DOI <https://doi.org/10.18551/rjoas.2017-05.24>

THE EFFECT OF CONTROL ENVIRONMENT, RISK ASSESSMENT, CONTROL ACTIVITIES, INFORMATION AND COMMUNICATION, AND MONITORING TOWARD FRAUD PREVENTION IN THE LOCAL GOVERNMENT OF PALU

Fattah Vitayanti*, Astriyani Nini

University of Tadulako, Palu, Indonesia

*E-mail: webadmin@untad.ac.id

ABSTRACT

This study has several objectives. The first is to examine the overall effect of Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring toward fraud prevention in the local government of Palu. The second is to examine the partial effect of Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring toward fraud prevention in the local government of Palu. The result of statistical test using multiple regression analysis with the help of SPSS 16.0 program shows these followings. First, Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring show overall significant effect toward fraud prevention in the local government of Palu. Second, Control Environment has no significant effect toward fraud prevention in the local government of Palu. Third, Risk Assessment has significant effect toward fraud prevention in the local government of Palu. Fourth, Control Activities have no significant effect toward fraud prevention in the local government of Palu. Fifth, Information and Communication has no significant effect toward fraud prevention in the local government of Palu. Sixth, Monitoring has significant effect toward fraud prevention in the local government of Palu.

KEY WORDS

Control environment, information, communication, fraud, local government.

Management of local government budget has not provided an overview of transparent, independent, accountable, and fair management to achieve financial performance in accordance with the vision and mission of the government. This is due to the inadequacy of organizational instruments to create good management and no high commitment from budget managers. As a result, there are various irregularities, misappropriation, and corruption. Fraud becomes something commonplace in government agencies.

Fraud is a crime of information manipulation with the aim of making the most profit ever. Usually the crime committed is to manipulate financial information. Fraud can happen anywhere, even in organizations that already have a good control system. There is no guarantee that such organization is free from the possibility of Fraud. Fraud can bring financial loss, reputation damage, legal problems, until the bankruptcy of the company.

The government has adopted a program to eliminate fraud. This is indicated by the increasing role of the Corruption Eradication Commission (KPK), the prosecution, the police, or the Court for Corruption Crimes (Tipikor Court); yet, this has not turned into a commitment to be consistently run. Fraud can inflict an unimaginable catastrophe regardless of size or type of the organization; it can happen in all places and levels, from the administrative level to the leadership level, and thus all government organizations can become victims of fraud.

Gary W. Adams *et al.* (in Purba, 2015) defines fraud as "The use of a person's position to enrich himself or herself through intentional misuse or deviation from the resources or assets of the company or organization".

Another definition given by three of the world's leading auditing organizations (IIA, AICPA, and ACFE1) emphasizes that fraud victims can be individuals, not just corporations or organizations. *Managing the Business Risk of Fraud: a Practical Guide* (2010), the three organizations define fraud as "any deliberate or delinquent action planned to deceive others to the detriment of the victim and / or benefit the perpetrator."

Based on inspectorate examination on all SKPD (Government agencies) in Palu, from the last 5 years data, many number of losses incurred, which certainly gives negative impact to the management of local finance. Data on the loss of the government of Palu from 2010 to 2014, in 2013 the amount of losses was IDR 280,338,572 and the total liability of deposits amounting to IDR 40,791,759, which had to be IDR 321,130,331. The data shows cases of fraud in the government agencies of Palu. The fact should awaken all parties, especially financial managers in each SKPD, to build commitment to the implementation of good financial governance consistently and widespread in all layers; without awareness and commitment, it will result in bad financial performance in government institutions.

The role of government in tackling fraud on August 28, 2008 was carried out through the renewal of organizational management in government agencies with the promulgation of Government Regulation Number 60 of 2008 on Government Internal Control System (SPIP) which is a derivative of the Law Number 1 of 2004 on State Treasury, as the act indicates the need for SPIP to be further regulated in a government regulation.

The Government Internal Control System (SPIP) comprises assessment of control environment, risk assessment, control activities, information and communication, and monitoring. SPIP is a system of internal control held comprehensively in the environment of central government and local government, in which the internal control system is an integral process on the actions and activities undertaken continuously by the leaders and all levels of employees to provide reasonable assurance on the achievement of organizational goals through effective and efficient activities, reliability of financial reporting, security of state assets, and compliance with laws and regulations.

