

# The effect of internal control and anti-fraud awareness on fraud prevention (A survey on inter-governmental organizations)

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## ABSTRACT

The objectives of this research are to analyze the effect of internal control and anti-fraud awareness on the fraud prevention in inter-governmental organization. Fraud prevention is devoted in the procurement process. This study used internal control and anti-fraud awareness as independent variable, while fraud prevention as the dependent variable. In addition, it also used a convenience sampling for collecting the data. The sample of the data was taken using questionnaires, which were distributed, to Indonesian Staff who had been involved or they had participated in the procurement process. The total number of the sample was 58 respondents. Furthermore, the data were analyzed by means of multiple regressions. The results showed that internal control and anti-fraud awareness have significant effects on fraud prevention. It indicates that the action of doing fraud can be prevented by establishing a good internal control and increasing anti-fraud awareness to all parties in the organization.

## ABSTRAK

Tujuan dari penelitian ini adalah untuk menganalisis pengaruh pengendalian internal dan kesadaran anti-fraud terhadap pencegahan fraud di Organisasi inter-governmental. Pencegahan fraud dikhususkan dalam proses pengadaan. Objek yang digunakan dalam penelitian ini adalah pengendalian internal sebagai variabel bebas, kesadaran anti-fraud sebagai variabel bebas, dan pencegahan fraud sebagai variabel terikat. Teknik sampling yang digunakan adalah convenience sampling. Data yang diperoleh melalui kuesioner dikirim ke Staf Indonesia yang telah terlibat atau berpartisipasi dalam proses pengadaan. Jumlah sampel yang diperoleh sebanyak 58 responden. Convenience sampling digunakan untuk menentukan sampel, sedangkan regresi digunakan untuk menganalisis data. Output dari penelitian ini menunjukkan bahwa pengendalian internal dan kesadaran anti-fraud secara signifikan mempengaruhi pencegahan fraud. Ini berarti bahwa fraud dapat dicegah dengan membangun pengendalian internal yang baik dan dengan meningkatkan kesadaran anti-fraud kepada semua pihak di dalam organisasi.

## 1. INTRODUCTION

AEC (ASEAN Economic Community) or which is known as MEA has already been implemented since early 2016. It is the manifestation of the commitment of all leaders of ASEAN member countries to transform ASEAN into a stable, prosperous, and highly competitive region with the development of fair economy. This intention is supposed to reduce poverty and socioeconomic disparities in the ASEAN region (inter-governmental organization, 2008). MEA implementation cannot be separated from the function and role of inter-governmental

organizations (inter-governmental organizations). These organizations are inter-government organizations that are non-profit and founded by the Foreign Ministers of ASEAN in 1976.

In carrying out their functions, inter-governmental organizations get the funding from the contribution of ASEAN member countries that are to be equal or known as the equal contribution. This funding source is used to pay expenses such as wages and benefits, official travel, and procurement of goods and services. To support the operational activities, the inter-governmental organizations

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cooperate with several vendors for the procurement of goods and services, such as procurement of motor vehicles, renovation and repair of buildings, procurement of computers, and other fixed assets. Procurement of services includes services such as event organizer, consultant, health insurance, and publications. They have cooperation with various vendors, demanding inter-governmental organizations to have procedures and stringent vendor selection to prevent irregularities.

Procurement of goods and services is a process that has a high risk of fraud, which may cause the organization being harmed. The Board of Financial Observant (in [www.bpkp.go.id](http://www.bpkp.go.id)) stated that the field activities identified in the category of common fraud actions including the procurement of goods and services, licensing, local elections, personnel, maintenance of public facilities, receipt of revenues, oversight and accountability of regional heads. Procurement of goods and services is considered a sensitive area that is getting the attention by the management, especially with the exposure of fraud cases that can harm the organization.

The high risk of fraud in the procurement process requires the organization to work and the right strategies to prevent the fraud. Fraud prevention strategy is a series of programs designed to prevent or at least control fraud. This strategy is related to the how to control the driving factors of the emergence of fraud by creating conditions that can direct the organization towards the prevention of fraud. To implement this strategy, the internal control system must be implemented effectively (Hermiyetti 2010).

There are various forms of fraud that are common in public sector organizations. For example, Rozmita and Apandi (2012) state that the organizations are not profit oriented, in which their types of asset misappropriation fraud are potentially more common than other types of fraud. In this case, some experts estimate that fraud is revealed as a small part of the entire fraud that has actually happened. Therefore, the major effort is on prevention. Albrecht et al. (2012) said that in order to prevent fraud effectively, the involvement of the two fundamental activity is required, namely (1) to take steps to create and maintain a culture of honesty and high ethical code, and (2) assess the risk of fraud and develop concrete actions to reduce risks and eliminate opportunities to commit fraud.

