advice related to organizational activities and the scope of the assignment can be mutually agreed to provide added value and improve risk, control and governance processes of government organizations. In practice, the Jember Regency Inspectorate has also carried out a consultation function related to the problems faced by the OPD. As revealed by Mr. S to researchers:

“The function of internal auditors is not only in terms of quality assurance but also in consulting. So if OPD friends have a case or a problem, they come here.”

Excerpts of statements made by Mr. S "... The function of Internal auditors are not only quality assurance but also consulting." indicates that internal auditors have duties as consultants and guarantors. Mr. S's statement reflects that the auditor has a very important role in providing guidance and supervising all actions of the implementers in the regions.

A similar argument was also conveyed by Mrs. E, who revealed:

“We are coaching, it is different from the investigation. The investigation is in the realm of APH (Law Enforcement Officials). So the implementers now feel that the presence of APIP or internal auditors is needed for their own security, and in fact, they are more open, so when we come, they already know how wrong they are and they will explain too.”

(The expression on Ms. E's face when delivering the statement looks serious and occasionally smiles)

The indexical meaning of Mrs. E's statement "... we are coaching, it is different from investigations ..." shows that when the internal auditors conduct an examination, the government internal auditors do not intend to suppress the object of inspection (obrik), but they will provide opportunities to the obrik to make improvements in accordance with the direction of the internal auditor. The meaning of Mrs. E's serious reflection and the occasional smile reflects that she gave a good response according to the facts.

The explanation illustrates that the internal auditor of the government in carrying out the consulting function opens wide space to all OPDs who want to carry out consultations related to OPD issues not only budget plans but also activity plans to responsibility, both at the OPD level to the village level, so that deviations can be prevented first.

Internal auditors are considered as the most effective organizational control in preventing and detecting fraud (Salem, 2012). The main role of internal auditors in accordance with their function in preventing fraud is to try to eliminate the causes of fraud. The presence of an internal auditor can also increase the possibility of fraud detection (Burnaby, Howe, & Muehlmann, 2009; Coram, Ferguson, & Moroney, 2006). Prevention of indications of fraud will be easier than overcoming fraud that has already occurred (Amrizal, 2004). This is because prevention is the first step in fighting fraud.

Organizations rely heavily on internal auditors in preventing and detecting fraud (Burnaby *et al.*, 2009). The things that can be done by internal auditors in preventing fraud is to improve the organization's internal controls, attend fraud control training, provide fraud complaint services and establish a public sector forensic department (Ghazali *et al.*, 2014; Kummer *et al.*, 2015; Othman *et al.*, 2015; Salleh & Ahmad, 2015; Tonye & Ebimobowei, 2018). Amrizal (2004) revealed that fraud can be prevented by building control structures, streamlining control activities, enhancing organizational culture and making internal audit functions effective. By implementing an effective fraud prevention program within the organization, the root causes of fraud can be eradicated and minimized (Peltier-Rivest, 2018).

### ***Review of RKA Fortress of Fraud Prevention***

The budget execution process starts from planning to reporting, which is not always carried out correctly so that protection is needed to minimize disruptions. The form of protection provided by internal auditors as an effort to prevent fraud against OPD is to review the work plan and budget. The RKA review is carried out to achieve the efficiency and effectiveness of the purpose of carrying out the tasks and functions of government agencies, providing early warning and increasing the effectiveness of risk management in the carrying out of the tasks and functions of government agencies. As the following statement by Mr. L:

"To prevent fraud, we usually start planning. Because ideally, to do the prevention we start from planning first. So we tightened control of planning. This planning is related to the RKA review."

Mr. L's statement showed that the RKA review was the first step in preventing fraud. From the RKA review, internal auditors can escort for planning and budgeting. Mr. L's statement reflected fraud prevention as early as possible through the RKA review.

The role of the reviewer is one of the efforts to fortify the implementation of the budget from interference both from within and from outside government agencies. From the inside can be an effort to anticipate the budget plan that is not in accordance with the duties and functions of the OPD, while from outside the effort to anticipate cooperation with third parties based on a bad agreement. In this case, the inspectorate functions to protect the implementation of organizational tasks in accordance with predetermined rules. As expressed by Mrs. R:

"From the review of this RKA, APIP will fortify it so that in the future there will be no problems. Fortify it by providing an understanding of the rules. "

Mrs. R's statement "... Review the RKA fortify it so that in the future there will be no problems. Fortifying it by providing an understanding of the rules ..." shows that internal auditors must understand very well about the rules in conducting the RKA review because the results of this RKA review will be used as consideration for budget preparation. Mrs. R's statement reflects that the existence of an internal auditor helped design the budget for OPD activities in accordance with applicable regulations.

