

# **ACCOUNTABILITY MEDIATION EFFECT ON INTERNAL CONTROL EFFECT AGAINST FRAUD PREVENTION (A STUDY IN THE GOVERNMENT OF WEST SULAWESI, INDONESIA)**

Kartini\*

***Abstract:** In Indonesia, accountability is the motto of the most prominent in the management of public administration. Claims by the community to the government, especially the local government that must implement accountability without reason. The study aimed to examine the effects of accountability on the influence of mediation internal controls against fraud prevention in West Sulawesi provincial government. Object of research on work unit area in West Sulawesi provincial government. Currently the likelihood of fraud in government agencies in the province of West Sulawesi. The sample in this study is partly regional work units in West Sulawesi provincial governments, both departments, agencies and offices, which meet the criteria of (a) direct service to the public, (b) received the largest allocation of funds in the budget over the last 3 years. The analysis tool used was SEM Sobel Test. The result show that the internal control has no direct effect on fraud prevention, in other hand, the internal control brings indirect effect on fraud prevention through intermediary's accountability. It means that the effect of accountability is taken as internal control mediator against the fraud prevention. Given the direct effect is not significant, then the accountability act as a full way of mediation. That is, in the absence of accountability, there is no internal control that brings effect against fraud prevention.*

***Keywords:** Accountability, Internal Control, Fraud Prevention, West Sulawesi*

## **1. INTRODUCTION**

In Indonesia, accountability is the motto of the most prominent in the management of public administration. Claims by the community to the government, especially the local government that must implement accountability without reason. There are several reasons for the importance of accountability in government to be realized namely: first, Stiffness of Bureaucracy. The survey results on Political and Economic Risk Consultancy (PERC) for foreign business executives in 2010 shows that Indonesian bureaucracy obtained a score of 9.27 (PERC Annual Report 2010).

---

\* University of Hasanudin, Makassar, Indonesia

Second, the high cost of good governance in Indonesia which are caused by illegal payments (bribes) performed by unscrupulous government bureaucracy. Results of the study from the Center of Asia Pacific Studies at Gadjah Mada University in collaboration with the United State Agency for International Development (USAID; 2004) for a number of companies from Java, Sumatra and Bali, shows that the extortion reached 7.5% of the cost of exports and partly carried out by officials of local government unscrupulous (LG) which has been mentioned frequently to make difficult variety processes. Third, the impact of poor accountability will be perceived by the public. Poor public services will not provide prosperity and will not bring justice in the life of Indonesian society. Old patterns of government administration that has been applied would be no longer compatible with the social order that has changed. Therefore, the demands of society to implement accountability are reasonable and should be addressed by the government to make directive changes and on an ongoing basis. To assess the success of the government's performance, on June 13, 2005 the government has issued Government Regulation No. 24 of 2005 concerning the Government Accountability Standards (SAP).

The phenomenon of weak control which is one of the key elements of the management function that has been considered to be weak and made many complaints incurred (Falaakh, 2003). The control can no longer be carried out effectively by only maintaining the old fashion way with only directly placing on leadership. It should be understood that the control as part of the organization's activities existed on all of the inner levels of the organization and respect to individuals.

Internal control which is carried out in particular by the local government leadership, is designed to provide reasonable assurance of achieving the goal of three dimensions: (a). reliability of financial reporting, (b) the effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations (IAI, 2001: 319.2). By looking at the importance of the role of the internal control, it makes the researcher feeling compelled to conduct a study to see the effect of the presence of particular internal controls against fraud prevention in local government agencies.

Perpetrators of fraud in the various agencies are looking for a variety of reasons that the action he did is not constitute to a fraud, because the perpetrators find it that fraud he does are also done by other communities who have a chance, so this is one of the causes of Indonesia, including the group of countries that are perceived corrupt (IT, 2010).

Fraud that occurs in the provinces and in some city districts show various kinds of patterns and forms, cases of fraud as misuse of authority, which in turn could harm local finance many times performed by the official district / city. Fraud that occurs in government agencies often performed for the benefit of institutions or organizations and individuals that can harm the agency or organization. The perpetrators could be done by insiders such as leadership or staff or even by outside agencies or organizations, such as suppliers.

Arens (2008) explains that fraud arises when someone gets pressure to commit fraud (pressure), rationalization to justify the fraudulent behavior (rationalization), and the opportunity to commit fraud (opportunity) These three situational factors collectively known as the "fraud triangle". There is empirical evidence that connects each of the three factors with the incidence of fraud, but broadly still anecdotal and often based on observations of case studies, which in turn will limit the generalizability of the prior finding. (KPMG Forensic, 2004).

