



The concept of integrated government internal control system as a literacy discourse to minimize fraud in the government environment

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ABSTRACT

Fraud in government is increasingly becoming the biggest problem in state finances, so there needs to be a special discourse to build a conceptual framework for dealing with this problem. The purpose of internal control is to minimize finances; therefore, the results of this study are expected to contribute to practitioners as a supporting reference for the running of the internal government control system. This research used a library or literature study with a qualitative descriptive approach. Data collection was through relevant previous studies and documents. The data were analyzed, then interpreted in narration to find the meaning of this research topic. The results indicated that Integrated Government Internal Control System (mostly known as SPIP in Indonesia) is a system built to minimize financial fraud, especially those that have the potential to emerge in the scope of government. It is formed to achieve effective and efficient government operations, reliability of financial reporting, safeguarding state assets, and compliance with laws and regulations. This concept can become a fundamental basis for every examiner in carrying out his/her role while maintaining state financial stability and preventing various forms of irregularities that every element in the government could potentially commit.

Keywords: Integrated Government Internal Control System; Fraud; State finances; and Government.

1. INTRODUCTION

The work environment brings together all the multi-complex resources with various characters. The struggle with different situations and conditions in the work environment has implications for various characters regarding integrity and disintegrity, such as mature and labile, honest and hypocrisy, and diligent and lazy. Thus, leaders must implement a good internal control system as preventive and constructive steps as an alternative to ongoing fraud. Based on reality, fraud occurs in the financial sector and

often emerges as the main source of problems that cause various losses to the perpetrators and state finances. Fraud occurs within the scope of government, which is carried out consciously to take material advantage by removing various kinds of inequality due to these actions.

Several studies have been conducted related to financial fraud. Dyck, Morse, & Zingales (2023) estimated that an average of 10% of large public trading companies commit securities fraud each year, with an interval of 95% from 7%-14%. Combining the spread of fraud with the estimated costs of detected and undetected fraud, it estimates that corporate fraud destroys 1.6% of the equity value each year, equivalent to \$830 billion in 2021. Such financial manipulation harms corporate financial stability. In addition, Tonye & Temitope (2023) note that Nigeria also has fraud taxation. Most people view taxation as an important tool for national progress and expansion. Long-term infrastructure development has been seen as a key objective of the program. Business is expanding and becoming more global, which means greater opportunities for tax evasion for taxpayers. When dealing with these issues, the tax administration must follow and develop its techniques, which means it must continually modify and adapt its methods. A person or business intentionally falsified information on their tax returns to reduce the tax burden. Tax evasion is committed by someone trying to avoid paying the full tax owed. Tax fraud can take many forms, including using fictitious deductions, claims for personal expenses incurred while committing corporate actions, and failure to report income.

Based on data from Transparency International in 2020, Indonesia ranked 102 out of 180 countries observed. This result indicated that Indonesia had a high level of corruption. Karyono (2002) stated that corruption in Indonesia had occurred repeatedly in the government administration system. In addition, the biggest source of corruption in public sector organizations is procurement activities; it is also one of the sources of leakage of state finances (Tuanakotta, 2010). Procurement of public goods and services is often identified with various types of fraud in plan, implementation, and completion (Sulistianingsih, 2023). In line with that, Sofyani, Yaya, & Widiastuti (2023) in their research also noted that most corruption occurred in developing countries, where Indonesia was ranked 102 based on the data of Transparency International in 2020. The high number of corruption cases at various levels of public procurement in Indonesia often becomes a problem that raises the pros and cons of the decentralization of state financial management.

The number of fraud cases in different methods initiated experts conducting studies and uncovering several factors that led to these acts. Donald Cressey first developed one of the theoretical explanations regarding the causes of someone committing fraud in 1950; his theory is known as the fraud triangle: pressure,

opportunity, and rationalization (Eko Sudarmanto & Citra Kharisma Utami, 2021). These three factors are considered the main support in doing fraud, which is classified as the perpetrator's internal factor.

Building an internal control system concept is necessary to avoid fraud in various fields of work. The control and supervision system within the organization's scope is a very important anticipatory step, especially to save the government and non-governmental organizations (NGOs) from immoral cases that can have serious material implications. Supervision is a preventive measure to control the course of the bureaucracy as expected. The hope is that there will be no abuse of authority and responsibility, and the achievement of good performance within the scope of the organization and government will only be an imagination if control and supervision are not given careful attention. Therefore, Indonesia has an Integrated Government Internal Control System (mostly known as SPIP). It is an integral process of actions and activities carried out continuously by leaders and all employees to provide adequate assurance of achieving organizational goals through effective and efficient activities, reliability of financial reporting, safeguarding state assets, and compliance with laws and regulations.