The internal auditor of the Jember Regency government has tried to carry out its role to the greatest. In carrying out the task of fraud prevention, the internal auditor of the Jember Regency government does so by reviewing the work plan and budget for the coming year, so that if there are things that need to be repaired by the OPD still have a chance to improve. Amrizal (2004) revealed that the review of the work plan is part of streamlining the control activities in fraud prevention.

The RKA-OPD review conducted by the Jember Regency internal auditor is one form of quality assurance activity (Hidayat, Nurmayani, & Deviani, 2018). In reviewing the RKA, the internal auditor of the Jember Regency government is required to fully understand the rules that have been set, so that it can produce an appropriate RKA. In addition, the Jember Regency internal auditor can examine the planning aspects of a program or activity to be carried out, so it can be ensured that the program or activity is in accordance with the duties and functions of the organization, can provide benefits, and the amount of the budget in accordance with needs. With the RKA review, government internal auditors can protect the implementation of organizational tasks in accordance with predetermined rules.

In carrying out their supervisory, assurance and consulting roles, the internal auditors of the Jember Regency are required to continue to improve their competence. Ferris (1977) revealed that auditor performance is a joint function of the auditor's ability to perform tasks, the auditor's perception of the suitability of the role performed and motivation. This means that the auditor's performance will be maximized if supported by good ability and expertise, the perception of the suitability of roles and high motivation. The expertise possessed by the auditor will increase the auditor's ability to detect fraud (Mangala & Kumari, 2017). By having adequate competence, internal auditors can detect quickly and accurately regarding fraud (Drogalas, Karagiorgos, & Arampatzis, 2015; Petraşcu & Tieanu, 2014; Widiyastuti & Pamudji, 2009). The competence possessed by the internal auditor will affect the success rate of the auditor in detecting fraud. Government internal auditors who have good competence can carry out the audit process more effectively and efficiently (Baharud-din, Shokiyah, & Ibrahim, 2014).

#### ***Regular Inspection: The Tool of Fraud Detection***

Regular inspection or commonly called the annual inspection work program (PKPT) is carried out routinely and regularly for each year. Based on the Minister of Home Affairs Regulation Number 2 of 2008 about the Guidelines for Regular Inspections within the Ministry of Home Affairs the regular inspection aims to provide advice to the leadership of the component being inspected in taking corrective, refinement and other actions that can ease and order the tasks that become its responsibilities.

In addition to being the duty of the government's internal auditors, regular inspection are a means of detecting fraud. As the following statement by Mrs. N:

"If it is for detection, it can be a regular inspection. From the regular inspection, we have an examination related to the implementation of programs and activities. It can be from looking at and checking its accountability, supporting evidence, it is possible to know which things look suspicious, which are not in accordance with the rules. "

Mrs. N's statement shows that the government's internal auditor in detecting fraud can be carried out by regular inspection. Internal auditors already understand the deviations they face, so that the government internal auditors can detect correctly when carrying out audits.

In detecting fraud, internal auditors must have sufficient experience to be able to detect easily. As stated by Mr. S:

"In detecting fraud, if we do it might indeed be flying hours, that experience speaks. For auditors who have long been involved in assignments, it is not too difficult to detect fraud. It means when we come down, we automatically have a mapping in our brain. "

Mr. S's statement "In conducting fraud detection, if we really might be flying hours, that experience speaks. For auditors who have long been involved in assignments, it is not too difficult to detect fraud ..." shows that fraud detection can be done easily by government internal auditors who have experience and high flight hours. Mr. S's statement reflects that experienced government internal auditors will make it easier to detect fraud.

The efforts made by the Jember Regency internal auditor in carrying out fraud detection are by conducting both regular and special inspections. Regular inspection are an effective step in combating fraud (Mangala & Kumari, 2017). In conducting regular audits, the internal auditor of the Jember Regency government has carried out its role in accordance with the new paradigm, namely by conducting an examination of the current year's budget. So the examination conducted by the Jember Regency internal auditor is no longer just a post-audit. This shows that the internal auditors of the Jember Regency government have understood their roles well.

