



# DETERMINANT OF FRAUD PREVENTION IN REGIONAL FINANCIAL AND ASSET MANAGEMENT: MODERATION OF INTERNAL AUDIT

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## ABSTRACT

This research aims to find empirical evidence of the influence of the internal control system, auditor competence, and organizational culture on fraud prevention, with internal audit as a moderating variable. This study applied a quantitative method and a causally associative approach. Employees at the Financial and Asset Management Agency of Kupang Regency and City Government were population in this study 91 civil servants. The sample was chosen using purposive sampling, and the research sample was 75 respondents. Data collection uses survey techniques by distributing questionnaires to be filled out by employees. Partial least squares-structural equation modelling (PLS-SEM) is used in the data analysis with SmartPLS version 3.29. The result of this study indicates that internal control systems, auditor competence, and organizational culture positively affect fraud prevention. Internal audits do not affect fraud prevention. Internal audit can moderate the effect of internal system control and auditor competence. Internal audits cannot moderate the relationship between organizational culture and fraud prevention. This research can contribute to advancing current theory and be a reference for further research, especially on fraud risk. This research can be a reference for audit institutions in advancing best practices to improve the effectiveness of government audits in reducing and preventing fraud.

**Keywords:** internal control system, auditor competence, organizational culture, internal audit, fraud prevention.

## INTRODUCTION

Fraud prevention is an endeavor to gather enough early warning signs of fraud while simultaneously being aware of and reducing the space in which perpetrators can operate (Rosari and Manabulu 2020). Association of Certified Fraud Examiners Indonesia reports that the most prevalent frauds in Indonesia are related to business ownership, abuse of state or property (rate 21 and a total of 167 points), and corruption (rate of 70 with 167 cases) (ACFE 2019). Barafi et al. (2022) argue that the consequences of corruption can damage the economy and society. From 2004 to 2022, the Corruption Eradication Commission recorded 1.310 cases of criminal acts of corruption, most of which occurred in government agencies, from the district level to the central ministry. In addition, the Republic of Indonesia Financial Audit Agency report on Summary of Audit Result Reports for semester 1 of 2022 shows that there are still 11.910 problems with the internal control system (ICS) and non-compliance with laws and regulations, which has an impact on state losses of 2.35 trillion.

The Republic of Indonesia's Audit Board for East Nusa Tenggara (ENT) Representative Office stated that the 2023 financial report of the Kupang regency



and city regional governments received a Fair without Exception (FWE) audit opinion (BPKNTT 2024b; 2024a). In the report, the inspection results explained that weaknesses in carrying out the testing were still found in the internal control system and compliance with statutory regulations (Utami, Wulandari, and Gah 2023). The Deputy Head of the ENT High Prosecutors Office revealed that in 2022, the total state losses saved from the hands of corruptors in ENT would reach 13 billion (Vencezacarias 2023). Thus, the findings of the financial report indicate that the internal control system still has flaws and that statutory regulations need to be followed. These findings must be immediately evaluated so as not to open opportunities for fraud and can immediately prevent fraud early on. The abuse of regency financial management can lead to state losses due to weaknesses in the internal control system (Hapsari et al. 2023).

One factor that is thought to play a big part in preventing fraud is the internal control system (Kesuma and Fachruzzaman 2024). The government's internal control system (GICS) must be implemented in the national and regional governments. Internal control must be kept from the wheels of government-run public sector organizations (Yaya and Suprobo 2019). To accomplish organizational objectives, internal control ensures that good governance is implemented, and everything stays within the appropriate legal bounds. Ensuring the integrity of financial reports, protecting state assets, achieving organizational goals effectively and efficiently, and adhering to legal requirements can all be attained by actively and comprehensively putting all internal control components into practice (Hamdani and Albar 2016). Organizations with adequate internal controls can minimize the potential for fraud by quickly identifying errors or fraud that have occurred so that corrective action can be taken immediately to prevent fraud (Kharie and Darwis 2020). Based on research by Azizah and Erinos (2022); Rosari et al. (2023) discovered that the internal control system positively affects fraud prevention. While a study by Lubis and Budiwitjaksono (2022); Safitri and Andhaniwati (2024), internal control systems do not affect fraud prevention.

Another aspect of the effort to prevent fraud that is thought to be equally important is auditor competence (Said and Munandar 2018). Competent individuals perform better; they have a positive disposition and possess the necessary knowledge and abilities (Ali and Akter 2023). Knowledge and experience are crucial components of the audit task; inexperienced and seasoned auditors will react differently to information used for judgment analysis or consideration (Romadon and Fridatien 2019). Auditor competence includes personal quality, general knowledge, and also special skills. The auditor's ability to make accurate assessments and analyze the potential fraud risk (red flags) is essential in audit assignments. This shows the close relationship between the competence the auditors possess and the ability to detect fraud that occurs in audit assignments. The more fraud an auditor has detected in the past, the more competent the auditor will be and the more alert they will be to possible fraud (Basmar, Rinaldy, and Sahidah 2024). A study from Noch et al. (2022); Basmar, Rinaldy, and Sahidah (2024) indicate that auditor competence positively affects fraud prevention. While, research by Prameswari, Purwohedi, and Respati (2022); Wibowo and Dewi (2022), auditor competence does not affect fraud prevention.