In the Regulation of Financial and Development Supervision of the Republic of Indonesia Number 5 of 2021 concerning the Assessment of Minorities for the Implementation of Integrated Government Internal Control Systems in Ministries/Institutions/Regional Governments, it states to achieve effective, efficient, transparent, and accountable management of state finances, it is necessary to control the implementation of activities by the Government Internal Control System. Internal control is crucial in financial management to achieve the expected work results. In line with that, Amin in Launuru (2020) stated that internal control does not consciously check the correctness of financial reporting through numbers and protects an organization's assets from a bookkeeping perspective, more than that internal control also pays attention to the company's organizational structure, improves work efficiency and analyzes the success of an organization management policy. Thus, the significance of the purpose of internal control is very clear, namely to prevent acts of fraud in general and in the financial sector in particular.

Based on the previous explanation, the importance of this research is to support the literature discourse, especially in the field of control and supervision. Since fraud in the government environment is increasingly becoming the biggest problem in state finances, there needs to be a special discourse to build a conceptual framework for dealing with this problem. The purpose of internal control is, of course, to minimize financial fraud. Therefore, the results of this study are expected to contribute to practitioners as a supporting reference for running the government's internal control system.

2. METHODS

This research used a library or literature study with a qualitative descriptive approach to review the problems of financial audits within a local government. Data collection was through relevant previous studies and documents, especially those discussing the Integrated Government Internal Control System. The data were analyzed, then interpreted in narration to find the meaning of this research topic.

3. RESULTS AND DISCUSSION

Control is one of the elements in an organization's management system, so government internal control is closely related to financial management. Alexano (2012) stated that financial management was a step in controlling the use of finances, especially on matters that are not relevant. Financial control is also carried out by various methods relating to checking or controlling the financial management process in various designated posts. Every leader in the organization expects good performance in the management process, especially when it involves financial matters. Both government and NGOs, profit-oriented and non-profit organizations, always place indicators to achieve the expected performance.

A high position can make people commit fraud. Sometimes a person is faced with a condition where he/she is given responsibility in work with the influence of certain factors, which making lose control and commit various kinds of irregularities, especially if it is related to finances. Fraud means abusing responsibility. Gilbert & Wakefield in Sudarmanto & Utami (2021) stated that fraud included intentional dishonesty in making reports, misrepresentation of data, and even manipulation that is consciously carried out by displaying facts that can harm other people and the organization. In addition, Zimbelman (2014) stated that fraud also included acts of theft, appropriation, illegal attempts, and errors in making financial reports, including assets and liabilities in an organization. Fraud is an illegal and unlawful act, not only self-injury for the perpetrators; even a state is threatened if it relates to state finances.

There is consensus that prevention should be a priority to minimize fraud through proper risk management (Aguayo et al., 2021). Avoiding fraud saves time and financial resources, as detecting it after it has occurred has the consequence that the stolen assets are practically unrecoverable. To improve fraud prevention, organizations must focus on the root causes by identifying the causes that lead people to commit fraud and understanding their behavior. Many theories have attempted to answer this question. The most frequently cited in this context is Fraud Triangle Theory (FTT) by Cressey and Diamond Fraud Theory (FDT) by Wolf and Hermanson. As a form of response to the

fraud problem and the factors that influence it, the Government's Internal Control System was initiated as an alternative in overcoming this problem.

Integrated Government Internal Control System is an internal control system specialized in government financial operations. As a policy, a legal law can be used as a guideline or legal basis for carrying out the control function. In the Regulation of Financial and Development Supervision of the Republic of Indonesia Number 5 of 2021 concerning the Assessment of Minorities for the Implementation of Integrated Government Internal Control Systems in Ministries/Institutions/Regional Governments, it states to achieve effective, efficient, transparent, and accountable management of state finances, it is necessary to control the implementation of activities by the Government Internal Control System.

Like internal control in general, Integrated Government Internal Control System is also a control process in government agencies that aims to achieve optimal conditions for an entity. It is said to be an optimal condition because there are conditions that are not expected in the entity. For example, there is fraud deliberately carried out by certain parties to harm state assets. Internal control maintains employees' integrity in preparing, using, and reporting funds per a predetermined budget. Paying attention to this internal control is important because fraud generally occurs. After all, the control system is not yet comprehensive. Although several business and government entities have implemented internal control, some still show weaknesses, which is why internal control is still a topic of discussion in both practical and academic realms. Sudarmanto et al. (2021) define internal control as a system created by a company or organization to regulate activities within it to achieve company or organizational goals. Being responsible for internal control does not only involve the leadership in the organization but all members must also be involved, even though initially, internal control was only made for the board of directors or leaders.