Research on internal control has grown extensively (Meiners, 2005) primarily for the purpose of founding organization for profit, taking into account aspects / components of internal control, but it is still very limited for public sector organizations / government, particularly research that takes into account aspects / components of control when associated with the behavior of internal fraud. The researcher felt that it is very important to remember that fraud occurs in the government agencies is increasing according to the researcher's previous description . The choosing of components of the COSO internal control, is seen as an element that can reveal the behavior of fraud that occurs in the organization. COSO offers a solution that would be used to prevent fraud in the organization, as well as the internal control system of government (SPIP) which adopted the COSO components, issued through PP.No 60 in 2008, is expected to minimize fraud that occurs in government institutions, but the fact is that fraud is growing even more reaching to 35-45% of the national budget is corrupted through the procurement of goods and services (KPMG, 2005).

From these descriptions, the researcher has the curiosity and felt compelled to conduct research directly on what and how exactly the government institutions, especially the leadership as the stewards carry out the mandate of the principal. The curiosity of the researcher increasingly unstoppable when there are research results (Togiman: 2000), (Lawrence: 2000) and (Cattrysse: 2002) supports the theory and concepts in the field of prevention of fraud as a fact of fraud that occurs in almost every level in the organization / work unit area (BPK, 2008). That's why this research will try to uncover the existence of the internal control system of government, and the accountability of government agencies influencing fraud prevention. In connection with the above phenomenon, the study aimed to examine the effects of accountability on the influence of mediation internal controls against fraud prevention in West Sulawesi provincial government.

## **2. LITERATURE REVIEW**

As for the grand theory in this research is the stewardship theory; given the government institution is an institution performing the service (steward) that are more concerned with the interests of the principal (Donaldson and Davids, 1991). This can be analogous between the governments and the people or also between employee / local government officials with head of area. Steward behavior will not leave the organization because

steward is trying to achieve organization goals and remain uphold the values of togetherness despite the awards are not real.

Middle range theory is a theory of structural functionalism. Structural functionalism theory is a theory of considerable influence in the social sciences. In the context of this study, fraud prevention when viewed as a system or as an organism, which, according to the concept of structural functionalism theory, consists of several sub-systems (organs), then to achieve the goals of the system requires the support and cooperation among sub-systems / organ. Attempt to prevent a fraud on the government agencies must be supported through accountability, accountability in this study manifested as the performance accountability and financial accountability must be realized, as well as to internal control conducted by leaders and officials in the ranks of government structural, the ability of a leader in carrying out its functions in an organism is urgently needed, Parsons and Durkheim also stressed that there is a function that is not to serve the interests of the respective leaders but to achieve the goal of the organism as a whole.

Studies that were conducted on internal controls, the application of accountability, and the overall fraud prevention has not been done. Generally, studies that have been done previously with regard to internal control, accountability and implementation of fraud prevention majority of State Agency-owned enterprises (BUMN / BUMD) or private and partial character. Some research has been summarized by the researcher specifically looked at the relationship of internal control and the application of good governance as a form of accountability among others proposed by (1) Halla (1999) explains that the division of responsibilities with respect to internal control among all members of the organization from top to bottom, that is top management's internal control set, set of ethics and atmosphere of organization, senior management establishes policies and procedures in more detail and other personal responsibility in accordance with its duties, will promote the establishment of accountability and corporate governance, (2) Samid (1996) that the internal supervisory unit and leadership style will affect perceptions of subordinates to accountability and corporate governance and the positive effect of increasing profitability, (3) Dockery (2000) that the corporation's internal controls necessary to ensure the interests of shareholders in monitoring actions management through accountability and governance (the governance mechanism). Governance and accountability mechanisms can help to limit irregularities / fraud, (4) Togiman (2000) saw the influence of internal control and internal auditors to the increase of the performance of state-owned enterprises and BUMD in Indonesia, the results of the research recommends that the supervision and internal control in important companies and must be implemented consistently so that the company's performance can be achieved, (5) Nunuy (2004) that in order to achieve good governance needs to be clarity of function, responsibility, delegation of authority and empowerment at the level of unit labor department / agency / office, (6) Final (2005) that accountability can be realized with the application of surveillance which are supported by regulations and legislation, (7) Muh.Gandhi (2003) that: 1)

