

THE EFFECTIVENESS OF INTERNAL AUDIT AS A FRAUD PREVENTION EFFORT

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ABSTRACT

This research is focused on evaluating how effective internal audits are in preventing fraud at the Government Inspectorate of Banyumas Regency. It takes a comprehensive approach by analyzing nine crucial dimensions of internal audit performance and cooperation. These dimensions include the importance and impact of audit findings and recommendations, the response from the objects being inspected, auditor professionalism, early warning mechanisms, cost savings in audits, personnel development, feedback from other management, the increased number of audits, and the successful achievement of audit programs. To gather data, the study relies on interviews and observations involving employees of the Government Inspectorate. The findings leave no room for doubt, as they unequivocally demonstrate that the internal audit at the Government Inspectorate of Banyumas Regency has been successful in preventing fraud, as evidenced by the positive outcomes across all measured dimensions. The research underscores the Inspectorate's pivotal role in fostering fraud prevention across other government agencies, underlining the paramount importance of auditors' professionalism and the continual enhancement of human resources in achieving successful outcomes.

Keywords; Internal Audit, Internal Audit Effectiveness, Fraud, Fraud Prevention, Government Inspectorate

A. INTRODUCTION

The effectiveness of internal audit plays a crucial role in ensuring the achievement of organizational goals and maintaining compliance with rules and regulations. In Indonesia, internal audit effectiveness has been a matter of concern, especially with the occurrence of fraud in the government sector, as seen in the case of PT. Asuransi Jiwasraya (Persero), the oldest life insurance in Indonesia (IkbaL et al., 2020). The lack of effectiveness is reflected in the findings from the Supreme Audit Agency (BPK), which reported numerous problems, including weaknesses in the internal control

system and non-compliance with laws and regulations, leading to substantial financial losses (Dewi et al., 2019).

In the context of Central Java, the local government's ability to achieve Unqualified Opinions from BPK for its financial statements despite involvement in corruption cases raises questions about the effectiveness of the internal audit process. With the aim of exploring the effectiveness of internal audit as a fraud prevention effort, this research focuses on the Government Inspectorate of Banyumas Regency in Central Java. Central Java is a significant province in Indonesia, comprising 29 regencies and 6 cities, and thus, the effectiveness of internal audits at the local level is of paramount importance (Iszardani & Hardiningsih, 2021).

In this study, the primary objective is to analyze and describe the effectiveness of internal audit as a fraud prevention effort. To achieve this, a descriptive qualitative research approach with a case study design is employed (Huong, 2018). What sets this research apart is its utilization of a qualitative method, which allows for a detailed exploration of the subject matter. The study focuses on nine dimensions of internal audit effectiveness based on the Internal Audit Professional Standards (SPAI) found in Tugiman (1997). By considering these multiple dimensions, a comprehensive understanding of the factors influencing internal audit effectiveness and its role in preventing fraud can be achieved (Abdelrahim & Al-Malkawi, 2022). This approach provides valuable insights into the internal audit's potential to safeguard against fraudulent activities and its overall contribution to organizational governance and risk management (Mardiasmo, 2017).

Fraud prevention is of utmost importance in organizations, as it safeguards public trust and maintains the organization's credibility. Internal audits play a significant role in this process, providing early warning reports on weaknesses and control deficiencies that could lead to fraudulent activities. COSO guidelines emphasize the importance of setting policies, systems, and procedures to prevent fraud and ensure the organization's success in achieving its goals (Mohammed et al., 2021).

Previous research has extensively examined the relationship between internal audit effectiveness and fraud prevention. Notably, Novianto et al. (2021) found that Internal Audit and Fraud Prevention at PT. X were categorized as good. Fatmawati et al. (2020) emphasized that internal auditors perceive fraud as a job task centered on

internal control, and they employ the Risk Based Internal Audit method to detect potential fraud through red flags or indications. Similarly, Ghozali (2020) revealed that the effectiveness of internal auditors positively influences efforts to detect and prevent fraud. This current research stands out in its specific focus on the effectiveness of internal audit as a fraud prevention effort at the Government Inspectorate of Banyumas Regency, using nine dimensions according to Internal Audit Professional Standards (SPAI) from cThese differences in research focus and context provide valuable insights into the effectiveness of internal audit in preventing fraud within a governmental setting.

In conclusion, the effectiveness of internal audit as a fraud prevention effort is a critical aspect of organizational governance. This research aims to shed light on the effectiveness of internal audits at the Government Inspectorate of Banyumas Regency in Central Java, providing a comprehensive analysis using nine dimensions of internal audit effectiveness. By understanding these factors, this study can offer valuable insights to improve the effectiveness of internal audits and enhance fraud prevention efforts. Ultimately, the research contributes to the broader field of accounting science and strengthens the role of internal audits in maintaining organizational integrity and achieving objectives.

