



## Optimization of the Role of Internal Auditors in Fraud Prevention: Local Culture as a Moderating Variable

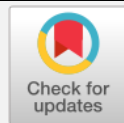
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### ARTICLE INFO

**Publication Info:**  
Research Article



#### How to cite:

Usman, U. (2024). Optimization of the Role of Internal Auditors in Fraud Prevention: Local Culture as a Moderating Variable. *Society*, 12(2), 797-813.

DOI: [10.33019/society.v12i2.693](https://doi.org/10.33019/society.v12i2.693)

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Received: September 24, 2024;  
Accepted: December 24, 2024;  
Published: December 30, 2024;

### ABSTRACT

*This study investigates the effect of optimizing the role of internal auditors on fraud prevention by considering local culture as a moderating variable. This study aims to analyze the effect of optimizing the role of internal auditors on fraud prevention with local culture as a moderating variable. Sampling using purposive sampling, this study involved 87 auditors from the regional Inspectorate, with data collection through questionnaires analyzed using the PLS-SEM method and SmartPLS software version 4. The results of the study indicate that the role of internal auditors has a significant impact on fraud prevention, and the interaction between local culture and the role of internal audit has a significant influence on fraud prevention in local government. In general, the fraud prevention framework combines the dimensions of the role of internal auditors and local culture to create a system for preventing fraud and supporting the integrity and accountability of the organization. The analysis shows the R-Square value for the fraud prevention variable of 0.817, which indicates that the variables of the Role of Internal Audit and Local Culture have a significant influence on Fraud Prevention at 81.7%. These results indicate that the model has strong predictive power, and the rest has limitations in explaining 18.3% of the variance that can be explained by other variables that are not included in this research model.*

**Keywords:** Fraud Prevention; Internal Auditor; Local Culture

## 1. Introduction

Fraud prevention is a critical strategic step to ensure integrity and accountability in organizations, both in the public and private sectors. Fraud, which is often carried out covertly, can result in significant financial losses and damage an organization's reputation. Therefore, a proactive prevention approach is essential to identify potential risks, improve internal control systems, and build a culture of transparency and accountability. Effective fraud prevention involves not only strict oversight, but also includes the involvement of all parties involved in the organization to create an environment that supports ethical behavior and reduces the opportunity for misconduct.

According to the Association of Certified Fraud Examiners (ACFE), fraud is an intentional act of deception committed to secure unfair or unlawful gain, potentially causing financial or reputational harm to organizations, employees, or other stakeholders. Fraud encompasses various forms, including asset misappropriation (e.g., theft of goods or cash), corruption (e.g., bribery or conflicts of interest), and financial statement fraud (e.g., falsifying financial records). Other examples include forgery, destruction or concealment of documents, use of falsified documents for business purposes, money laundering, and unauthorized disclosure of sensitive company information to external parties. These activities undermine organizational integrity and can result in significant losses if not adequately addressed ([Association of Certified Fraud Examiners, 2022](#)).

Fraud cases in Indonesia have become a serious concern for both the government and the public. According to Indonesia Corruption Watch (ICW), in 2021, there were 553 corruption cases involving 1,273 suspects, resulting in state losses amounting to approximately IDR 5.9 trillion ([IDN Times, 2022](#)). These findings highlight the urgent need for more effective prevention efforts to mitigate financial losses and enhance governance. Implementing robust anti-corruption measures and fostering a culture of transparency and accountability are essential steps toward addressing this pervasive issue.

In the Gorontalo Regional Government, the Audit Board of the Republic of Indonesia (Badan Pemeriksa Keuangan, BPK) identified several significant issues, including weaknesses in the Internal Control System. One notable example is the inadequate management control of the School Operational Assistance (Bantuan Operasional Sekolah, BOS) fund, leading to the utilization and accountability of these funds not aligning with established regulations. Additionally, there was non-compliance with statutory laws and regulations in regional financial management, such as the improper management of fixed assets, the misallocation of educational scholarships, and the budgeting of scholarships under Office Service Expenditures, which did not adhere to proper procedures. Other findings included overpayments due to discrepancies in road maintenance work volumes and the failure to impose penalties for delays in project completion as required by regulations ([Badan Pemeriksaan Keuangan Republik Indonesia, 2021](#); [LINTASPOST, 2024](#)).

In 2023, the Audit Board of the Republic of Indonesia identified several additional issues in the Regional Government. These findings included honorarium payments for activity implementation teams in four Regional Work Units that exceeded regulatory limits, volume shortages in 11 capital expenditure work packages managed by the Public Works and Housing Agency and the Education, Culture, Youth, and Sports Agency, and the improper administration of fixed assets within the Regional Government. Furthermore, Hunawa, A member of the Budget Committee of the Gorontalo City Regional House of Representatives, who also serves as the Chairperson of Commission C of the Gorontalo City Regional House of

Representatives, reported overpayments for all physical construction projects undertaken by the Public Works and Housing Agency Agency of Gorontalo City (Habari, 2023).