Examination of the external influence positively to the House of Representatives ratings on the financial accountability of the department. 2) Examination of internal, external examination and assessment of Representatives' each having a positive effect on the financial accountability of departments. And the results of this study can be seen that the most dominant internal audit / large influence on the financial accountability of the department, (8) Lawrence (2000) that the committee of auditors, internal auditors with the composition of the independent directors and the meeting at least two (2) times a year can reduce fraud, (9) Cattrysse (2002) that acts of fraud can be minimized with good corporate governance, and accountability, good internal auditors can prevent fraud (fraud), (10) Ristandi (2006) that positive effect of internal control regarding the implementation of governance and positive influence also to the increase accountability in the performance of government agencies in the area of west Java province, (11) Glover and Marshall (1998) that the internal of auditors has a strategic role in supporting the management to achieve organizational goals, in the aspect of ensuring the effectiveness of the use of information systems, increase the efficiency of resources, detect fraud, check electronic control ecommerce, evaluating internal controls, and to monitor control of the business environment, (12) Johnsen and Vakkuri (2001) that the provision of information between the checked with the check will encourage the creation of performance, (13) Sulityowati (2003) that the auditor can work well then it will have an impact on the reduction of fraud action, thus will realize accountability, (14) Beasley (1996) actually found that the auditor committee does not significantly reduce the likelihood of fraud in the financial statements, (15) Paul and Moroney (2008), an organization that has an internal auditor function has a greater tendency to detect and report the misappropriation of assets fraud from organizations that do not have the internal auditor function, (16) Douglas (2001) that the powers of local government environmental control is negatively associated with incidents of fraud. From some of the results of the above studies generally highlighting: internal control, internal audit, the application of the principles of accountability, and partially fraud prevention. The researcher will try to do some research to see accountability mediating effect on the influence of internal control effect on the prevention of fraud.

### **3. RESEARCH METHOD**

This study is included into an explanatory research, meaning that this study will explain in depth the causal relationship between the variables of the study or about something (Copper, Schindler: 2005; Harapan, 2003). Object of research on work unit area in West Sulawesi provincial government. Currently the likelihood of fraud in government agencies in the province of West Sulawesi. The sample in this study is partly regional work units in West Sulawesi provincial governments, both departments, agencies and offices, which meet the criteria of (a) direct service to the public, (b) received the largest allocation of funds in the budget over the last 3 years. The analysis tool used was SEM Sobel Test.

The operational definitions of variables are as follows: (1) internal variable control of government is the dimension measured by the indicators of environmental control, risk assessment, control activities, information and communication, and monitoring, which is a set of processes run by the leaders of organizations in a local working unit in order to manage the functions and responsibilities in the management of organization resources that they lead. (2) Variable accountability is a management process measured by the dimensions of accountability, which cover performance accountability and financial accountability of government that is useful to actualize the effective public responsibilities and provide maximum benefits for the stakeholders. (3) Variable fraud prevention is a series of measures in order to minimize the possibilities of fraud, both individually and collectively, with an emphasis on the improvement of better system and procedures in the government organization.

#### 4. RESULT AND DISCUSSION

The total numbers of target population in this study are 1,364 people. By using purposive sampling, the respondents selected are 167 people, coming from 13 working unit organizations (SKPD) in West Sulawesi province, but those who have managed to return the questionnaires and are research-worthy are 128 respondents in total. Table 1 shows the result of validity and reliability of instrument. The term for the instruments to pass the validity test is if the correlation values are greater than 0.3, while the term for the instruments to pass reliable test is if the Cronbach alpha values are above 0.6. From Table 1, it is shown that the entire question items of the three variables, namely the Internal control, accountability, an defraud prevention of which the correlation values are greater than 0.3, so that the whole items are valid questions. Of the reliability test results, the Cronbach alpha values for the three variables are shown consecutively  $> 0.6$  so that the instruments for the three variables are declared reliable.

