Fraud Awareness in Indonesian Governmental Sector: Multi-Agency Responses

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ABSTRACT

Research objectives – This study evaluates the fraud awareness of auditor and non-auditor as a civil servant and identifies the perception of the respondent about the responsibility of Indonesia Supreme Auditor Institution (ISAI) on prevention and detection of fraud in Indonesia. Design/methodology/approach – This study used an online survey-based-quantitative method. Population in this study was Indonesian civil servants. 197 respondents were taken by random sampling and analyzed by inferential statistics. Preliminary findings – The result of this study showed that the majority of respondents agree (81.76%) that fraud is the main problem in Indonesian agency and the fraud awareness was high (more than 65%). The average of respondents agreed that DPR (The House of Representatives) and the provincial government were considered having the highest risk of fraud. Weak internal controls and lack of ethical values were the sources of fraud risk in government agencies. A sharp whistleblowing policy and a proper internal audit function were essential considerations in fraud risk management. The respondents answer that internal audit (93.40%) and internal control (92.39%) were an available tool to detect or prevent fraud in their institution. Electronic mail (Email) and direct approach were considered as the appropriate anonymous system of fraud. Potential contribution to the literature – This study contributes to a more comprehensive understanding of the importance of ethical sensitivity, internal audit, and whistle-blowing system concepts. In practical, this study proposes to broaden the regulation about the function and responsibility of ISAI in fraud detection. Besides, this study showed that poor internal controls and ethical values were an important consideration to maintain fraud.

Keywords: fraud awareness, fraud detection, fraud prevention, public sector.

1. INTRODUCTION

Indonesia is a country with around $150-billion State's Budget (MFI, 2018). The budgeting process is done gradually. The House of Representatives (DPR) and the Central Government have set the budget for them. Also, including the Ministries as well as the allocation for the Local Governments. Regional House of Representatives and Local Government arrange and set the budget for the regions and offices under them. Lastly, each related ministry and office will realize the budget in the form of procurement of goods and associated events supporting their programs. Each phase has fraud risks in the form of corruption, which needs close attention from interested

parties. According to the Indonesian Corruption Watch (ICW) (2019), it shows that the Corruption Perception Index (IPK) in Indonesia is ranked number 89 out of 180 countries. Based on that, this research surveys the awareness level of fraud to all civil servants in Indonesia and compares the perception between auditors and non-auditors in terms of responsibility for fraud detection and prevention.

Fraud is an act which is against the law and done intentionally for specific purposes (ACFE, 2017). Based on the theory of Fraud Diamond, fraud caused by four factors: incentive, opportunity, rationalization, and capability (Wolfe & Hermanson, 2004). Incentives refer to something happening in one's personal life and consequently create an opportunity motivating him to commit frauds (Wolfe & Hermanson, 2004).

Albrecht, Albrecht, Albrecht, and Zimbelman (2012) categorize frauds into three types: misuse of company assets, fraudulent financial statement, and corruption. The example of abuse of company assets is using the office's facilities for personal needs. The fraudulent financial account could be in the form of manipulating financial reports to trick the officials. Meanwhile, corruption is one's act to enrich himself or others in the form of bribery, kick back, bid-rigging, and illegal gratuities. Besides, corruption could also be in the form of making use of the budget for personal needs, such as criminal procedure of a contract, illegal purchase, and illegal payment (Palmer, 2000).

High numbers of frauds cases involving the government create an assumption that fraud has become "culture" happening continuously in various aspects in government (Surjandari & Martaningtyas, 2015). Fraud does not only occur in the central government but also the regional ones (Puspasari, 2015). ICW found that between 2014 and 2019, there are 22 members of the Parliaments involved in corruption cases (Sihombing, 2019). In fact, in one of the provinces in Indonesia, massive corruption has been committed by 41 members of Regional House of Representatives related to the approval of the Proposed Regional Regulation on Regional Budget Revision (Fadhil, 2018). In the scope of the provincial and regional government, there are 100 heads named suspects by Indonesia's Corruption Eradication Commission (KPK). Eighteen of them are governors, and the rest are district heads. Also, KPK showed that 2,357 State Civil Apparatus (ASN) are found guilty of committing corruption. 891 of them have been dishonorably discharged while 1,466 or 62% have not. The number shows that there is regular wasted payroll done by the government.