In order to prevent fraud, the internal control system should be effectively implemented. With the construction and implementation of internal control, the organization is expected to prevent the

abuses committed by employees. With a good internal control, the occurrence of fraud can be detected and addressed at an early stage so that losses can be avoided (Hermiyetti 2010). Having a good internal control is a method widely used by many parties to prevent fraud (Albrecht et al. 2012).

Cases of fraud that occurred in both the public and private institutions have increased. All of the parties should be aware of this phenomenon. In addition, all the parties should draw up anti-fraud strategy and consistently build anti-fraud awareness. They should also increase mutual awareness of the dangers of fraud and its impact on the organization and employees. Tuanakotta (2012) stated that there are two other concepts besides the internal control for preventing the fraud, namely to create awareness about the fraud (fraud awareness) and to assess the risk of fraud (fraud-risk assessment)

Anti-fraud awareness is an effort to raise awareness of the preventing the fraud done by all parties in the organization. By having a good leadership that is also supported by high anti-fraud awareness high, the organization is expected to grow. Thus they have high sensitivity for all parties towards the fraud. In this case, control is needed for prevention strategy. By establishing an internal control and anti-fraud awareness, all parties in the organization can minimize the fraud. As such all the employees or management of the organization can achieve their objectives more smoothly.

An understanding of internal control and anti-fraud awareness needs considering the organizational structure with its professionals. This can be done by using professional strategy with diverse cultural backgrounds, education, and experience. Based on such a description, this study was conducted to determine the extent of the influence of internal controls and anti-fraud awareness on the prevention of fraud in the inter-governmental organization.

There are few studies that examine the effect of internal control on fraud prevention. Hermiyetti (2010) found that internal control affects fraud either partially or simultaneously. Mappanyuki et al. (2012) also found that there is a positive and significant effect of internal control on procurement fraud either partially or simultaneously to the prevention of procurement fraud. Meanwhile, Butler et al. (2014) stated that the effectiveness of internal control has a significant but negative effect on the accounting fraud.

In addition to internal control, fraud prevention can be done by growing awareness of anti-

fraud. Suprajadi (2009) states that fraud awareness and methodology must be in done in systematic steps to detect fraud in financial reporting. In addition, Singleton et al. (2010) stated that to reduce fraud action the management can give rewards to the employees who have contributed in detecting fraudulent behavior and they can enforce an anti-fraud culture.

This study develops Hermiyetti's study (2010) by adding a variable of awareness of anti-fraud (anti-fraud awareness) and use a non-profit organization as research objects. Anti-fraud awareness variable is included to prove the statement by Tuanakotta (2012) related to other concepts that may be used in the prevention of fraud. One of them is to create fraud awareness. This study is expected to provide benefits for the development of the academic situation, especially in the development of an audit of fraud prevention. By doing so, the management is expected to take strategic steps so that they prevent fraud in the inter-governmental organization.

## **2. THEORETICAL FRAMEWORK AND HYPOTHESES**

### **Concept of Internal Control**

Internal control is a system that is designed to regulate an activity and is used as a guideline in carrying out operational activities of an organization. Organizations generally use internal control system to control the operational activities in order to prevent misuse of the organization's resources.

Steve Albrecht in *Fraud Examination* (2003: 90) argues that:

"Good Installing Internal Controls is the most Widely Recognized way to Deter fraud is with good system of controls. The Institute of Internal Auditor 'standard on fraud, for example, states the following."

Steve Albrecht in *Fraud Examination* (2003: 91) Good control procedures (activities) are the policies and practices that provide physical control of assets, proper authorizations, segregation of duties, independent checks, and proper documentation. (Physical control, proper authorization, and segregation of duties are controls for preventing fraud, whereas independent checks, documents, and records facilitate early the detection.) A control system that meets Reviews these requirements Provides reasonable assurance that the organization's goals and objectives will be met and that fraud will be reduced, prevented, and deterred. Silverstoon and Sheetz (2007: 68) states that "Internal controls are part of the protective system against fraud.

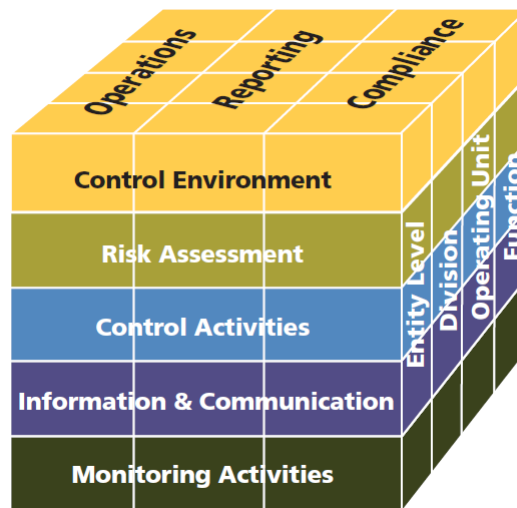
They are designed to prevent irregularities and ensure early detection. "Internal control is influenced by various levels of the organization as proposed by Picket (2010: 626)" internal control is affected by people at every level of an organization."