Apart from the internal control system, and auditor competence factors, fraud prevention is influence by organizational culture (Sudharma, Haliah, and



Nirwana 2023). The organizational culture creates background information about the workplace, work practices, attitudes, behaviors, and employee perspectives about their organization (Ubaidillah and Cahayuni 2022). A solid organizational culture within regional government will positively affect responsible and efficient management of regional funds. Good organizational cultures positively affect organizations and lower the fraud rate within them (Rustandy, Sukmadilaga, and Irawady 2020). An influential organizational culture can serve as a solid basis for preventing fraud, whereas an ineffective culture may raise the risk of fraud. A strong corporate culture is thought to reduce the likelihood of fraud; this causes people in the organization to comply with applicable regulations, maintain the norms of relationship between employees, and uphold the good values developed by the organization (Sudharma, Haliah, and Nirwana 2023). Research by Ubaidillah and Cahayuni (2022); Rahmawati and Pradata (2023), prevention of fraud is positively and significantly impacted by organizational culture. Cahyani et al. (2022); Nur'aeni and Afriady (2023) research found that organizational culture did not have effects on fraud prevention.

There are research gaps because the findings of earlier studies differ and are inconsistent. As a result, research has a different stance and should be conducted further using different research data and in different locations. Previous research that used internal audit to moderate the influence of independent variables on preventing fraud has been carried out by Abrori, Zulfatillah, and Bullah (2022); Aviva (2022), but did not discuss internal control and competence. Furthermore, it was also carried out by Kharie and Darwis (2020); Basmar, Rinaldy, and Sahidah (2024), but does not discuss organizational culture. Previous research comprehensively discussing this variable is still minimal, especially those discussing internal audit as a moderation, so this can be used as a research novelty. Serious issues arise when fraud in the public sector occurs because funds from the meagre public taxes are not utilized for public services. The worst effect will be the public's declining trust in government agencies' leadership abilities. To reduce the amount of fraud cases, in-depth research on fraud prevention practices used by local government agencies is required. Therefore, this study aims to find empirical evidence of the influence of internal control systems, auditor competence, and organizational culture on fraud prevention, with internal audit as a moderating variable. This research can be helpful in practice for regional government practitioners and for academics looking to add fraud-related study materials.

## **LITERATURE REVIEW**

### **Institutional Theory**

Institutional theory is a way to understand and analyze social phenomena that focuses on how institutions, namely social structures, influence individual and collective behaviour and systems formed by humans (Crank 2003). Forces outside themselves form the organizations through imitation and obedience (Surya and Firmansyah 2024). The institutional theory can be explained by the fact that internal audits can increase the influence of internal control systems, auditor competence, and organizational culture on fraud prevention by carrying out internal audit functions. Internal audits can potentially increase compliance with



laws and regulations regarding fraud prevention by conducting compliance, legal, and ethics audits. Internal audits can function as a change agent encouraging institutional isomorphism in organizations. Internal audits can help organizations adapt to outside pressures, imitate best practices from other organizations, and adopt recognized professional standards (Herawaty et al. 2021).

### **Fraud Prevention**

An integrated strategy to lower the incidence of fraud-causing factors is known as fraud prevention. Fraud prevention is defined as a strategy that attempts to reduce the frequency of factors that lead to fraud, such as employee job stress, fraud opportunities, and also rationalization of fraud reasons (Gumelar and Shauki 2020). Reducing the root causes of fraud in all types of organizations, preventing fraudsters from moving, identifying high-risk control activities, and penalizing fraudsters are the goals of fraud prevention (Pitriani and Dewi 2023). Organizations can minimize fraud by fraud prevention efforts. The goal of fraud prevention is to avoid fraud by suppressing the factors that cause fraud so that fraud can be avoided. Eliminating the sources of fraud is the primary objective of fraud prevention. Rafnes and Primasari (2020) said that fraud is divided into three types based on actions: corruption, false financial reporting, and asset theft.

### **Internal Control System**

A process inside an organization (entity) that is overseen by the board, management, and other staff members is known as internal control. Its purpose is to provide sufficient assurance to accomplish organizational objectives (Kesuma and Fachruzzaman 2024). The government's internal control system (GICS) is essential to any public sector organization. The GICS is an essential course of action and ongoing activities that all staff members and the leadership carry out to ensure that there is sufficient confidence in the attainment of organizational goals through reliable financial reporting, efficient and effective operations, protection of state assets, and compliance (Pitriani and Dewi 2023). To obtain FWE opinions, opinions that stakeholders can rely on as a tool for decision-making. It is hoped that efforts to improve the quality of financial report preparation further will be encouraged by strengthening the internal control system (ICS). A strong ICS can also stop implementing actions not permitted by applicable regulations to increase effectiveness and efficiency and avoid financial losses for the state (Adi and Rohman 2023).