AICPA Professional Standards, as cited by Konrath in Agoes (2012) identifies five internal control components: control environment, risk assessment, information and communication, control activities, and monitoring. The first component, the control environment, is the foundation of the other four components.

Based on the above description, the authors find it important to conduct research under the heading "The Effect of Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring toward Fraud Prevention in the Local Government of Palu".

The objectives of the study are as follows: to examine the overall effect of control environment, risk assessment, control activities, information and communication, and monitoring toward fraud prevention in the local government of Palu; and to examine the partial effect of control environment, risk assessment, control activities, information and communication, and monitoring toward fraud prevention in the local government of Palu.

METHODS OF RESEARCH

The method used was verificative research with quantitative approach. Verificative research is basically to test the theory by testing the hypothesis. Hypothesis testing is done by using statistical calculation, which is used to test the effect of variables. The research is done at Local Government agencies (SKPD) of Palu with the consideration that all SKPDs are authorized in managing the budget and audited every year. Research population was all agencies of local government of Palu, which become the object of inspection from the Inspectorate of Palu and are under the Organization of Administration of Palu, as many as 87 SKPDs. The research instrument was Likert scale. In Likert scale, respondents would be given a question with some alternatives considered by respondents most appropriate. The research instrument (questionnaire) must first be tested for its accuracy and reliability. The method used to analyze the data in this study is Multiple Linear Regression. The analysis requires that the data used in the calculation be at least an interval-scale data.

RESULTS AND DISCUSSION

The control environment consists of eight indicators, namely the enforcement of integrity and ethical values, commitment to competence, conducive leadership,

organizational structure, delegation of authority and responsibility, policies and practices of human resources development, realization on the role of effective internal control officers, and good relationship with relevant government agencies.

The indicators of enforcement of integrity and ethical values based on the answers of the majority of respondents indicate that conducive management in realizing the integrity and ethical values has been implemented very well by SKPDs. This is done so the code of ethics and enforcement mechanisms are implemented in accordance with applicable provisions. Then, it can be concluded that SKPD Palu has applied the indicators in the control environment.

Risk assessment consists of five indicators, namely goal setting of agencies as a whole, goal setting at activity level, risk identification, risk analysis, and managing risk during change.

Risk assessment is used to assess the government's internal control system. The majority of respondents illustrates that in general the local government of Palu has implemented risk assessment adequately. In other words, the internal control system in Palu generally has been able to analyze, manage, and provide an assessment of the risks faced by government agencies, both from external and internal parties.

Control activities consist of the general application of policies and procedures, reviews on the performance of relevant government agencies, human resource development, control over the management of information systems, physical control over assets, stipulation and review of indicators and performance measures, segregation of functions, authorization of transactions and important events, accurate and timely recording of transactions and events, restrictions on access to resources and records, accountability to resources and records, as well as good documentation of internal control systems.

For the internal control of the government, the majority of respondents state that in general, the control activities within the Palu government have been applied adequately, effectively, and efficiently in achieving organizational goals.

Information and communication consists of information, communication, as well as forms and means of communication.

For the internal control of the government, the majority of respondents state that the government of Palu has applied the right elements of information and good communication to support the implementation of Government Internal Control System.

Monitoring consists of continuous monitoring, separate evaluation, and completion of the audit. Monitoring activities have been running well to support the implementation of Government Internal Control System.

To do fraud, the perpetrator must have the opportunity to implement and conceal the action, and the rationalization that the actions are not criminal activity. Fraud based on the responses of respondents is illustrated as follows:

The majority of respondents agreed upon the prevention of fraud on SKPD of Palu as a whole by using the afore-mentioned three indicators. The total mean was 4.18 meaning that the assessment of the overall indicators is in the category of good. This means the local government of Palu has made efforts in prevention of fraud.

Based on the results of multiple linear regression analysis using SPSS for Windows Release 16.0 software, the results of 87 SKPD (respondents) on the influence of the two independent variables (Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring) on fraud prevention are presented in Table 7.

The obtained regression mode from Table 7 is as follows:

$$Y = 9.723 + 0.183X_1 + 0.430X_2 + 0.030X_3 - 0.022X_4 + 0.928X_5$$

Simultaneously control environment, risk assessment, control activities, information and communication, and monitoring significantly influence fraud prevention in the local government of Palu based on F-Test results.

