DOES INTERNAL CONTROL WORK?
Fraud Case in Government Sector Indonesian Evidence

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Abstract
This research analyzed the role of internal control in reducing intention to do fraud. Internal control becomes a variable that moderates the relationship between organizational culture, information asymmetry and law enforcement with a person’s intention to commit fraud. This research took place in a district in Eastern Indonesia. Respondents from this research are government employees and taken with a convenience sampling method. The findings of this study are: This study proved that the greater the information asymmetry, the higher the intention to do fraud. In addition, law enforcement and regulation could reduce fraud intentions. However, this study had not proven the influence of organizational culture on fraud and this study also failed to prove the role of internal control to reduce fraud intention. This research had a practical contribution where in this case, law enforcement and regulation become the most important thing in reducing fraud intention. Besides it is necessary to improve the internal control system in order to function as expected. The originality of this study, there are still little empirical research that discusses the study of internal control functions associated with the reduction of fraud intention.

Keywords: Organization Culture; Asymmetric Information; Law Enforcement; Internal Control; Fraud Intention And Fraud Theory.

Abstrak
Penelitian ini menganalisis peran dari pengendalian internal untuk mengurangi niat melakukan kecurangan. Pengendalian internal merupakan variable yang memoderasi hubungan antara budaya organisasi, asimetri informasi dan penegakan hukum dengan niat seseorang melakukan tindak kecurangan. Penelitian ini mengambil lokasi di salah satu kabupaten di Indonesia bagian Timur. Responden penelitian ini adalah para aparatur sipil negara yang diambil dengan teknik convenience sampling method. Riset ini menemukan bahwa semakin tinggi tingkat informasi asimetri akan semakin tinggi kecenderungan niat untuk melakukan kecurangan, dan di sisi lain studi ini juga mengonfirmasi bahwa penegakan hukum dan peraturan mampu untuk mengurangi niat melakukan kecurangan. Akan tetapi, studi ini tidak berhasil membuktikan bahwa terdapat pengaruh budaya organisasi terhadap niat melakukan kecurangan dan juga gagal membuktikan bahwa pengendalian internal mampu mengurangi niat melakukan tindak kecurangan. Hasil temuan dari riset ini memiliki kontribusi praktis sebuah organisasi dalam penegakan hukum dan peraturan menjadi hal yang sangat penting untuk mengurangi niat melakukan kecurangan, selain itu pentingnya memperbaiki
sistem pengendalian internal dari sisi implementasi agar dapat berfungsi sebagaimana yang diharapkan di dalam teori. Originalitas studi ini terletak pada masih sedikitnya studi empiris yang membahas fungsi pengendalian internal dalam mengurangi niat melakukan tindak kecurangan.

Kata Kunci: Budaya Organisasi; Informasi Asimetri; Penegakan Hukum; Pengendalian Internal; Niat Melakukan Kecurangan; Teori Kecurangan.

JEL Classification: M41, M42, M48

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INTRODUCTION

Fraud is an issue that endlessly discussed. Various institutions and the State always face this problem. Corruption committed by lower level employees or even top management in private companies often adorned the mass media. Corruption or other fraud committed in the government sector are also become common phenomena in several countries. Fraud or corruption does not only happen in the third world countries but also in developed countries. One of the biggest corruption cases in Indonesia is the e-ktp (electronic identity card) case that involving and has ensnared several of the political party figures. Until now this case is still a widespread concern of the community. In Malaysia, there is corruption case that dragged international public which involved several popular names and countries. It is the misappropriation the Malaysian flow of development funds (1MDB). The case involved the United States of America as a plaintiff and the Singapore as an investigator and a bailiff for 240 million Singapore dollars worth of assets. This suspicious funding stream also involves major banks in Malaysia such as Good Star Limited, Aabar Investments PJS Limited and Tanore Finance Corp. (Tempo.co, 2016). The case has dragged the name of prime minister of Malaysia, Najib Razak due to his stepson's involvement and also the name of the famous movie star, Leonardo Di Caprio. (Ferdian, 2016).

