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**Analysis of Internal Control of Good Corporate
Governance and Fraud Prevention
(Study at the Regional Government of Jambi)**

Netty Herawaty¹ and Riski Hernando²

^{1,2}Faculty of Economic and Business, Universitas Jambi

¹netherawaty@gmail.com

Abstract: This study aims to analyze whether there is an influence of internal control on fraud prevention and Good Corporate Governance, and to analyze whether there is an effect of Good Corporate Governance on fraud prevention, and to analyze internal control against fraud prevention with Good Corporate Governance as intervening variable (Study at the Regional Government of Jambi City). This research method uses primary data by distributing questionnaires to all SKPDs of the Jambi government with 49 respondents using purposive sampling and returning 47 questionnaires. Methods of data analysis using SEM-PLS analysis (Structural Equation Modeling-Partial Least Square). The results of the study show that internal control does not affect fraud prevention, internal control does not affect Good Corporate Governance and Good Corporate Governance does not affect fraud prevention.

Keywords: Fraud, Good Corporate Governance, and Internal Control.

Introduction

PP No. 71 of 2010 concerning Government Accounting Standards, states that local governments must apply accrual-based accounting in the presentation of financial statements. Accrual-based Regional Government Financial Reports / Laporan Keuangan Pemerintah Daerah (LKPD) have a number of reports that must be presented as many as seven reports, namely: Budget Realization Reports, Reports on Changes in Over budget Balance, Balance Sheet, Operational Reports, Cash Flow Statements, Equity Change Reports, and Notes to Financial Statements. Financial audit is not specifically intended to reveal the existence of fraud in financial management. However, if the examiner finds irregularities, fraud or violations of the provisions of the legislation, especially those that have an impact on the potential and indications of state losses, then this must be disclosed

¹ Corresponding author

in the Audit Report and within certain limits will affect the opinion on the fairness of the Report Finance as a whole.

The Government of the Jambi Province is one of the provinces that through the Jambi vision is fully committed to improving clean, transparent, accountable and participatory governance, oriented towards public services with performance indicators of obtaining Unqualified Opinion and increasing percentage of districts / cities getting Unqualified Opinion. Jambi Province consisting of nine regencies and two cities based on the results of an audit conducted by the Financial Inspection Board representative of the Jambi Province obtained opinions on the Financial Statements of Regency / City Governments in Jambi Province for the last three years as follows:

Table 1. Inspection Report from BPK

| No | District / City | 2015 | 2016 | 2017 |
|----|---------------------------|------|------|------|
| 1 | Kab. Sarolangun | WDP | WTP | WTP |
| 2 | Kab. Muaro Jambi | WDP | WTP | WTP |
| 3 | Kota Sungai Penuh | WTP | WTP | WTP |
| 4 | Kab. Tanjung Jabung Timur | WDP | WDP | WTP |
| 5 | Kab. Tebo | WTP | WTP | WTP |
| 6 | Kab. Bungo | WDP | WDP | WDP |
| 7 | Kab. Tanjung Jabung Barat | TMP | TMP | WDP |
| 8 | Kab. Kerinci | WTP | WTP | WTP |
| 9 | Kab. Merangin | WDP | WTP | WTP |
| 10 | Kota Jambi | TMP | WTP | WTP |
| 11 | Kab. Batang Hari | WTP | WTP | WTP |

Source: www.bpk.go.id

Notes:

WTP : Unqualified Opinion

WDP : Qualified Opinion

TW : Adverse Opinion

TMP : Disclaimer of Opinion

The results of table 1 above were elected in 2017, only two districts received WDP opinion, namely Bungo District and Tanjung Jabung Barat District, besides all of them obtained WTP opinion from BPK.

Table 2. Inspection Report from BPK

| No | District / City | 2015 | 2016 | 2017 |
|----|-----------------|--------|--------|--------|
| 1 | WTP | 36,36% | 72,73% | 81,82% |
| 2 | WDP | 45,46% | 18,18% | 18,18% |
| 3 | TMP | 18,18% | 0,09% | 0 |

Source: www.bpk.go.id

Based on table 2. above shows that there was a change in opinion acquisition where districts / cities that received WTP opinion increased in 2017 and no districts / cities received TMP opinion in 2017. Increased acquisition of WTP audit opinion from the National Audit Board (BPK) does not guarantee that there is no fraud in the local government which will eventually become an act of corruption. Table 2 shows that there was a change in opinion acquisition where districts / cities that received WTP opinion increased in 2017 and no districts / cities received TMP opinion in 2017. Increased

acquisition of WTP audit opinion from the National Audit Board (BPK) does not guarantee that there is no fraud in the local government which will eventually become an act of corruption.