### **Auditor Competence**

Auditor competence is a person or institution's capacity to apply a role and authority and adjust as needed to achieve objectives of development, progress, and sustainability (Romadon and Fridatien 2019). According to the government, an employee's capacity for work encompasses the abilities, dispositions, and knowledge to carry out their responsibilities (Prasetya, Afrizal, and Putra 2023). The auditor's capacity is the ability to carry out tasks or activities based on knowledge, intuition, and work actions from their jobs. The competencies needed by auditors are demonstrated by abilities that demonstrate a high degree of proficiency in a professional role. To examine evidence and draw appropriate conclusions, the auditors must be competent and qualified enough to understand



the criteria being used. They also need to know what kind of evidence to gather and how much of it (Prameswari, Purwohedi, and Respati 2022). Highly educated auditors can comprehend various issues in greater detail because they have a wealth of knowledge in the field in which they work. With the knowledge gained, auditors must be able to produce high-quality audits (Ningsih 2022).

### **Organizational Culture**

Organizational culture refers to a shared meaning system that sets one organization apart from others (Dhany, Priantono, and Budianto 2016). Organizational culture is a pattern of behavior that an organization develops when it faces challenges with internal and external integration (Rustandy, Sukmadilaga, and Irawady 2020). This pattern of behavior is compelling enough to be recommended and imparted to new members to foster awareness, cognition, and emotion. In the public sector, organizational culture strongly emphasizes public service because it significantly impacts service quality (Abrori, Zulfatillah, and Bullah 2022). A strong workplace culture that fosters core values such as upholding honesty, integrity, and rewards, as well as providing high-quality work and exceptional service, as well as respect for openness and transparency can be used to implement preventive measures. A positive corporate culture will be fostered through interactions and communication between staff members and the general public (Nur'aeni and Afriady 2023).

### **Internal Audit**

Internal audit is an impartial direct assurance and consultation activity that helps organizations achieve their goals by using appropriate processes to assess and enhance the efficacy of the governance system, controls and risk management (Ali and Akter 2023). An internal audit is an assessment conducted by the internal audit department of an organization's financial statements and accounting records, and also conformity with directives from upper management, government regulations, and rules of pertinent professional associations (Fernando and Sitorus 2020). Melinda et al. (2022) assert that fraud is caused by pressure, opportunities for fraud, weaknesses in processes and procedures, and justification for the fraud. It is usually challenging to detect cheating by accident or on purpose. Management needs to be aware that fraud may occur in organizations they oversee.

### **Hypothesis Development**

Internal control system implementation is one program to stop fraud, which can guarantee that procurement practices adhere to policies and procedures (Le, Vu, and Nguyen 2021). Fraud impedes the successful and efficient accomplishment of organizational goals due to the support of the surrounding environment; it can be avoided with an excellent internal control system (Oliveira et al. 2022). The main objective of this process is to instil sufficient confidence in the accomplishment of organizational objectives through the protection of state assets, the efficient and successful execution of operations, the accuracy of financial reporting, and adherence to legal and regulatory requirements. In the context of institutional theory, assuming that individuals prioritize their personal interests, there is a potential conflict of interest between the party that provides





authority and the party that receives it. This theory also describes regional governments as institutions with direct access to information, while the community is a party that only receives information. The internal control system is designed to create a protection mechanism against system weaknesses that can be exploited for fraud. The stronger the internal control, the less likely fraud is to occur, making the internal control system an essential element in maintaining the trust and sustainability of the organization. Institutional theory explains how normative, coercive, and mimetic pressures influence the design and implementation of internal control systems in organizations, thereby preventing fraud. Research by Azizah and Erinoss (2022); Sari and Rohman (2024) provide evidence that internal control systems positively affect fraud prevention. The hypothesis of this study is H1: Internal control systems positively affect fraud prevention.

The risk of conducting financial statement audits is high for auditors. There are penalties for auditors and public accounting organizations that shelter them if they cannot identify false statements in the financial statements they have reviewed. According to institutional theory, an individual's good deeds are a cause that alludes to an institution's outcome. The auditor's competence determines the quality of audit results; the auditor's job includes actions that reduce institutional planned fraud and make recommendations (Noch et al. 2022). An auditor with more experience will also be more sensitive to signs of fraud because they are used to performing the examination and can quickly identify whether the data is misstated due to fraud or error. Auditor competence is essential in creating a transparent and fraud-free government environment (Rehman and Hashim 2021). The capacity of an auditor to oversee regional finances is transparent, dependable and free from errors that could result in potential financial misuse that costs the state money. Therefore, the auditor is held accountable for regional finances. Research from Noch et al. (2022); Basmar, Rinaldy, and Sahidah (2024) discovered that auditors' ability affects fraud prevention. The hypothesis of this study is H2: Auditor competence positively affects fraud prevention.

An influential organizational culture can serve as a solid basis for preventing fraud, whereas a lousy culture may contribute to an increased risk of fraud. On the other hand, an internal audit plays a crucial role in monitoring the company's operations and guaranteeing adherence to relevant policies and guidelines. Institutional theory states that culture reflects an organization's value and how it is perceived internally and externally. An organization's shared values, beliefs, behaviors, way of doing things, and explicit and implicit rules are all part of its unique personality. The background that an organization's culture creates will affect the work, atmosphere, behaviors, attitudes and perspectives that its employees have of the organization they work for (Putra et al. 2021). A positive organizational culture within the regional government will benefit and contribute to the responsible and efficient management of regional funds, thus creating an environment that is intolerant of fraud (Maulidi et al. 2024). A Study by Ubaidillah and Cahayuni (2022); Rahmawati and Pradata (2023) state that organizational culture impacts fraud prevention. The hypothesis of this study is H3: Organizational culture positively affects fraud prevention.