ICW shows the number of corruption cases based on the government structural level. Table 1 shows that corruption cases are spread evenly in various government levels.

Table 1. Data of State Employment Agency (BKN) Involved in Corruption

Agencies	Total
Ministry and State Institution	90
Province Government	342
City/Regency Government	1.917

Source: (ICW, 2019)

Based on the data of the previous corruption cases, fraud takes place in various levels, from the staff to the heads. Consequently, it is harder to prevent and detect internal fraud done by the chiefs. Omar and Bakar (2012) point out that the organizations show more effort for detecting fraud rather than preventing it. The government has difficulty in finding and verifying that fraud has occurred (Chua &

Wareham, 2004). Therefore, auditors have to play an essential role in fraud prevention and detection. ACFE (2017) shows that internal auditors are only able to detect frauds of 13.5%, while external auditors only discover 16.5%. The small percentage that the auditor can identify raises questions about the auditor's responsibility in detecting fraud. Hassink, Bollen, Meuwissen, and de Vries (2009) explain that there are three explanations about this case. Firstly, "deficient performance gap"; it is the possibility when the auditor is not working as it is expected. It means there is pressure from the management that makes the auditor not dare to take appropriate action. Taking the appropriate action may result in a poor long-term relationship between auditor and client. Secondly, "reasonableness gap"; financial audits are not directed at detecting fraud. It because auditors cannot be prosecuted to detect fraud based on the audit procedure standards systematically. The third reason, "deficient standards gap"; the audit standards set do not reflect all procedures that are believed by the general public. They think that standard audits are useful in detecting and preventing fraud.

The spread of high fraud in the government sector is a reason to examine fraud awareness in the government sector and explain the causes of why the capabilities in detecting fraud are still low. Furthermore, this study reveals what governance mechanisms are the most important in fraud detection and prevention.

2.   REVIEW OF LITERATURE

What is a fraud? Fraud is an unlawful act that is carried out intentionally for specific purposes, such as manipulating or giving a false report to another party (ACFE, 2017). According to Albrecht (Albrecht et al., 2012), fraud is a general term that includes all forms of human ingenuity. It is utilized to create a plan that aims to gain more profit through false statements. It is done by either internal members of the organization or other parties to obtain personal or group benefits directly or indirectly. It affects the economic law, and human moral values significantly (Alexopoulos, Kafentzis, Benetou, Tagaris, & Georgolios, 2007).

Ziegenfuss (1996) surveyed to find out the number of frauds in local governments in America. The respondents were asked three items of questions about the perception of fraud. The result was that the average respondent knew how the fraud occurred, and they stated that fraud was a significant problem in the current government. Respondents indicated that poor management practices caused increasing fraud, economic pressure, weakened society values. Besides, people are not held responsible for their actions and the existence of inadequate training for those responsible for fraud prevention/detection.

PwC (2012) conducted a fraud survey in New Zealand. They found that 23% of respondents stated that in the last two years, there had been corruptions in their country. Types of fraud occurred in all institutions include cash theft, equipment, and inventory theft, misuse of cost claims, salary payment fraud, and invoice errors.

PwC (2012) explains that the most effective fraud prevention mechanism is an internal control system; it can detect up to 36% of fraud occurrences. Secure whistleblowing is the second most effective mechanism which can detect 20% of fraud occurrences. Both are the main gateways in fighting fraud in public entities. Ziegenfuss (1996) explains that the most effective fraud detection methods are internal audit review, a special investigation by management, employee notification, internal control, and accidental findings.

This research utilizes Good Government Governance (GGG) framework concept which explains the use of political authority. Also, the implementation of controls in society related to the management of resources for social and economic development (Weiss, 2000). At a more specific level, GGG outlines various steps to ensure that the financial report has been presented accurately and have adequate internal control (Gramling, Maletta, Schneider, & Church, 2004). Therefore this study proposes that internal control and code of ethics are the instruments which can prevent and detect fraud.

This research also uses agency theory that discusses the relationship between agents and principals. One agency mechanism is an examination of the external auditors to ensure that the agent has behaved following the wishes of the principal (Jensen & Meckling, 1976). Therefore, this research proposes the expansion of the role of ISAI as external auditor to prevent and detect fraud.