A bribe issue of 12 million yen from a construction company had made Japanese economic minister, Akira Amari, resigned from the cabinet of prime minister, Shinzo Abe. (bbc.com, 2016). In mid-2015, there was a financial scandal in Japan. Toshiba’s management allegedly had made earnings management by exaggerating Toshiba's revenue. The Toshiba accounting scandal is estimated to reach more than US $ 1 billion as of March 2014. As a result of this event, the public questioned the performance of the company's management. Toshiba Corp.’s CEO Hisao Tanaka finally decided to resign along with other board members including vice chairman, Norio Sasaki, for being held responsible for accounting irregularities. (Panji, 2015).

Related to fraud cases, a number of theories had tried to explain and understand the underlying causes and motivations of the fraud perpetrators to commit crimes, from the Fraud Triangle theory (Cressey, 1953); Fraud Scale (Frontier, Howe and Romney, 1984) Fraud Cube (Wolfe and Hermansons, 2004); ABCs of White Collar Crime (Ramamoorti, 2009); Fraud Pentagon (Marks, 2009) to A Disposition-based Fraud Model (Raval, 2016). One of the contributing factors of fraud occurring is internal
control weaknesses (fraud triangle, fraud diamond and pentagon fraud) The best way to minimize chances of fraud is to apply a good internal control system. (Buckhoff, 2002).

Rae and Subramaniam (2008) examined the quality of internal control procedures (ICP). They found that the quality of ICP moderates the relationship between organizational fairness perceptions and employees’ fraud. Quality of ICP is also significantly and positively related to three major organizational factors: the company's ethical environment, the extent of risk management training of staff, and the internal audit (IA) activity level. In addition to internal control, there are many other factors that also cause the occurrence of fraud. Faisal (2013) found that there is a negative influence among compliance of internal control systems, ethical behavior and leadership style toward fraud in the government sector. However, there is no effect on the compensation amount and organization culture toward employees’ fraud. Pramudita (2013) also founds a negative influence of the internal control effectiveness to fraud in the government sector. Pressure factors also become one of the fraud drivers. The compliance (demand) and compliance pressure (orders) from the CEO significantly increased the willingness of the CFO to revise their initial inventory adjustments. In addition, the CFO accounting experience is inversely proportional to the revised initial estimates. CFOs who approve of the CEO's pressure will ultimately take personal responsibility for their adjustments. (Bishop et al, 2017).

The corruption phenomena are world phenomena. Farooq and Brooks (2013) tried to examine cultural linkages with corruption. Their research found that instead of maintaining public sector fraud as a cultural issue, respondents felt that they were part of the solution in preventing fraud and corruption. However, as elsewhere, those who tried to prevent corruption in the Gulf region, will meet with a deep-rooted attitude found throughout the world. Research in India found that the regulatory system was weak, and desperately needed to redefine the role of auditors. Coordination between different regulatory authorities is bad, so fraud continues and then followed by blame game. Reporting fraud and publication of fraud prevention policies is also missing. Banks and financial institutions are not effective in due diligence, and also lack of professionalism within the council and at other executive levels. (Gupta and Gupta, 2015). Mihret (2014) examined cultural influences with fraud rates in 66 countries using Hofstede’s cultural dimensions. Results from a sample of 66 countries showed a higher fraud risk for countries characterized by a high power of distance (PDI) and lower fraud risks for countries with long-term oriented cultures.

Various factors can be a person's motivation to commit fraud. Corporate culture, law enforcement and information asymmetry are some of the factors that can lead to make fraud. Pramudita (2013) found that there was a negative influence of organizational ethical culture toward fraud in the government sector but there was no influence of law enforcement toward fraud. Mustikasari (2013) found a positive correlation between information asymmetry and fraud

This research aimed to examine several factors that could trigger a person to do fraud. These factors were organizational culture, information asymmetry and law enforcement. In addition, this research wants to analyze whether the existence of internal control could minimize the occurrence of fraud by the existence of trigger factors. This study had practical contribution for the government to establish a better internal control system to minimize fraud in the government sectors and law enforcement is a significant factor to reduce fraud intention. There is still few empirical
research about fraud in government sectors and analyze whether internal controls could function as expected, according to the theory.