The definition of internal control proposed by many authors generally sourced from the definition made by COSO (The Committee of Sponsoring Organization of Tredway Commission) as a private sector initiative that was formed in 1985. In 1992, COSO established with the main objective to identify factors that cause darkening financial report and make recommendations to reduce the incidence has published internal Control Framework which includes common definitions compiled for internal control, internal control standards and criteria that can be used by organizations to assess the organization's control system.

On May 14, 2013, COSO published Internal Control Integrated Framework (ICIF) as revised version in 1992. The revised internal control framework is expected to help improve the implementation of internal control in every organization, although further adjustments needed to align the internal controls throughout the world and to help organizations better manage risk and improve the overall performance of organizations exist. In this new edition, COSO (2013) defines internal control as follows:

"Internal control is a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance."

1. Based on the above definition, it is understood that the internal control is a process that is influenced by the board of directors, management and other parties that are designed to provide reasonable assurance in achieving the goals related to operating activities, reporting and compliance. From the definition of internal control, then there are some basic concepts of internal control as follows:
2. Internal control is intended to achieve the objectives in one or more categories, which include operating, reporting and obedience.
3. Internal control is a process that consists of activities and tasks are running and ways to resolve it.
4. Internal control is affected by people and not just related to the policies and procedures manuals, systems and forms, but explained about the people and what they are doing at all levels



**Figure 1**  
**Relationship between Goal and Internal Control Components**

Source: COSO (2013).

- of the entity to affect internal control.
- Internal control is able to provide reasonable assurance, not absolute assurance to senior management and the board of directors of the organization.
  - Internal control is able to adapt to the organizational structure, is flexible in its application to the entire organization or for branch, division, unit operations or specific business processes.

### Objective of Internal Control

COSO (2013) in Internal Control Integrated Framework explain the purposes of internal control as follows:

“The framework Provides three categories of objectives, which allow Different organizations focus on aspects of internal control:

- Operation objectives, Reviews these pertain to effectiveness and efficiency of the entity's operations, including operational and financial performance goals and safeguarding of assets against loss.
- Reporting objectives, Reviews These pertain to internal and external financial and non-financial reporting and may encompass reliability, timeliness, transparency, or other terms as set forth by regulators, standard setters Recognized, or the entity's policies.
- Compliance objectives, Reviews these pertain to adherence to laws and regulations to the entity is subject.”

The elements of internal control in accordance with COSO (2013) consists of the control environment, risk assessment, control activities, informa-

tion and communication, as well as monitoring the relationship among the five objectives and components of internal control is illustrated in the form of a cube as shown in Figure 1.

The picture describes the direct links between the objectives to be achieved by the entity's internal control components that represent to achieve these objectives, as well as the organizational structure of entities at each level (division, unit operations, functions and other) These three categories of these objectives (operating, reporting and obedience) is represented by a column, then the five components of internal control is represented by the line, while the organizational structure of the entity represented by the three dimensions

### Limitations of Internal Control

The efficient and effective implementation of the internal control can reflect the ideal state of the company. Yet, in reality, it is difficult to achieve it, due to the internal control structure that has limitations. COSO (2013) describes the limitations in internal control. For example, internal controls cannot prevent assessment or incorrect decisions, or external events that can cause an organization fails to achieve its operational objectives. In other words, even an effective internal control system tends to fail. In addition, it is stated that the limitations are as a result of the establishment of the goals to be a prerequisite for internal control but not yet be appropriate.

The fact that human judgment in decision making can be incorrect or biased. There are disorders that occur because of human error, the ability of management to override internal controls, the

ability of management and other personnel or third parties to avoid control by the collusion and other external events that are beyond the control of the organization.

These limitations preclude a board of directors and management to obtain absolute confidence in achieving the goals of the entity. Internal controls provide reasonable assurance is not an absolute. By knowing these limitations, management can be aware when making the selection, development, and deployment of control so as these limitations can be minimized.

Internal control can only provide reasonable assurance, not absolute assurance. It is confirmed that as well as any internal controls that are designed and operated, can provide only reasonable assurance, cannot be fully effective in achieving the objectives of internal control although it has been designed and structured with the best. In fact, however well designed internal control ideal, but its success depends on the competition and the constraints of the implementation is not out of the limitations.

### **Concept of Fraud**

Fraud consists of various forms and ways, as some proponents define it. Fraud as it is defined has its own entity.