3.   RESEARCH DESIGN

This research is quantitative survey research. The questionnaire used in this research was adapted from KPMG (Siregar & Tenoyo, 2015) with some modifications. Modifications are used primarily to adjust these instruments in the context of government. The questionnaire was distributed through an online survey to the respondents.

The population of this research is all ASNs who are in government institutions all over Indonesia. This study uses random sampling. The research samples are divided into three groups, namely, internal auditor, external auditor, and non-auditor. Each of these groups may have different perspectives on fraud prevention and detection. The questionnaire consists of three parts. The first part is demographic questions about characteristics and institutions. The second part consists of fraud awareness questions. The last part of the items is about the respondents' perceptions of the external auditor's (ISAI) responsibilities in detecting fraud.

The questionnaire is given to three types of respondents. The first type is non-auditor ASN (parties who state/regional financial management). The second type is an internal auditor (those who play a role as the first gate of fraud detection and prevention). The last example is external auditors who act as independent parties examining the government's programs that are fraud-free.

4.   RESULTS
4.1 Sample Selection and Demographic Characteristics

The complete demography characteristics are presented in Table 3. This study differentiates the respondents into three, namely, internal auditors, external auditors, and non-auditors. The goal is to analyze fraud perceptions of each respondent. The number of respondent in the research is dominated by men, especially for external auditors. The participants are dominated by 31 – 40 years old respondents, where the age is very mature and productive to work. The educational background of the respondents is mostly a Bachelor of Accounting degree. The respondents' workplaces vary greatly as well as the employees. The respondents who participated online were 236 respondents, but 39 respondents' data were incomplete so that only 197 respondents could be proceeded (Table 2).

Table 2. Total Respondents

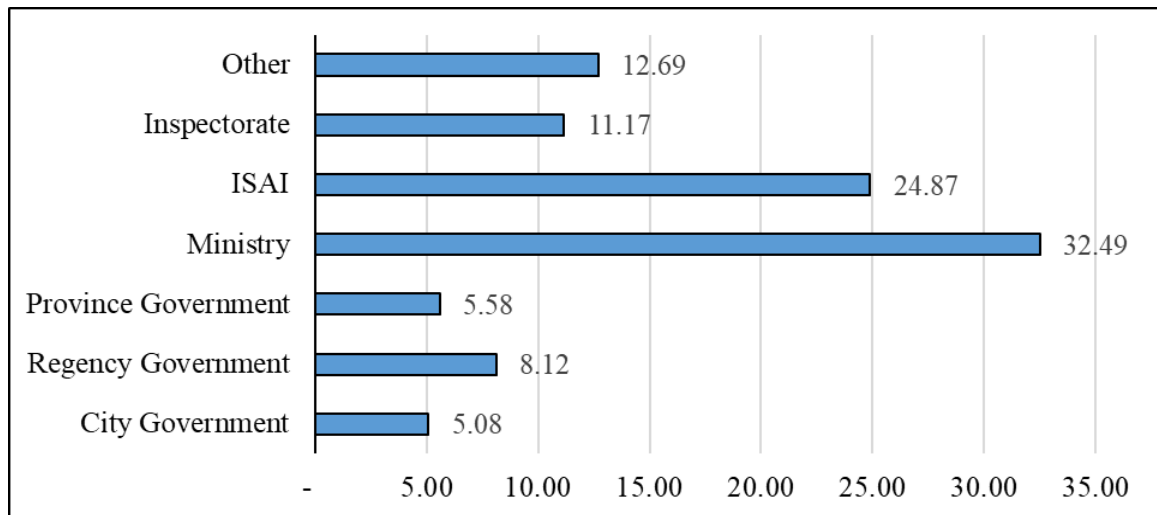| Respondents	Questionnaire	(%)
Internal Auditor	56	28.43
External Auditor	40	20.30
Non-auditor	101	51.27
Total Respondents	**197**	**100.00**

Figure 1. Government Breakdown of Respondents

Figure 1 shows the number of respondents based on the workplace. Based on Figure 1, the highest percentage of respondents came from the ministry, followed by ISAI and others.