Internal auditing is another strategy that can prevent fraud (Bonrath and Eulerich 2024). A code of ethics contains audit standards that serve as guidelines



for handling potential conflicts of interest, irregularities or fraud; a professional auditor must be aware of these standards. Institutional theory is a significant factor in internal auditors' choices when conducting audit activities, including what they discover and what steps to take next. If the internal auditor performs their job effectively, it can be concluded that institutional theory works well because the results, in this case, fraud prevention, are also positive (Pitriani and Dewi 2023). Internal auditing is necessary for all organizations to cut expenses efficiently while optimizing profits and accomplishing medium- and long-term objectives. Based on a study by Haryanto and Ardillah (2022); Lukman and Chariri (2023) found that internal audit positively affects fraud prevention. The hypothesis of this study is H4: Internal audit positively affects fraud prevention.

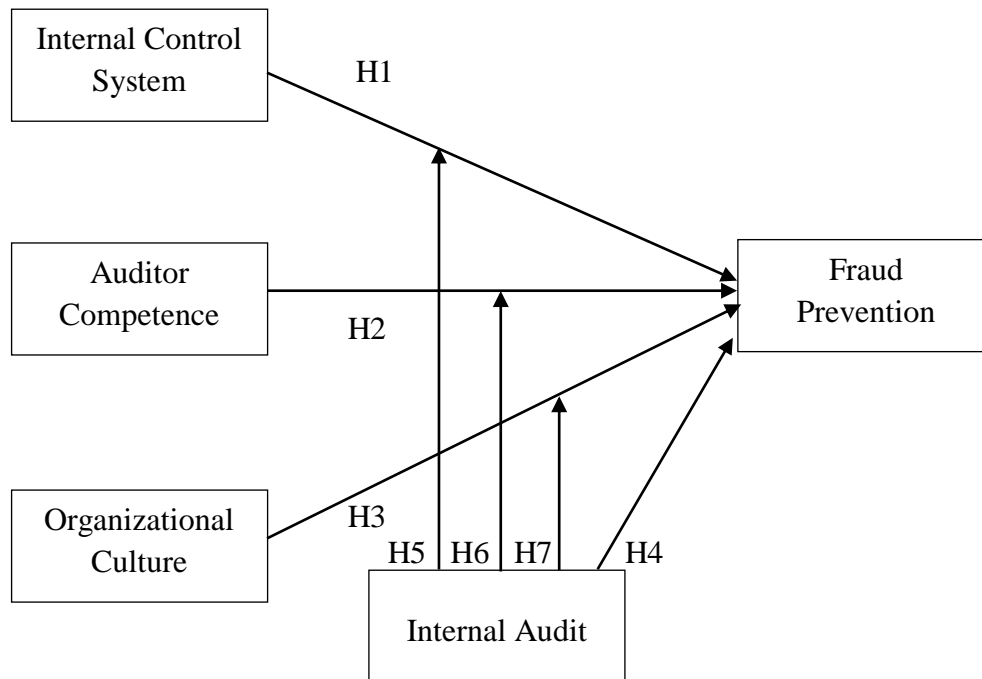
According to institutional theory, internal auditors are subject to external pressure to exhibit characteristics. Internal auditors are compelled to conduct audits with a high level of control by management, an external party. The effective application of internal control will facilitate management's ability to protect company assets (Chan, Chen, and Liu 2021). If the implementation of the organization's internal control does not go well, then employees will have the opportunity or chance to commit an act of fraud. Internal supervision is needed to ensure control procedures have been carried out integrally, effectively, and efficiently. Research by Herawaty et al. (2021); Kesuma and Fachruzzaman (2024) proves that internal audit can reduce the impact of internal control measures on preventing fraud. The hypothesis of this research is H5: internal audit can moderate the effects of internal control systems on fraud prevention.

According to institutional theory, management requests that internal auditors conduct audit work efficiently as an external party. As an outside party, management compels (desires) internal auditors to conduct highly competent audits. An internal audit must be competency-oriented to build an excellent system within the organization (Plant, Barac, and Sarens 2019). This means the internal audit must continuously push their staff members to improve their formal and informal competencies. Higher auditor competence is strengthened by internal audits, consequently lowering the degree of fraud. The capacity to identify fraud will decline if the internal audit does not validate the auditor's competence. Research from Kharie and Darwis (2020); Basmar, Rinaldy, and Sahidah (2024) shows that internal audit can moderate the effects of auditor competence on fraud prevention. The hypothesis of this research is H6: internal audit can moderate the effects of auditor competence on fraud prevention.

According to institutional theory, an internal audit is called upon by the audit professional organization to adhere to established professional standards and complete the necessary work based on organizational culture. Internal audits cannot ensure the prevention of fraud. When preventing fraud and helping management make decisions, an internal audit is supposed to identify signs of it within the organization (Bonrath and Eulerich 2024). A member of an organization with a positive culture will also exhibit certain behaviors and vice versa. When an auditor is precise, pertinent, timely, and comprehensive, the likelihood of accounting fraud tendencies may be reduced in an environment that is positive and supportive of reporting. Research by Al-Matari and Mgamal (2019); Putra et al. (2021), internal audit can moderate the effects of



organizational culture on fraud prevention. The hypothesis of this study is H7: Internal audit moderates the effects of organizational culture on fraud prevention.



