Fraud Prevention: The Contribution of Internal Control, Internal Audit, and Organizational Culture

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Abstract

Losses within organizations often stem from fraudulent activities, with fraud levels significantly increasing, particularly in the public sector. This study aims to examine the contributions of internal control, internal audit, and organizational culture to fraud prevention efforts at the Regional Inspectorate Office of Central Sulawesi Province. A numerical analysis using the Structural Equation Modeling–Partial Least Squares (SEM-PLS) approach was applied to 35 auditors as respondents. The findings indicate that internal control and internal audit do not significantly contribute to fraud prevention efforts. However, organizational culture plays a substantial role in preventing fraud. These results suggest the necessity of enhancing understanding regarding the implementation of organizational culture in fraud prevention, both in public and private institutions. Nevertheless, despite their lack of statistical significance, internal control and internal audit remain inseparable components in the broader effort to prevent fraud and organizational losses. Therefore, institutions must reinforce each audit-related element to mitigate the risks of fraud. In conclusion, the study underscores that organizational culture is the most crucial factor in preventing fraud. Thus, strengthening values such as integrity, transparency, and accountability must be prioritized in any anti-fraud strategy.

Keywords: Internal Audit, Internal Control, Organizational Culture, Fraud Prevention

1. Introduction

Fraud is a serious global issue that affects not only the private sector but also significantly impacts the public sector across many countries, including Indonesia. The Association of Certified Fraud Examiners (ACFE), in its 2024 *Report to the Nations*, revealed that organizations worldwide lose an average of five percent of their annual revenues to fraud. The government sector remains particularly vulnerable, accounting for 17% of total fraud cases with an average loss of USD 150,000 per case. At the national level, data from the Indonesian Corruption Watch (ICW, 2024) recorded 791 corruption cases throughout 2023, resulting in state losses amounting to IDR 28.4 trillion. Transparency International (2024) also reported that Indonesia's Corruption Perceptions Index (CPI) in 2023 stood at 34 out of 100, ranking the country 110th out of 180 nations.

Despite various policies and oversight instruments having been implemented, anti-fraud efforts in Indonesia still face numerous challenges, particularly in the area of prevention. Fraud is a violation that can be systematically prevented by strengthening control systems and organizational integrity (Megawati & Reskino, 2023). Preventive efforts aim to reduce the risk factors that lead to fraud before any damage escalates. As emphasized by Nugroho & Afifi (2022), fraud prevention measures are more effective than post-fraud enforcement actions.

In Central Sulawesi Province, local data highlights the urgency of this issue. The Corruption Eradication Commission (KPK) recorded 958 cases of bribery and gratuities in regional governments as of September 2023 (Antara News, 2023). The 2022 Integrity Assessment Survey (SPI), published by KPK experts, classified Central Sulawesi as a vulnerable region, scoring only 68.91%. Furthermore, 44.4% of internal respondents and 26.6% of external respondents reported incidences of bribery or gratuity within Regional Government Organizations (OPDs). Additionally, a suspected extortion case at SMKN 2 Palu in early 2025 further exposed the weaknesses in internal supervision at regional work

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units. The government's response, including the suspension of the school principal and an audit by the Central Sulawesi Inspectorate, underscores the inadequacy of early control mechanisms that should have prevented such practices.

Several prior studies have examined the factors influencing fraud prevention. Research by Handoyo & Bayunitri (2021), Nugroho & Afifi (2022), and Megawati & Reskino (2023) concluded that internal control and internal audit significantly affect fraud prevention. Conversely, other studies such as Manopo (2021), Cahyani et al. (2022), and Fitri & Suryadi (2024) found no significant impact of internal audit or organizational culture on fraud prevention. These varied results indicate a lack of consistency in the relationships among these variables, suggesting the need for further investigation, especially within public sector institutions at the regional level.

The government, through the Government Internal Supervisory Apparatus (APIP), particularly the Regional Inspectorate, plays a strategic role in ensuring clean and corruption-free governance. Inspectorates function not only as formal oversight bodies but also as prevention agents capable of strengthening internal control, internal audit, and organizational culture. However, the extent to which these three elements contribute to fraud prevention within the Regional Inspectorate remains under-researched.