LITERATURE REVIEW AND HYPOTHESIS

Fraud Theory

There are various behavioral theories that address the causes of fraud. The theory was initiated by fraud triangle theory (Cressey, 1953). According to this theory there are three causes of a person to do fraud, those are pressure, opportunity and rationalization. This theory then developed into fraud diamond (Wolfe and Hermanson, 2004) by adding one dimension, that was individual capability. Without a qualified ability, someone could not possibly succeed doing fraud (Ruankaew, 2016). Beside fraud diamond theory that developed from the fraud triangle, there is the theory of fraud square I (Bressler and Bressler, 2007). This theory was consisted of 4 elements: incentive, opportunity, capability, and realization. The variant of fraud square is the theory made by Cieslewicz (2010) (in Mackevicius & Giriunas, 2013) by adding social influence as the 4th element (Fraud Square II).

This theory was later developed again by Marks (2009) became Fraud Pentagon I. According to Marks (2009), the motivation of people doing fraud there are five i.e: pressure, opportunity, rationalization, competence, and arrogance, where "competence" expands the element of Cressey's opportunity to incorporate one's ability to the exclusion of internal control and social control over its benefits. "Pride or arrogance or lack of conscience" is an attitude of superiority and rights or greed from people who believe that company policies and procedures are not personally applied. Mui and Mailey (2015) combined fraud triangle and crime triangle became Symbiosis of Fraud Triangle and Crime Triangle theory. Theory of fraud triangle complements the focus of the fraud triangle-centers by examining the environment in which fraud occurs and the parties involved in preventing fraud or not playing their roles, fraud.

Albrecht, Howe and Romney (1984) developed the theory of fraud scale I by taking two elements of the fraud triangle, the pressure and the opportunity but replacing the rationalization with personal integrity. Mackevicius and Giriunas (2013) developed the fraud scale of Albrecht version, where the element of deception scale is the motive, condition, ability and fulfillment (Fraud Scale II). The first element of the scale of fraud is its motive. It determines whether an employee is likely to behave unfairly and why. The second element of the fraud scale is the condition that increases the risk. The third element is the possibility, which is treated as an option given to employees who wish to cheat. The fourth element is realization, which is seen as a means to justify unfair behavior.

Ramamoorti et al (2009) used a different approach than previous theories. His theory is called ABCs of White Collar Crime. ABC: A - the Bad Apple: individual personality characteristics of those who commit fraud; B - the Bad Bushel: the dynamics of collusive behavior groups; C - the Bad Crop: a larger cultural / community factor that increases or allows fraud. The MICE theory proposed by Dorminey et al (2012) says that the cause of the fraud is M which means money, I - Ideology, Co - Coercion and E - Ego or Entitlement. Looking at the elements conceived by this theory, it appears that this theory is still the development of the fraud triangle. Raval (2016) made the theory of disposition-based fraud models. This model frames financial fraud as an act of indulgence. A person commits an act of fraud for engaging in moral
temptation, which leads to deliberate action. Thus, the Disposition Based Fraud Model is essentially an interaction between (a) the circumstances indicated by the stimuli that make up the moral temptations at hand, and (b) the character of the actor (disposition).

**Internal Control Theory**

The definition of internal control according to COSO (Committee of Sponsoring Organizations of the Treadway Commission) is:

“a process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance of the achievement of objectives in the following categories: (1) Effectiveness and efficiency of operations, (2) Reliability of financial reporting, (3) Compliance with applicable laws and regulations”

According to COSO there are 5 components that must exist so that internal controls can run effectively so that management can achieve the vision, mission and goals of the company. The five components are: control environment; risk assessment; control activities; information and communication and monitoring.

The control environment consists of various aspects such as ethical values, operating style and organizational structure, management philosophy, and quality of human resources. The control environment acts as the initial foundation that determines the next component. Risk assessment requires identification, understanding and action to an event, problems, conditions, opportunities and threats faced by the company either operationally, financially and even the ultimate goal of the entity. Risk assessment keeps the entity alert in the presence of monetary and non-monetary risks that threaten the company, its potential risks and how to manage those risks.