**Figure 1 Research Model**

## METHOD

This study applied a quantitative method and a causally associative approach. Primary data are directly gathered via survey to address research questions and accomplish exploratory, descriptive, or causal research objectives. Workers at the Financial and Asset Management Agency of Kupang Regency and City Government were the population in this research, and 91 of them were civil servants. Data collection uses survey techniques such as distributing questionnaires. A non-probability sampling technique was used to obtain a sample that genuinely reflects the population, namely purposive sampling. The sample criteria were employees who worked as heads of the Accounting and Reporting subsection, heads of the budget subsection, heads of the reporting, accounting, and supervision sections, and all reporting and accounting employees at the Financial and Regional Asset Management Agency of the Kupang Regency and City Governments so that a research sample of 75 people was obtained. The questionnaire was measured using a Likert scale, and each respondent's response was evaluated on a 4-level scale.

The research variables consist of the internal control system, auditor competence, and organizational culture as independent variables, fraud prevention as the dependent variable, and internal audit as a moderating variable. More complete operational variables can be seen in Table 1. Partial Least Squares-Structural Equation Modeling (PLS-SEM) is used in the data analysis techniques and processed using SmartPLS version 3.29. Instrument tests comprise





Cronbach's alpha, composite reliability, convergent, discriminant, and AVE. A technique for data analysis called Structural Equation Modeling (SEM) can directly look at measurement errors, latent variables, and indicator variables. There are two stages in which the PLS evaluation model, both inner or structural models, and the outer model, or measurement model. When the probability value  $\leq$  alpha (0.05) and the t-statistic value  $\geq$  t-table (1.96), the purpose of the test criteria is to determine whether exogenous factors significantly affect endogenous variables (Solimun 2017).

**Table 1 Operational Definition**

<b>Variables</b>	<b>Indicator</b>	<b>Scale</b>
Internal Control System (ICS)	<ol style="list-style-type: none"> <li>1. Control Environment</li> <li>2. Risk Assessment</li> <li>3. Control Activities</li> <li>4. Information and Communication</li> <li>5. Monitoring</li> <li>6. Management Support</li> </ol> (Aviva 2022; Safitri and Andhaniwati 2024)	Likert
Auditor Competence (AC)	<ol style="list-style-type: none"> <li>1. Auditor Experience</li> <li>2. Auditor Skill</li> <li>3. Auditor Knowledge</li> <li>4. Auditor Abilities</li> <li>5. Auditor Ethics</li> <li>6. Auditor Attitude</li> </ol> (Said and Munandar 2018; Indriani, Koeswayo, and Irawady 2022)	Likert
Organizational Culture (OC)	<ol style="list-style-type: none"> <li>1. Innovation</li> <li>2. Risk-Taking</li> <li>3. Attention to Detail</li> <li>4. Results Orientation</li> <li>5. Team Orientation</li> <li>6. Aggressiveness and Stability</li> </ol> (Ferina et al. 2021; Sudharma, Haliah, and Nirwana 2023)	Likert
Internal Audit (IA)	<ol style="list-style-type: none"> <li>1. Independence</li> <li>2. Objectivity</li> <li>3. Professional Expertise</li> <li>4. Scope of Audit Work</li> <li>5. Management of the Internal Audit</li> <li>6. Implementation of Internal Audit Tasks</li> </ol> (Abdelrahim and Al-Malkawi 2022; Haryanto and Ardillah 2022)	Likert
Fraud Prevention (FP)	<ol style="list-style-type: none"> <li>1. Create a Climate of Honesty</li> <li>2. Honest Recruitment Process</li> <li>3. Fraud Awareness Training</li> <li>4. A good Scope of Work</li> <li>5. Obeyed Code of Ethics</li> <li>6. Assistance Programs for Employees</li> </ol> (Wiliana et al. 2023)	Likert



## RESULTS AND DISCUSSIONS

Based on the data collected from the questionnaire, the number of respondents can be described based on gender, age range, length of work, and education stage, as seen in Table 2.

**Table 2 Respondents Description**

Description	Frequency	Percentage
Gender		
Male	53	70.6
Female	22	29.4
Age		
22-30	28	37.3
31-40	31	41.4
41-50	16	21.3
Length of Work		
1-5	19	25.3
6-10	21	28.1
>10	35	46.6
Education Stage		
S1 (Undergraduate Degree)	50	66.6
S2 (Postgraduate Degree)	25	33.4

Source: primary data (processed, 2024)

Table 2 shows more female respondents than males, 70.6% of the total respondents. Respondents aged 31 to 40 years are more dominant, 41.1% of the total respondents. Respondents with a length of work are mostly more than 10 years. At the same time, respondents with a bachelor's degree are more dominant than those with other education levels, at 66.6%.

### Outer Model

Convergent validity is evaluated using the variables' correlation of the variables. The construct is considered significant if a constructed size is more than 0.70 and its scores correlate with item scores. A value of 0.50 to 0.60 is considered sufficient for early-stage research applications. To find out if an indicator has an indicator with a higher correlation than the rest, its AVE value needs to be more than 0.5. A composite reliability analysis was conducted in the interim to determine the instrument's accuracy and dependability for measuring a specific construct. It is considered reliable if the value of composite reliability exceeds 0.70.