This is consistent with the perspective of Paranoan et al. (2022), who assert that internal control and organizational culture are crucial to ensuring transparent accountability in the public sector, where all institutional activities must be evaluated and monitored systematically by internal supervisory units. In the same context, Yamin highlights the role of internal audit in enhancing the effectiveness of public financial management that is free from irregularities. These three components are strategic pillars in reducing the potential for fraud, particularly in oversight institutions such as the Regional Inspectorate.

Based on the above background, this study aims to empirically examine the influence of internal control, internal audit, and organizational culture on fraud prevention at the Regional Inspectorate Office of Central Sulawesi Province. It is expected that this study will contribute to enriching the literature on fraud prevention and provide practical recommendations for strengthening internal oversight systems within the public sector.

2. Literature Review

2.1. Fraud Hexagon

The Fraud Hexagon theory was developed by Vousinas (2019) as an extension of earlier models such as the Fraud Triangle, Fraud Diamond, and Fraud Pentagon. This theory outlines six key factors that motivate individuals to commit fraud:

1. Stimulus refers to pressures or stresses that drive an individual or group to engage in fraudulent behavior.

2. Opportunity is the condition or situation that allows an individual to commit fraud without being detected.

3. Rationalization involves the justification or self-justification made by the fraud perpetrator for their actions.

4. Capability refers to the individual's ability to commit fraud, which may include their position, intelligence, persuasive skills, or ability to deceive.

5. Ego/arrogance reflects the overconfidence and pride of individuals who believe they can commit fraud without getting caught or punished.

6. Collusion refers to situations where fraud is perpetrated through the agreement or cooperation of two or more individuals to deceive a third party for personal gain.

2.2. Fraud Prevention

According to Albrecht et al. (2012), fraud involves deceptive acts committed by individuals who exploit others for personal gain through false statements or unethical means. The Association of Certified Fraud Examiners (ACFE) classifies fraud into three main categories, known as the "Fraud Tree": asset misappropriation, fraudulent statements, and corruption.

Fraud prevention refers to management efforts to establish policies, systems, and procedures to ensure the achievement of three main objectives: the reliability of financial reporting, operational efficiency and effectiveness, and compliance with laws and regulations (Bangun et al., 2024). Prevention efforts involve mitigating the factors identified in the Fraud

Hexagon-reducing pressures that motivate fraud, minimizing opportunities, rejecting rationalizations, limiting individuals' capabilities to commit fraud, curbing egotistical behavior, and dismantling potential collusion schemes.

2.3. Internal Control

Government Regulation No. 60 of 2008 defines internal control as an integral process carried out by leadership and employees to provide reasonable assurance of achieving organizational goals through effective and efficient activities, reliable financial reporting, safeguarding of state assets, and compliance with applicable laws and regulations. According to the Committee of Sponsoring Organizations (COSO), as cited by Redding et al. (2013:9), internal control comprises five components: control environment, risk assessment, control activities, information and communication, and monitoring.

2.4. Internal Audit

Internal audit is an activity aimed at enhancing organizational value and performance by evaluating and improving risk management, control, and governance processes through a systematic, disciplined, independent, and objective approach (Redding et al., 2013:2). The purpose of internal audit is to assist members of the organization in effectively carrying out their responsibilities and to serve as the "eyes and ears" of management, ensuring that principles are properly implemented (Fachruroji, 2020). According to the Institute of Internal Auditors (IIA), as cited by Redding et al. (2013:19), internal audit performance is assessed through five components: managing the internal audit activity, planning engagements, performing engagements, communicating results, and monitoring progress.

2.5. Organizational Culture

Organizational culture consists of shared values, beliefs, traditions, behaviors, and norms that form the identity of an organization. These elements influence employee interactions, decision-making, and collaboration and serve as "unwritten rules" that guide behavior (Jerab & Mabrouk, 2023). When a strong organizational culture is in place, the risk of fraud can be minimized. This is because fraud often arises from the ingrained behaviors of individuals or groups within an organization (Anlilua & Rusmita, 2023). According to Jerab & Mabrouk (2023), six key characteristics define the essence of organizational culture: values and beliefs, norms and behaviors, socialization, adaptability, influence on decision-making, and impact on performance.