Table 3. Demographic Characteristics

Characteristics	All Respondents		Internal Auditor		External Auditor		Non-auditor	
	n	%	n	%	n	%	n	%
Gender								
Male	129	65.48	38	67.86	35	87.50	56	55.45
Female	68	34.52	18	32.14	5	12.50	45	44.55
Age								
<25	15	7.61	2	3.57	1	2.50	12	11.88
25 - 30	40	20.30	12	21.43	6	15.00	22	21.78
31 - 40	116	58.88	35	62.50	31	77.50	50	49.50
41 - 50	18	9.14	5	8.93	2	5.00	11	10.89
>50	8	4.06	2	3.57	n/a	n/a	6	5.94
Education Level								
Senior High School	1	0.51	n/a	n/a	n/a	n/a	1	0.99
Associate/Certificate	13	6.60	2	3.57	2	5.00	9	8.91
Undergraduate	108	54.82	34	60.71	22	55.00	52	51.49
Postgraduate	72	36.55	20	35.71	16	40.00	36	35.64
Doctoral	3	1.52	n/a	n/a	n/a	n/a	3	2.97
Education Background								
Accounting	102	51.78	38	67.86	31	77.50	33	32.67
Management	12	6.09	2	3.57	2	5.00	8	7.92
Economics	7	3.55	2	3.57	n/a	n/a	5	4.95

	n	%	n	%	n	%	n	%
Law	9	4.57	2	3.57	3	7.50	4	3.96
Others	67	34.01	12	21.43	4	10.00	51	50.50
Institution								
City Government	10	5.08	n/a	n/a	n/a	n/a	10	9.90
Regency Government	16	8.12	2	3.57	n/a	n/a	14	13.86
Provincial Government	11	5.58	3	5.36	n/a	n/a	8	7.92
Ministry	64	32.49	14	25.00	n/a	n/a	50	49.50
ISAI	49	24.87	5	8.93	40	100.00	4	3.96
Inspectorate	22	11.17	22	39.29	n/a	n/a	n/a	n/a
Other	25	12.69	10	17.86	n/a	n/a	15	14.85
Total Budgeting								
< 1 Billion	22	11.17	4	7.14	3	7.50	15	14.85
1.1 – 10 Billion	68	34.52	23	41.07	10	25.00	35	34.65
10.1 – 100 Billion	49	24.87	13	23.21	10	25.00	26	25.74
> 100 Billion	58	29.44	16	28.57	17	42.50	25	24.75
Total Revenue								
< 10 Billion	138	70.05	41	73.21	34	85.00	63	62.38
10.1 – 100 Billion	23	11.68	5	8.93	2	5.00	16	15.84
100.1 – 1 Trillion	24	12.18	5	8.93	4	10.00	15	14.85
> 100 Trillion	12	6.09	5	8.93	n/a	n/a	7	6.93
Total Employee								
<10	3	1.52	1	1.79	n/a	n/a	2	1.98
10-100	69	35.03	22	39.29	7	17.50	40	39.60
101-500	72	36.55	18	32.14	17	42.50	37	36.63
>500	53	26.90	15	26.79	16	40.00	22	21.78

Notes: n _ number; n/a _ not applicable

4.2 Fraud Awareness

Respondents' answers to fraud awareness were tabulated in Table 4 and 5. Overall, respondents agreed that fraud was the main problem faced by the government in Indonesia, with a percentage of 81.73% (derived from the total answers on the scale of 4 and 5). The average ASNs agree that government agencies are aware enough of the fraud they have experienced. It indicated by more than 65% of respondents agreeing with the questions about fraud awareness.

Table 4. Fraud Awareness: Distribution of Responses

Responses	1 (%)	2 (%)	3 (%)	4 (%)	5 (%)
Fraud is a major concern for all government agencies in Indonesia.	2.030	2.538	13.706	30.964	50.761
Government agency is proactive in dealing with the risk of fraud.	3.046	2.538	17.259	32.995	44.162
Government agency has identified and had approved by the board of directors a policy on how the entity will manage fraud risks	3.046	7.107	18.274	35.025	36.548
Government agency has been carried out the fraud risk assessment process.	3.046	12.183	18.274	32.995	33.503
The internal auditor has taken necessary procedures to detect fraud.	1.523	6.599	19.797	38.579	33.503
Government agency has changed accounting or internal control systems to prevent fraud.	2.538	7.614	19.797	37.056	32.995