Jambi City as the sovereign and provincial capital of the Republic of Indonesia under the Government of the Republic of Indonesia is certainly obliged to implement regional autonomy in accordance with the principles of good governance. The Regional Government of Jambi City as the provincial capital should be able to be an example for the district government and strive to continue to improve the quality of its performance to the maximum and overall. Based on the (LHP) Report of the 2014 fiscal year, the city received a Qualified Opinion (WDP), the 2015 fiscal year received a disclaimer opinion (TMP) and the 2016 fiscal year obtained a qualified opinion (WTP). This LHP shows that the evidence of the performance of the City of Jambi has improved accountability.

This WTP opinion was only obtained by the Jambi City Government after 71 years of the establishment of the Jambi City government. Prevention of corrupt practices also cannot be ruled out from the role of the BPK. The results of the examination should be able to provide recommendations that lead to system improvements and not just reveal "successes" because they have discovered trillions of rupiah in state losses. Fundamental errors can be overcome by repairing the system. The annual regular checks conducted by the BPK are reasonable to ensure that the system improvements to the recommendations given in previous years have been followed up. Press Release of the Republic of Indonesia Financial Audit Board (BPK RI) Jambi Province Representative for the 2014 Fiscal Year, the auditing of financial statements by the BPK revealed findings regarding weaknesses in the Internal Control System (SPI), and non-compliance with laws and regulations. ([www.bpk, go.id](http://www.bpk.go.id)).

Indonesia Corruption Watch (ICW) states that the majority of perpetrators of criminal acts of corruption are officials within the Regional Government at the Regency, Municipality and Provincial levels. This is due to the weak supervision of law enforcement on regional officials. One indication of the low efforts to prevent corruption, namely the lack of compliance of local governments in carrying out coordination and supervision of corruption prevention. Area can be prevented. The development of SPIP and strengthening of APIP is important because what is often the object of corruption is development funds. SPIP and APIP can focus more on APBD planning and implementation, so that corruption can be prevented.

Jambi Province has recently been stirred up by news of a corruption case involving the number one person in Jambi Province regarding the RAPBD hammer on projects in Jambi Province. During 2018 there were still a number of other alleged corruption cases involving state officials. Fraud prevention starts from internal control. Another important concept in fraud prevention is to instill awareness about fraud and efforts to fraud risk assessment (Tuanakotta, 2007). Corruption is a form of fraud. Procurement is one of the biggest sources of corruption in the public financial sector. The Indonesian public procurement system is widely believed to be the main source of budget leakage which enables corruption and collusion which contribute greatly to the decline of services for Indonesia's poor (Tuanakotta, 2013).

Internal control is a process, policy and procedure designed by management to ensure reliable financial reporting and preparation of financial statements in accordance with the applicable accounting framework. Matters that need to be considered by the auditor in assessing the severity of internal control weaknesses include the vulnerability of assets or debt to loss or fraud (Tuanakotta, 2013). Internal control can be classified in active internal control and passive internal control. The difference between the two lies in the first in terms of costs where active internal control is more expensive and second, active internal control is visible or predictable. Internal controls are well designed and implemented, internal control can be counted on to protect yourself from fraud. (Tuanakotta, 2007).

This article is divided into several parts. The first part is an introduction. The second part will describe the theory used and development hypotheses. The third part is research method that will be used in this study. The fourth part is result in this study. And the last part is conclusion.

Literature Review

Internal Control

Control includes all methods, policies and procedures of the organization that guarantee the security of company assets, accuracy and appropriateness of management data and other management operating standards, which control is then known as internal control (Susanto, 2004). Whereas (Whittington & Penny, 2001) defines internal control as: "Internal control is broadly defined as a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations". Thus, it can be explained that the objectives of internal control are the efficiency and effectiveness of the company's operations, the reliability of financial statements and adherence to laws and regulations. Arens, et al (2012) put forward the elements of the structure of internal control as follows: "A company's internal control include five categories of policies and procedures that management design and implement to provide reasonable assurance that management's control objective will be met. These are called the components of internal control are: (1) The Control Environment; (2) Risk Assessment; (3) Control Activities; (4) Information and Communication; (5) Monitoring".

