The Influence of Internal Control Systems, Motivation and Remuneration on The Prevention of Fraud in The Misuse of Funds in Local Government

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ABSTRACT

This study aims to determine the alignment between the implementation of the Internal Control System (SPI) in financial management and Government Regulation No. 60 of 2008. It conducts quantitative research by identifying indicators and dimensions for measuring variables that can be analyzed using statistical tools. Currently, there is still limited research on audit based on internal control systems in government, making this research topic interesting to explore further in terms of the effectiveness of internal control in preventing fraud in government, supported by an internal control system. It identifies the factors causing fraud and analyzes the relationship between the achievement of the Internal Control System (SPI). The sample size is 93 people in the Government of West Bangka Regency. The data analysis method uses IBM SPSS Statistics 20 software. The results of this study show that Internal Control has a significant effect on Fraud Prevention. Motivation and Remuneration do not have a significant effect on Fraud Prevention. Simultaneously, the influence of Internal Control Systems, Motivation, and Remuneration on Fraud Prevention is obtained.

Keywords: *Internal Control System, Fraud, Motivation, Remuneration.*

INTRODUCTION

In an era of increasing transparency and accountability due to globalization, local governments in Indonesia are faced with demands to improve good financial governance (1). One of the biggest challenges in regional financial management is preventing the misuse of public funds. Cases of fund misuse occurring in various regions indicate that fraud in the management of local government finances remains a serious issue requiring special attention. Various instances of fraud are increasingly rampant within the scope of governmental operational activities (2). The impact of these numerous fraud cases is significant and harmful to various parties, making it one of the most serious problems faced by the government (3).

A work environment with low integrity, high pressure, and a lack of understanding of regulations is usually more prone to the risk of fraud (4). The weakness of internal control elements is one of the causes that provides opportunities for fraud; therefore, understanding internal control is important because the presence of internal control within the government can minimize the tendency to commit fraud (5). The effectiveness of internal control is an indicator of good governance in government as an effort to prevent and detect fraud (6). Internal control plays a crucial role in improving the performance of an organization, serving as a benchmark to monitor overall operations and report the results to management, especially in minimizing the risk of fraud (7). Internal

control is carried out by the Government Internal Supervisory Apparatus (APIP), which consists of the Financial and Development Supervisory Agency (BPKP), Inspectorate General, Provincial Inspectorate, and Regency/City Inspectorate (8).

To measure the success of the Government Internal Control System (SPIP), guidelines for Assessment and Improvement Strategies are formulated (9). An audit conducted by BPKP Papua Province stated that there was a state loss of Rp. 3,150,000,000.00 in the management of Covid-19 Task Force funds in Mamberamo Raya Regency in 2020. Then, the West Bangka Police Department named suspects in the corruption case of managing the APBDes Tempilang funds, Tempilang District, West Bangka Regency for the fiscal years 2015-2016. They were former Village Heads and Village Treasurers of Tempilang. Furthermore, an audit to calculate state financial losses by the BPKP representative of the Bangka Belitung Islands Province found state losses amounting to Rp. 913,004,243.62," said West Bangka Police Chief, AKBP Agus Siswanto, Tuesday (31/5/2022).

Key components are needed to create a good internal control system (10). With good internal control, it is expected to minimize unethical behavior such as fraud within institutions or agencies that can harm the institutions or agencies themselves (11). A strong internal control system is one of the main instruments in preventing fraud. Effective internal control helps ensure that all financial transactions are recorded correctly, assets are well-maintained, and established policies and procedures are adhered to by all local government employees (12). The effectiveness of this internal control system is greatly influenced by other factors such as employee motivation and remuneration (13). Government employee motivation is a key factor that drives performance and integrity in carrying out tasks (14). Motivated employees tend to have a higher commitment to performing their duties well and avoiding actions that could harm regional finances (15). Additionally, fair and competitive remuneration also plays an important role in creating a conducive work environment and encouraging employees to work honestly and professionally (16).

This study aims to examine the influence of internal control systems, motivation, and remuneration on the prevention of fraud in the misuse of funds in local government (17). By analyzing the relationship between these three variables, this research is expected to provide deep insights into effective strategies for preventing the misuse of public funds at the local government level (18). This study also aims to provide practical contributions to policymakers in developing better financial management policies and systems (15).