Hypothesis Development

1. The Influence of Internal Control on Fraud Prevention

Internal control plays a crucial role in fraud prevention by strengthening structures and systems that close off opportunities for individuals to commit fraud. The COSO model, consisting of five components—control environment, risk assessment, control activities, information and communication, and monitoring—is designed to detect and prevent deviations at an early stage (Redding et al., 2013).

This aligns with the Fraud Hexagon approach, which identifies opportunity as one of the primary causes of fraud. In this framework, weak internal controls can create opportunities for individuals within the organization to engage in fraudulent acts. When internal oversight mechanisms are ineffective and the organizational ethical culture is not enforced, the potential for misconduct becomes increasingly difficult to manage. Prior research also highlights that weak internal control systems are often exploited by certain individuals to take advantage of structural weaknesses (Muwahhidin & Ansar, 2025).

Several studies support the significant role of internal control in fraud prevention. Research by Handoyo & Bayunitri (2021), Nugroho & Afifi (2022), and Megawati & Reskino (2023) demonstrates that strong internal control systems can substantially reduce the risk of fraud. However, Fitri & Suryadi (2024) found different results, showing no significant effect of internal control on fraud prevention.

Based on the explanation above, the following hypothesis is proposed:

(H1) Internal control has a significant effect on fraud prevention.

2. The Influence of Internal Audit on Fraud Prevention

Internal audit functions as an independent mechanism to evaluate the effectiveness of risk management, control, and governance within an organization. Its role includes overseeing existing control systems, identifying procedural weaknesses, and providing recommendations for improvement. Within the Fraud Hexagon framework, internal audit is closely associated with the components of opportunity, capability, and collusion. Regarding opportunity, internal audit identifies gaps in the control system. For capability, it assesses the organizational structure and the potential for abuse of authority. In terms of collusion, the audit process can uncover patterns of collaboration that harm the organization through independent reporting systems and strict segregation of duties.

A robust internal audit can detect potential collusion among employees, assess high-risk positions prone to misuse, and evaluate system vulnerabilities that may lead to fraud (Redding et al., 2013). Studies conducted by Handoyo & Bayunitri (2021), Adawiyah et al. (2023), Soehaditama (2024), and Fitri & Suryadi (2024) confirm a significant influence of internal audit on fraud prevention. However, Manopo (2021) reported that internal audit had no significant influence in the context of local government organizations.

Based on the explanation above, the following hypothesis is proposed:

(H2) Internal audit has a significant effect on fraud prevention.

3. The Influence of Organizational Culture on Fraud Prevention

Organizational culture reflects the system of shared values and ethics that influence individual behavior within the organization. In the context of the Fraud Hexagon, organizational culture can mitigate stimulus (pressure), shape moral values that reject rationalization, and suppress ego and arrogance that may lead individuals to misuse their positions for misconduct.

An organizational culture that upholds transparency, honesty, and accountability fosters an environment that reduces both the opportunity and the desire to commit fraud (Jerab & Mabrouk, 2023; Anlilua & Rusmita, 2023). Studies by Sudharma et al. (2023) and Soehaditama (2024) also found a significant influence of organizational culture on fraud prevention. However, Cahyani et al. (2022) and Fitri & Suryadi (2024) reported different results. Despite these variations, organizational culture remains widely regarded as a key element in shaping anti-fraud behavior.

Based on the explanation above, the following hypothesis is proposed:

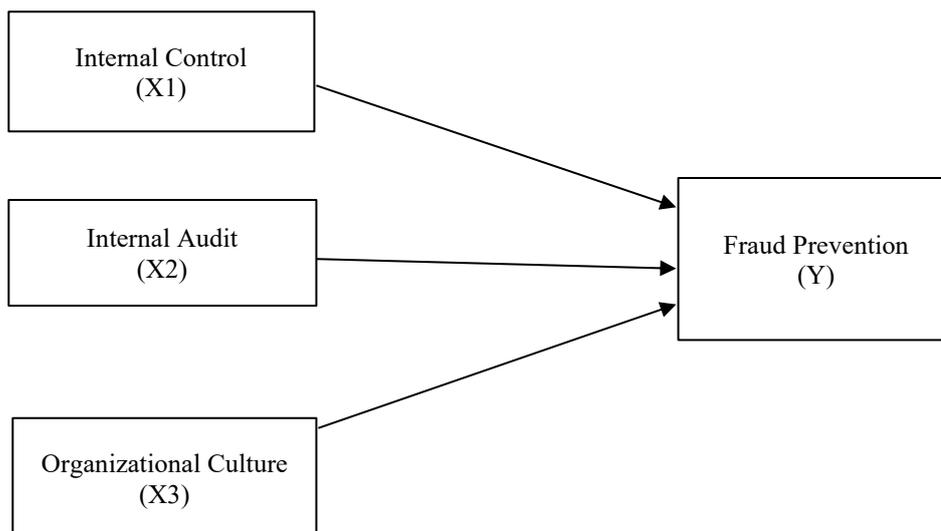**(H3)** Organizational culture has a significant effect on fraud prevention.