Government agency has changed accounting or internal control systems to detect fraud.	2.030	7.614	20.305	41.117	28.934
Government agency has a system in place for the anonymous reporting of suspicions of fraud, corruption, or misconduct.	4.569	6.599	17.766	33.503	37.563

Table 5. Fraud Awareness: Mean Responses

Responses	Mean (Dev. Std)	Significant
Fraud is a major concern for all government agencies in Indonesia.	4.259 (0.931)	0.000
Government agency is proactive in dealing with the risk of fraud.	4.127 (0.989)	0.000
Government agency has identified and had approved by the board of directors a policy on how the entity will manage fraud risks	3.949 (1.053)	0.000
Government agency has been carried out the fraud risk assessment process.	3.817 (1.119)	0.000
The internal auditor has taken necessary procedures to detect fraud.	3.959 (0.968)	0.000
Government agency has changed accounting or internal control systems to prevent fraud.	3.904 (1.028)	0.000
Government agency has changed accounting or internal control systems to detect fraud.	3.873 (0.984)	0.000
Government agency has a system in place for the anonymous reporting of suspicions of fraud, corruption, or misconduct.	3.929 (1.109)	0.000
Notes: **1 _ strongly disagree**; **5 _ strongly agree**		

4.3 Fraud Risk and Auditor Responsibility

Figure 2 shows respondents' rating for the perceptions of fraud risks in each government institution. The House of Representatives and regional governments are considered to have the highest fraud risks compared to other institutions. Meanwhile, the county government is thought to have the lowest risks of fraud.
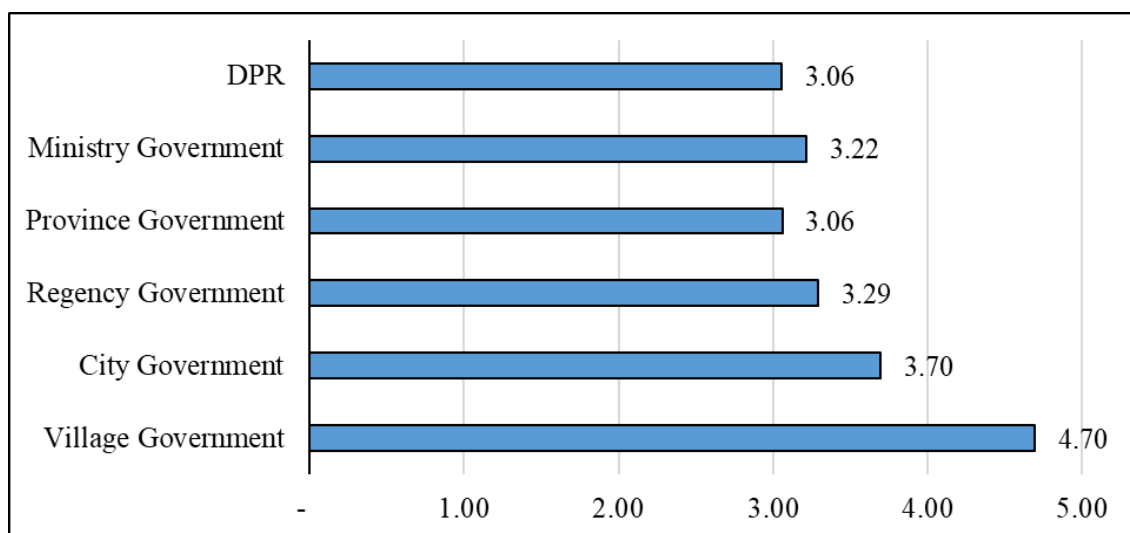

Figure 2. Fraud Risk Perception by Government

Table 6 and 7 present the respondents' answers to the perceptions of external auditors' responsibilities; here it refers to ISAI's fraud prevention and detection. 70.07% of the respondents (non-auditors, internal, and external auditors) agree that external auditors are responsible for fraud detection on the institutions being audited. 86.29% of the respondents agree that there must be standards/rules regulating the external auditors to be responsible for fraud prevention and detection. 87.31% of the respondents agree that external auditors should have additional procedures as an effort to uncover fraud. Lastly, 90.36% of the respondents agree that external auditors should evaluate the activities of the internal control department in terms of fraud detection. Its high percentage indicates respondents' high expectation for external auditors in detecting fraud taking place in the internal government.