Through this research, it is hoped that empirical evidence will be found regarding the importance of a strong internal control system and how employee motivation and

remuneration can support local government efforts in preventing fraud (19). Thus, local governments can implement more comprehensive and integrated measures to maintain the integrity and accountability of regional financial management, thereby increasing public trust in the government.
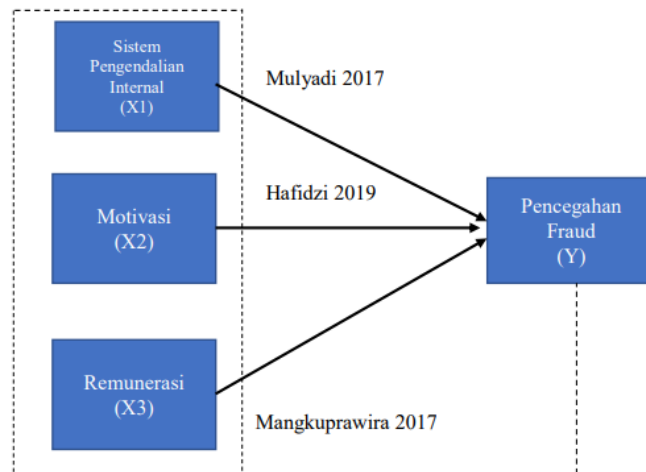

Figure 1: Research Paradigm

METHODS

This study employs a quantitative descriptive method with sample size is 93 people in the Government of West Bangka Regency. The data analysis method uses IBM SPSS Statistics 20 software.

RESULTS AND DISCUSSION

Based on the multiple linear regression test measuring the influence of Internal Control, Motivation, and Remuneration on the dependent variable Fraud Prevention, the results of Collinearity Statistics results indicate and Unstandardized Coefficients (B) that:

Tolerance; Measures how much of the independent variable is not explained by other independent variables. A low tolerance value (close to 0) indicates the presence of multicollinearity.

VIF (Variance Inflation Factor); A high VIF value (generally above 10) indicates the presence of multicollinearity. In this table, none of the variables have a VIF above 10, indicating no serious multicollinearity issues. Internal Control has a VIF of 1.860, Motivation has a VIF of 2.758, and Remuneration has a VIF of 3.081.

The constant value of 4.660 indicates that when all independent variables (Internal Control, Motivation, and Remuneration) are zero, the predicted value of Fraud Prevention is 4.660.

The coefficient of 0.673 indicates that for every one-unit increase in Internal Control, Fraud Prevention increases by 0.673 units.

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The coefficient of -0.054 indicates that for every one-unit increase in Motivation, Fraud Prevention decreases by 0.054 units, but this is not statistically significant.

The coefficient of 0.066 indicates that for every one-unit increase in Remuneration, Fraud Prevention increases by 0.066 units, but this is not statistically significant.

Indicates the standard error of each coefficient. This value shows the level of variability in the coefficient estimates. Internal Control has the lowest standard error of 0.042, indicating that the estimate for Internal Control is more precise compared to the other variables.

The standardized beta value indicates the magnitude of the influence of each independent variable in units of standard deviation. Internal Control has the greatest influence with a beta value of 0.814.

t-value and Sig. (Significance). The t-value is used to test whether the coefficients are significantly different from zero.

Internal Control: t = 15.855, Sig. = 0.000 indicates that Internal Control has a significant impact on Fraud Prevention.

Motivation: t = -0.499, Sig. = 0.619 indicates that Motivation does not have a significant impact on Fraud Prevention.

Remuneration: t = 1.444, Sig. = 0.150 indicates that Remuneration does not have a significant impact on Fraud Prevention.

CONCLUSIONS

From the results of this regression test, it can be concluded that only Internal Control has a significant impact on Fraud Prevention. The variables of Motivation and Remuneration do not show a significant effect. This indicates that efforts to prevent fraud are more effective through the enhancement of internal controls compared to the factors of auditor motivation and remuneration.

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