Table 1 – Frequency Distribution on Respondents' Answers about Control Environment

No	Items	Alternatives										N	Total Score	Average Score per Item		
		5		4		3		2		1						
		F	%	F	%	F	%	F	%	F	%					
Indiators on enforcement of integrity and ethical values																
1	Speed in responding to problems	33	37.93	51	58.62	2	2.30	0	-	1	1.15	87	376	4.32		
2	Application of good ethics	23	26.44	62	71.26	2	2.30	0	-	0	-	87	369	4.24		
3	Sanctions	40	45.98	44	50.57	2	2.30	1	1.15	0	-	87	384	4.41		
4	Realistic goal setting	22	25.29	60	68.97	3	3.45	2	2.30	0	-	87	363	4.17		
Mean		33.91		62.36		2.59		0.86		0.29			373	4.29		
Indiators on commitment to competence																
5	Job analysis and supervision	31	35.63	53	60.92	1	1.15	2	2.30	0	-	87	374	4.30		
6	Expertise	35	40.23	45	51.72	4	4.60	2	2.30	1	1.15	87	372	4.28		
7	Employee training	16	18.39	64	73.56	5	5.75	1	1.15	1	1.15	87	354	4.07		
8	Performance improvement guidance	27	31.03	58	66.67	1	1.15	1	1.15	0	-	87	372	4.28		
Mean		31.32		63.22		2.53		1.72		0.57			368.00	4.23		
Indiators on conducive leadership																
9	Consideration of risks in decision-making	39	44.83	46	52.87	2	2.30		-		-	87	385	4.43		
10	Responsive to financial reporting	45	51.72	42	48.28		-		-		-	87	393	4.52		
11	Budgeting based on reasonable price	8	9.20	37	42.53	33	37.93	5	5.75	4	4.60	87	301	3.46		
Mean		35.25		47.89		13.41		1.92		1.53			359.67	4.13		
Indiators on organizational strucure																
12	Organizational structure according to the nature of activity	17	19.54	57	65.52	11	12.64	2	2.30		-	87	350	4.02		
13	The existence of an organization chart	23	26.44	62	71.26	2	2.30		-		-	87	369	4.24		
14	Determination of the appropriate number of employees	20	22.99	55	63.22	8	9.20	1	1.15	3	3.45	87	349	4.01		
Mean		22.99		66.67		8.05		1.15		1.15			356.00	4.09		
Indicators of delegation of authority and responsibility																
15	The right authority	36	41.38	48	55.17	2	2.30		-	1	1.15	87	379	4.36		
16	Resolving the problem according to responsibilities	28	32.18	55	63.22	3	3.45	1	1.15		-	87	371	4.26		
17	Supervision of the leaders	12	13.79	65	74.71	7	8.05	3	3.45		-	87	347	3.99		
Mean		29.12		64.37		4.60		1.53		0.38			365.67	4.20		
Indicators of policies and practices of human resources development																
18	Placement of employees according to standards and criteria	23	26.44	58	66.67	3	3.45	2	2.30	1	1.15	87	361	4.15		
19	Sanctions on violation of the code of ethics	32	36.78	48	55.17	6	6.90	1	1.15		-	87	372	4.28		
20	Employee training	15	17.24	65	74.71	5	5.75	2	2.30		-	87	354	4.07		
Mean		26.82		65.52		5.36		1.92		0.38			362.33	4.16		
Indicators of realization on the role of effective internal control officers																
21	Supervision of the government's internal control apparatus	22	25.29	58	66.67	5	5.75	2	2.30		-	87	361	4.15		
22	The existence of supervisory reports	31	35.63	53	60.92	2	2.30	1	1.15		-	87	375	4.31		
23	Mechanism of organizing tasks and functions	30	34.48	53	60.92	3	3.45	1	1.15		-	87	373	4.29		
Mean		31.80		62.84		3.83		1.53		-			369.67	4.25		
Indicators of good relationship with relevant government agencies																
24	Improving the quality of governance in the implementation of tasks and functions	31	35.63	50	57.47	3	3.45	3	3.45		-	87	370	4.25		
25	The existence of a good working relationship	27	31.03	55	63.22	3	3.26	2	2.17		-	87	368	4.23		
	Mean	33.33		60.34		3.35		2.81		-			369.00	4.24		
Mean on the Variable of Control Activities		30.57		61.65		5.46		1.68		0.54			365.42	4.20		