Table 3 shows that each indicator's factor loading value is more than 0.70, demonstrating the indicator's reliability in assessing fraud prevention. All these indicators' AVE values are greater than 0.5, which indicates the degree of convergence; they all meet the requirements for solid convergence. The degree of reliability is indicated by both Cronbach's alpha value and the composite reliability value, which are greater than 0.70. It was determined that every variable was dependable and that the construct reliability of each indicator varied.



**Table 3 Outer Model Results**

<b>Variables</b>	<b>Item</b>	<b>Factor Loadings</b>	<b>AVE</b>	<b>Cronbach's Alpha</b>	<b>Composite Reliability</b>
Internal Control System (ICS)	ICS.1	0.753	0.723	0.913	0.930
	ICS.2	0.884			
	ICS.3	0.910			
	ICS.4	0.869			
	ICS.5	0.845			
	ICS.6	0.831			
Auditor Competence (AC)	AC.1	0.718	0.691	0.890	0.910
	AC.2	0.769			
	AC.3	0.883			
	AC.4	0.898			
	AC.5	0.858			
	AC.6	0.848			
Organizational Culture (OC)	OC.1	0.855	0.596	0.871	0.898
	OC.2	0.730			
	OC.3	0.740			
	OC.4	0.763			
	OC.5	0.780			
	OC.6	0.756			
Internal Audit (IA)	IA.1	0.789	0.623	0.879	0.908
	IA.2	0.776			
	IA.3	0.814			
	IA.4	0.754			
	IA.5	0.778			
	IA.6	0.821			
Fraud Prevention (FP)	FP.1	0.887	0.632	0.883	0.911
	FP.2	0.801			
	FP.3	0.759			
	FP.4	0.806			
	FP.5	0.745			
	FP.6	0.762			

*Source: primary data (processed, 2024)*

### **Inner Model**

Table 4 shows that the R-Square results, the effects of the internal control system, auditor competence, and organizational culture on fraud prevention have a value of 0,633 or 63,3%; this value falls within the moderate range. At the same time, the remaining 36,7% is affected by additional factors not covered in this research. Bootstrapping was employed to ascertain whether the variables were correlated. The hypothesis test criteria are satisfied when the alpha (0.05) and the t-statistic value (1.96) are less than or equal to the probability value. It is claimed that exogenous variables significantly influence endogenous variables.



**Table 4 Hypothesis Test Results**

<b>Hypothesis</b>	<b>Original Sample</b>	<b>Sample Mean</b>	<b>Standard Deviation</b>	<b>T-Statistics</b>	<b>P-Values</b>
H1: ICS → FP	0.875	0.880	0.094	9.288	0.026
H2: AC → FP	0.710	0.718	0.083	8.616	0.015
H3: OC → FP	0.756	0.762	0.164	11.860	0.002
H4: IA → FP	0.539	0.515	0.242	1.882	0.451
H5: ICS * IA → FP	0.709	0.730	0.120	6.073	0.000
H6: AC * IA → FP	0.753	0.764	0.064	11.798	0.016
H7: OC * IA → FP	0.779	0.772	0.056	1.708	0.064
<b>R-Square</b>					<b>0.633</b>

Source: primary data (processed, 2024)

Table 4 shows that the internal control system positively and significantly affects fraud prevention, as indicated by an original sample of 0.875, t-statistics of 9.288 > 1.96 and p-values of 0.026 < 0.05 (H1 accepted). Auditor competence positively and significantly affects fraud prevention, as indicated by an original sample of 0.710, t-statistics of 8.616 > 1.96 and p-values of 0.015 < 0.05 (H2 accepted). Organizational culture positively and significantly affects fraud prevention, as indicated by an original sample of 0.756, t-statistics of 11.860 > 1.96 and p-values of 0.002 < 0.05 (H3 accepted). The internal audit does not affect fraud prevention, as indicated by an original sample of 0.539, t-statistics of 1.882 < 1.96 and p-values of 0.451 > 0.05 (H4 rejected). The internal audit can strengthen the effect of the internal control system on fraud prevention, as indicated by an original sample of 0.709, t-statistics of 6.073 > 1.96 and p-values of 0.000 < 0.05 (H5 accepted). The internal audit can strengthen the effect of auditor competence on fraud prevention, as indicated by an original sample of 0.753, t-statistics of 11.798 > 1.96 and p-values of 0.016 < 0.05 (H5 accepted). The internal audit cannot moderate the effect of organizational culture on fraud prevention, as indicated by an original sample of 0.779, t-statistics of 1.708 < 1.96 and p-value of 0.064 > 0.05 (H7 rejected).