#### ***e-lapor as A Path to Fraud Detection***

Public complaints are reports from the public about indications of irregularities, corruption, collusion and nepotism (KKN) carried out by local government officials in the administration of government. In conducting fraud detection, the Jember Regency Inspectorate has provided public complaint services related to fraud. The complaint services available at the Jember Regency Inspectorate include e-lapor and community complaint posts. In addition, Jember Regent also provides a complaint service through WhatsApp, where complaints from the community are directly connected to the Regent. As expressed by Mrs. S the following:

"We have a complaint service called e-lapor. But in Jember, the Regent also serves as a public complaint report via WA. So people who have complaints especially about extortion may report to the regent directly. So we deal with cases more from the Regent who gets reports directly from the community."

Mrs. S Statement "We have a complaint service called e-lapor. But in Jember, the Regent also serves as a public complaint report via WA. So people who have complaints especially about extortion may report to the regent directly ..." shows that the Inspectorate of Jember Regency has a community complaint serves as a step to detect fraud. Mrs. S's statement reflects that the Inspectorate of Jember Regency has implemented a whistleblowing system.

During 2017 to 2019 the most fraud cases in Jember were extortion and almost all cases originated from public complaints. The complaints of the public are almost entirely directed directly to the district head of Jember. As expressed by Mrs. N the following:

"More complaints are coming into the regent's WA. So from there, the regent will then give the task to the inspector and the inspector will give an assignment letter to the examiner to conduct an inspection."

Mrs. N's statement "More complaints are coming into the regent's WA. So from there, the regent will give the task to the inspector ..." indicating that the public is more likely to make complaints directly to the regent. This is because the regent acts directly on every complaint that comes in. Mrs. N's statement reflects that in the case of complaints, the internal auditor only acts when he has received an inspection assignment letter from the inspector.

## Conclusions

This study intends to describe the steps to prevent and detect fraud by the government internal auditors to create a corruption free zone in Jember Regency. The role of prevention and detection is an effort made by the government's internal auditors in minimizing fraud. The government internal auditor has carried out efforts to prevent and detect fraud in work units that are the object of auditor supervision. Fraud prevention efforts by government internal auditors are carried out in their role as consultants and their duties as RKA-OPD review. In carrying out the consulting role, the government's internal auditors will provide directives related to the topic of audits carried out, provide corrections to the errors of recording and provide guidance to all work units that are part of the local government. If there are things that are not in accordance with the provisions, the internal auditor will examine the cause of the problem and provide suggestions for improvement to the obrik. Then, prevention efforts undertaken by the government's internal auditor are to review the RKA-OPD. The RKA Review is the first step in preventing fraud. This is because, from the review of the RKA, internal auditors can escort for planning and budgeting even to reporting. In reviewing the RKA, internal auditors are required to fully understand the rules that have been set, so as to produce an appropriate RKA. With the RKA review, government internal auditors can protect the implementation of organizational tasks in accordance with predetermined rules.

In addition to prevention efforts, the government's internal auditors also make detection efforts through the process of auditing, monitoring, and evaluating the programs implemented by the organization. Fraud detection efforts carried out by the Regional Inspectorate of Jember Regency are by conducting routine or regular inspections which are carried out on a scheduled basis. The regular inspection aims to provide advice to the leadership of the component being examined in taking steps to repair and refine the OPD's tasks. In addition, the Jember Regency Regional Inspectorate also provides public complaint services through the Jember Regency inspectorate e-lapor website.

Jember Regent also provides complaint services through WhatsApp communication media that is connected directly to Jember Regent.

The results of this study are expected to be a review for policy makers to be able to encourage improvements in the performance of the government's internal auditors in accordance with the Republic of Indonesia BPK Regulation No. 1 of 2007 concerning State Financial Auditing Standards that inspectors must have adequate professional skills to carry out audit tasks. Improving the performance of the government's internal auditors is needed to maintain the quality of the results of audits carried out by the government's internal auditors. The results of this study also contribute in the form of insight and information about the prevention and detection of fraud by government internal auditors and the results of this study can be used as a reference for other parties who will conduct research on the prevention and detection of fraud by government internal auditors.

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