These findings indicate systemic weaknesses in the management of finances, assets, and program implementation within the Gorontalo Regional Government, which require comprehensive and consistent improvement measures to improve accountability and governance.

The role of internal auditors in government agencies is still not running optimally. The high incidence of fraud within Indonesian government institutions is often attributed to weaknesses in detection mechanisms and internal audit systems at the regional level. Research indicates that local government internal auditors (LGIAs) face challenges in enhancing their capabilities, which hampers effective fraud detection and prevention. Factors such as low motivation, rigid organizational structures, and inadequate training contribute to this issue (Sumiyana et al., 2024). Internal auditors have a very crucial role in monitoring organizational activities and ensuring that fraud control and prevention programs are running effectively. Internal audit activities also function to prevent and detect potential fraud (Wardhani et al., 2017). The presence of an internal audit is expected to reduce or even avoid various forms of fraud, errors, or actions that can harm the organization (Gusnardi, 2017).

Overall, internal auditors play a role in identifying, preventing, and addressing gaps that can facilitate fraud. With strong oversight and proper policy implementation, internal auditors can help maintain the integrity of the organization and prevent losses caused by fraud.

In addition to the internal audit variables in preventing fraud, an important factor in the fraud prevention model through internal audit is the local cultural variable. These local cultural values have become a source of inspiration or enthusiasm in various aspects of people's lives in the Gorontalo region, including in the government sector, to improve good governance.

Historically, the implementation of Islamic laws in society was largely consistent with the prevailing customary laws, exemplified by the principles of *Adat Bersendi Syara, Syara Bersendi Kitabullah*. This principle was reinforced by establishing Islam as the supreme law within the kingdom, encapsulated in the concept that "Customs is based on Syara, and Sharia is based on the Book of Allah" (Mashadi, 2012).

As a value of local wisdom, this principle also serves as a foundation for supporting moderating variables in research. A study by Prena and Evitasari on the local culture of *Tri Hita Karana* illustrates how cultural values can be effectively integrated into local government initiatives, such as recognition programs for companies, government agencies, schools, hotels, and other educational institutions (Prena & Evitasari, 2019). Inspired by this approach, the local culture of *Adat Bersendi Syara, Syara Bersendi Kitabullah*, is applied as a set of cultural values grounded in the principles of Islamic teachings, forming a basis for governance and societal development.

Incorporating local cultural elements into fraud prevention helps bridge the gap between cultural values and accountability principles, fostering an environment that promotes transparency, honesty, and more effective measures against fraud.

## 2. Literature Review

### 2.1. Internal Audit

The audit conducted by the entity's internal audit department includes an assessment of financial statements, accounting records, and compliance with policies established by top management. This study also analyzes compliance with government regulations and professional association standards in the context of the audit.

The internal audit process must be carried out in a structured manner with reference to the following four main pillars (Tugiman, 2006):

- 1) Inspection planning, namely determining the scope, objectives, and approach to be used in the audit.
- 2) Testing and evaluation of information, namely collecting, testing, and evaluating data or information to assess truth and reliability.
- 3) Submission of examination results prepares an audit report containing findings, conclusions, and recommendations for management.
- 4) Follow-up inspections ensure real improvements and effective problem resolution.

## 2.2. Fraud Prevention

Fraud prevention is a series of activities carried out by management through the establishment of policies, systems, and procedures to ensure that the board of commissioners, management, and company personnel carry out the necessary actions (Amrizal, 2004). The main objective of this effort is to achieve the reliability of financial reporting, operational effectiveness, and legal compliance through effective internal supervision and control.

To prevent fraud, Amrizal suggests the following steps:

- 1) Building a Good Internal Control Structure: Creating a strong control system to reduce the opportunity for fraud.
- 2) Making Control Activities Effective: Ensure that monitoring and control activities run optimally.
- 3) Improving Organizational Culture: Instill a work culture of integrity and support compliance with regulations.
- 4) Making Internal Audit Function Effective: Maximizing the role of internal audit in identifying, preventing, and detecting potential fraud.

## 2.3. Culture of Sharia-Shared Adat: Syara is Guided by the Book of Allah

The concept of *Adat Bersendi Syara, Syara Bersendi Kitabullah* represents a philosophy of life that integrates traditional values and Islamic teachings as the foundation for fostering harmonious relationships among the people of Gorontalo. This philosophy positions Islam as the primary guideline for shaping behavioral patterns and societal values. It provides a framework for achieving a balanced social life, addressing both horizontal dimensions – interpersonal and group relationships – and vertical dimensions, which pertain to the human relationship with God. The concept underscores the importance of balance and harmony in collective living by upholding societal norms and ethics (Latif et al., 2023).