Control activities such as procedures, rules and policies have a role to ensure that the objectives of the control system are in place and that risks are properly managed. Control activities fall into three categories: operational control, financial information control, and compliance control. Operational control is carried out in the presence of control over the operations of the company. The control of financial information is done by ensuring the financial reporting and asset protection activities of the entity. Control over compliance is made by ensuring that all applicable laws and regulations have been implemented.

Elements of information and communication in internal control consider all the information collected and how to make one information message flow in the entity. This means that everyone should be able to receive a top management message on aspects of the control system, how they work and their roles and responsibilities within the entity. Furthermore, the control system shall be periodically monitored to assess the effectiveness of the control system. Monitoring activities can be done by providing employee training, personnel performance evaluation and auditing feedback. The most important thing is that internal auditors are responsible for reporting non-conformities in the entity's internal control system to top management, board of directors and audit committee.

**Organizational Culture, Internal Control And Fraud Intention**

Organizational culture includes values and behaviors that contribute to the unique social and psychological environment of an organization. Organizational culture represents the collective values, beliefs and principles of organizational members, management styles and includes the vision, values, norms, systems, symbols, languages, assumptions, environment, location, beliefs, and organizational habits
(Needle, 2004). Associated with fraud, organizational culture can be a justification (rationalization) to commit fraud. According to COSO's internal control theory, organizational culture is part of the control environment. The control environment is the foundation of the success of the internal control system. If the members of the organization are accustomed to apply, management also does not familiarize the norms of integrity and cruel honesty, then these bad values will spread throughout the organization's joints so the intention of fraud will be higher. Conversely, if the corporate culture accustoms to the values and norms of good behavior within the company, then the intention to cheat will decrease.

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Internal control is a procedure developed by management with one goal to minimize the occurrence of fraud. A good organizational culture, combined with a good internal control system will minimize fraud intentions. Conversely, if the organizational culture that occurs is not conducive plus the internal control system that does not work, then fraud intention will increase. Rae and Subramaniam (2008) found that the company's ethical environment affected the level of employees’ fraud. Pramudita (2013) found that there is a negative influence between organizational ethical culture and fraud in the governmental sector but Faisal (2013) did not find an influence between organizational culture and fraud in the government sector. While good internal control has a negative effect on fraud (Faisal, 2013 and Pramudita, 2013). From here the following hypotheses are derived:

**H1a:** The better the organization culture, the less fraud intention.

**H1b:** Internal control moderates the relationship between organizational culture and fraud intention

**Information Asymmetry, Internal Control and Fraud Intention**

Information asymmetry is a manifestation of agency theory (Jensen and Meckling, 1976). In this theory, the agent is the person who runs the company so he or she has more information than the principal, so there is the possibility of agents will commit acts of fraud to maximize their welfare by ignoring the interests of the principal. It needs certain procedures to minimize the behavior of agents that are not in harmony with the interests of the principal. Company need internal controls such as budget restrictions, compensation rules, standard operating procedures and others.
Wilopo (2006), Najah (2013), Prawira et al (2014) found a positive influence between information asymmetry and fraud. Rae and Subramaniam (2008) found that internal audit activity levels affect employee fraud rates. From here the hypothesis are derived as follows:

**H2a:** The higher the level of information asymmetry the higher the fraud intention

**H2b:** Internal control moderates the relationship between information asymmetry and fraud intention

### Law Enforcement, Internal Control and Fraud Intention

One of the internal control objectives is to comply with applicable laws and regulations. If applicable laws and regulations are not enforced by the authorities, it means there is opportunity to commit fraudulent acts, and vice versa if laws and regulations are enforced, it will minimize the members of the organization to commit fraud. Usually the fraudsters will try to cover up their fraudulent acts therefore there must be a system that can detect the occurrence of fraud or actions that violate laws or regulations. So good law enforcement and combined with a good internal control system will be able to minimize the occurrence of intention to commit fraud. Pramudita (2013) in his research did not find the influence of law enforcement on fraud tendencies in the government sector while Mustikasari (2013) and Faisal (2013) found a negative influence between law enforcement and fraud tendencies. Subramaniam (2008) found that the level of internal audit activity affects the level of employee fraud. From here the hypothesis are derived as follows:

**H3a:** The better the law enforcement, the fraud intention will be reduced

**H3b:** Internal control moderates the relationship between law enforcement and fraud intention

### RESEARCH METHOD

This research is an empirical research that seeks the causal relationship between organizational culture, information asymmetry and law enforcement with the fraud and analyse how the role of internal control in that relationship. This research uses 3 types of variables; ie: independent variables, dependent variable and moderating variable. Independent variables are organizational culture, information asymmetry and law enforcement. Organizational culture was measured by 5 questions adopted from Faisal's (2013) research. Information asymmetry was measured by 6 questions developed from Dunk's (1993) theory, had been used by Wilopo (2006). Law enforcement is measured by 5 questions developed from Robin's (2008) theory, had been used by Pramudita (2013). Dependent variable is fraud intention. The moderation variable is internal control and measured by 5 questions developed from COSO and had been used by Mustikasari (2013) research. All questions used likert scale.

Organizational culture is how employee perceptions regarding the atmosphere and habits in the institution where they work, including communication between employees and superiors, and how the work environment formed within the institution. Information asymmetry is how employee perceptions regarding the process of disseminating information within the institution, whether all employees know all the information or not, especially financial information that is very easy to be misused. Law enforcement is how the employee's perceptions regarding the existing rules within
the institution and how the management operates the rules and how applicable sanctions apply to those who violate them. Fraud intention is how employee perceptions of fraudulent behavior that often occur in the government sector. Internal Control is how the employees’ perceptions regarding the procedure that guides and supervises them in achieving agency goals that include reliability in financial reporting, effectiveness and efficiency of work, and compliance with rules and applicable laws in the institution where they work.

Population and sampling
The population is permanent employees who work for the district government in one of Provinces in East Indonesia. Sampling was taken using convenience sampling technique. Convenience sampling is the collection of information from members of the population who were volunteered to provide answers to the questionnaires. We distributed 200 questioners and 155 were returned, so the response rate was 77.5%. The questionnaires were distributed to all levels of employees in district government with help of one division head there.

Data analysis technique
Data were analyzed through 2 stages. In the first stage, we tested the quality of data and the second stage tested the hypothesis using regression. The data quality test was performed by a reliability test using Cronbach alpha and validity test using Pearson correlation. The result of data quality test showed that the data used was reliable because all of the variable are bigger than 0.6. All data was also valid, because Pearson correlation value smaller than significant level of 5%.

RESULT AND DISCUSSION

Demographic of Respondent
The following table describes the demographics of respondents regarding age, gender and level of education. Individual’s age could be a depiction of the experiences and responsibilities of individual in the organization. Of the 155 respondents in this study, the majority of respondents aged were between 31 - 35 years (26.5%), followed by 26-30 years (23.2%). This result shows that the majority of respondents are productive age.

In terms of gender, the number of male respondents was 81 (52.3%) and female respondents were 74 (47.7%). There is a balance between the number of male and female respondents which means that male and female civil servants generally have equal opportunities to work as employees at Sorong district government.
Table 1
Demographics of respondents