**Table 1**  
**Test Result of Research Instruments**

| <i>Variable</i>       | <i>Indicator</i> | <i>Correlation</i> | <i>Result of Validity</i> | <i>Alpha Cronbach</i> | <i>Result of Reliability</i> |
|-----------------------|------------------|--------------------|---------------------------|-----------------------|------------------------------|
| Internal Control (X1) | X1.1             | 0.470              | Valid                     | 0.653                 | Reliable                     |
|                       | X1.2             | 0.546              | Valid                     |                       |                              |
|                       | X1.3             | 0.504              | Valid                     |                       |                              |
|                       | X1.4             | 0.561              | Valid                     |                       |                              |
|                       | X1.5             | 0.416              | Valid                     |                       |                              |
| Accountability (Y)    | Y.1              | 0.520              | Valid                     | 0.733                 | Reliable                     |
|                       | Y.2              | 0.617              | Valid                     |                       |                              |
|                       | Y.3              | 0.411              | Valid                     |                       |                              |
|                       | Y.4              | 0.477              | Valid                     |                       |                              |
|                       | Y.5              | 0.672              | Valid                     |                       |                              |
| Fraud Prevention (Z)  | Z.1              | 0.693              | Valid                     | 0.691                 | Reliable                     |
|                       | Z.2              | 0.543              | Valid                     |                       |                              |
|                       | Z.3              | 0.688              | Valid                     |                       |                              |
|                       | Z.4              | 0.521              | Valid                     |                       |                              |
|                       | Z.5              | 0.403              | Valid                     |                       |                              |

**Table 2**  
**Test Result of Goodness of Fit Structural Model**

| <i>Criteria</i>  | <i>Cut of value</i> | <i>Result</i> | <i>Remark</i> |
|------------------|---------------------|---------------|---------------|
| Sig. probability | $\geq 0.05$         | 0.120         | Fit           |
| RMSEA            | $\leq 0.08$         | 0.052         | Fit           |
| CMIN/DF          | $\leq 2.00$         | 1.339         | Fit           |
| TLI              | $\geq 0.95$         | 0.982         | Fit           |
| CFI              | $\geq 0.95$         | 0.992         | Fit           |
|                  | Overall             |               | Fit           |

The results of goodness of fit test, presented in Table 2, indicate that the structural model used has generally met a cut of value. Thus, it is concluded that the structural model used is already appropriate (fit) to the existing data, so that it allows conducting the analysis of causality or functional relationship between variables in the model.

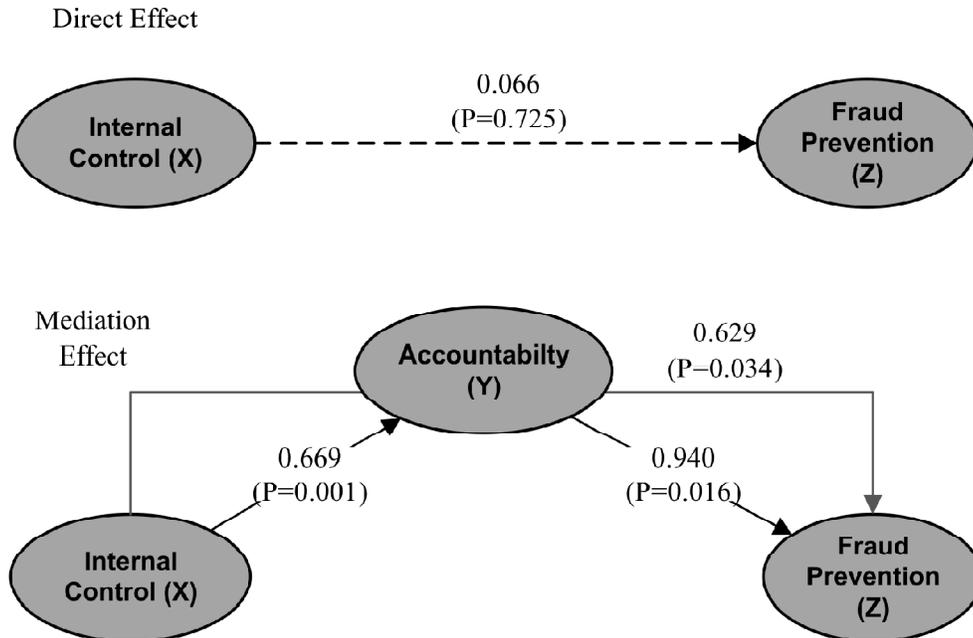
The test results using a mediating effect Sobel Test SEM are presented in Table 3 and Figure 1. The test results show that the internal control has no direct effect on fraud prevention (Standardize Estimate 0.066 and P-value 0.725 > 0.05). However, the indirect internal control brings effect on fraud prevention through intermediary's accountability (Standardize Estimate 0.629 and P-value 0.016 < 0.05). Thus, the effect of accountability is taken as internal control mediator against the fraud prevention. Given the direct effect is not significant, then the accountability act as a full way of mediation. That is, in the absence of accountability, there is no internal control that brings effect against fraud prevention.