For example, Albrecht et al. (2012: 6-7), define fraud as the following:

"Fraud is a generic term, and embraces all the multifarious means which human ingenuity can devise, in which they are resorted to or by one individual, to get an advantage over another by false representations. No definite and invariable rule can be laid down as a general preposition in defining fraud, as it includes surprise, trickery, cunning and unfair ways by which another is cheated. The only boundaries defining it are those, which limit human knavery. Fraud is deception that includes the following elements:

1. A representation
2. About a material point
3. Which is false
4. And intentionally or recklessly so
5. Which is believed
6. And acted upon by the victim
7. To the victim's damage."

Fraud definition according to *The Association of Certified Fraud Examiners* (ACFE) is as follows:

"An intentional untruth or a dishonest scheme used to take deliberate and unfair advantage of another person or group of

persons. It includes any means, such as surprise, trickery, or cunning, by which one cheats another."

Albrecht et al. (2012: 9) stated that an easy way to classify fraud is to distinguish between fraud into 2 categories namely, fraud committed against organizations, such as the fraud committed by employees, where the victim of fraud are existing employees in the organization. The second type of fraud is that committed in the name of the organization, for example, fraud on the financial statements by management to manipulate financial statements so that looks good. Victims of this fraud are the investors who own shares of the organization.

The Association of Certified Fraud Examiner (ACFE) Fraud classified into three (3) types, namely:

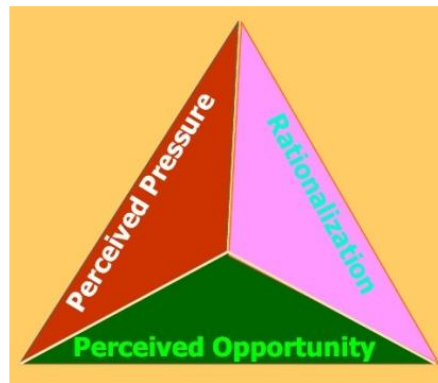
1. Abuse Asset (Asset Misappropriations), an act of theft or misuse of the organization's assets;
2. Corruption (Corruption), perpetrators of fraud using his powers improperly in carrying out business transactions in order to gain advantage for themselves or others, which are incompatible with their duties or violate the rights of others;
3. Fraud Report (Fraudulent Statement), including falsification of financial statements of the organization.

Fraud, basically, does not only happen in an organization, but occur because of various causes and the possibility that as a reason to take action. Figure 2 describes some of the factors that lead to the occurrence of fraud known as the Triangle of Fraud (Fraud Triangle).

Of the three types of fraud in Albrecht et al. (2012: 35) describe that the elements are the key factor is the chance of fraud. The greater the chance or the greater the pressure, the smaller the rationalization used by someone to motivate commit fraud. The fighting fraud (fraud-fighters) is generally believed that by having a good internal control, it can eliminate opportunity to do it. They focus on prevention by implementing controls and ensure that all parties adhere to a predefined control.

Besides Albrecht et al. (2012: 35) there is another argument by another proponent that explains the factors that encourage someone to commit fraud. These factors are known by the term gone theory advanced by Jack Bologna (BPK 2008), namely:

1. Greed, with regard to their greedy behavior that potentially exist within each person.
2. Opportunity, relating to the state of communi-



**Figure 2**  
**Fraud Triangle**

Source: Albrecht et al. (2012).

ty organization or agency such that it opens the opportunity for a person to commit fraud against him.

3. Need, related to the factors that are needed by individuals to support life which he thought reasonable.
4. Exposure (Disclosure), relating to the actions or the consequences to be faced by perpetrators of fraud if the perpetrator is found commit fraud.

Greed and Need factors are factors related to the individual perpetrators of fraud, or called Opportunity and Exposure of individuals. However, the factors are factors related to the organization as a victim of acts of fraud, or the so-called generic factor.

#### **Fraud Recruitment**

Fraud recruitment by Albrecht et al. (2012: 53-55) is the act of fraud committed by a person who is able to influence others to participate are involved in such activities. Most fraud is now conducted jointly or carried out by more than one person, for example, is a fraud on the financial statements conducted jointly by the management of the organization. In doing fraud, a person can use his power (power) to influence others to engage in such activity.

Max Weber in 1947 introduced the rule as a person's ability to carry out his wish despite encountering resistance. When fraud occurs, plotters (conspirators) have the desire to do his desire to influence others to do what is desired by the gang, although there is resistance. In 1959, two researchers named French and Raven classifies power into five (5) element which consists of reward power, coercive power, expert power, legitimate power and referent power. The

following figure explains how the perpetrators of fraud affecting other people to participate in acts of fraud.