<table>
<thead>
<tr>
<th>Age (in Year)</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 – 25</td>
<td>7</td>
<td>4.5 %</td>
</tr>
<tr>
<td>26 – 30</td>
<td>36</td>
<td>23.2 %</td>
</tr>
<tr>
<td>31 – 35</td>
<td>41</td>
<td>26.5 %</td>
</tr>
<tr>
<td>36 – 40</td>
<td>20</td>
<td>12.9 %</td>
</tr>
<tr>
<td>41 – 45</td>
<td>23</td>
<td>14.8 %</td>
</tr>
<tr>
<td>46 – 50</td>
<td>14</td>
<td>9.0 %</td>
</tr>
<tr>
<td>51 – 55</td>
<td>14</td>
<td>9.0 %</td>
</tr>
<tr>
<td>Gender</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Men</td>
<td>81</td>
<td>52.3 %</td>
</tr>
<tr>
<td>Women</td>
<td>74</td>
<td>47.7 %</td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High School</td>
<td>31</td>
<td>20 %</td>
</tr>
<tr>
<td>Diploma 3</td>
<td>12</td>
<td>7.7 %</td>
</tr>
<tr>
<td>Bachelor</td>
<td>112</td>
<td>72.3 %</td>
</tr>
<tr>
<td>Period of Employment (in year)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 – 5</td>
<td>44</td>
<td>28.4 %</td>
</tr>
<tr>
<td>6 – 10</td>
<td>42</td>
<td>27.1 %</td>
</tr>
<tr>
<td>11 – 15</td>
<td>37</td>
<td>23.9 %</td>
</tr>
<tr>
<td>&gt; 15</td>
<td>32</td>
<td>20.6 %</td>
</tr>
<tr>
<td>Total Respondent</td>
<td>155</td>
<td></td>
</tr>
</tbody>
</table>

Regarding the level of education, the data shows that the majority of respondents have a Bachelor degree (S1) of 112 people or the next 72.3% of SMA is 31 people or 20% and those with D3 are 12 people or 7.7%. This shows that most of the Sorong district government’s employees already have adequate education to be able to carry out their functions as civil servants.

As for the period of employment, the data shows that there are quite enough of new employees in Sorong regency, around 28.4%, although there are still more experienced staff (who have worked for more than 5 years), which is 71.6%. This shows a good balance between the number of new employees and the number of experienced staff.

Hypothesis Testing

To test the hypothesis, we used 2 models. The first model examined direct influence of independent variables (organizational culture, law enforcement and information asymmetry) toward the fraud intention. The second model included internal control variables as a moderating variable of relationships among organizational culture, law enforcement and information asymmetry variables with fraud intention.

Model 1: $FI = a + b1.OLCUL + b2.IA + b3.LE + e$
Model 2: $FI = a + b1.OLCUL + b2.IA + b3.LE + b4.OLCUL*IC + b5.IA*IC + b6.LE*IC + e$

Table 2
Hypothesis Result

<table>
<thead>
<tr>
<th>Variables</th>
<th>Prediction</th>
<th>Coefficient</th>
<th>M1</th>
<th>M2</th>
<th>M1</th>
<th>M2</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td></td>
<td>12.245</td>
<td>10.870</td>
<td>.000</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>Organization Culture</td>
<td>-</td>
<td>-.045</td>
<td>-.423</td>
<td>.622</td>
<td>.537</td>
<td></td>
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<tr>
<td>Information Asymmetry</td>
<td>+</td>
<td>.106</td>
<td>.446</td>
<td>.010</td>
<td>.195</td>
<td></td>
</tr>
<tr>
<td>Variables</td>
<td>Prediction</td>
<td>Coefficient</td>
<td>p-value</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-----------------</td>
<td>------------</td>
<td>-------------</td>
<td>---------</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>M1</td>
<td>M2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Law Enforcement</td>
<td>-</td>
<td>-.265</td>
<td>.004</td>
<td>.001</td>
<td>.995</td>
<td></td>
</tr>
<tr>
<td>OLCUL*IC</td>
<td>-</td>
<td>.020</td>
<td>.569</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IA*IC</td>
<td>-</td>
<td>-.012</td>
<td>.741</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LE*IC</td>
<td>-</td>
<td>-.016</td>
<td>.339</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R²</td>
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<td>.163</td>
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<tr>
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<td></td>
<td>.130</td>
<td>.129</td>
<td></td>
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<tr>
<td>F-test</td>
<td></td>
<td>.000</td>
<td>.000</td>
<td></td>
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<tr>
<td>Observation</td>
<td></td>
<td>155</td>
<td>155</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Note: M1 = Model 1; M2 = Model 2
Variable dependent: Fraud Intention; Fraud Intention; OLCUL = Organization Culture, IA = Information Asymmetry, LE = Law Enforcement