Research highlights the significant relevance of *Adat Bersendi Syara, Syara Bersendi Kitabullah* in governance, particularly in the context of good governance practices (Hasanah, 2019; Nopriyandri & Usman, 2018). This principle emphasizes three critical aspects of good governance: accountability, transparency, and participation. These aspects signify that good governance is not solely about operational efficiency but also about actively involving the community in decision-making processes. Such involvement ensures that policies and actions are both accountable and transparent. Furthermore, Gorontalo Provincial Regulation No. 10 of 2003, Article 11, mandates the importance of community participation in regional development, prioritizing accountability, transparency, and participation as key indicators.

Moreover, *Adat Bersendi Syara, Syara Bersendi Kitabullah* are regarded not only as a deeply rooted value of local wisdom in Gorontalo society but also as an integral part of Indonesia's national culture. This concept reflects the profound influence of various factors – ethnicity,

economy, politics, religion, and language – in shaping Indonesia’s broader cultural identity. It demonstrates how local wisdom contributes significantly to the development of a national culture that respects diversity and sustains social harmony on a larger scale. Within the scope of this study, the application of *Adat Bersendi Syara, Syara Bersendi Kitabullah* is assessed through the principles of good governance – accountability, transparency, and participation – to ensure effective governance and the promotion of community welfare.

## 2.4. Conceptual Framework

### 2.4.1. Relationship Between Internal Auditors and Fraud Prevention

The relationship between internal auditors and fraud prevention has been extensively studied and confirmed in the literature. Research has established a significant correlation between internal audit practices and the reduction of fraud incidents. The implementation of proper internal controls enhances the accountability of government agency performance while effectively reducing fraud levels. Audits conducted in accordance with established auditing standards have been shown to both prevent and detect fraud within organizations (Bonrath & Eulerich, 2024).

The necessity for internal auditors to possess multidisciplinary knowledge, particularly in psychology, criminology, and sociology, has been emphasized to enhance their understanding of fraudulent behaviors. Research further identifies a positive relationship between the role of internal auditors and fraud prevention, emphasizing that internal auditors should not be perceived as adversaries but rather as collaborators who assist organizational leadership in better managing activities (Melinda et al., 2022).

Research has also found a positive link between internal auditor responsibilities and fraud prevention (Sasanur, 2020). Internal audits in public sector organizations play a critical role not only in preventing fraud but also in mitigating risks of corruption and related violations. Internal auditors have a strategic role in preventing organizational fraud through effective internal supervision and robust control mechanisms.

### 2.4.2. Local Culture as a Moderating Variable in the Relationship Between Internal Audit and Fraud Prevention

The cultural concept of *Adat Bersendi Syara, Syara Bersendi Kitabullah*, represents the local wisdom inherent in the traditions of the Gorontalo people. This principle, which can be translated as “Customs are based on syara, and syara is based on the Book of Allah,” serves as the foundation for all aspects of life in Gorontalo society, including governance, with the aim of achieving good governance.

The principle of *Adat Bersendi Syara, Syara Bersendi Kitabullah* in governance is operationalized through the principles of good governance, measured using indicators such as accountability, transparency, and participation (Hasanah, 2019; Nopriyandri & Usman, 2018). Similarly, cultural frameworks grounded in good governance principles significantly enhance the effectiveness of internal audits in fraud prevention (Panatap, 2024). Supporting this, Kewo and Rufaedah demonstrated that a culture of good governance strengthens internal supervision, improves accountability in financial reporting, and mitigates fraud risks (Kewo & Rufaedah, 2019).

Research by Magnanelli et al. further revealed that embedding good corporate governance into an organization’s culture enhances the role of internal auditors in fraud prevention (Magnanelli et al., 2017). This integration helps organizations reduce agency problems, detect fraudulent behavior, and improve overall performance. Rahman and Bremer

similarly emphasized the critical role of local culture in implementing good governance principles. They noted that when governance aligns with these principles, internal supervision becomes more effective (Rahman & Bremer, 2016). Conversely, poor governance diminishes supervision performance, making fraud prevention significantly more challenging.

### 3. Research Methodology

#### 3.1. Population and Research Sample

This study targeted a population of professional auditors employed at the Gorontalo Regional Inspectorate Office, comprising 204 individuals. The sampling process utilized a non-probability sampling approach, specifically the purposive sampling technique. As outlined by Sugiyono, purposive sampling selects participants based on specific criteria relevant to the research objectives (Sugiyono, 2018).

The criteria used to determine the sample included:

- 1) Auditors with more than two years of professional experience.
- 2) Auditors who have been assigned to fieldwork.

Using this approach, a proportional sample of 87 respondents was selected from the Gorontalo Regional Inspectorate Office. Data collection was carried out using self-administered questionnaires designed to ensure participant convenience and reliable data acquisition.

#### 3.2. Operational Definitions

##### a. Independent Variable

The independent variable in this study is internal audit, which refers to an independent assessment function within an organization aimed at evaluating and improving the effectiveness of organizational processes (Tugiman, 2006). The internal audit process was measured using the following indicators:

- 1) Audit Planning
- 2) Testing and Evaluation
- 3) Submission of Audit Results
- 4) Follow-up of Audit Results.