Table 6. External Auditor Responsibility: Distribution of Responses

Responses	1 (%)	2 (%)	3 (%)	4 (%)	5 (%)
External auditors are responsible for detecting fraud in the companies they audit.	2.030	6.091	20.812	39.086	31.980
There should be an audit standard that would make external auditors responsible for detecting and reporting frauds.	1.015	2.030	10.660	37.563	48.731
External auditors should perform additional procedures in their attempt to uncover fraud.	1.015	1.015	10.660	42.640	44.670
External auditors should assess the activity of the internal control department related to fraud detection.	0.508	1.015	8.122	43.147	47.208

Table 7. External Auditor Responsibility: Mean Responses

Responses	Mean (Dev. Std)	Significant
External auditors are responsible for detecting fraud in the companies they audit.	3.929 (0.977)	0.000
There should be an audit standard that would make external auditors responsible for detecting and reporting frauds.	4.310 (0.821)	0.000
External auditors should perform additional procedures in their attempt to uncover fraud.	4.289 (0.778)	0.000
External auditors should assess the activity of the internal control department related to fraud detection.	4.355 (0.718)	0.000

Table 8 shows the comparison of respondents' perceptions on external auditors'' responsibility. There is a difference in perception between non-auditors and external auditors in terms of external auditors' responsibility for fraud detection. Meanwhile, there is not any significant difference found in the other questions.

Table 8. External Auditor Responsibility: Non-auditor, Internal Auditor, and External auditor

Responses	Non-auditor	Auditor Internal	Auditor External
External auditors are responsible for detecting fraud in the companies they audit.	4.198*+	3.571+	3.750*
There should be an audit standard that would make external auditors accountable for identifying and reporting scams.	4.416	4.143	4.275
External auditors should perform additional procedures in their attempt to uncover fraud.	4.277	4.286	4.325
External auditors should assess the activity of the internal control department related to fraud detection.	4.416	4.286	4.300
* Different responses of non-auditor and auditor foreign $p < 0.05$ [+] Different responses non-auditor and internal auditor $p < 0.001$			

Figure 3 shows respondents' perceptions of government institutions' reasons which are threatened by fraud. Inadequate internal control and low ethical values become the main reasons for cheating in the government. Besides, insufficient background checks on prospective employees and vendors are considered to be the most insignificant cause of fraud.
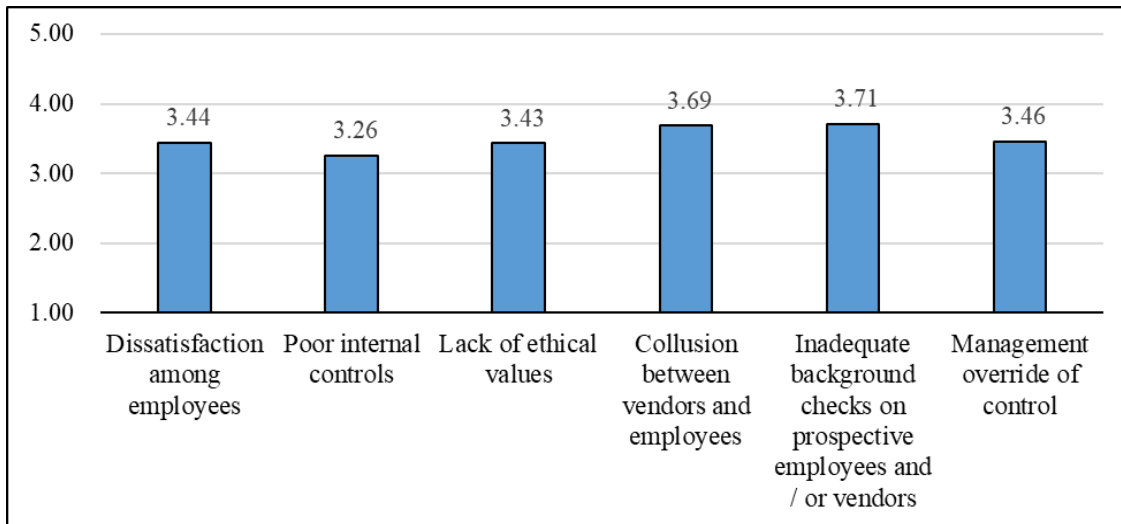
Figure 3. Fraud is threatening reasons Entities