B. RESEARCH METHOD

Research Model

The research model comprises seven distinct stages. It begins with problem identification, where the focus is on the recurring occurrence of Unqualified Opinions in Banyumas Regency and its correlation with the role of the inspectorate. The second stage is problem restriction, refining the investigation to specifically address Unqualified Opinions in the regency. The third stage entails setting the research focus on the effectiveness of internal audits in local government inspectorates for fraud prevention, considering multiple dimensions. Data collection constitutes the fourth stage and involves research design, selection of settings, obtaining permits, choosing and assigning informants, as well as employing data collection techniques. The fifth stage encompasses data processing and interpretation, including techniques like data reduction, presentation, drawing conclusions, and verifying data validity through

triangulation. The sixth stage involves the formulation of theories or hypotheses based on the Internal Audit Professional Standards (SPAI) in Tugiman (1997), used as a dimension for the research. Lastly, the seventh stage entails the reporting of the research findings in the form of a comprehensive research report.

Research Design

The research design used in this study is descriptive qualitative research with a case study approach, which is well-suited for gaining an in-depth understanding of the specific context being studied. In this case, the focus is on the Government Inspectorate of Banyumas Regency in Central Java, Indonesia. By adopting the case study method, the researchers were able to thoroughly examine the effectiveness of internal audits as a fraud prevention effort within this particular organization. The study was conducted over a specific timeframe, ensuring that the data collected was reliable and relevant to the research objectives. To gather comprehensive insights, both primary data from interviews and observations, as well as secondary data from reputable sources, were utilized. Snowball sampling was employed to select key informants from various positions within the Inspectorate, enabling a comprehensive analysis of the internal audit's role in fraud prevention. Overall, the research design and methods applied in this study provide a comprehensive and detailed examination of the effectiveness of internal audits in preventing fraud at the Government Inspectorate of Banyumas Regency.

Data Validity and Technique of Analyzing Data

To ensure data validity, the research adopted a triangulation technique. Triangulation involves cross-verifying data using multiple sources and methods. The data analysis process consisted of three concurrent activities: data reduction, data presentation, and drawing conclusions with verification. Data reduction involved simplifying and transforming raw data from written records. Data presentation provided structured information to draw conclusions and take action. The qualitative analyst searched for regularities, patterns, explanations, and propositions during the process of drawing conclusions. The conclusions were verified through various means, such as reviewing field notes, conducting peer review sessions, and checking the correctness, robustness, and suitability of the findings.

Research Focus

This research has a specific focus on evaluating the effectiveness of internal audits in preventing fraud at the Government Inspectorate of Banyumas Regency. The study employs a comprehensive approach by using nine dimensions of internal audit effectiveness, which are based on the Internal Audit Professional Standards (SPAI) introduced in Tugiman's work from 1997. These dimensions cover various critical aspects of the internal audit process, including the quality and significance of audit findings and recommendations, the response from the entities being audited, the professionalism of the auditors, the implementation of early warning systems, cost-saving measures, personnel development, feedback from other management, the frequency of audits, and the success of the audit program. The primary aim is to assess the internal audit function's effectiveness in detecting and preventing fraud while adhering to professional standards. By using the Internal Audit Professional Standards (SPAI) from Tugiman's work as a benchmark, the study provides a comprehensive evaluation of the internal audit practices at the Government Inspectorate of Banyumas Regency.

C. RESULTS AND DISCUSSION

The effectiveness of internal audit as a fraud prevention effort at the government inspectorate of Banyumas Regency is needed to measure the extent of its effectiveness. Based on the research conducted, the effectiveness of internal audit as a fraud prevention effort at the government inspectorate of Banyumas Regency has been running well. However, there are still some obstacles and constraints in achieving it. The results of field research on the effectiveness of internal audit as a fraud prevention effort at the Government Inspectorate of Banyumas Regency using the feasibility and importance of audit findings and their recommendations, responses from objects being inspected, auditor professionalism, early warning, audit cost savings, personnel development, feedback from other management, increasing the number of inspections, achievement of the inspection program. The following are the results of research and discussions in this study, namely:

The Feasibility and Importance of Audit Findings and Their Recommendations

The feasibility and importance of audit findings and recommendations are critical aspects of internal audits, aiming to provide added value to the auditee. As Akmal (2007) suggests, internal audits serve the purpose of improving the organization's operations and assisting in achieving its goals. This is accomplished through a systematic and disciplined approach that evaluates risk management effectiveness and identifies areas for improvement. The insights and recommendations provided by internal auditors, as highlighted by Arief (2016), are based on thorough data analysis and understanding of business processes. These recommendations act as intermediaries to enhance the organization's efficiency and effectiveness.