### **The Effect of Internal Control Systems on Fraud Prevention**

The findings show that internal control systems positively affect fraud prevention. This illustrates that the better the internal control system, the better the fraud prevention. This suggests that an organization can produce accurate financial reports, manage resources effectively, and carry out operations more successfully and efficiently by implementing an internal control system. By implementing an effective internal control system, organizations can protect assets, improve the reliability of financial reports, and strengthen public trust (Alam, Said, and Aziz 2019). As a result, the institutions will feel more confident in meeting their objectives. The conditions inside the institution are described by the observance of the rules, norms, and procedures if this is related to institutional theory. The institutional theory explains that the implementation of internal control systems is not only due to operational needs but also to institutional pressure to comply with norms and increase legitimacy. Integrating internal controls by institutional standards effectively reduces the risk of fraud while building trust in the eyes of the public (Oliveira et al. 2022). Protecting



institutional assets is the fundamental purpose of internal control, regardless of the variations in how it is implemented in any given institution (Koomson et al. 2020). Internal control in an institution encompasses all facets of the institution's operation, not just accounting and financial operations (Suh, Nicolaides, and Trafford 2019). Preventing fraud begins with implementing internal control. Institutions and protocols guarantee that the board of commissioners, management, and other staff members have taken the required steps to offer sufficient confidence in accomplishing organizational goals. This study's findings align with those of previous research conducted by Azizah and Erinos (2022); Rosari et al. (2023), the internal control system positively affects fraud prevention.

### **The Effect of Auditor Competence on Fraud Prevention**

The findings show that auditor competence positively affects fraud prevention. This means that the higher the competency possessed by the auditor, the greater the auditor's ability to detect fraud. If auditors have high competence and comply with the government's internal audit standard criteria, the level of accuracy in detecting fraud by auditors will be higher. The auditor's capacity to identify fraud is impacted by their level of competence, which is determined by how their knowledge controls their auditing skills and their growing proficiency. The auditor has extensive knowledge of fraud and red flags (Munteanu et al. 2024). Once the auditor has a solid understanding of organizational theory, they can comprehend how fraud happens. Auditors have procedures and frameworks to identify fraud because they know it is happening (Aksoy and Uzay 2021). The ability of auditors to write and present reports effectively supports their competence so that the auditor can comprehend the efficacy of audit procedures. The auditor can then appropriately submit reports. With high competence, auditors cannot only detect fraud but also create an environment that is more difficult for individuals to commit fraud. This significantly reduces the possibility of fraudulent acts within government institutions. Institutional theory views auditor competence not only as a technical benefit but also as a means of forming institutional legitimacy that helps prevent fraud. This study's findings align with those of earlier studies by Noch et al. (2022); Basmar, Rinaldy, and Sahidah (2024), that auditor competence significantly affects fraud prevention.

### **The Effect of Organizational Culture on Fraud Prevention**

The findings show that organizational culture positively affects fraud prevention. This means that the better the organizational culture, the more fraud prevention can be done as optimally as possible. The study findings demonstrate that task performance is the practice of organizational culture in compliance with established guidelines. The institutional theory, which holds that one of the primary measures of performance is community involvement, is supported by this study. To reduce the likelihood of fraudulent activities, communities serving as principals can keep an eye on and assess how regional funds are being used. The principal is responsible for making decisions in each development program and spotting potential issues. The likelihood of misusing regional funds is declining because of community involvement in planning and execution. The community's right to actively engage in all planning and development processes is known as





community participation, and it significantly influences the effectiveness of fraud prevention. The background surrounding the workplace, ways of work, behaviors, attitudes and perspectives of employees regarding their employer are established by institutional culture (Cherian et al. 2021). Management of regional funds is accountable if the regional government has a strong culture (Sofyani, Riyadh, and Fahlevi 2020). The management of unaccountable regional funds may be impacted if organizational culture engages in actions that deviate from established guidelines. Then institutional theory also views that a strong organizational culture in preventing fraud reflects the efforts of government institutions to adapt to external and internal norms, maintain legitimacy in the eyes of the public, and respond to regulatory and professional pressures. This culture is not only an internal strategy but also a reflection of the broader institutional environment of government, which creates social control and encourages ethical behavior within the organization. Thus, a strong culture can shape individual behavior within an institution and create an environment that supports integrity, thereby preventing fraud. The results of this study are consistent with earlier research carried out by Ubaidillah and Cahayuni (2022); Rahmawati and Pradata (2023), who state that the prevention of fraud is impacted by organizational culture.

### **The Effect of Internal Audit on Fraud Prevention**

The findings show that internal auditing does not affect preventing fraud. This means whether internal audits are good or not will not impact fraud prevention. This can happen due to several factors: limited independence or neutrality of internal auditors, an in-depth audit process, lack of resources and competence, an unsupportive organizational culture, no strong follow-up, focus on other risks, limited audit coverage, and pressure or intervention from other parties. Regarding these findings, institutional theory views that internal audits are only carried out to fulfil regulatory requirements, professional norms are merely symbolic, the organizational culture is permissive towards fraud, and there is a culture of imitating practices considered appropriate without integrating its functions. It is crucial for stakeholders, including audit practitioners, to carefully consider and possibly reassess the effectiveness of internal audit processes in fraud prevention (Christ et al. 2021). The results are consistent with institutional theory, which explains how we determine the causes and motives of a person's auditor, which will be determined whether from internal, external, or a combination of both factors. This is because organizations that rely solely on internal audit mechanisms may not necessarily experience enhanced fraud prevention outcomes (Roszkowska 2021). Furthermore, the auditor's workplace may not be as supportive of fraud prevention as it could be. A person with a high degree of diversity may have strong moral values, but this only sometimes guarantees that he or she will behave correctly in financial situations (Shonhadji and Maulidi 2021). Internal auditors are necessary to prevent fraud; the more effective internal auditing is, the more fraud can be prevented in an organization. For internal audit to be more influential in preventing fraud, steps such as strengthening auditor independence, improving competence, building an organizational culture that supports integrity, and ensuring serious follow-up on audit findings are needed. The results of this study are consistent with earlier



research carried out by Saputra (2017); Fernando and Sitorus (2020), who state that internal audits do not affect fraud prevention.