Table 2 – Frequency Distribution on Respondents' Answers about Risk Assessment

No	Items	Alternatives										N	Total Score	Averag Score Per Item	
		5		4		3		2		1					
		F	%	F	%	F	%	F	%	F	%				
Indicators of goal setting of agencies as a whole															
1	Goal setting based on regulation	33	37.93	49	56.32	4	4.60	0	-	1	1.15	87	374	4.30	
2	Employees know the purpose of the agency	35	40.23	46	52.87	6	6.90	0	-	0	-	87	377	4.33	
3	Strategic plan and risk assessment according to goals	26	29.89	58	66.67	1	1.15	2	2.30	0	-	87	369	4.24	
Mean			36.02		58.62		4.21		0.77		0.38		373.3	4.29	
Indicators of goal setting at activity level															
4	The purpose of the activity is always reviewed	20	22.99	61	70.11	5	5.75	1	1.15	0	-	87	361	4.15	
5	The purpose of each activity is not conflicting one another	24	27.59	61	70.11	2	2.30		-		-	87	370	4.25	
6	Leaders are involved in setting the objectives of the activity	33	37.93	49	56.32	4	4.60	1	1.15	0	-	87	375	4.31	
Mean			29.50		65.52		4.21		0.77		-		368.67	4.24	
Indicators of risk identification															
7	Risk identification of audit results	27	31.03	52	59.77	7	8.05	1	1.15		-	87	366	4.21	
8	Risk analysis	20	22.99	65	74.71	2	2.30		-		-	87	366	4.21	
9	Risk considerations	10	11.49	52	59.77	23	26.44	2	2.30		-	87	331	3.80	
Mean			21.84		64.75		12.26		1.15		-		354.33	4.07	
Indicators of risk analysis															
10	Determine the impact of risk, the existence of controls to reduce risk	18	20.69	64	73.56	5	5.75		-		-	87	361	4.15	
11	Carefully determine the level of risk	29	33.33	56	64.37	2	2.30		-		-	87	375	4.31	
12	Controls to reduce risk	22	25.29	55	63.22	7	8.05	2	2.30	1	1.15	87	356	4.09	
Mean			26.44		67.05		5.36		0.77		0.38		364.00	4.18	
Indicators of managing risk during change															
13	Considerations and actions of the impact of risk	16	18.39	62	71.26	7	8.05	2	2.30		-	87	353	4.06	
14	Consideration of the risk of new employee placement	18	20.69	50	57.47	16	18.39	3	3.45		-	87	344	3.95	
15	Risk analysis of activities implemented	13	14.94	61	70.11	9	10.34	4	4.60		-	87	344	3.95	
Mean			18.01		66.28		12.26		3.45		-		347.00	3.99	
Mean on the Variable of Control Activities			26.36		64.44		7.66		1.38		0.15		361.47	4.15	

Source: Primary Data Analysed, 2016.

Table 3 – Frequency Distribution on Respondents' Answers about Control Activities