#### **Preventing Fraud**

Fraud prevention strategy (fraud prevention) is a series of programs designed to prevent or at least control this fraud. The strategy is done by controlling the factors driving the emergence of fraud through the creation of conditions that facilitate the detection and avoidance toward the accommodative and push the prevention of fraud. BPK (2008: 37-38) states that the prevention fraud is integrated efforts to suppress the occurrence of the causes of fraud (fraud triangle), that includes:

1. Minimize the opportunity for cheating.
2. Reduce pressure on employees to be able to meet their needs.
3. Eliminate the reason for making a justification or rationalization for acts of fraud committed.

Picket (2010: 559) states that:

"The risk of fraud can be reduced through a combination of prevention, deterrence, and detection measures. For that reason, organizations need to adopt tough anti-fraud policies, strong internal controls, accountability on the part of all managers, training of employees in fraud awareness, liaison with law enforcement, and other."

Brass Tacks. Picket (2010: 580) stated that most frauds are the result of weaknesses in the systems of internal control. Management needs to establish an overall process for controlling fraud roommates includes Preventive controls, Detective controls, and Corrective controls. Singleton et al. (2006: 179) states that an internal control to prevent fraud in the preventive approach. Separation of duties requires constant oversight.

Fraud is a serious threat to the organization and should be prevented as early as possible. Fraud prevention methods that are commonly used by management in accordance with BPK (2008: 38), are:

1. Determination of the anti-fraud policy  
Policy organizational unit must contain a high ethical tone and should be able to create a work environment that is conducive to preventing acts of fraud and other economic crimes.
2. standard prevention procedures  
The commitment of management and policies of an organization is a key factor in preventing and detecting fraud. However, it must be equipped with preventive handling procedures in writing and set by default as the supporting medium. In general, prevention procedures should include:
  - a. Internal control, among others, is the separation of functions so as to create conditions of mutual checks between functions.
  - b. System review and adequate for the operation of computer systems, allowing the computer to automatically detect fraud.
3. There is a procedure to detect fraud automatically (built-in) system, which includes the existence of adequate procedures for reporting fraud are discovered and procedures were adequate to deposit each individual involved in fraud.

### **Organization**

In the aspect of the organization, including:

- a. The existence of an independent audit committee to be a plus.
- b. Internal Audit has the responsibility to conduct periodic evaluations on the organization's activities on an ongoing basis and analyze internal controls and remain vigilant against fraud when carrying out audits.
- c. Internal audits should have access to the audit committee and top management. Although the leadership of the internal auditor did not report to senior top management, but for the things that are special, he must be able to directly access to the higher authorities.
- d. Internal auditors should have equal responsibility with the executive ranks, most do not have independent access to the unit vulnerable to fraud.

### **Controlling technique**

The system designed and implemented poorly will be the source or the possibility of fraud, which would cause financial loss to the organiza-

tion. Here are the techniques of effective control to reduce the possibility of fraud:

- a. Clear division of tasks, so that no single person who controlled all aspects of a transaction.
- b. Adequate supervision  
Adequate supervision of access to a computer terminal, the data that was rejected in the processing, as well as the programs and other supporting media.
- c. The existence of manual control over the files that are used in computer processing or disposal of obsolete files.

### **Sensitivity to fraud**

Fraud can be prevented if the organization has experienced staff and has "SILA" (Suspicious, Inquisitive, Logical and Analytical Mind), so they are sensitive to signals of fraud.

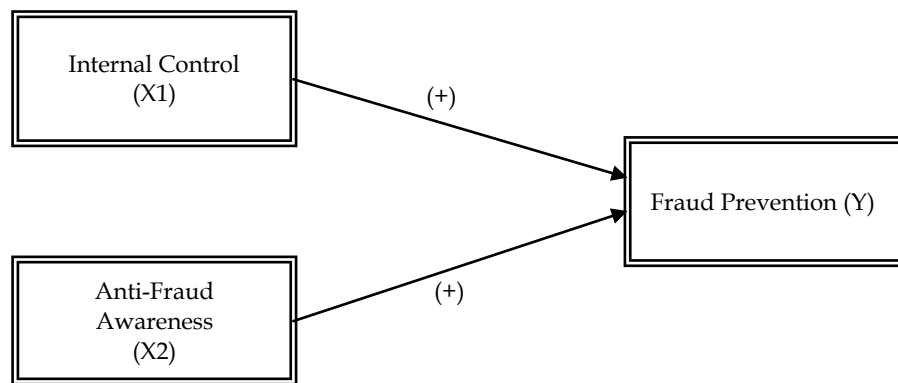
### **Awareness of Anti-Fraud**

Anti-fraud awareness is an effort to raise awareness about the importance of fraud prevention efforts by all relevant parties in organization. It must be through a good leadership and supported by anti-fraud awareness high is expected to grow awareness of all the elements in the organization to control and awareness of leadership fraud. Moral against anti-fraud must animate any policy or regulations set forth.