**Table 3**  
**Test Result of Direct Effect, and Mediation Effect Using Sobel Test**

| <i>Relationship</i>                                  | <i>Standardize Estimation</i> | <i>Std Error</i> | <i>CR</i> | <i>P-value</i> |
|--|-------------------------------|------------------|-----------|----------------|
| Direct Effect  |                               |                  |           |                |
| Internal Control → Accountability                    | 0.669                         | 0.151            | 4.430     | 0.001          |
| Internal Control → Fraud Prevention                  | 0.066                         | 0.187            | 0.353     | 0.725          |
| Accountability → Fraud Prevention                    | 0.940                         | 0.389            | 2.416     | 0.016          |
| Mediation Effect                                     |                               |                  |           |                |
| Internal Control → Accountability → Fraud Prevention | 0.629                         | 0.296            | 2.121     | 0.034          |

The significance of these findings demonstrates strengthening effect of the internal control. If it is compared with controls through internal accountability without taking accountability into account, it results on the occurrence of significant influence which, through accountability, can be caused by the internal control that is developed by more emphasizing on internal processes and orienting on vertical relationship, while the accountability aspect not only take a focus on the internal orientation, but also lead to the accountability of government organization on the resource management both vertically and horizontally. In other words, the integration of our internal control

Figure 1: Test Result of Direct Effect, and Mediation Effect Using Sobel Test



and accountability can actualize collective action in order to lead the government to be more credible.

It means that the significant effect of internal control over accountability for fraud prevention while strengthening the concept developed by the Institute of Public Administration of the Republic of Indonesia (LAN-RI: 2004) that builds a credible bureaucracy, can only be actualized if the internal management control and accountability can be jointly applied. Therefore, based on the above findings, to encourage the effectiveness of fraud prevention within the local government is not enough just to focus on the internal control, but it is a must to jointly involve the components of internal control and public accountability.

A research focusing on accountability, as already mentioned in the beginning part, especially in the matrix of previous studies (theoretical mapping), has been found several results. With this study aimed to know the dimensions that affect the prevention of fraud, particularly on the dimension of internal control, and accountability, this study will contribute to accounting study in public sectors with organizational locus of Local Government Institutions. Specifically, this research can enrich the study of accounting in public sector and, more specifically, can provide additional knowledge of fraud prevention studies. In addition, this study is very concerned to examine the design model of fraud prevention in the public sector particularly on the Local Government Institution sector.

This research also brings contribution to the improvement of policies in promoting the accountability and prevention of misuse of authority bureaucracy in the Local Government. In order to create accountability and prevention of fraud, the Local Government should focus their attention to formulate regional policies related to initiatives to strengthen internal controls, either through the Regional Regulation (PERDA) or Governor Regulation. The urgency that is supposed to be included in the policy must be regarded to SKPD organization in order to apply the full dimensions of internal control emphasizing on punishment and reward. It is an appropriate structural functionalism theory that emphasizes on the importance of providing incentives or rewards to higher office holders.

## 5. CONCLUSION AND RECCOMENDATION

Based on the analysis result, the conclusion show that the internal control has no direct effect on fraud prevention, in other hand, the internal control brings indirect effect on fraud prevention through intermediary's accountability. It means that the effect of accountability is taken as internal control mediator against the fraud prevention. Given the direct effect is not significant, then the accountability act as a full way of mediation. That is, in the absence of accountability, there is no internal control that brings effect against fraud prevention.

Fraud prevention in West Sulawesi province and local governments through the internal control and accountability need to have more proportionate attention, given the fact that there might possibly occur larger impact or implications. To build the accountability in West Sulawesi province, it is advisable to strengthen the supervision and control dimensions in a more systematic and sustainable system because the weakest component of internal control indicator is considered on the monitoring process in a number of working units (SKPD), allowing to all sectors in West Sulawesi province.