From Table 2, we are able to see the results of model 1 that tested the direct relationship among the independent variables (organizational culture, information asymmetry, and law enforcement) to the dependent variable, intention to commit fraud. There was no relationship between organizational culture and fraud intention. While hypothesis 2a and 3a successfully proven. The test results proved that the greater the information asymmetry, the higher the intention to conduct fraud (p-value 0.010, smaller than 5% and coefficient had positive sign) and good law enforcement will reduce the occurrence of fraud (p-value equal to 0.001, means less than 5% and coefficient had negative sign). Table 2 also shows the test results by including internal control variables to moderate the relationship among organizational culture, information asymmetry, and enforcement of penalties with the intention of committing fraud. From this result shows that internal control does not moderate the relationships among the independent variables with fraud intention. All of interactive variable testing: OLCUL * IC (interaction of organizational culture with internal control), IA*IC (interaction of information asymmetry with internal control), LE*IC (interaction of law enforcement with internal control) had p-value value bigger than 5%.

If we compare the results of the M1 test (model 1) with M2 (model 2) for the independent variables, it can be seen that in M1 the information asymmetry and law enforcement variables have a significant effect on reducing the intention to commit fraud, by including the internal control variable as the moderating variable, the two variables become insignificant. This further reinforces that this study fails to prove that internal control can be a factor that reduces the intention to commit fraud.

**Discussion and Analysis**

This study fails to prove the first hypothesis that tests the influence of organizational culture on the intention of committing fraud either directly tested (model 1) or by including internal control as a moderating variable (model 2). Basically, organizational culture is a collective value formed from the habits of old employees, which are then believed and then passed on to new employees. From the descriptive data, 71.6% are employees who have worked for more than 5 years, even 20.6% have worked for more than 15 years. However, the organizational culture which is part of environmental control within the COSO framework has no effect on the intention to fraud committing. This is also an interesting finding and deserves further investigation. Additionally, 72.3% of employees have an undergraduate education, which means they have sufficiently and maturity in term of appropriate way of thinking and insight to
form a good organizational culture that can reduce the intention to commit fraud. This result contradicts the research of Rae and Subramaniam (2008); Pramudita (2013) but in line with the research results of Faisal (2013).

The second hypothesis examines the relationship between information asymmetry and the intention to commit fraud. This study has succeeded in proving back agency theory (Jensen and Meckling, 1976) where the greater the information asymmetry, the higher the intention to commit fraud in order to maximize the welfare of the fraudster. The ability to see whether information is useful or not can be influenced by age, education level, length of work and gender. As someone gets older, he or she will have more needs and will increase if she or he is married. Demographics of respondents indicate that the majority of respondents are in the age range of 26 to 45 years (77.4% total). The ages of 26 years to 45 years are the age at which they are newly married and are currently raising children, which means they need more living cost. The education level is also dominated by undergraduate (S1) education, which means that respondents have the ability to select, sort and analyze information, furthermore 71.6% are employees who have more than 5 years of work experience. The length of work will provide unique experience and knowledge to select, sort and analyze information. Meanwhile the gender in this study is nearly equal. This result was in line with Wilopo (2006), Najah (2013) and Prawira (2014) studies.

This study also succeeded in proving directly that law enforcement had a significant effect on reducing the intention to commit fraud. In terms of age, education level and length of employment of the respondents, this is not surprising. Age and education level will affect emotional maturity and ability to consider risks. Although the age range of 26 years to 45 years is a productive age and has many needs, emotional maturity and educational level will make someone afraid to take risks to break the law. If the law is properly enforced, there is a risk of committing fraud. This result in line with Mustika Sari (2013) and Faisal (2013).

Otherwise, this study was failed to prove that good internal control could be a factor that reinforces organizational culture and law enforcement in reducing fraud. Nor could the test results prove that internal controls were able to weaken the information asymmetry in relation to fraud. These results were not in line with Rae and Subramaniam (2008) which also tested whether internal controls could moderate relationships between organizational fairness with employees’ fraud. The findings were also different with Faisal's (2013) and Pramudita (2013) studies that examined the direct relationship of internal controls with fraud.