##### b. Dependent Variable

The dependent variable in this study is fraud prevention, which encompasses three key aspects: reliability of financial reporting, operational effectiveness, and legal compliance (Amrizal, 2004). Fraud prevention was assessed using four indicators:

- 1) Internal Control Structure
- 2) Control Activities
- 3) Organizational Culture
- 4) Effective Internal Audit Function.

##### c. Moderating Variable

The moderating variable in this study is the cultural principle of *Adat Bersendi Syara, Syara Bersendi Kitabullah*. This principle, deeply rooted in Gorontalo's local wisdom, significantly influences the relationship between internal audits and fraud prevention. Moderating variables serve to alter the strength or direction of this relationship, either by strengthening or weakening the correlation.

To measure this cultural construct, a tailored instrument was utilized to assess the principles of *Adat Bersendi Syara, Syara Bersendi Kitabullah*. These principles were evaluated using Good Governance indicators, including accountability, transparency, and participation.

This cultural principle is recognized not only as a reflection of local wisdom but also as an integral part of Indonesia's broader national culture, shaped by the interplay of ethnicity, economy, politics, religion, and language.

### 3.3. Data Collection Techniques

The study employed both field research and library research to collect primary and secondary data.

#### 1) Field Research

- Interviews: Conducted to gather qualitative insights.
- Questionnaires: Distributed to the selected sample for quantitative analysis.
- Documentation: Collected as supplementary data.

#### 2) Library Research

- A comprehensive literature review was conducted to support the conceptual framework and methodology.

### 3.4. Data Processing

To analyze the relationships between variables, this study utilized Partial Least Squares-Structural Equation Modeling (PLS-SEM) with the aid of SmartPLS software. This method is particularly effective in measuring latent variables using their respective indicators.

#### a. Outer Model Analysis

The outer model analysis ensures the validity and reliability of the measurement instruments. Following Hussein and Sabil (2018), the following criteria were evaluated:

- 1) Convergent Validity: Factor loading values  $\geq 0.7$ .
- 2) Discriminant Validity: Construct values compared to others to ensure distinctiveness.
- 3) Composite Reliability: Values  $\geq 0.7$  to ensure consistency.
- 4) Average Variance Extracted (AVE): Values  $\geq 0.5$  for sufficient convergence.
- 5) Cronbach's Alpha: Values  $\geq 0.6$  for reliability of constructs.

#### b. Inner Model Analysis

The inner model analysis assesses the structural relationships between latent variables and includes the following considerations:

- 1) Coefficient of Determination ( $R^2$ ): Measures the variance explained by exogenous variables:
  - Substantial:  $\geq 0.67$
  - Moderate:  $0.33-0.66$
  - Weak:  $\leq 0.19$ .
- 2) Fit Test: Ensures model fit using criteria such as:
  - P-value for APC and ARS  $\leq 0.05$
  - AVIF  $\leq 5$ .
- 3) Predictive Relevance ( $Q^2$ ): Evaluates the model's ability to predict unobserved variables ( $> 0$ ).