In the context of the Government Inspectorate of Banyumas Regency, the audit findings and recommendations are highly regarded by the auditees (OPD) as valuable information. The follow-up actions taken by the auditees after the inspection contribute to implementing improvements and preventing the recurrence of identified issues. This illustrates the effectiveness of auditors at the Government Inspectorate of Banyumas Regency in providing meaningful and valuable recommendations that positively impact the auditees' performance and financial management. The auditors' systematic and disciplined approach ensures that the audit findings are transformed into tangible improvements within the auditee organizations, making the internal audit a significant tool for enhancing organizational effectiveness and achieving goals.

Responses from Objects Being Inspected

The response of the object being inspected, which is the auditee's feedback and actions on the audit findings and recommendations, is a crucial dimension in measuring the effectiveness of internal audits. As Tafsil (2012) suggests, the follow-up on internal audit recommendations is essential to ensure that management addresses reported findings and takes corrective actions when necessary. In the context of the Government Inspectorate of Banyumas Regency, the Inspectorate consistently provides recommendations to the auditees based on the audit findings. These recommendations are typically included in the form of an Inspection Result Report (LHP). Auditees respond proactively to the findings and recommendations, and they operationalize the suggestions to make necessary improvements. This indicates

that the auditors' role in providing valuable insights and actionable recommendations is well-received and utilized by the auditees.

The Government Inspectorate of Banyumas Regency has been effective in facilitating the follow-up process, ensuring that the auditees understand the recommendations, and initiating actions to improve their processes and operations. The Inspectorate's practice of formally informing the auditees through the LHP and providing evidence of follow-up actions helps the auditees comprehend and implement the recommendations effectively. Consequently, the auditees demonstrate their commitment to improvement by promptly addressing the findings and taking corrective actions. The auditors' efforts in clarifying the auditee's situation and fostering open communication contribute to successful collaboration between the Inspectorate and the auditees in making improvements. As a result, the internal audits conducted by the Government Inspectorate of Banyumas Regency play a significant role in driving positive changes within the auditee organizations and achieving the overall goals of fraud prevention and organizational effectiveness.

Auditor Professionalism

Auditor professionalism plays a crucial role in assessing the effectiveness of internal audits. The criteria for professionalism include independence, objectivity, integrity, and competency. According to Sutaryo (2018), integrity is a fundamental element for professional recognition, requiring auditors to be responsible, honest, and unbiased in their decisions. The auditors at the Government Inspectorate of Banyumas Regency possess commendable qualities, building public trust through their impartiality and commitment to ethical conduct. Their professionalism is evident in their ability to conduct reviews with foresight and accuracy, which results from their experience, competence, and expertise in the field. These qualities collectively contribute to the effectiveness of the internal audit function, ensuring that decisions are made objectively and fraud prevention efforts are successful. The auditors' ability to conduct accurate reviews depends on the completeness of data and documents provided by the auditee, as well as their own skills and knowledge.

The conduct and demeanor of auditors while performing their duties are governed by established regulations and a code of ethics. The inspectorate has clear provisions for attire and attributes, promoting a professional and respectful image while

conducting audits. Their attitude and behavior adhere to the applicable code of ethics and procedures, ensuring fairness and respect in their interactions with auditees. Effective communication is vital in audit processes, both within the audit team and with the auditee. The audit team maintains cohesive communication, and they inform the auditee through entry briefings or introductions before the inspection. Communication is a two-way process, allowing auditees to provide prompt responses and documents, enhancing the efficiency of the audit. The inspectorate's capacity to provide precise responses to auditee inquiries is bolstered by their proficiency and compliance with relevant rules and regulations.

The Government Inspectorate of Banyumas Regency ensures the continuous development of auditor competence through various training and improvement programs. The minimum educational standards for auditors are set, with different levels of education required for skilled and expert auditors. Continuous improvement in competence is facilitated through in-office training, workshops, and external programs. Overall, the auditors at the Government Inspectorate of Banyumas Regency demonstrate high levels of professionalism, enabling them to carry out their roles effectively. Their integrity, competence, and communication skills contribute to successful audits, instilling confidence in the inspection process and its impact on fraud prevention and organizational improvement.