No	Items	Alternatives										N	Total Score	Average Score per Item	
		5		4		3		2		1					
		F	%	F	%	F	%	F	%	F	%				
Indicators of the general application of policies and procedures															
1	Identification of control activities	14	16.09	66	75.86	3	3.45	4	4.60	0	-	87	351	4.03	
2	Problems are handled in a timely manner	16	18.39	61	70.11	6	6.90	4	4.60	0	-	87	350	4.02	
3	Evaluation of control activities	22	25.29	59	67.82	5	5.75	1	1.15	0	-	87	363	4.17	
	Mean		19.92		71.26		5.36	5	3.45		-		354.7	4.08	
Indicators of reviews on the performance of relevant government agencies															
4	Leaders are involved in the preparation of Renstra and Renja	49	56.32	38	43.68		-		-	0	-	87	397	4.56	
5	Review on performance reports	33	37.93	49	56.32	4	4.60	1	1.15		-	87	375	4.31	
6	Reconciliation and checking the accuracy of information	26	29.89	54	62.07	5	5.75	2	2.30	0	-	87	365	4.20	
	Mean		41.38		54.02		3.45		1.15		-		379.00	4.36	
Indicators of human resource development															
7	Employee understanding of vision and mission	34	39.08	47	54.02	6	6.90		-		-	87	358	4.11	
8	Training and employee responsibilities	20	22.99	52	59.77	10	11.49	4	4.60	1	1.15	87	347	3.99	
9	Continuous supervision	29	33.33	53	60.92	1	1.15	4	4.60		-	87	368	4.23	
	Mean		31.80		58.24		6.51		3.07		0.38		357.67	4.11	
Indicators of control over the management of information systems															
10	Control over information systems	23	26.44	61	70.11	2	2.30	1	1.15		-	87	367	4.22	
11	Monitoring access to information systems	20	22.99	58	66.67	6	6.90	3	3.45		-	87	356	4.09	
12	Data improvement and reporting	32	36.78	48	55.17	3	3.45	4	4.60		-	87	369	4.24	
	Mean		28.74		63.98		4.21		3.07		-		364.00	4.18	
Indicators of physical control over assets															
13	Policies and procedures of physical security	21	24.14	58	66.67	6	6.90	2	2.30		-	87	359	4.13	
14	Assets checked and compared to control records	33	37.93	54	62.07		-		-		-	87	381	4.38	
15	Equipment kept in a safe place	29	33.33	57	65.52	1	1.15		-		-	87	376	4.32	
	Mean		31.80		64.75		2.68		0.77		-		372.00	4.28	
Indicators of stipulation and review of indicators and performance measures															
16	Size and performance indicators are set in government agencies	27	31.03	51	58.62	7	8.05	2	2.30		-	87	364	4.18	
17	Evaluation of performance appraisal measurement	27	31.03	57	65.52	3	3.45		-		-	87	372	4.28	
18	Performance data is analyzed and compared	20	22.99	61	70.11	5	5.43	1	1.15		-	87	361	4.15	
	Mean		28.35		64.75		5.64		1.15		-		365.67	4.20	
Indicators of segregation of functions															
19	All major aspects of the transaction are not controlled by one person	22	25.29	50	57.47	11	12.64	4	4.60		-	87	351	4.03	
20	The bank balance is reconciled by the treasurer only	15	17.24	33	37.93	21	24.14	13	14.94	5	5.75	87	301	3.46	
21	Leaders reduce opportunities for collusion	22	25.29	50	57.47	11	12.64	2	2.30	2	2.30	87	349	4.01	
	Mean		22.61		50.96		16.48		7.28		2.68		333.67	3.84	
Indicators of authorization of transactions and important events															
22	Only valid transactions and events can be processed	21	24.14	54	62.07	7	8.05	5	5.75		-	87	352	4.05	
23	Authorization requirements are in accordance with legislation	18	20.69	62	71.26	6	6.90	1	1.15		-	87	358	4.11	
	Mean		22.41		66.67		7.47		3.45		-		355.00	4.08	
Indicators of accurate and timely recording of transactions and events															
24	Transactions are classified appropriately	29	33.33	54	62.07	2	2.30	2	2.30		-	87	371	4.26	
25	Proper classification and recording	20	21.74	62	71.26	4	4.60		-	1	1.15	87	361	4.15	
	Mean		27.54		66.67		3.45		1.15		0.57		366.00	4.21	

Continue of Table 3														
Indicators of restrictions on access to resources and records														
26	Restrictions on access to resources and records	8	9.20	56	64.37	15	17.24	8	9.20		-	87	325	3.74
27	Access restrictions for storage are reviewed and maintained	12	13.79	63	72.41	9	10.34	3	3.45		-	87	345	3.97
28	Consideration of appropriate access restriction level	11	12.64	62	71.26	12	13.79	2	2.30		-	87	343	3.94
	Mean		11.88		69.35		13.79		4.98		-		337.67	3.88
Indicators of accountability to resources and records														
29	Establishment of access liability	18	20.69	64	73.56	5	5.75		-		-	87	361	4.15
30	Comparison of resources with accountability recording	16	18.39	68	78.16	3	3.45		-		-	87	361	4.15
31	Responsibility for resource accountability	24	27.59	61	70.11	2	2.30		-		-	87	370	4.25
	Mean		22.22		73.95		3.83		-		-		364.00	4.18
Indicators of good documentation of internal control systems														
32	The existence of documentation of internal control system	17	19.54	69	79.31	1	1.15		-		-	87	364	4.18
33	The existence of complete and accurate documentation	25	28.74	61	70.11	1	1.15		-		-	87	372	4.28
34	All documents are well maintained	30	34.48	56	64.37	1	1.15		-		-	87	377	4.33
	Mean		27.59		71.26		1.15		-		-		371.00	4.26
Mean on the Variable of Control Activities			26.35		64.66		6.17		2.46		0.30		360.03	4.14