The successes of the anti-fraud awareness are influenced by environmental organizations that support the creation of a conducive environment so that all stakeholders can play a role in preventing fraud. American Institute of Certified Public Accountants (AICPA) (2002) in the Anti-Fraud Management and Controls derived from the Statement on Auditing Standard (SAS) 99, reveals the dimension measurements are used to prevent, deter and detect fraud that consists of:

- a. Creating and maintaining a culture of honesty and high ethics, consisting of (1) creating an exemplary management (2) creating a positive work environment (3) receive and promote employees with the right (4) Training (5) confirmation (6) discipline.
- b. Carry out the evaluation of the anti-fraud and control consisting of (1) identifying and measuring risk (2) reduce the risk of fraud (3) implementation and monitoring of internal controls.
- c. Develop appropriate control processes.

To prevent and detect fraud effectively, organizations must have a supervisory function. Supervision consists of some ways that can be



**Figure 3**  
**Theoretical Framework**

done by their internal or external parties. All are done under the supervision of the audit committee.

### Theoretical Framework

Results of research conducted by Mappanyuki et al. (2012) showed that there is a positive and significant effect of internal control implementation either partially or simultaneously on the prevention of procurement fraud. The theory of fraud, fraud awareness, and methodology is the systematic steps that can be done to detect fraud in financial reporting (Suprajadi 2009). Tuanakotta (2012) also stated that it is more than a concept of internal control in the prevention of fraud, in which it is to create awareness towards the fraud (fraud awareness).

Due to the previous arguments, and some previous studies, this study can be simplified in the form of framework depicted in Figure 3.

### Hypothesis Development

Based on the problem identification and as referred to the framework, the hypotheses can be stated as the following:

1. Internal control has a positive on fraud prevention.
2. anti-fraud awareness has a positive effect on fraud prevention.

### 3. RESEARCH METHOD

This study analyzes the effect of internal control and anti-fraud awareness on the fraud prevention in the inter-governmental organization. Fraud prevention is devoted to the process of procurement of goods and services, such as procurement of motor vehicles, renovation and repair of buildings, procurement of computers and other fixed assets.

Procurement of services includes services event organizer, consultant, health insurance and

publications. The object of this research is the internal control, anti-fraud awareness and prevention of fraud.

There are three (3) variables used in this study, Two (2) independent variables such as internal control and awareness anti-fraud, as well as one (1) dependent variable is the prevention of fraud.

The data were obtained using a questionnaire distributed to local staff of inter-governmental organizations who have been involved or have participated in the process of procurement of goods and services. Deployment and return on a questionnaire conducted during the month of January 2016.

The population is the entire staff of inter-governmental organization, while the sample is the local staff of inter-governmental organizations who have been involved or participated in the procurement process. The sample selection was done by using a convenience sampling, since this method makes it easy for researchers to quickly select respondents who are willing to answer any questions in the questionnaire.

### Operational Definition and Variable Measurement

The independent is internal control and anti-fraud awareness. Internal control was measured by using the elements of internal control in accordance with COSO (2013) which consists of the control environment, control activities, risk assessment, information and communication, and monitoring. Anti-fraud awareness was measured by using elements of the anti-fraud management and controls derived from the Statement on Auditing Standard (SAS) 99 (AICPA 2002) is to create and maintain a culture of honesty and high ethics, carry out an evaluation of anti-fraud processes and controls, and to develop appropriate control processes.

The dependent variable is the prevention of fraud as measured using the fraud prevention me-



thod according to the BPK (2008), namely the establishment of an anti-fraud policy, standard preventive procedures, organization, control techniques and sensitivity to fraud.

The scale of measurement is the interval scale. The research variables are translated in terms of dimensions and indicators were measured using a Likert scale. The indicators are then used as the basis for preparing the statements in the questionnaire. Likert scale used to measure attitudes, opinions, and perceptions of a person or a group of social phenomenon. Answer every item instrument that uses a Likert scale has a graduation from very positive to negative. The measures used to assess the responses given in the test the independent variables are five levels, moving from one to five, with details as follows:

- Score 1 for Strongly disagree(SD)
- Score 2 for Disagree (D)
- Score 3 for neutral/ abstain (N)
- Score 4 for Agree (A)
- Score 5 for Strongly agree (SD).

#### **Method of Data Collection**

The data were collected by field research that is by visiting directly the object of research and submitting a questionnaire that subsequently follow-up. This study uses primary data by collecting data through a number of statements to be submitted to the respondent by filling out a questionnaire. Questionnaires were sent directly by researchers to the local staff at the inter-governmental organization. The total number of local staff of inter-governmental organizations by January 2016 as many as 187 people. The questionnaire used only questionnaires filled out by staff LOCAL been involved or participating in the procurement process.