Figure 4 presents respondents' answers to the fraud risk management process. Averagely, the respondents state that a sharp whistleblowing policy and a proper internal audit function are the most critical Fraud risk management process.
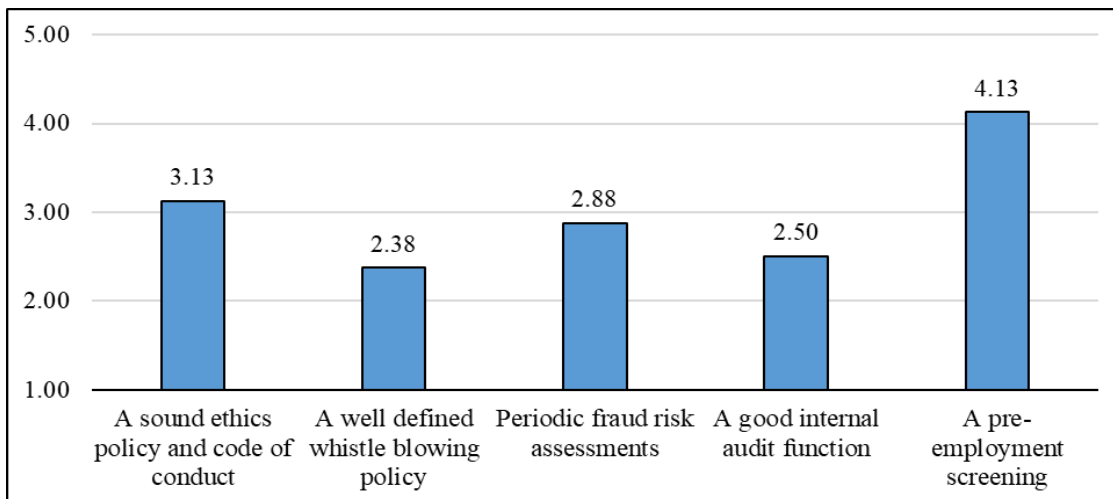

Figure 4. Fraud Risk Management Process

Table 9 presents respondents' answers to the Tools used to detect or prevent fraud. According to the respondents, internal control and externals audit have been applied in their workplaces. IT audit is ranked the lowest compared to other tools. The development of technology in the era of 4.0 industry undoubtedly relies on IT. Furthermore, this research also investigates the use of an IT audit. Only 30.96% of the respondents answer that the use of audit is applied regularly in their workplaces (the tabulation is not presented). Besides, Figure 5 breaks down the key to success in IT audit. The respondents answer that they discover the weakness of IT internal control because it is the main thing to prevent and detect fraud.

Table 9. Tools to Detect or Prevent Fraud

| Tools to detect or prevent fraud	(%)
Internal audit	93.40
Internal controls	92.39
External audit	88.83
Management information system (MIS)	83.76
Notification by third parties (employee, customer, vendor or anonymous source)	81.73
Fraud assessment system	80.71
Fraud risk management	80.71
IT control	73.10
Data mining tools	63.96
Pre-employment background check	58.88
IT audit	54.82
Random check on transaction data	47.72
Random check on employees' email	22.34
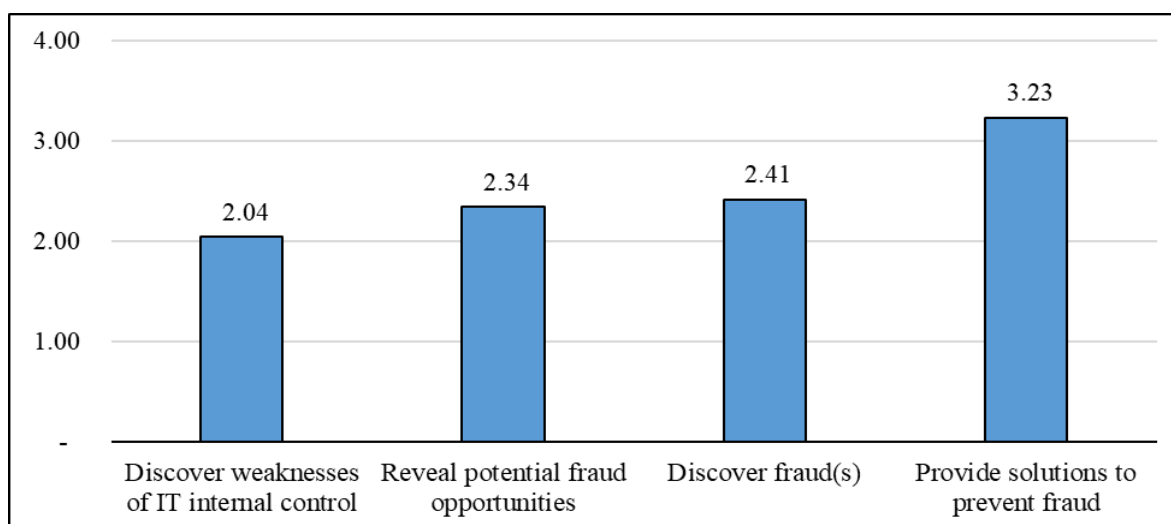
Figure 5. Key Success Factors of IT Audit