### *References*

- Arens, Alvin A. Randal J. Elder, Mark S. Beasley, (2008), *Auditing and Assurance Service An Integrated Approach*, 9 to Edition, By Perason Educatiob. Inc., Upper Saddle River, New Jersey.
- Badan Pemeriksaan Keuangan, (2008), *Standar Auditor Pemerintahan* (In Indonesian). Jakarta.
- Beasley, Mark S., (1996), An Empirical Analysis of the Relation Between the Board of Director Composition and Financial Statement Fraud, *The Accounting Review*, Oktober 1996, Volume 71, Number 4, pp 443-465. Paper is the recipient of the American Accounting Association's (AAA's) Competitive Manuscript Award.
- Cattrysse, (2002), Reflections on Corporate Governance and the Role of the Internal Auditoror, *Master in Internal Auditing*, Jan.
- Copper, Schindler, (2005), *Management Control System*, 6th edition, New York: Richard D. Irwin Inc.

- Dockery, E., Herbert, W. & Taylor, K. (2000), Corporate Governance, Managerial Strategi and Shareholders Wealth Maximization: A Study of Large European Countries, *Managerial Finance*, pp 21-35, ISSN 0307-4358.
- Donaldson. Lex, Davis James H, (1991), Stewarsship Theory or Agency Theory :CEO Governance and Shareholders Return, *Australian Journal of Management*, Vol. 16 iss. 1.218.
- Douglas, E. Ziegenfuss, (2001), The Role of Control Environment in Reducing Local Government Fraud, *Journal of Public Budgeting, Accounting & Financial Management*, Fall 13. 3, p. 312.
- Falaakh, M. Fajrul. (2003), *Strategy to Clean and Good Governance*, [solusihukum.com](http://solusihukum.com).
- Final (2005), Pengaruh Kualitas Peraturan Perundang- undangan. Penerapan Akuntansi Keuangan Sektor Publik dan Penerapan Pengawasan Terhadap Kualitas Laporan Keuangan Pemerintah dan Akuntabilitas Kinerja Instansi Pemerintah (In Indonesian). Universitas Padjadjaran Bandung.
- Gandhi, (2003), *Pengaruh Pemeriksaan Intern, Pemeriksaan Ekstern dan Penilaian Dewan Perwakilan Rakyat Terhadap Akuntabilitas Keuangan Departemen* (In Indonesian), Universitas Padjadjaran.
- Glover and Marshall (1998), Local Government and the NHS, : Accountability in Hollowed Out State, *Public Policy and Administration Journal* Vol 10 No 1 Iss 3 P 21-38.
- Halla, Ilona P., (1999), A View of Corporate Governance and Control in Finland. *Managerial Auditing Journal*. 14/3. pp. 146-149.
- Hiro, Togiman. (2000), *Pengaruh Peran Auditor Internal serta Faktor-Faktor Pendukung Terhadap Upaya Peningkatan Pengendalian Internal dan Kinerja Perusahaan* (In Indonesian), UNPAD Bandung.
- Ikatan Akuntan Indonesia, (2001), *Standar Profesional Akuntan Publik* (In Indonesian). Salemba Empat, Jakarta.
- Johnsen, A, & Vakkuri, J. (2001), Performance auditing in local government: an exploratory study of perceived efficiency of municipal value for money auditing in Finland and Norway. *The European Accounting Review*, 10(3), 583-599.
- Lawrence, Young, and Susan, (2000), *The Effects of Auditor Committee Activity and Independence on Corporate Fraud*. University of Mamphis. Vol. 26.
- Meiners, C., (2005), Detecting and Eliminating the Unintentional Perk, *Risk Management*, Vol. 52 No. 4, pp 50-54.
- Nunuy (2004), *Penerapan sistem Akuntansi Keuangan Daerah dan Standar Akuntansi Pemerintahan Sebagai Wujud Reformasi Manajemen Keuangan Daerah* (In Indonesian), Komite Kerja Standar Akuntansi Pemerintahan.
- Paul, Colling and R. Moroney, (2008), *Internal Auditor, Alternative Internal Auditor Structures and the Level of Misappropriation of Assets Fraud*, Australia and New Zealand.
- Samid, Suropto. (1996), Pengaruh Satuan Pengawasan Intern dan Gaya Ke-pemimpinan serta Persepsi Bawahan mengenai Perilaku Atasan Terhadap Upaya Manajemen dalam Meningkatkan Profitabilitas Perusahaan. (In Indonesian) Universitas Padjajaran. Bandung
- Sulistiyowati, L. (2003), Analisis Kebijakan Pemberdayaan Masyarakat Dalam Pengelolaan Sumber Daya Alam Gugus Kepulauan. (In Indonesian) [http://tumoutou.net/702\\_07134/venda\\_i\\_pical.htm](http://tumoutou.net/702_07134/venda_i_pical.htm).