Figure 1. Conceptual Framework of the Study Kerangka Konseptual Penelitian

3. Methods

This study adopts a quantitative research method grounded in the positivist philosophy. The research was conducted within the Regional Inspectorate Office of Central Sulawesi Province. The research subjects are auditors employed at the Inspectorate Office, while the objects of the study are internal control (X1), internal audit (X2), and organizational culture (X3) and their influence on fraud prevention (Y). Data sources include both primary and secondary data. Primary data were obtained from respondents' answers to questionnaire statements. Secondary data consist of previous research articles and literature such as books, journals, and relevant websites related to the research variables.

Table 1. Operational Matrix of Variables

No.	Variable	Indicators	Measurement Scale
1.	Internal Control (X1)	COSO as cited in Redding et al. (2013): Control Environment, Risk Assessment, Control Activities, Information and Communication, Monitoring	Likert
2.	Internal Audit (X2)	The Institute of Internal Auditors (IIA) as cited in Redding et al. (2013): Managing the Internal Audit Activity, Planning Engagements, Performing Engagements, Communicating Results, Monitoring Progress	Likert
3.	Budaya Organisasi (X3)	Jerab and Mabrouk (2023): Values and Beliefs, Norms and Behaviors, Socialization, Adaptability, Influence on Decision-Making, Impact on Performance	Likert
4.	Pencegahan Fraud (Y)	Vousinas (2019): Stimulus (Pressure), Opportunity, Rationalization, Capability, Ego/Arrogance, Collusion	Likert

Data were collected through direct distribution of questionnaires to respondents to gather primary data. The population of this study includes all auditors working at the Regional Inspectorate of Central Sulawesi Province, totaling 35 auditors in 2025. The sampling technique used is a saturated sampling method, where the entire population is used as the sample. Responses were measured using a Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree).

This study employed SmartPLS version 4.1.1.2 software for statistical data processing and analysis, using the Partial Least Squares Structural Equation Modeling (PLS-SEM) approach. A series of tests were conducted, beginning with validity tests using loading factor (> 0.60), Average Variance Extracted (AVE) (> 0.50), and Heterotrait-Monotrait Ratio (HTMT) (< 0.90) to assess the quality of the measurement model. Reliability tests of the questionnaire were performed using Composite Reliability (> 0.70) and Cronbach's Alpha (> 0.70) to ensure the internal consistency of the instrument.

Data analysis involved both Outer Model and Inner Model evaluation. The Outer Model assessment included tests for convergent validity, discriminant validity, AVE, Composite Reliability, and Cronbach's Alpha. For the Inner Model, model fit was evaluated using SRMR (< 0.10 or < 0.08 for good fit), R-squared (R^2) was calculated to determine the variance in the dependent variable explained by the independent variables, and hypothesis testing was conducted through bootstrapping, using the original sample (path coefficients), t-statistics (> 1.96), and p-values (< 0.05). Through this approach, the study aims to provide comprehensive insights into the factors influencing fraud prevention within the Regional Inspectorate Office of Central Sulawesi Province.