Source: Primary Data Analysed, 2016.

Table 4 – Frequency Distribution on Respondents' Answers about Information and Communication

No	Items	Alternatives										N	Total Score	Average Score Per Item	
		5		4		3		2		1					
		F	%	F	%	F	%	F	%	F	%				
Indicators of information															
1	The presence of internal and external information	25	28.74	55	63.22	7	8.05	0	-	0	-	87	366	4.21	
2	Timely information	21	24.14	60	68.97	4	4.60	2	2.30	0	-	87	361	4.15	
3	Adequate financial and budget information	26	29.89	56	64.37	5	5.75	0	-	0	-	87	369	4.24	
Mean			27.59		65.52		6.13		0.77		-		365.3	4.20	
Indicators of communication															
4	The establishment of effective internal communication	39	44.83	46	52.87	2	2.30		-	0	-	87	385	4.43	
5	Information has been submitted to all divisions	23	26.44	59	67.82	3	3.45	2	2.30		-	87	364	4.18	
6	Suggestions are considered and acted upon	21	24.14	62	71.26	1	1.15	3	3.45	0	-	87	362	4.16	
Mean			31.80		63.98		2.30		1.92		-		370.33	4.26	
Indicators on the forms and means of communication															
7	The forms and means of communication are effective	17	19.54	64	73.56	3	3.45	3	3.45		-	87	356	4.09	
8	Identifying the development of information needs	14	16.09	67	77.01	4	4.60	2	2.30		-	87	354	4.07	
9	Leaders always monitor the quality of information	19	21.84	61	70.11	3	3.45	4	4.60		-	87	356	4.09	
Mean			19.16		73.56		3.83		3.45		-		355.33	4.08	
Mean on the Variable of Control Activities			26.18		67.69		4.09		2.04		0.00		363.67	4.18	

Source: Primary Data Analysed, 2016.

Table 5 – Frequency Distribution on Respondents' Answers about Monitoring

No	Items	Alternatives										N	Total Score	Average Score Per Item	
		5		4		3		2		1					
		F	%	F	%	F	%	F	%	F	%				
Indiator of continuus monitoring															
1	There is a strategy to evaluate control activities	17	19.54	65	74.71	2	2.30	3	3.45	0	-	87	357	4.10	
2	Accuracy and responsibility on financial statements	34	39.08	49	56.32	2	2.30	2	2.30	0	-	87	376	4.32	
3	Relevant information is used by the leaders to address the problem	12	13.79	71	81.61	2	2.30	2	2.30	0	-	87	354	4.07	
	Mean		24.14		70.88		2.30		2.68		-		362.3	4.16	
Indicators of separate evaluation															
4	A separate evaluation team develops an evaluation plan	11	12.64	65	74.71	9	10.34	2	2.30	0	-	87	346	3.98	
5	A separate evaluation team understands the vision, mission and objectives of government agencies	15	17.24	64	73.56	6	6.90	2	2.30		-	87	353	4.06	
6	Weaknesses found immediately communicated	26	29.89	58	66.67	3	3.45		-	0	-	87	371	4.26	
	Mean		19.92		71.65		6.90		1.53		-		356.67	4.10	
Indicators of completion of the audit															
7	Review and evaluate audit results	34	39.08	53	60.92		-		-		-	87	382	4.39	
8	Leaders and auditors monitor audit results	24	27.59	63	72.41		-		-		-	87	372	4.28	
9	Certain transaction or event issues are corrected immediately	35	40.23	52	59.77		-		-		-	87	383	4.40	
	Mean		35.63		64.37		-		-		-		379.00	4.36	
Mean on the Variable of Control Activities			26.56		68.97		3.07		1.40		0.00		366.00	4.21	

Source: Primary Data Analysed, 2016.