Good Corporate Governance

The Forum for Corporate Governance in Indonesia has created a definition from the Cadbury Committee of the United Kingdom, defined as a set of regulations governing the relationship between shareholders, management (company managers), creditors, governments, employees, and internal stakeholders and other external relating to their rights and obligations, or in other words a system that directs and controls the company. Good Corporate Governance Principles, namely transparency, accountability, responsibility, independence, and fairness and equality.

Fraud

According to the Association of Certified Fraud Examiners categorizing fraud in three groups is (1) fraud in financial statements, (2) misuse of assets, (3) corruption. According to Jusuf (2014) defines fraud as intentional financial reporting containing misstatements. The

conditions that cause fraud are called the triangle of fraud, incentives / pressures, opportunities, and behavior / justification. According to Suradi (2006), fraud is an action that can be done to prevent people from lying, plagiarism and stealing, blackmailing, manipulating, collusion and deceiving others in order to enrich themselves or other people / groups by way of breaking the law. Arens, et al (2012) say that fraud that occurs in organizations is caused by weak control by management, fraud is also caused by three components called the fraud triangle, namely incentives / pressures, opportunities and attitudes.

The Committee of Sponsoring Organization (COSO)

Internal control according to The Committee of Sponsoring Organization (COSO) is (1) the Control Environment; (2) Risk Assessment; (3) Control Activities; (4) Information and Communication; (5) Monitoring ". Internal control in government is also adopted from COSO, which is set forth in PP Number 60 of 2008, called the Government Internal Control System or "Sistem Pengendalian Intern Pemerintah" (SPIP), there are five elements of internal control, namely (1) the control environment (2) risk assessment (3) control activities (4) information and communication (5) Internal control monitoring.

Based on PP Number 60 of 2008 there are 25 indicators used in SPIP consist of:

1. Control Environment consist of: integrity and ethical values, commitment to competence, conductive leadership, organizational Structure, delegation of authority, HR development policies, the role of an effective APIP and good working relationship.
2. Risk Assessment consist of: risk identification and risk analysis.
3. Control Activities consist of: Performance review, HR development, control of the information system, physical control of assets, indicator setting and review, separation of functions, authorization, recording, access restrictions, accountability and SPI documentation
4. Information and Communication consist of: Information and effective communication
5. Monitoring consist of: Continuous monitoring and separate evaluation

Hypotheses Development

Internal control is related to the effectiveness and efficiency of activities, the level of reliability of financial statements, compliance with laws and regulations and the security of assets (BPK-RI, 2007). Internal control can be used to maintain the security of company property, provide confidence that the reports submitted to the leaders are correct, improve business efficiency and ensure that the policies set have been implemented properly (Gusnardi, 2018). Taufik (2010) shows the presence of internal auditors has a positive effect on fraud prevention. Gusnardi (2018) show that the role of the Audit Committee, Internal Control, Internal Audit and Corporate Governance Implementation influences the Prevention of Fraud, meaning that the optimal role of the Audit Committee, the implementation of Internal Control, Internal Audit and the Implementation of Corporate Governance can prevent fraud in the company. Drogalas, et al (2017) shows that audit effectiveness, auditor responsibilities, and auditor training positively and significantly influence fraud detection. Furthermore Kamaliah, et al (2018) states that internal policies are significant in reducing the incidence of fraud.

H1: Internal Control has a positive affects to Fraud.

The embodiment of corporate governance (GCG) really requires the role of accountants, one of which is an internal auditor. Internal auditors have a role to support the realization of governance (Gusnardi, 2018). The results of Soleman's research (2013), internal control has a positive effect on Good Corporate Governance. Raboczki (2018), examines the relationship between the existence and independence of internal audit and other corporate governance factors in developing markets. Research by Koutoupis & Pappa (2018), the results of this study contribute to the corporate governance literature by providing valuable insights into key aspects of internal control systems that function well and their relevance to management performance.

H2: Internal Control has a positive affects to GCG

Governance can be interpreted as a way to manage public affairs. Good Corporate Governance (GCG) of companies and governments in Indonesia is based on the many issues of collusion, corruption and nepotism (KKN) in companies (Gusnardi, 2018). GCG has principles namely transparency, accountability, responsibility, independence and fairness. This principle means that GCG will be realized if all elements in the organization carry out their obligations properly. Gusnardi's research results (2018) show that the role of the Audit Committee, Internal Control, Internal Audit and Corporate Governance Implementation influences the Prevention of Fraud, meaning that the optimal role of the Audit Committee, the application of Internal Control, Internal Audit and the Implementation of Corporate Governance can prevent fraud in the company. Soleman (2013) states that GCG has the ability to prevent fraud. Zhang (2018) points out that improved public governance makes firms less likely to commit fraud. Raboczki (2018), shows that larger companies should form internal audits and strengthen their independence more than smaller companies. Kamaliah (2018), states that a good governance and fraud prevention program is proven to have a significant relationship with the occurrence of fraud in government institutions.