## 4. Results

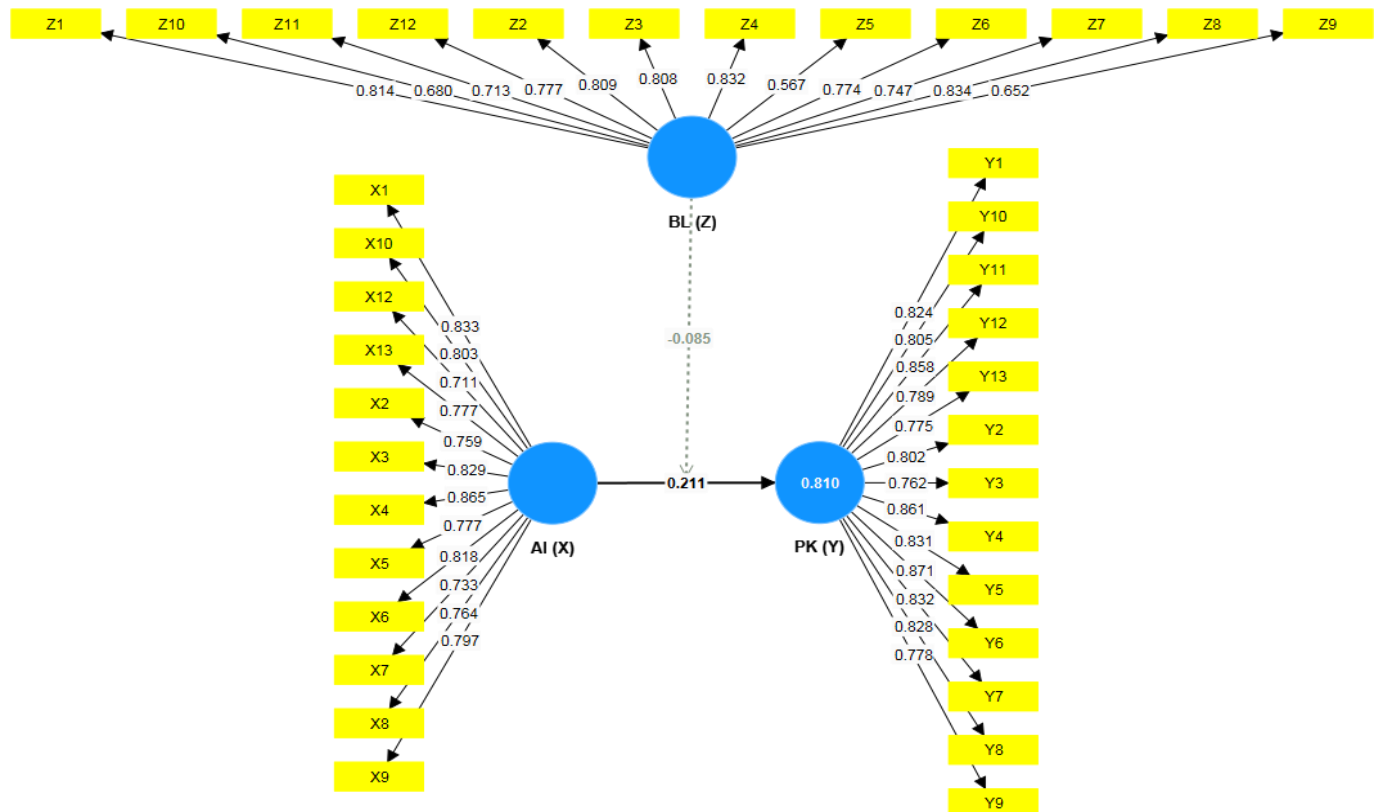
### 4.1. Validity Test

#### 4.1.1. Outer Model (Measurement Model)

To evaluate the validity of the relationship between indicators and latent variables, both convergent validity and discriminant validity tests were conducted.

#### A. Convergent Validity

Convergent validity is achieved when instruments designed to measure the same construct demonstrate a high correlation. The factor loading values from the convergent validity test are presented in **Figure 1**:



**Figure 1. Outer Model Evaluation: Loading Factor Value Diagram**

Source: Data processed by the author (2024)

The results indicate that all factor loading values for the question items are  $\geq 0.50$ , confirming that each item has a strong relationship with the corresponding latent construct. This validates that all indicators effectively measure the intended constructs, meeting the standards set for this study.

#### B. Discriminant Validity

Discriminant validity ensures that instruments measuring different constructs are not significantly correlated. The cross-loading values, shown in **Table 1**, were analyzed to determine the degree of correlation between constructs and their indicators, as well as with indicators from other constructs.



**Table 1. Cross-Loading Values**

| Variables        | Internal Audit | Local Culture | Fraud Prevention |
|------------------|----------------|---------------|------------------|
| Internal Audit   | 0.782          |               |                  |
| Local Culture    | 0.723          | 0.755         |                  |
| Fraud Prevention | 0.795          | 0.861         | 0.817            |

Source: Data Processing (2024)

The results show that each construct exhibits significant discriminant validity, as the AVE (Average Variance Extracted) value for each variable exceeds the correlation between constructs. This indicates that the constructs are distinct and that the measurement model is valid for further analysis.

#### 4.1.2. Inner Model (Structural Model)

##### A. R-Square

The structural model for the dependent construct, Fraud Prevention, was evaluated using the R-Square determination test. The R-Square value represents the proportion of variance in the dependent variable explained by the independent variables. The results of the analysis are presented in **Table 2**:

**Table 2. R-Square Values**

| Variables        | R-Square | R-Square Adjusted |
|------------------|----------|-------------------|
| Fraud Prevention | 0.817    | 0.811             |

Source: Data Processing (2024)

An R-Square value of 0.67 or higher is indicative of a strong model (Chin, 1998). The R-Square value of 0.817 for Fraud Prevention demonstrates that the independent variables, Internal Audit, and Local Culture, collectively explain 81.7% of the variance in Fraud Prevention. This high value confirms the robustness of the model and its strong explanatory power. The practical implications of these findings emphasize the critical role of Internal Audit and Local Culture in enhancing fraud prevention. Organizations and agencies should focus on leveraging internal audits and integrating local cultural values that promote ethics and integrity to strengthen fraud prevention strategies.

Furthermore, developing robust internal control mechanisms that prioritize transparency and accountability can significantly reduce the risk of fraud. Managers and policymakers should prioritize initiatives that improve the effectiveness of internal audits while fostering an organizational culture rooted in honesty and accountability. Such efforts will not only mitigate fraud risks but also enhance the overall efficiency and reliability of internal control systems. By addressing the combined impact of internal audits and supportive local culture, organizations can achieve a more transparent, ethical, and accountable governance structure, thereby fostering trust among stakeholders.