Table 6 – Frequency Distribution Respondents' Answers on Fraud

No	Items	Alternatives										N	Total Score	Average Score Per Item	
		5		4		3		2		1					
		F	%	F	%	F	%	F	%	F	%				
Indicators of making effective control activities															
1	Review on employee performance	17	19.54	59	67.82	9	10.34	1	1.15	1	1.15	87	351	4.03	
2	Review on the achievement of budget realization	23	26.44	60	68.97	2	2.30	1	1.15	1	1.15	87	364	4.18	
3	Control over application used	16	18.39	66	75.86	4	4.60	0	-	1	1.15	87	357	4.10	
4	Physical security of assets	15	17.24	65	74.71	5	5.75	1	1.15	1	1.15	87	353	4.06	
5	Imposition of job responsibilities	6	6.90	44	50.57	25	28.74	10	11.49	2	2.30	87	303	3.48	
Mean			17.70		67.59		10.34		2.99		1.38		345.6		3.97
Indicators of improving organizational culture															
6	Supervision to the party performing transactions	28	32.18	56	64.37	1	1.15	2	2.30	0	-	87	371	4.26	
7	Openness in the decision-making process	32	36.78	49	56.32	5	5.75	1	1.15		-	87	373	4.29	
8	Effective monitoring on the performance accountability	26	29.89	58	66.67	3	3.45	0	-	0	-	87	371	4.26	
9	Compliance with applicable laws and regulations	35	40.23	50	57.47	2	2.30	0	-	0	-	87	381	4.38	
10	Uphold morality, honesty and individual responsibility	46	52.87	37	42.53	4	4.60		-	0	-	87	390	4.48	
11	Competence and professionalism	49	56.32	35	40.23	1	1.15	2	2.30	0	-	87	392	4.51	
12	Commitment to always improve performance	51	58.62	33	37.93	1	1.15	1	1.15	1	1.15	87	393	4.52	
Mean			43.84		52.22		2.79		0.99		0.16		381.57		4.39
Indicators of effective internal audit functions															
13	Implementation of the audit	37	42.53	49	56.32	1	1.15		-		-	87	384	4.41	
14	Studying internal audit reports	26	29.89	59	67.82	2	2.30		-		-	87	372	4.28	
15	Respond quickly and decisively to improvement suggestions	30	34.48	56	64.37	1	1.15		-		-	87	377	4.33	
16	The existence of strict sanctions on fraud	43	49.43	39	44.83	3	3.45	2	2.30		-	87	384	4.41	
17	Rewards to outstanding employees	33	37.93	49	56.32	4	4.60		-	1	1.15	87	374	4.30	
18	Assistance to employees who get into trouble	12	13.79	55	63.22	15	17.24	4	4.60	1	1.15	87	334	3.84	
19	The existence of clear information on categories of gifts, bribery, and official	20	22.99	53	60.92	10	11.49	1	1.15	3	3.45	87	347	3.99	
20	The existence of certain sources to detect fraud	18	20.69	57	65.52	8	9.20	1	1.15	3	3.45	87	347	3.99	
21	The existence of channels to report the occurrence of fraud	20	22.99	60	68.97	5	5.75	2	2.30		-	87	359	4.13	
Mean			30.52		60.92		6.26		1.28		1.02		364.22		4.19
Mean on the Variable of Control Activities			30.69		60.24		6.46		1.75		0.86		363.80		4.18

Source: Primary Data Analysed, 2016.

Table 7 – Recapitulation of Multiple Regression Analysis Result

Dependent Variable (Y) = Fraud Prevention			
Variable	Coefficient of Regression	t	sig.
Constanta	9.723	1.826	0.071
Control Environemnt (X1)	0.183	1.848	0.068
Risk Assessment (X2)	0.430	2.025	0.046
Control Activities (X3)	0.030	0.307	0.760
Information and Communication (X4)	-0.022	-0.079	0.938
Monitoring (X5)	0.928	3.553	0.001
R	= 0.825		
R square (R2)	= 0.681		
Ajusted R Square	= 0.661		
F Count	= 34.563		
Sig F	= 0.000		

Source: Regression Results.