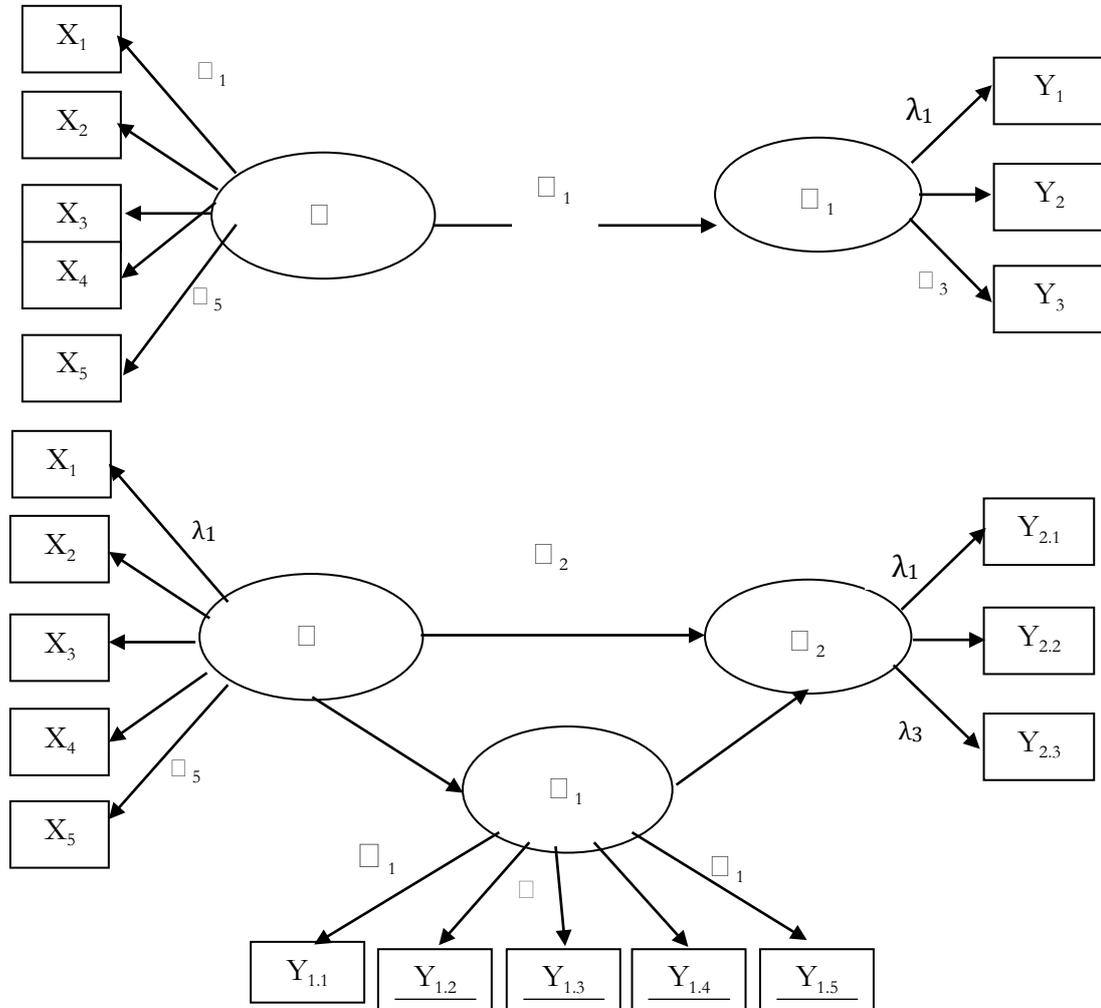
H3: Good Corporate Governance has a positive affects to Fraud Prevention.

Gusnardi's research (2018) uses internal control and GCG variables as independent variables while this study uses GCG variables as intervening variables (mediation). The results of Soleman's research (2013), show that internal control has a positive effect on fraud prevention. Internal control has a positive effect on Good Corporate Governance, and Good Corporate Governance has a positive effect on fraud prevention. According to Kamaliah (2018) which examines three dimensions of monitoring mechanisms namely good governance, internal control procedures and fraud prevention programs that show good governance has a significant influence on fraud prevention. Practically, this research can provide important information to civil servants about the effectiveness and usefulness of good governance, internal control procedures, and fraud prevention programs in the public sector.