##### B. Effect Size

An F-Square value of 0.002 indicates a small effect, 0.015 a medium effect, and 0.035 a large effect (Chin, 1998). The results of the F-Square analysis, presented in the table below, reveal the

impact of Internal Audit and the interaction between Internal Audit and Local Culture on Fraud Prevention:

**Table 3. F-Square Values**

| Variables                      | Fraud Prevention |
|--------------------------------|------------------|
| Internal Audit                 | 0.089            |
| Local Culture × Internal Audit | 0.092            |

Source: Data Processing (2024)

The F-Square value of 0.089 indicates that Internal Audit has a moderate effect on Fraud Prevention. In contrast, the interaction between Internal Audit and Local Culture, with an F-Square value of 0.092, further highlights the complementary role of these factors in enhancing fraud prevention mechanisms. These findings emphasize the necessity of strengthening the internal audit function as a key pillar in fraud prevention. A well-functioning internal audit system enables early identification of irregularities, ensuring timely interventions to mitigate risks that could harm the organization. Additionally, local culture acts as a critical moderator by reinforcing ethical values and integrity, which enhances the effectiveness of internal audits. Organizations should actively foster a culture that prioritizes transparency, accountability, and ethical behavior to synergize with internal audit efforts.

Furthermore, fraud prevention requires a holistic approach that integrates robust internal audit systems with supportive organizational cultures. Developing and implementing policies and programs that strengthen both elements can establish a more effective control framework. Organizational leaders should also prioritize training programs for internal auditors and staff, equipping them with the tools and knowledge necessary to understand ethical practices and transparency. This proactive approach fosters a conducive environment for fraud prevention. Ultimately, these findings suggest that a combination of a strong internal audit function and a culture rooted in ethical values is essential for creating a fraud-free organizational environment. Strategically addressing these factors can significantly enhance governance, promote integrity, and build trust among stakeholders.

#### 4.2. Reliability Test

The reliability of the latent variable constructs was assessed using Cronbach’s Alpha and Composite Reliability values (Hair et al., 2010). These measures evaluate the internal consistency and reliability of the constructs. The results of the analysis are presented in **Table 4**:

**Table 4. Cronbach’s Alpha and Composite Reliability Values**

| Variables        | Cronbach’s Alpha | Composite Reliability (CR) | Reliability Status |
|------------------|------------------|----------------------------|--------------------|
| Internal Audit   | 0.942            | 0.950                      | Reliable           |
| Local Culture    | 0.930            | 0.942                      | Reliable           |
| Fraud Prevention | 0.958            | 0.963                      | Reliable           |

Source: Data Processing (2024)

The reliability test results demonstrate that the constructs used in this study –Internal Audit, Local Culture, and Fraud Prevention—are both reliable and internally consistent. Cronbach’s Alpha, which measures the internal consistency of the constructs, exceeded the threshold value of 0.7 for all variables, ranging from 0.930 to 0.958, indicating strong consistency. Similarly, Composite Reliability (CR), which assesses the overall reliability of constructs based on their indicators, also surpassed the recommended threshold of 0.7 for all constructs, confirming the robustness of the measurement model. These findings validate that the constructs are consistently measured by their indicators and meet the reliability criteria. As a result, the data collected accurately reflects the constructs being measured, providing a solid foundation for further analysis and ensuring the validity of subsequent interpretations.

### 4.3. Hypothesis Testing

Hypothesis testing is a statistical process to determine whether a research hypothesis can be accepted or rejected based on the data collected. This study uses partial analysis to test the hypothesis on each variable. To determine whether a hypothesis is accepted or rejected, several things need to be considered, such as the significance value between constructs, t-statistics, and p-value. The criteria used in this study are t-statistics, which must be greater than the t-table. The t-table value at 103 degrees of freedom and a significance level of p-value 0.05 (5%) is 1.65978. The following are the results of the hypothesis testing presented in the following table:

**Table 5. Path Coefficients Results**

| Variables   | Original Sample | Sample Mean | Standard Deviation (STDEV) | T-Statistics ( O/STDEV ) | P-Values |
|---|-----------------|-------------|----------------------------|--------------------------|----------|
| Internal Audit → Fraud Prevention                 | 0.227           | 0.225       | 0.102                      | 2.229                    | 0.013    |
| Local Culture × Internal Audit → Fraud Prevention | 0.091           | 0.092       | 0.027                      | 3.356                    | 0.000    |

Source: Data Processing (2024)

The analysis confirms a positive relationship between internal audit and fraud prevention, as indicated by the following details:

- 1) t-statistic value: 2.229
- 2) t-table value: 1.659
- 3) Significance level (P-Value): 0.013
- 4) Conclusion: The first hypothesis is accepted.