4. Result and Discussions

4.1. Results

4.1.1. Outer Model

4.1.1.1. Convergent Validity

Convergent validity is a measure of how well the indicators of a construct correlate with one another to measure the same concept (Hair et al., 2022). Referring to Afthanorhan et al. (2020) in the *International Journal of Data and Network Science*, a loading factor value of at least 0.60 is considered valid for convergent validity in PLS-SEM. Values above this threshold indicate that the indicators are sufficiently strong in reflecting the construct being measured. Based on the output from SmartPLS version 4.1.1.2, all indicator loadings exceeded 0.60, indicating that the measurement indicators for each variable in this study meet the minimum requirements for convergent validity.
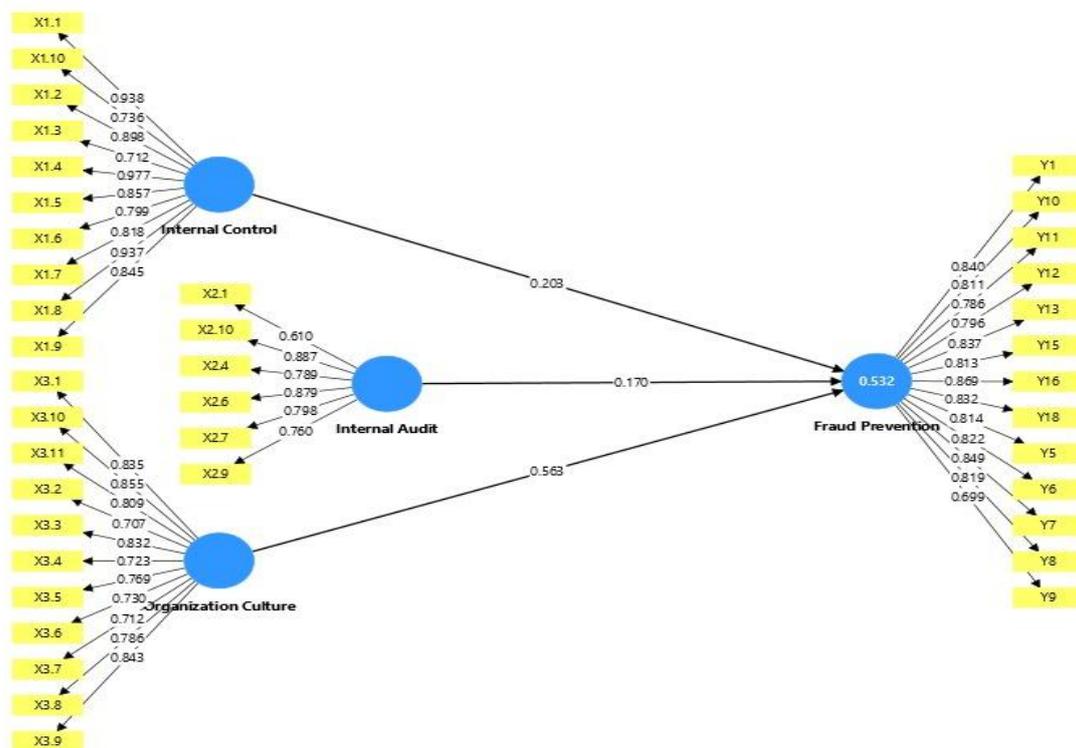

Figure 2. Results of Convergent Validity Test

4.1.1.2. Discriminant Validity

Discriminant validity evaluates the extent to which a construct is truly distinct from other constructs in the model (Henseler & Schuberth, 2020). A construct demonstrates discriminant validity if it explains a portion of variance that other constructs do not. The HTMT ratio is an effective method for assessing discriminant validity, with a recommended threshold of 0.90. A value exceeding 0.90 may indicate a lack of discriminant validity (Hair et al., 2022).

Tabel 2. Results of Discriminant Validity Test

	Fraud Prevention	Internal Audit	Internal Control	Organization Culture
Fraud Prevention				
Internal Audit	0.563			
Internal Control	0.373	0.675		
Organization Culture	0.661	0.443	0.197	

Source: Primary Data, SmartPLS Ouptput v4.1.1.2 (Processed 2025)

The HTMT correlation values for each construct were below 0.90, indicating that the constructs are empirically distinct and do not exhibit multicollinearity. Thus, the model satisfies discriminant validity criteria (Sarstedt et al., 2022).

4.1.1.3. Average Variance Extracted (AVE)

The AVE value measures how much variance is captured by a construct's indicators relative to measurement error (Hair et al., 2022). An AVE of 0.50 or higher is considered acceptable, suggesting adequate convergent validity of the construct (Cheung et al., 2023).