H4: Internal Control has a positive affects to the prevention of fraud with GCG as an intervening variable

Research Model

Figure 1. Research Model



Methods

Population and Sample

This study uses primary data by distributing questionnaires obtained directly from 19 local government agency agencies in the city of Jambi. The population in this study is the head of the department in the Jambi City agency as many as 49 respondents. Sampling with purposive sampling with the criteria of the respondent is the office that has been established for more than 10 years, the respondent is the head of the sector participating in the budget preparation process, respondent are the head of the department who has occupied his position for at least 1 year.

*Variable Measurement*Table 3. **Variable Measurement**

| Variable | Definition | Indicator | Scale |
|---|--|--|--------------|
| Internal Control (X ₁) | “Internal control is broadly defined as a process, effected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations’ (Whittington & Penny, 2010) | 1. Control environment 2. Risk Assessment 3. Control Activities 4. Information and Communication 5. Monitoring | Ordinal |
| Good Corporate Governance (Y ₁) | GCG is one of the pillars of a market economic system. GCG is closely related to trust both in the companies that implement it and the business climate in a country. The application of GCG encourages the creation of healthy competition and a conducive business climate | 1. Transparency, 2. Accountability, 3. Accountability the answer 4. Independence 5. Fairness | Ordinal |
| Prevention of Fraud (Y ₂) | Association of Certified Fraud Examiners categorizes fraud in three groups namely 1) fraud in financial statements, 2) misuse of assets, 3) corruption | 1. Incentives 2. Opportunities 3. Behavior | Ordinal |

Data Analysis

The test equipment used in this study was Structural Equation Modeling (SEM) using the SEM-PLS program. The PLS SEM aims to maximize the variance of the criterion latent variable over the predictor latent variable and minimize residual or prediction errors (Sholihin and Ratmono, 2013). SEM itself is defined by Sholihin and Ratmono (2013) as a type of multivariate analysis to analyze research variables simultaneously, besides SEM can be used to analyze unobserved variables and be able to measure measurement errors. Although the model used is quite complex and the sample size is small, SEM PLS is able to work efficiently. However, SEM PLS cannot be used when the structural model has a reciprocal relationship and does not have goodness of fit.

The researcher uses smart PLS software version 3. Ghazali & Latan (2015) states that the PLS evaluation model is done by assessing the outer model and the inner model. Outer models are used to assess the validity and reliability of the model. The inner model aims to predict the relationship between latent variables. The equation in this study is as follows: The research population is a group of manufacturing companies listed on IDX within 2013–2017. The samples of data were taken by purposive sampling techniques. A set of criteria were formulated to be in line with the research objectives. The criteria of the companies are as follows.

Equation for Outer Model

$$\begin{aligned}
 X_{1,1} &= \beta_{11} \eta_1 + \epsilon_{11} \\
 X_{1,2} &= \beta_{21} \eta_1 + \epsilon_{12} \\
 X_{1,3} &= \beta_{31} \eta_1 + \epsilon_{13} \\
 X_{1,4} &= \beta_{41} \eta_1 + \epsilon_{14} \\
 X_{1,5} &= \beta_{51} \eta_1 + \epsilon_{15} \\
 Y_{1,1} &= \beta_{12} \eta_2 + \epsilon_{21} \\
 Y_{1,2} &= \beta_{22} \eta_2 + \epsilon_{22} \\
 Y_{1,3} &= \beta_{32} \eta_2 + \epsilon_{23} \\
 Y_{1,2} &= \beta_{42} \eta_2 + \epsilon_{24} \\
 Y_{1,3} &= \beta_{52} \eta_2 + \epsilon_{25} \\
 Y_{2,1} &= \beta_{13} \eta_3 + \epsilon_{31} \\
 Y_{2,2} &= \beta_{23} \eta_3 + \epsilon_{32} \\
 Y_{2,3} &= \beta_{33} \eta_3 + \epsilon_{33}
 \end{aligned}$$