#### **4. DATA ANALYSIS AND DISCUSSION**

Data were obtained from questionnaires were analyzed using descriptive statistics, test data quality, classic assumption test and test hypotheses. Descriptive statistics were performed to provide a picture or description of a data seen from the average (mean), standard deviation, variance, maximum, minimum, sum, range, kurtosis and skewness (Ghozali 2013: 19). The test for data quality is used to get the validity and reliability of the questionnaire instrument.

Classic assumption test was done to avoid deviation from the basic assumptions that could cause inaccurate estimation efficiency, leading to wrong interpretations and conclusions. Classic assumption was tested in this study consisted of normality test,

multicollinearity and heteroscedasticity hypothesis testing is done using Multiple Regression Analysis test, test the coefficient of determination, statistical test F and t-test statistics.

Descriptive statistical test results showed majority of respondents tend to answer towards neutral and agree to the statement related to internal control variables, the anti-fraud awareness and prevention of fraud. Meanwhile, the validity of the test results shows all the statements in the questionnaire related to internal control variables, the anti-fraud awareness and prevention of fraud is valid significantly with the value of 0.05. The reliability test shows that all the statements in the questionnaire are reliable with Cronbach's Alpha value for all study variables were above 0.7.

Normality test was done by using the chart histograms, normal probability plots and the Kolmogorov-Smirnov (K-S). Histogram chart shows there is skewed (skewness), normal probability plot graph shows the points spread around the diagonal line and follow the direction of the diagonal line, as well as the distribution does not move away from the diagonal line. Yet, the K-S test is significant when it is above the value of 0.05. Thus, it can be concluded the data are normally distributed.

Multicollinearity test shows that all independent variables have a value of Variance Inflation Factor (VIF) of less than 10 and Tolerance values greater than 0.1 so that it can be concluded that there is no correlation between independent variables. The test of heteroscedasticity done using a scatter plot graph and test glejser.

Scatter plot graph shows the pattern of spread randomly without forming a certain pattern, while the test results indicate glejser Significant value is greater than 0.05 so that it can be concluded not occur heteroscedasticity in regression models were used. Hypotheses in this study were tested using multiple regression analysis with the results is shown in Table 1. Based on Table 1 test results of multiple regression analysis, regression models were created based on the results of the study are as follows:

$$Y = -0.099 + 0.363IC + 0.454FA + \hat{\epsilon} \quad (1)$$

The test of determination coefficient shows that the R Square is 0.741. Thus, it can be said the variance of internal control and fraud awareness in which it can explain about 74.1% for fraud prevention. Yet, the rest of 25.9% is due to other factors. The F-test shows its significance of being less than 0, 05 showing that the research model of regression being used is feasible for describing model for the regression equation.

**Table 1**  
**Results of Multi Regression Analysis**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std Error	Beta		
(Constant)	-0.099	2.588		-0.038	0.970
IC	0.363	0.078	0.519	4.631	0.000
FA	0.454	0.130	0.393	3.501	0.001

Source: Processed data 2016.

Table 1 presents the result of multiple regression analysis that is significantly to have the t-test value for all independent variables. Internal control variable has the Significance value of 0.000, which is less than 0.05. It means hypothesis a1 is accepted. Thus it also indicates that internal control has a significant and positive effect on the prevention of fraud. In addition, the anti-fraud awareness has the Sig value of 0.001, which is also less than 0.05. This indicates that hypothesis Ha2 is accepted. It can also be concluded that the anti-fraud awareness has a significant and positive effect on the prevention of fraud.

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

The result showed that the internal control has a significant and positive effect on the fraud prevention. It is consistent with that done by Mappanyuki et al. (2012) stating that there is a positive and significant effect of internal control implementation either partially or simultaneously on the fraud prevention. This can support the theory by Albrecht et al. (2012) stating that the implementation of good internal control can prevent fraud that has been widely done. Hermiyetti (2010) states that the internal controls are good, then the occurrence of fraud and waste can be detected and addressed at an early stage so that losses can be avoided.

The result is consistent with the condition in the inter-governmental organization. They have internal controls implemented properly by all parties. This is evidenced by the results of research by distributing questionnaires to local staff organization of inter-governmental who have been involved or have participated in the process of procurement of goods and services with details of 85 questionnaires were distributed but only three of them were not returned. The 24 could not be processed and 58 questionnaires were processed for testing descriptive statistics with internal control as a variable as in the statement of the numbers 1 to 14. Their dimensions are the control environment, control activities, risk assessment, monitoring showed that the majority of respondents tend to respond to the questions ranged between 3 and 4 on a scale of 1 to

5 with a description 1 for strongly disagree and 5 for strongly agree. These results suggest that the majority of respondents answered towards neutral and agreed with the statement related to internal control variables.

The measurement and review of the effectiveness of internal control was carried out by the management together with the internal auditors. They intend to ensure that internal controls run in accordance with the established and any deviation will be dealt with firmly.