Furthermore, the second hypothesis testing demonstrates that the interaction between local culture and the role of internal audit has a significant influence on fraud prevention in local government. These findings have several practical implications:

- 1) **The Importance of Local Culture in Governance**  
Local governments must integrate local cultural factors into their fraud prevention strategies. A culture that emphasizes integrity and transparency strengthens oversight and control efforts, ensuring more effective governance in the public sector.
- 2) **Enhancement of Internal Audit Role**

The role of internal audit should be enhanced by aligning it with local cultural values. Internal audits that adapt to and reflect local principles of honesty and accountability are more effective in identifying and preventing fraudulent activities.

3) Developing Locally Culturally Sensitive Policies

Local governments need to formulate policies that incorporate cultural aspects into their fraud prevention measures. This may include specialized training programs for auditors and government officials to understand and implement ethical behavior aligned with local cultural values.

4) Stakeholder Involvement in Fraud Prevention

Effective fraud prevention strategies require the active participation of all stakeholders, including the community. A culturally-based approach empowers communities to monitor and prevent fraudulent practices effectively.

5) Periodic Policy Evaluation and Adjustment

Regular evaluations of fraud prevention policies are essential to account for changes in local cultural dynamics and emerging challenges. These adjustments ensure that strategies remain effective and relevant over time.

#### 4.4. Model Fit Test

The Model Fit Test evaluates how well the proposed model aligns with the empirical data, using Standardized Root Mean Square Residual (SRMR) as the primary criterion. The SRMR value indicates the extent of the difference between the observed data correlation matrix and the estimated model correlation matrix. The results are presented in **Table 6**:

**Table 6. Model Fit Test Results**

| Metric | Saturated Model | Estimated Model |
|--------|-----------------|-----------------|
| SRMR   | 0.083           | 0.085           |

Source: Data Processing (2024)

An SRMR value below 0.10 indicates an acceptable model fit. In this study, the estimated SRMR value of 0.085 falls within this range, demonstrating that the model aligns well with the data (Schermelleh-Engel et al., 2003). This result confirms that the difference between the observed and estimated correlation matrices remains within acceptable tolerance limits, indicating the model's robustness. Consequently, the findings validate that the empirical data sufficiently explain the relationships between the variables in the proposed model. This validation supports the structural integrity of the model, confirming its suitability for further analysis and interpretation. Therefore, the model can be reliably used to conclude the relationships and interactions among the study's constructs.

## 5. Discussions

### 5.1. The Role of Internal Auditors in Fraud Prevention

The statistical analysis confirms the acceptance of the first hypothesis, as the t-statistic value (2.229) exceeds the t-table value (1.659), and the significance level (p-value) is 0.013, which is below 0.05. These results demonstrate that internal audits play a critical role in enhancing transparency and accountability within local government. This study provides robust empirical evidence that internal audit significantly influences fraud prevention in local government. An

effective internal audit serves as a powerful mechanism to prevent and detect fraud, ensuring transparent and accountable governance that complies with applicable regulations.

Weak internal audit systems significantly increase the risk of accounting fraud. This is often due to inadequate supervision and a lack of robust controls over accounting and operational processes within an organization. When internal audit mechanisms are ineffective, vulnerabilities arise that can be exploited for fraudulent activities. A strong and efficient internal audit system is therefore critical to mitigating these risks.

Similarly, research highlights that effective internal audits significantly contribute to fraud prevention. For instance, internal audits that are thoroughly conducted and timely can identify discrepancies in financial processes and management systems, reducing the potential for irregularities or misuse of resources (Vanasco, 1998). Such audits serve as an early detection mechanism for potential fraud and play a crucial role in promoting organizational accountability and transparency.

Theoretical and empirical evidence underscores the necessity of a strong, efficient, and procedural internal audit system in preventing and detecting fraud, particularly in accounting and financial management within organizations, including governmental institutions. Weaknesses in internal audit systems can create opportunities for fraudulent activities that may harm the organization or even the state.

This study aligns with previous research, which stresses the importance of internal control and organizational accountability in fraud prevention and transparency enhancement (Hillison et al., 1999; Kartini, 2018). Furthermore, the findings are consistent with Vanasco's perspective, which emphasizes the role of internal audits in promoting organizational integrity (Vanasco, 1998). Similarly, Krambia-Kapardis highlights the importance of multidisciplinary knowledge for internal auditors, including expertise in psychology, criminology, and sociology (Krambia-Kapardis, 2002). This interdisciplinary understanding enhances internal auditors' ability to recognize fraud characteristics and patterns, thereby strengthening their effectiveness in preventing fraud within organizations.

The study also corroborates the findings of Petrascu and Tieanu, who identify the pivotal role of internal auditors in fraud prevention and in fostering organizational integrity (Petrașcu & Tieanu, 2014). The responsibilities of internal auditors contribute positively to detecting and preventing fraud (Perry & Bryan, 1997). Both studies emphasize that internal auditors not only act as supervisors but also play a critical role in strengthening organizational integrity and transparency. In the context of local government management, this study underscores the vital importance of internal auditors in preventing fraud and ensuring accountability.