Equation for Inner Model

- β_{11} = $\sum \beta_{i1} \eta_1 + \epsilon_{11}$
- β_{21} = $\sum \beta_{21} \eta_1 + \sum \beta_{11} \eta_1 + \epsilon_{11}$
- β_{31} = Good Corporate Governance
- β_{41} = Fraud
- $X_{1,1}$ = Control Environment
- $X_{1,2}$ = Risk Assessment
- $X_{1,3}$ = Control Activity
- $X_{1,4}$ = Information and Communication
- $X_{1,5}$ = Monitoring
- $Y_{1,1}$ = Transparency
- $Y_{1,2}$ = Accountability
- $Y_{1,3}$ = Responsibility
- $Y_{1,4}$ = Independency
- $Y_{1,5}$ = Fairness
- $Y_{2,1}$ = Incentive
- $Y_{2,2}$ = Opportunity
- $Y_{2,3}$ = Behavior
- $\beta_{11}, \beta_{21}, \beta_{31}, \beta_{41}, \beta_{51}, \dots$ = A loading matrix that connects latent variables and their indicators
- $\epsilon_{11}, \epsilon_{12}, \epsilon_{13}, \epsilon_{14}, \epsilon_{15}$ = Measurement error from the exogenous latent variable indicator
- $\epsilon_{21}, \epsilon_{22}, \epsilon_{23}, \epsilon_{24}, \epsilon_{25}$ = Measurement error from endogenous latent variable indicators
- ϵ_{31} = Error measuring inner model
- β_{12}, β_{22} = The path coefficient from the exogenous latent variable to the endogenous latent variable
- β_{33} = path coefficient from endogenous latent variables to endogenous latent variables

Result and Discussion

Outer Model

The results of convergent validity evaluation can be seen in the following figure:

Figure 2. Evaluation result convergent validity 1

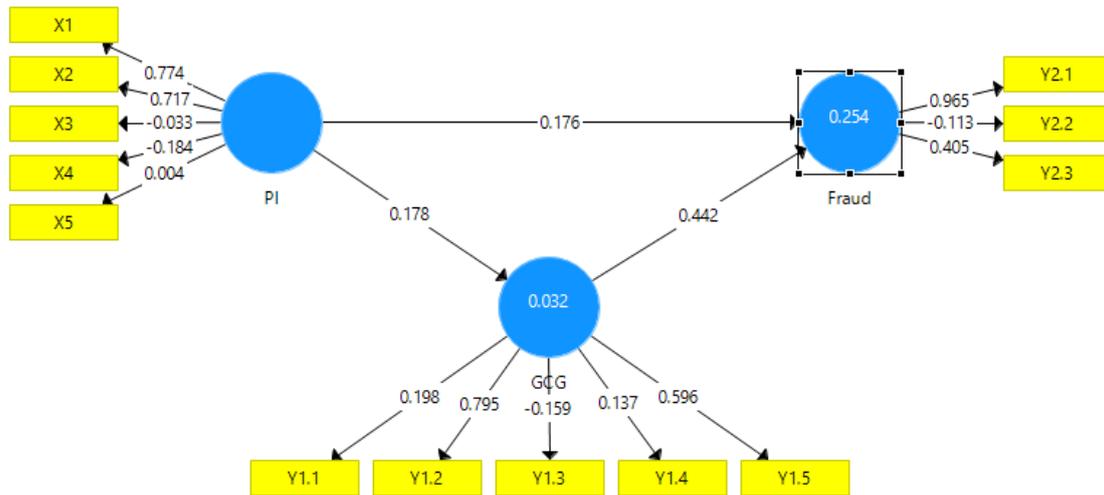


Figure 2 above shows that internal control consists of 5 indicators namely the control environment with a loading value of 0.774, risk assessment. With a loading value of 0.717, control activity of -0.033, information and communication with a loading value of -0.184 and monitoring of 0.004. GCG has five indicators namely transparency with a loading value of 0.198, accountability of 0.795. Accountability-0.159, independence 0.137 and reasonableness 0.596, Fraud has three incentive indicators 0.965, opportunity 0.113, and behavior 0.405.