An internal control is done by those who have worked well and it is in terms of spending money. This is evidenced by the results of research conducted by distributing questionnaires to local staff of inter-governmental organizations as much as 85 questionnaires and 58 that can be processed. Variables such as internal controls and dimensional control activities with point declaration number 5 to number 9 with a descriptive statistic test f value of the average (mean) for the majority of statements ranging between 3 and 4. For that reason, it indicates that the majority of respondents tend to answer towards neutral and agreed upon statements related to internal control variables. The inter-governmental organizations have a financial transaction authorization system which is very strict. Every financial transaction is recorded and documented properly and orderly. In addition, there is an internal control that needs to be improved in terms of performance evaluation.

#### **The Effect of anti-fraud Awareness on Fraud Prevention**

The result indicates that the anti-fraud awareness has a significant and positive effect on the fraud prevention. This result is in line with that proposed by Tuanakotta (2012) stating that the concept of internal control in the prevention of fraud, is to create awareness about the fraud. In addition, anti-fraud awareness is an effort to raise awareness about the importance of fraud prevention by all parties in any organization. Through good leadership, it can be supported by anti-fraud awareness so as to increase the awareness and sensitivity of all parties to the dangers of fraud. Singleton et al.

(2010) stated that there must be efforts to be done to reduce fraud. It can be done by giving a reward to the employees who have contributed in detecting fraudulent behavior. The organization can also enforce an anti-fraud culture. This is evidenced by the results of research conducted by distributing questionnaires to local staff of inter-governmental organizations with 85 questionnaires and 58 that can be processed.

For the variables such as anti-fraud awareness and fraud prevention, the statement ranges from number 15 to number 34. The research used descriptive statistics test with an average value for the majority of statements ranging between 3 and 4 on a scale of 1 to 5 with 1 meaning to agree up to 5 for strongly agree. These results indicate that the majority of respondents tend to answer with neutral and agree with the statement associated with the anti-fraud awareness and fraud prevention.

The result is consistent with the condition in the inter-governmental organization. Inter-governmental organizations provide adequate training to all employees to increase understanding and awareness of employees about the dangers of fraud. With this training, each employee has knowledge of the dangers of fraud and its impact on the organization and all parties.

However, the role and function of internal auditor in evaluating the implementation of policies and procedures to prevent fraud is well under the supervision of the audit committee. The audit committee evaluates the steps of Management in identifying and preventing the risk of fraud. Yet, the implementation of anti-fraud awareness needs to be improved, namely in terms of promotion of employees.

## **5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS**

In general, it can be concluded as follows:

1. Internal control has a significant and positive effect on fraud prevention. This is consistent with what was done by Mappanyuki et al. (2012), stating that there is a positive and significant effect on internal control implementation either partially or simultaneously on the prevention of procurement fraud. This evidence can support the theory put forward by Albrecht et al. (2012) which states that the implementation of good internal control is the way for a fraud prevention method that is widely used.
2. The anti-fraud awareness has a significant and positive effect on the fraud prevention. This result is in line with that proposed by Tuanakotta

(2012) which states that there other than the concept of internal controls in the fraud prevention in which it is to create awareness of the fraud.

This study however has some limitations that may affect the results of research. Thus, it cannot be avoided by the researchers. The limitations are as follows:

1. At the time of distribution of the questionnaire, many employees who were on official travel, so it might not represent that all employees who fall into the category of a sample. For example, the local employees (Indonesian Staff) who have been involved or participated in the procurement process.
2. Respondents were limited to Indonesian Staff. This study did not take into account expatriates who may have been involved in the procurement of goods and services. In addition, the statements in the questionnaire were made public by not mentioning the name of the system used specifically in the process of procurement of goods and services.

Based on the conclusions of the research, the researchers gave suggestions to the organization is as follows:

1. It is advisable that the researcher in further study for internal controls to prevent fraud in the organization. The organization should review the performance evaluation system, maintain financial transaction authorization system which has been running since considered to have a very good process to prevent fraud. Besides that, they should also maintain a system for recording and documenting financial transactions for this process greatly assist management in preventing fraud.
2. Suggestions related to anti-fraud awareness in preventing fraud in the organization should also be done. For example, the organization should review the system of promotion of employees by providing opportunities for employees to gain direct promotion. They should always continue to provide the opportunity for employees to develop themselves through participation in training, workshops, seminars and other self-development activities. They should provide support to the internal auditor in carrying their function to assist management in preventing fraud. Moreover, the also have to maintain good cooperation synergy with the committee's audit, epically in setting the policy procedures to prevent fraud.

It can be implied that for future study, it is im-

portant for distributing questionnaires during the low season where most of the local staff are not on a business trip. In addition, the statements in the questionnaire should be made in two languages (bilingual) to include expatriates who have worked in inter-governmental organization because they have participated in the process of procurement of goods and services.

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