### **The Role of Internal Audit Moderating the Effect of Internal Control Systems on Fraud Prevention**

The findings show that internal audits can strengthen the effect of internal control systems on fraud prevention. This occurs because an internal audit is an independent monitoring mechanism that ensures the internal control system runs effectively and by the institution's objectives. Based on the institutional theory, support from immediate superiors is a resource that will build the trust of local government internal auditors and assist them in replenishing lost resources due to stress arousal, thereby preventing them from experiencing burnout. The successful implementation of internal control is also expected to make it easier for management to safeguard company assets (Kabuye et al. 2019). If the implementation of the company's internal control does not go well, then employees have the opportunity or chance to commit an act of fraud (Handoyo and Bayunitri 2021). Internal supervision is needed to ensure control procedures have been carried out integrally, effectively, and efficiently. Internal audit fraud examiners must know and understand each element in the internal control structure to conduct evaluations and look for weaknesses. This study's findings align with previous research conducted by Herawaty et al. (2021); Kesuma and Fachruzzaman (2024), who state that internal audits can moderate the influence of internal control systems on fraud prevention.

### **The Role of Internal Audit Moderating the Effect of Auditor Competence on Fraud Prevention**

The findings show that internal audits can strengthen the effect of auditor competence on fraud prevention. This happens because internal audit functions as a deep and continuous monitoring system within the institution. Institutional theory suggests that the presence of a stimulus given to everyone will cause a reaction. In this study, the control provided by the supervisor to the auditor could not weaken the relationship between the influence of auditor competence and the auditor's ability to detect fraud. This is because the auditor internally has a very high competence so that an internal audit can strengthen the relationship. Auditor competence can affect the auditor's ability to detect fraud. The improved level of proficiency will influence auditors' ability to identify fraud for more excellent. The higher auditors' competence is strengthened by internal audits, which also reduces the amount of fraud (Noch et al. 2022). The ability to spot fraud will decline if internal audit does not bolster the auditor's competence. The auditor must gather this data professionally to get solid proof of the rationale behind various decisions. Therefore, internal audits can strengthen the relationship between auditor competence and fraud prevention by providing a structure that allows auditors to systematically apply their knowledge and skills. With ongoing oversight, organizations can be better prepared to detect, address, and prevent fraud (Bonrath and Eulerich 2024). The results of this study are consistent with earlier research carried out by Kharie and Darwis (2020); Basmar, Rinaldy, and Sahidah (2024), which found that internal audits can moderate the effects of auditor competence on fraud prevention.



## **The Role of Internal Audit Moderating the Effect of Organizational Culture on Fraud Prevention**

The findings show that internal audits cannot moderate the effect of organizational culture on fraud prevention. This happens for several reasons: dependence on organizational culture, limited scope of internal audit, lack of independence and authority, too much focus on technical aspects, and limited time and resources. Internal audits cannot guarantee that fraud will not occur (Handoyo and Bayunitri 2021). Management can solve and find fraud as soon as possible through control. An individual within the organization will develop behaviors because of its positive culture, and vice versa because employees rationalize these actions; as usual, everyone in the organization tends to commit fraud. An accurate, pertinent, timely, and comprehensive audit may be less likely to occur with a positive and supportive organizational culture (Shonhadji and Maulidi 2022). How well an internal audit is implemented may also impact organizational culture. Institutional theory views that internal audit cannot moderate the influence of organizational culture on fraud prevention; this occurs because regulatory pressure is only adequate if supported by the organization's cultural commitment to compliance, there is conflict between cultural norms and the internal audit function, and an ingrained culture overpowers formal mechanisms. This study's findings align with those of earlier research by Abrori, Zulfatillah, and Bullah (2022); Aviva (2022), internal audit cannot moderate the effects of organizational culture on fraud prevention.

## **CONCLUSIONS**

The study findings, based on the data analysis and discussion, demonstrate how internal control systems, auditor skills, and organizational culture positively affect preventing fraud. However, internal auditing does not prevent fraud in the Regional Financial and Asset Management Agency of Kupang Regency and City, East Nusa Tenggara (ENT). Internal audits can moderate the effect of internal system control and auditor competence on fraud prevention. Meanwhile, internal audit cannot moderate the relationship between organizational culture and fraud prevention. This study can contribute to advancing current theories and offer institutions resources to lower the risk of fraud. This study advances audit institutions' best practices for enhancing government auditing efficacy in lowering and preventing fraud. This research only uses one subject, so the conclusions can only be partially generalized. It is advised that additional research be done to broaden the scope of the objects and develop them on a larger scale. Further research is recommended to increase the number of Regional Financial and Asset Management Agencies as a sample so that it is not limited to East Nusa Tenggara (ENT) Province but also to other provinces. The study should assist policymakers in determining whether their auditing practices can satisfy assignment and public expectations. Researchers suggest that internal control, auditor competence, and organizational culture must be implemented optimally, completely and integrally. This research suggests that fraud prevention is usually more successful the more highly significant those factors are.



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