Figure 3. Evaluation result convergent validity 2

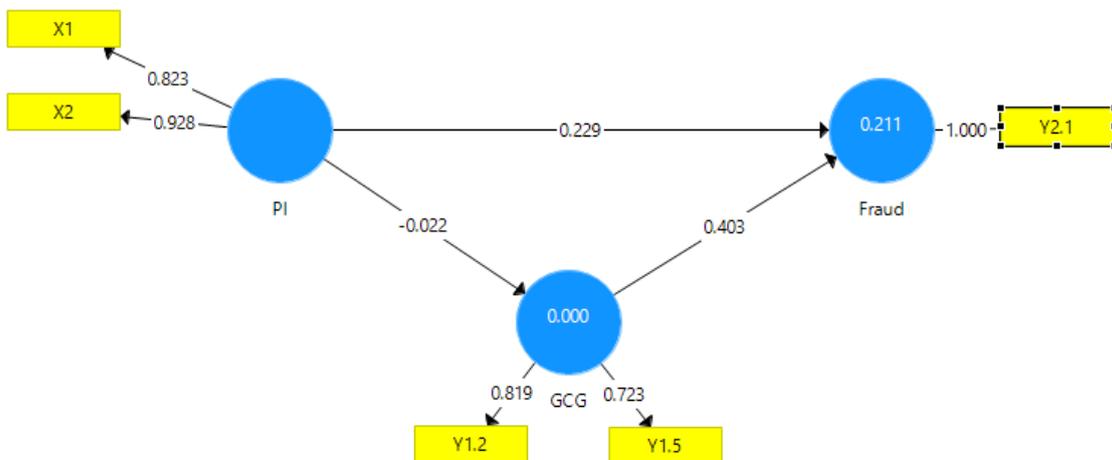


Figure 3 shows that after issuing invalid indicators, all indicators have fulfilled convergent validity. The convergent validity test results show that internal control is only reflected by indicators of the control environment and risk assessment, GCG with two indicators of accountability and fairness while fraud with one indicator, namely incentives.

Table 4. **Evaluation result average variance extracted (AVE)**

| Latent Variable | AVE | √AVE |
|------------------------|------------|-------------|
| Fraud | 1,000 | 1,000 |
| GCG | 0,596 | 0,772 |
| Internal Control | 0,769 | 0,877 |

Source: Secondary data processed

Table 5. **Evaluation result latent intervariable correlation**

| Latent Variable | Fraud | GCG | PI |
|------------------------|--------------|------------|-----------|
| <i>Fraud</i> | 1,000 | | |
| GCG | 0,398 | 1,000 | |
| Internal Control | 0,220 | -0,022 | 1,000 |

Source: Secondary data processed

Table 4 shows that the root of AVE fraud is 1, GCG is 0.772 and PI is 0.877. Tests in tables 4 and 5 show that the root of each latent variable is higher than the correlation between latent variables with other latent variables, which means that this research model has good discriminant validity.

Table 6. **Evaluation result composite reliability**

| Latent Variable | Composite Reliability |
|------------------------|------------------------------|
| <i>Fraud</i> | 1,000 |
| GCG | 0,746 |
| Internal Control | 0,869 |

Source: Secondary data processed

Table 6 shows that the values of all constructs are above 0.70 which means that the constructs in this study have good reliability.

Table 7. **R-Square test result**

| Latent Variable | R-square Adjusted |
|------------------------|--------------------------|
| GCG | -0,022 |
| Fraud | 0,175 |

Source: Secondary data processed

Table 7 shows that the variability of the Fraud construct (incentives) can be explained by the variability of the internal control construct (control environment and risk assessment) by only 17.5%, while the remaining 82.5% is explained by other variables outside this research model. The variability of GCG constructs (accountability and fairness) can be explained by the variability of internal control construction (control environment and risk assessment), amounting to -2.2%, which means that internal control is not good in explaining GCG.

Table 8. **Direct effect**

| Effect | Original sample | Sample mean | Standard error | T-Stat | P-Value |
|-------------|-----------------|-------------|----------------|--------|---------|
| GCG → Fraud | 0,403 | 0,357 | 0,220 | 1,829 | 0,068 |
| IC → Fraud | 0,229 | 0,259 | 0,158 | 1,447 | 0,149 |
| IC → GCG | -0,022 | 0,007 | 0,231 | 0,095 | 0,924 |

Source: Secondary data processed

Table 8 shows that testing of internal control (control environment and risk assessment) for fraud (incentives) results in a coefficient of 0.229 and a p-value of 0.149. Because the p-value is greater than 0.05, H1 is rejected, which means that internal control has no effect on fraud prevention. Testing the control environment (control environment and risk assessment) on GCG (accountability and fairness) produces a coefficient of -0.022 and a p-value of 0.924. Because the p-value is greater than 0.05, H2 is rejected, which means that internal control has no effect on GCG. GCG (accountability and fairness) testing of fraud (incentives) produces a coefficient of 0.403 and a p-value of 0.068. Because the p-value is greater than 0.05, H3 is rejected, which means that GCG has no effect on fraud prevention. GCG has an influence on fraud prevention if it uses a 10% significance level because the p-value is 0.068.