The findings of this study highlight the necessity for regional governments to strengthen the role of internal auditors as a key preventive measure against fraud. To achieve this, regional inspectorates must focus on several strategic actions. First, enhancing the internal control structure is crucial to improving processes and mechanisms that reduce vulnerabilities in organizational operations. Second, the quality of supervision must be elevated through targeted training programs and the provision of adequate resources, ensuring that auditors are equipped for effective monitoring and oversight. Third, fostering a culture of transparency and accountability within the organization is essential, creating an environment that prioritizes ethical conduct and openness. Furthermore, optimizing the internal audit function is imperative to empower auditors to play a more effective role in preventing fraudulent activities that could negatively impact both the organization and the broader community.

## 5.2. Local Culture (Adat Bersendi Syara, Syara Bersendi Kitabullah - ABS-SBK) Strengthens the Role of Internal Audit in Fraud Prevention

The analysis confirms that ABS-SBK's local culture significantly strengthens the influence of internal audit in preventing fraud within local government, as indicated by the acceptance of the second hypothesis (H2). The statistical results show a p-value of 0.000 and a t-statistic of 3.356, supporting the conclusion that local culture enhances the effectiveness of internal audits in fraud prevention. This enhancement occurs by fostering an environment that prioritizes transparency, accountability, and integrity in financial and operational management.

Recent scholarly research underscores the pivotal role of internal audits in enhancing organizational accountability and preventing fraud. A systematic literature review identifies key factors contributing to internal audit effectiveness, including organizational characteristics, relationships, processes, resources, and coordination with other assurance providers. These elements collectively strengthen internal controls and governance frameworks, thereby mitigating fraud risks (Abdelrahim & Al-Malkawi, 2022).

Furthermore, studies highlight that a robust organizational culture significantly influences the efficacy of internal audits in fraud prevention. A strong culture fosters ethical behavior and compliance, creating an environment where internal audits can effectively detect and deter fraudulent activities (Ojra et al., 2020).

Integrating local cultural values into organizational practices can amplify the effectiveness of internal audits. By embedding values that promote ethical behavior and good governance, organizations enhance their internal control systems, reducing the likelihood of fraud.

In agreement with previous studies conducted (Magnanelli et al., 2017; Rahman & Bremer, 2016), this research further validates the theory that implementing good governance principles positively impacts the role of internal auditors in fraud prevention. Such practices enhance organizational performance and ensure transparent, accountable financial reporting. Additionally, the literature underscores the influence of local culture on shaping the behavior of internal auditors, thereby increasing transparency and mitigating the risk of fraudulent activities.

The findings underscore the strategic importance of organizational culture, particularly local cultural principles such as *Adat Bersendi Syara, Syara Bersendi Kitabullah* (ABS-SBK), in enhancing the effectiveness of the internal audit function. Local culture serves as a cornerstone for effective internal supervision by reinforcing ethical norms and fostering a strong sense of accountability. It also plays a crucial role in improving financial management transparency, ensuring openness in the management and reporting of public funds through its alignment with good governance principles. Additionally, local cultural values contribute to enhancing public service quality by fostering professionalism and integrity, which leads to more effective and ethical service delivery. Moreover, cultural principles promote integrity and professionalism among government officials, reducing opportunities for fraud and ensuring adherence to ethical behavior. These findings emphasize the need for developing a robust organizational culture rooted in transparency, accountability, and participation. Such a culture not only empowers internal auditors to uphold high standards of integrity but also strengthens governance practices and ensures the responsible management of government resources.

## 6. Conclusion

This study highlights the critical relationship between the role of internal auditors and local culture in fraud prevention within local governments. The findings confirm that internal auditors play a pivotal role in identifying, preventing, and addressing potential fraud.

Strengthening the effectiveness of internal audits is essential for improving financial management, enhancing transparency, and fostering accountability, which collectively contributes to better governance practices and increased public trust. Additionally, the study demonstrates that local culture significantly amplifies the effectiveness of internal auditors in preventing fraud. A strong cultural foundation that prioritizes transparency and accountability empowers internal auditors to perform their supervisory functions more effectively, thereby enhancing the integrity and professionalism of local government operations. To achieve these objectives, local governments must invest in continuous training for internal auditors, equipping them with advanced knowledge and skills in fraud prevention tailored to the specific needs of local contexts. Furthermore, the integration of culturally-based monitoring systems involving active participation from communities and stakeholders can reinforce the application of local cultural values. This approach ensures consistent adherence to transparency and accountability principles, ultimately strengthening governance and fostering a culture of integrity within local government management.

## 7. Acknowledgment

The author would like to thank all those who have been willing to cooperate well during this research.

## 8. Declaration of Conflicting Interests

The author have declared no potential conflicts of interest concerning this article's research, authorship, and/or publication.

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