Table 10 shows that e-mail and direct approach are the best reporting system. Many government institutions have applied such a system for anonymous reporting fraud in terms of its prevention and detection (more than 50%).

Table 10. System for Anonymous Reporting of Fraud

System for anonymous reporting of fraud	(%)
E-mail	70.56
Direct approach	70.05
Grapevine (an informal person-to-person means of circulating information)	67.01
Hotlines	59.90
Anonymous letter/calls	53.81

5. DISCUSSION AND CONCLUSION

This study intends to survey fraud awareness and perceptions of ASNs' responsibilities for fraud in Indonesia. This research has got some findings. Firstly, the majority of the respondents agree that fraud is the main problem in government institutions. This result is confirmed by the data stated by ICW related to massive numbers of corruption cases involving the officials in the government. The findings are also in line with the research of private sectors, saying that fraud is a problem found in many Indonesian corporations (Siregar & Tenoyo, 2015).

Secondly, the research finds that the majority of the respondents (non-auditors, internal, and external auditors) perceive that fraud detection is the main task of external auditors. Furthermore, they agree that there should be standards or rules regulating the external audits to detect fraud. This finding is following the theory of agency (Jensen & Meckling, 1976) arguing that it is necessary to establish external audit as an agency mechanism which ensures agencies' proper behaviors are based on the principal importance.

Thirdly, this study shows that the average respondents answer that a sharp whistleblowing policy and a proper internal audit function are the main mechanisms to manage fraud threats. The finding above is similar to the concept of Good governance. It consists of the procedures and activities used to guarantee accurate reporting management and effective internal control (Gramling et al., 2004). This finding is also in line with Hooks, Kaplan, Schultz Jr, and Ponemon (1994) and Arnold and Ponemon (1991) statement about whistle-blowing which is the mechanism of internal control so that wrongdoing could be revealed internally and externally in terms of fraud prevention and detection.

The fourth, this research finds that the average respondents state that poor internal control and low ethical values become the contributing factor of high-risk fraud in the government. Individual's ethical values affect their decision to act unethically (Douglas & Wier, 2000; Patterson, 2001). The study of fraud in the city and county governments conducted by Ziegenfuss (2001) found that an environment with strong ethical values will contribute to a lower risk of fraud.

Lastly, this study shows that respondents think that the House of Representatives and the regional government have the highest fraud risk. The data are confirmed from the number of corruption cases involving the members of the House of Representatives and local government. The most frequent cause is related to the approval of the executive budget (central and regional government).

This research shows some implications. Firstly, the government needs to establish the rules and standards, allowing auditor external (ISAI) to examine the state's budget freely. Secondly, the government needs to improve the concept of Good Government Governance by supporting the role and function of internal audit and whistle-blowing mechanism so they can help the fraud prevention and detection. Thirdly, the government is advised to emphasize and socialize the ethical values continuously in the government. Besides, it is also essential to conduct training to raise moral sensitivity as it can help prevent fraud.

Practically, the government is expected to carry out fraud prevention and detection by zoning the employee integrity, signing the integrity agreement, encouraging transparent personal wealth report, and committing to supervise and run the programs.

APPENDIX

Questionnaire
(Available from the author on request)

ACKNOWLEDGEMENT

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