Table 9. **Indirect Effect**

| Effect | Original sample | Sample mean | Standard error | T-Stat | P-Value |
|------------|-----------------|-------------|----------------|--------|---------|
| IC → Fraud | -0,009 | -0,033 | 0,087 | 0,102 | 0,919 |

Source: Secondary data processed

Table 9 shows an internal control test that is reflected by the control environment and risk assessment for fraud prevention that is reflected by incentives through GCG that is reflected by accountability and fairness resulting in a coefficient of -0.009 and a p-value of 0.919. Because the p-value is greater than 0.05, H4 is rejected, which means that internal control does not prevent fraud through GCG. This indicates that the improvement of the control and risk assessment environment in internal control can increase fraud prevention that is reflected directly by incentives without going through GCG as reflected by accountability and fairness.

Discussion

Hypothesis testing results indicate that internal control is reflected by the control environment and risk assessment affects the fraud that is reflected by incentives. This research is not in line with Gusnardi (2018) which says that internal control influences fraud prevention. The results of this study are also not in line with Taufik (2010), Drogalas, et al (2017), Kamaliah (2018). Internal control has no effect because the existing internal controls have not been carried out to the maximum extent possible by the officials in the Jambi City government. Based on the Audit Report Results by BPK revealed findings regarding the weakness of the Internal Control System (SPI), and non-compliance with legislation (www.bpk.go.id).

The results of hypothesis testing in table 8 show that internal control is reflected by the control environment and risk assessment has no effect on GCG that is reflected by accountability and fairness. This study is not in line with Soleman's (2013) study which

states that internal control has a positive effect on GCG. This research is also not in line with the research of Raboczki (2018). Weak internal control does not cause GCG in the Jambi City government to be bad. Weak internal control in the government but on the other hand GCG in Jambi City has improved this is evident from the opinions obtained from the BPK getting better. In 2015 the City of Jambi still obtained a Disclaimer of Opinion, in 2016 and 2017 obtained an Unqualified Opinion.

The results of hypothesis testing in table 8 show that GCG has no effect on fraud prevention. This study is not in line with Soleman's (2013) study which states that Good Corporate Governance has a positive effect on fraud prevention. This research is also not in line with research by Gusnardi (2018), Zhang (2018), Raboczki (2018), and Kamaliah (2018) which states that good governance (GCG) will prevent fraud. BPK LHP in 2016 and 2017 obtained an Unqualified Opinion, apparently the better LHP results did not reduce fraud in the Jambi Province government in general. There are still many corruption cases in 2018 which have dragged the name of the authorities.

The results of hypothesis testing in table 9 show that internal control is reflected in the control environment and risk assessment has no effect on fraud prevention that is reflected by incentives. The results of this study are not in line with previous studies of Soleman (2013) and Kamaliah (2018) which states that internal control influences fraud prevention. Internal control does not directly affect fraud prevention. Internal control in the Jambi City government has improved in the last two years, as evidenced by the opinions obtained by the Jambi City Government in 2016 and 2017 by obtaining an Unqualified Opinion, but in this case corruption in 2018 actually involved government officials.

Conclusion

The results show that internal control (environmental control and risk assessment) has no effect on fraud (incentives). Internal control (control environment and risk assessment) does not affect GCG (accountability and fairness) and GCG (accountability and fairness) does not affect fraud (incentives). Internal control does not affect fraud through GCG.

The results of the study have proven that the internal control reflected by the control environment and direct risk assessment are not able to prevent fraud that is reflected by incentives in the Jambi City regional government. The results of this study can be used as an analytical aid for Jambi City government agencies in preventing fraud regarding internal control and GCG. Existing internal controls have not been able to be used for fraud prevention.

Researchers can then conduct research using other variables that are thought to affect GCG and fraud. The test results show that the control and risk assessment environment in internal control against fraud prevention is reflected by a very weak incentive of 17.5%. The regional government of Jambi City must further improve internal control and GCG in order to prevent fraud.

The advantages of this research are study uses a small sample size and the model does not need to confirm the theory, but can also be used only to explain the presence or absence of relationships between latent variables based on data limitations also the data does not have to be normally distributed like other methods. Whereas, the limitations in this study are (1)

This study uses a population of head of research in the agency offices in the city of Jambi as many as 49 respondents, it should be added not only to the head of the department but also to others like the section head so that the population is more numerous. (2) This study uses only one independent variable, this research should also examine other variables that can influence fraud through Good Corporate Governance (GCG). (3) The results of the study show that internal control variables have no effect on fraud, it means the results of this study differ from previous studies, possibly due to several factors including the small number of respondents, the indicators used for internal control variables have not been adjusted to the internal controls in government, where in government we are familiar with the term Government Internal Control System or “Sistem Pengendalian Intern Pemerintah” (SPIP)

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