Tabel 3. Results of Average Variance Extracted (AVE) Test

	Average Variance Extracted (AVE)
Fraud Prevention	0.665
Internal Audit	0.628
Internal Control	0.732
Organization Culture	0.614

Source: Primary Data, SmartPLS Output v4.1.1.2 (Processed 2025

All constructs achieved AVE values above 0.50, confirming that the indicators capture a substantial portion of variance relative to error.

4.1.1.4. Composite Reliability and Cronbatch Alpha

Construct reliability was evaluated using both Cronbach's Alpha and Composite Reliability. While Cronbach's Alpha assesses internal consistency, Composite Reliability is considered more accurate as it accounts for actual indicator loadings (Hair et al., 2022; Sarstedt et al., 2022). Both values should exceed 0.70 to indicate sufficient reliability.

Tabel 4. Results of Composite Reliability and Cronbach's Alpha Test

	Cronbach's Alpha	Composite Reliability (rho_a)	Composite Reliability (rho_c)
Fraud Prevention	0.958	0.961	0.963
Internal Audit	0.878	0.893	0.909
Internal Control	0.958	0.972	0.964
Organization Culture	0.937	0.946	0.946

Source: Primary Data, SmartPLS Output v4.1.1.2 (Processed 2025)

All constructs exhibit strong reliability, as indicated by Cronbach's Alpha and Composite Reliability values above 0.70, confirming internal consistency and measurement reliability.

4.1.2. Inner Model

4.1.2.1. Fit Model

Model fit in PLS-SEM is assessed using the **Standardized Root Mean Square Residual (SRMR)**, which measures the difference between the observed correlation matrix and the model-implied correlation matrix (Shmueli et al., 2021).

Tabel 5. Results of Model Fit Test

	Saturated Model	Estimated Model
SRMR	0.152	0.152

Source: Primary Data, SmartPLS Output v4.1.1.2 (Processed 2025)

An SRMR value of 0.152 indicates an **acceptable fit**, according to the guidelines by Hair et al. (2022), which classify SRMR < 0.08 as a good fit and SRMR < 0.10 as acceptable for exploratory models in PLS-SEM. Although slightly above the ideal threshold, the value remains within a tolerable range for exploratory analysis (Sarstedt et al., 2022).

4.1.2.2. R-Square/Coefficient of Determination

The R-square (R^2) value measures the proportion of variance in the endogenous variable explained by the exogenous variables in the model (Hair et al., 2022).

Tabel 6. R-Square / Coefficient of Determination Test Results

	R-Square
Fraud Prevention	0.532

Source: Primary Data, SmartPLS Output v4.1.1.2 (Processed 2025)

An R² value of 0.532 indicates that 53.2% of the variance in **fraud prevention** can be explained by the combined effects of internal control, internal audit, and organizational culture. The remaining 46.8% is explained by other factors not included in the model. According to Hair et al. (2022), this level of explanatory power falls into the **moderate to substantial** category.

4.1.2.3. Hypothesis Testing

Hypothesis testing was conducted using the **bootstrapping** procedure in SmartPLS. The significance of each path was assessed based on the path coefficient (original sample), t-statistics (> 1.96), and p-values (< 0.05).

Tabel 7 - Hypothesis Testing Results

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
X1 -> Y	0.170	0.184	0.212	0.799	0.212
X2 -> Y	0.203	0.135	0.194	1.046	0.148
X3 -> Y	0.563	0.529	0.189	2.982	0.001

Source: Primary Data, SmartPLS Output v4.1.1.2 (Processed 2025)

The results show that:

1. Organizational Culture (X3) has a significant positive effect on fraud prevention (t = 2.982, p = 0.001).
2. Internal Control (X1) and Internal Audit (X2) do not have significant effects on fraud prevention, as their respective p-values exceed 0.05.

These findings indicate that fostering a strong organizational culture has a substantial impact on reducing fraud, whereas internal control and audit mechanisms, in this context, may not be sufficient on their own to deter fraudulent behavior.

4.2. Discussion

4.2.1. The Influence of Internal Control on Fraud Prevention

The hypothesis testing revealed no statistically significant effect of internal control on fraud prevention at the Regional Inspectorate Office of Central Sulawesi Province (t = 0.799, p = 0.212). Therefore, the first hypothesis is rejected. This indicates that the current internal control system implemented by the Inspectorate Office has not been optimally effective in preventing potential fraudulent behavior.