This is in accordance with the results of research by Meliany and Hernawati (2013) which state that the effectiveness of internal control significantly influences the tendency of fraud. The leaders of government agencies should ensure that internal control functions are running as expected. To that end, the leaders of government agencies need to perform all aspects or elements in the government's internal control system, i.e. the control environment, risk assessment, control activities, information and communication, and monitoring. Thus, simultaneously internal control influences fraud prevention.

Partial test is intended to see the influence of each independent variable to the dependent variable. The results are as follows. Control environment partially and significantly influences fraud prevention. Risk assessment partially and significantly influences fraud prevention. Control Activities partially and significantly influences fraud prevention. Information and communication partially and significantly influences fraud prevention. Monitoting partially and significantly influences fraud prevention. Control environment, risk assessment, control activities, information and communication, and monitoring have significant effect on fraud prevention lin the local government of Palu.

Furthermore, from the analysis, it can be interpreted that every improvement of control environment, risk assessment, control activities, information and communication, and monitoring will give improvement to fraud prevention of. This is also supported by an interview with Mr. Ayub Sukresno (Accountability Auditor for Local Government) on October 21, 2016 at the office of BPKP (Supervisory Agency for Finance and Development). He stated that the internal control system of the government regulates things thoroughly, but the internal control system of the city government has not been fully applied. This is evidenced by the assessment of BPKP that the city government of Palu is still at level 1, whereas the target of BPKP itself for a city government is at level 3 for good internal control. Level 1 means that there is infrastructure problem.

The local government has not yet built infrastructure. Infrastructure here refers to the regulation—in which each local government must have rules of ethics or employee ethics. However, so far the local government of Palu only refers to Government Regulation Number 58, which should have been changed into operational standard of behavior. Most municipal governments in Indonesia still have not implemented this as well. In addition to the existing infrastructure, socialization is still lacking so the application of SPIP is not maximized.

Risk assessment is a management activity supported by employees who understand about risk management activities. Elements of risk assessment have been done well by the government of Palu. This is supported by interview with Mr. Arifin Haerolla, SH, M.Si (an auxiliary inspector of Regional 1) on October 18, 2016 at the inspectorate office of Palu. He declares that fraud can be detected by a good working system and mechanisms, if each employee performs the duties properly. Employees must be able to control and assess the risks of work and control the risks based on the tasks at various stages of work; this way, we know whether the work is done in accordance with the procedures or regulations, and error will be easier to detect as to know fraud.

Financial reporting in the city government of Palu is still not well managed, as stated by Mr. Arifin Haerolla, SH, M.Si (an auxiliary inspector of Regional 1) on October 18, 2016 at the inspectorate office of Palu; he asserts that this happens due to the problem of assets. Annual asset purchases increase but year-end financial reporting is often missing, due to lack of good system governing the management of assets, whereas assets are important in the preparation of financial statements.

Elements of monitoring have been done well by the city government of Palu as stated by Mr. Arifin Haerolla, SH, M.Si (an auxiliary inspector of Regional 1) on October 18, 2016 at the inspectorate office of Palu. He confirms that after the examination, the inspectorate always do the controlling steps. As an example, when there are findings on mistakes by certain SKPD, then the inspectorate provides 60 days to correct the mistake, yet, if no feedback from the SKPD concerned during the 60 days given, the the inspectorate will come again to remind. Usually, most SKPDs directly make improvements.

Monitoring is required by the leaders as it is a tool to assure the effectiveness of the internal control system. This way, they can continuous its implementation if it is proven to be effective, and at the same time, they can identify changes that occur. Implementation of monitoring on the city government of Palu has an effect on fraud prevention.

CONCLUSION

Based on the afore-mentioned results, the following conclusions can now be drawn related to fraud prevention in the city government of Palu, as follows:

Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring show overall significant effect toward fraud prevention in the local government of Palu;

Control Environment has no significant effect toward fraud prevention in the local government of Palu. Risk Assessment has significant effect toward fraud prevention in the local government of Palu. Control Activities have no significant effect toward fraud prevention in the local government of Palu. Information and Communication has no significant effect toward fraud prevention in the local government of Palu. Monitoring has significant effect toward fraud prevention in the local government of Palu.

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