From these findings it was appeared that in this case, there was no effect of internal control on the intention to commit fraud. Internal control was not proven to be a factor that reduces the effect of information asymmetry on the fraud intention as described in Jensen and Meckling’s theory (1976). In terms of law enforcement, this study proved that this element more important to reduce fraud intentions. This may be due to the perception of respondents who consider internal control as a merely of work procedures, not as a procedure that should be able to prevents and detects the occurrence of fraud. For some people internal control procedures will not work properly if there is no sanction for violation of a procedure. In other words, if there is no sanction then the procedure tends to be violated. This is in accordance with the theory of fraud diamond where internal control can still be deceived by people who have capabilities. However, if there is sanction, there will be a fear to outsmart the procedure, because there is a risk of being caught and punished.
CONCLUSION, LIMITATION AND SUGGESTION

Conclusion
This study proved that the greater the information asymmetry the higher the intention doing fraud. In addition, law enforcement and regulation can reduce the intention to commit fraud. However, this study failed to prove the influence of organizational culture on fraud and this study had not yet proven the internal control power to reduce fraud. Practical contribution of this study that law enforcement and regulation becomes the most important thing in reducing fraud intention. Additionally, It’s necessary for the organization to improve the internal control system in order to function as expected.

Limitation
There were several limitations of this research: (1) This research used questionnaires for data collection, so there is a possibility of bias of respondents in answering questions (2) In relation to organizational culture, the question items had not been able to explain the type of organizational culture in the organization where the respondents work. Questions in the questionnaire only describe the relationship between colleagues. (3) This study only took one government office in Eastern Indonesia, so the results could not be generalized to all regions in Indonesia.

Suggestion
Based on the above limitations, future research can use a mixed method in data gathering, such as conducting interviews so that the finding and analysis will be stronger. For questionnaire instruments, especially organizational culture variables can be improved by using Hofstede's theory or other organizational culture theory.

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APPENDIX

Internal Control
In the institution where I work:
1. there has been a clear separation of authority and responsibility.
2. if the financial statements need to be published soon, then the transaction authorization must be executed and the supporting evidence must be included.
3. has been applied regulations for physical examination of institutional assets (e.g: cash, inventory and others).
4. all operational activities of the institution should be recorded in the accounting system.
5. rules are applied for monitoring and evaluation of operational activities to assess the implementation of internal controls (e.g: security degree of cash, inventory etc.).

Organization Culture
In the institution where I work:
1. the employee devotes all his ability to work.
2. employees organize their own work.
3. the employees in the institution are warm and friendly
4. the employees in the institution have the initiative
5. meetings are held on time.

Information Asymmetry
1. For accounting work, only the institution internal party who knows all the information pertaining to a company's transactions that have a financial impact.
2. Only the institutional internal party who understands the entire relationship between financial transaction data and the process of preparing financial statements.
3. Only the institutional internal party who knows and understands the contents and figures of completed financial statements that fully accomplished
4. Only the institutional internal party who understand details of financial reporting.
5. Only the institutional internal party who knows the factors that influenced the activities in preparing financial statements.
6. Only the institutional internal party who knows the actual content and figures of the financial statements prepared

Law Enforcement
In the institution where I work:
1. there are applicable rules and regulation
2. rules and regulations are executed appropriately
3. I feel the official (management) are responsive in handling violations of institution rule and regulation
4. I feel the process of handling the violations of rule and regulation in this institution are accomplished on time
5. The decision of institution head concerning the sentence of violations already in line with the applicable rules and regulation
Fraud Intention

1. It is common in my institution, if for a particular purpose, I record a larger cost than it should be.
2. It is common in my institution, pertaining budget realization to purchase office equipment, I put other things that do not included in the budget.
3. It does not matter in my institution, if one transaction has multiple supporting transaction documents
4. It is common in my institution to find expenditure without supporting documents.
5. It is common in my institution, budget surplus (whenever realization less than budgeted expenditure) is distributed to the employee as a bonus.