Theoretically, internal control should serve as the primary barrier to the *opportunity* element in the Fraud Hexagon, functioning to limit and monitor vulnerabilities within the organizational system that could be exploited for fraud. However, the lack of significance suggests that the five COSO components have not been properly or fully implemented. Weak internal reporting mechanisms or ineffective follow-up actions on audit findings may allow opportunities for fraud to remain unaddressed. This finding is consistent with Fitri & Suryadi (2024), who stated that internal control systems are often administrative in nature and fail to address the core risks associated with fraud.

4.2.2. The Influence of Internal Audit on Fraud Prevention

The hypothesis testing also found no statistically significant impact of internal audit on fraud prevention (t = 1.046, p = 0.148), leading to the rejection of the second hypothesis. This result suggests that the internal audit function within the Regional Inspectorate Office has not made an effective contribution in reducing fraud risk. Theoretically, internal audit is essential for identifying control system weaknesses and recommending improvements aimed at enhancing transparency and accountability. Within the Fraud Hexagon framework, internal audit relates to the opportunity, capability, and collusion components by systematically evaluating internal controls and organizational practices.

The lack of a significant effect may stem from several factors, including limited audit resources, the absence of risk-based auditing, or insufficient auditor independence. Additionally, if internal audits fail to take a comprehensive and

evaluative approach, their preventive capacity may be reduced. This aligns with Manopo (2021), who found that internal audit functions in government institutions tend to be administrative rather than effective in preventing systemic fraud.

4.2.3. The Influence of Organizational Culture on Fraud Prevention

The hypothesis testing confirmed that organizational culture has a statistically significant effect on fraud prevention (t = 2.982, p = 0.001), leading to acceptance of the third hypothesis. The positive path coefficient (0.563) suggests that a stronger organizational culture promoting ethics and integrity corresponds to more effective fraud prevention. This result emphasizes that organizational values such as integrity, transparency, ethics, and compliance are vital in establishing a robust defense against fraud. In the Fraud Hexagon framework, organizational culture influences the components of *stimulus, rationalization, and ego/arrogance.*

The significance of this effect indicates that values, norms, and practices embedded within the organization play a critical role in shaping ethical behavior. A strong culture of integrity can serve as a first line of defense by internalizing values that discourage fraud. Additionally, an egalitarian and participatory culture can reduce structural pressures (*stimulus*) that often drive individuals to commit fraud. These findings are consistent with research by Sudharma et al. (2023) and Soehaditama (2024), which underscore the importance of shared institutional values in developing a sustainable anti-fraud system.

5. Conclusions

This study aimed to analyze the influence of internal control, internal audit, and organizational culture on fraud prevention at the Regional Inspectorate Office of Central Sulawesi Province. Based on the statistical analysis, it was found that internal control and internal audit do not have a significant influence on fraud prevention, whereas organizational culture has a significant and positive influence on fraud prevention within the institution.

Theoretical implications of these findings suggest that efforts to enhance fraud prevention at the Regional Inspectorate Office should prioritize the development of a strong organizational culture one that promotes integrity, accountability, and ethical behavior. Organizational culture has been shown to be the most critical and influential factor in fraud prevention, especially in the public sector. Nevertheless, improving the implementation of internal control systems and strengthening the role of internal audit should not be overlooked, as both components remain important parts of a comprehensive fraud prevention strategy. From a theoretical standpoint, this study contributes to the growing literature on the importance of behavioral and cultural dimensions particularly within the Fraud Hexagon framework—in influencing fraud prevention efforts in public institutions. It highlights how non-structural factors can often play a decisive role in determining the success of anti-fraud initiatives.

Despite its contributions, this study has several limitations. The use of perceptual data from questionnaires may introduce subjectivity, and the analysis was limited to three main variables. Therefore, future research is encouraged to adopt a mixed-method approach, including qualitative interviews to explore why internal control and internal audit may not have shown significant effects. Future studies may also consider incorporating additional variables such as work pressure, the role of information technology, and human resource quality to further understand the multifaceted dynamics of fraud prevention. In addition, expanding the sample size to include auditors and internal control units from various regional oversight institutions would enhance the generalizability of the findings.

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