Based on the Regulation of the Minister of Home Affairs of the Republic of Indonesia Number 48 of 2021 concerning Planning for the Development and Supervision of the Implementation of Regional Government in 2022, Supervision of the Implementation of Regional Government is efforts, actions, and activities aimed at ensuring the implementation of Regional Government runs efficiently and effectively following the provisions of laws and regulations -invitation. The legality and existing concepts very explicitly provide a meaning of the purpose of internal control; if it is implemented properly, allowing the achievement of organizational goals to be effective and efficient.

The assessment process is carried out to measure the maturity level of Integrated Government Internal Control System implementation, which focuses on three

components: the quality of goal setting, structure and process implementation, and achievement of goals that reflect the implementation results. Assessment of the quality of goal setting is carried out to ensure the goals and objectives set follow the organization's mandate, result oriented, and consider strategic issues. The structure and process are assessed on five control elements, then divided into twenty-five control sub-elements. Each sub-element has parameters that indicate the quality of internal control, risk management, and efforts to control corruption.

Several things underlie the concept of control. They are: 1) control is a tool to maximize the achievement of planned goals; 2) control depends on who is running it and cannot be assessed as a separate part; 3) internal control relates to all parts that can only run well if meeting the needs of users or can be practiced and has benefits; 4) Over control is as bad as lack control because it causes a person to feel monitored; 5) Entropy is a tool to measure fraud in the internal control system; 6) the organizational culture that influences the type of control implemented may be rigid or flexible (Zamzami et al., 2018).

Internal control is policies made to ensure the compliance of duty and authority holders in carrying out their duties as those in charge of financial reports so that the presence of internal control management acts as a patron in carrying out organization's operation. Romney and Paul in Lathifah (2021) stated that internal control is a plan made by an organization that is used to maintain assets, provide accurate and reliable information, encourage and improve the efficiency of organizational operations and encourage organizational compliance with established policies. Integrated Government Internal Control implementation as a patron in the operationalization of the organization so that it can run as expected, namely free from fraudulent acts related to the use of government assets.

Integrated Government Internal Control System is a concept built on fundamental objectives to achieve good human resource performance within the scope of government organizations. These fundamental objectives are manifested in good governance as output performance without any indication of fraud. As the concept implies, the achievement of organizational goals is assessed through the achievement of four Integrated Government Internal Control System objectives, namely as follows:

1. Effective and efficient activities are assessed through the organization's output and outcome.
2. The reliability of financial reporting is assessed through the attainment of opinions on the financial reports.
3. The security of state assets is assessed through the achievements of administrative, legal, and physical securities of assets.

4. Compliance with laws and regulations is assessed through the number of non-compliance findings in the Audit Board of the Republic of Indonesia Audit Report, the number of non-compliance findings in the Government Internal Oversight Apparatus examination report, and the occurrence of corruption cases.

Internal control has three main functions. First is preventive control, an internal control to prevent a problem before it arises. Second is detective control, which reveals the findings of the problem. Third is corrective control, an internal control to solve or resolve problems found by the examiner (Romney and Paul in Lathifah, 2021). Based on this, the internal control system integrated with its functions exists as a guideline for inspection to control various kinds of fraud that have the potential to pollute the organizational environment. The concept of an internal control system with its existence exists to minimize various kinds of scandals or, in this case, financial fraud in any organizational environment. Internal control, as its first function, is to prevent fraud present with early prevention. Preventive steps are very important to lead every Human Resource (HR) from the start so they can carry out their roles well in the future.

The internal control system is a benchmark for making empirical findings when financial fraud occurs. The basic reference for detecting fraud is through accountability policies (financial reporting). So, Integrated Government Internal Control System is also present as a patron to increase organizational accountability. Samongilaila & Rosidi (2023) stated that Integrated Government Internal Control System exists to encourage the central government and local governments to implement public accountability. Thus, the Integrated Government Internal Control System is also a concept to solve or resolve problems found by examiners in the field. The contents of the Integrated Government Internal Control System substance regarding problem-solving become a joint guideline for the examiner in carrying out his duties and functions.

4. CONCLUSION

Integrated Government Internal Control System (mostly known as SPIP in Indonesia) is a system built to minimize financial fraud, especially those that have the potential to emerge in the scope of government. It is formed to achieve effective and efficient government operations, reliability of financial reporting, safeguarding state assets, and compliance with laws and regulations. This concept can become a fundamental basis for every examiner in carrying out his/her role while maintaining state financial stability and preventing various forms of irregularities that every element in the government could potentially commit.

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