Early Warning

An early warning report is a crucial tool in the internal audit process as it helps identify weaknesses and problems in management control, enabling timely corrective actions. The Regional Inspectorate's ability to provide early warnings and improve risk management effectiveness is essential in fulfilling its responsibilities in overseeing government agencies. Tuding (2016) emphasizes the significance of early warnings in enhancing the inspectorate's duties and functions.

In practice, the Government Inspectorate of Banyumas Regency issues early warning reports both formally and informally. Formal reports are presented through the LHP (Inspection Result Report) and cover strengths, problems, and weaknesses in the organization's operations and management control. The inspectorate conducts a thorough assessment of the SPI (Standard Performance Index) to identify weaknesses. Following the inspection, recommendations for improvement are

provided through suggestions, outlined in the formal report. On the other hand, informal reports are shared during meetings or through written communication in specific forums. These early warnings play a pivotal role in helping auditees recognize areas that require attention and prompt them to take appropriate corrective measures. The effectiveness of the auditors in providing early warning reports demonstrates the Government Inspectorate's commitment to proactive risk management and fraud prevention.

Inspection Cost Savings

The cost-effectiveness of an inspection is a critical aspect that reflects the efficiency of the audit process. If an inspection can minimize costs while still delivering valuable results and achieving its objectives, it can be considered effective. AAPI (2013) highlights the importance of the APIP (Internal Audit Unit) in achieving bureaucratic reform by ensuring confidence in obedience, economy, efficiency, and effectiveness in the execution of government agency duties and functions.

Regarding the Government Inspectorate of Banyumas Regency, the budget plan seems adequate to encompass all inspection activities and programs. Nevertheless, certain limitations and challenges still exist in relation to the budget plan. The main constraint is the perceived small budget, which requires auditors to be diligent in managing costs efficiently during the inspection process. This budget efficiency allows auditors to maximize the impact of their efforts without compromising the quality of the audit. However, the Inspectorate faces additional challenges related to infrastructure limitations. Despite these challenges, the auditors at the Government Inspectorate of Banyumas Regency have demonstrated their effectiveness in achieving cost savings and efficiently utilizing available resources to carry out inspections successfully. Their ability to navigate these constraints and still achieve cost efficiency underscores their commitment to effective audit practices.

Personnel Development

Personnel development is indeed crucial for enhancing the competence and performance of auditors. As highlighted by Sawyer (2006), continuous development and training of auditors are essential to ensure their performance is accountable and professional. In the context of the Government Inspectorate of Banyumas Regency,

efforts to develop staff personnel are evident through various initiatives, such as morning assemblies, regular training sessions, workshops, and PKS (in-house training) held every Friday. These activities are designed to equip auditors with the necessary skills, knowledge, and expertise to perform their roles effectively.

The commitment to personnel development demonstrated by the Government Inspectorate of Banyumas Regency underscores its dedication to maintaining a high standard of audit quality and professionalism among its staff. By investing in the growth and development of its personnel, the Inspectorate ensures that auditors are well-prepared to carry out their responsibilities and contribute to the organization's overall effectiveness. The documentation presented based on observations further strengthens the credibility of the research, providing tangible evidence of the Inspectorate's efforts in guiding and nurturing its staff to become proficient and competent auditors:



Figure 1. A Depiction of The Morning Assembly Held at The Regional Inspectorate of Banyumas Regency Is Presented In The Documentation

Feedback from Other Management

Feedback from other management plays a crucial role in the effectiveness of internal audits. The level of support provided by other management within the organization can significantly impact the behavior and cooperation of auditors during the inspection process. According to Bangun and Zulaikha (2014), feedback and reward systems play essential roles as integral components of a management control system. These systems can significantly impact the behavior and performance of employees within an organization. Feedback mechanisms provide valuable information to employees about their work, enabling them to understand how well they are performing and where improvements can be made. On the other hand, reward

systems reinforce positive behavior and outcomes, motivating employees to continue excelling in their roles. By implementing effective feedback and reward systems, organizations can promote a culture of continuous improvement, accountability, and high performance among their employees.

In the context of the Government Inspectorate of Banyumas Regency, the support given by each OPD is vital for the successful execution of internal audits. The auditors receive cooperation from the OPDs being inspected, and they willingly provide the required data and documents, facilitating a smooth and efficient audit process. This mutual support and cooperation demonstrate the effectiveness of the internal audit efforts and validate the Government Inspectorate's ability to receive valuable feedback from other management. The positive feedback and support received from other management within the region contribute to the overall effectiveness of fraud prevention and governance in Banyumas Regency.

Increasing the Number of Inspections

The effectiveness of internal audits and the increasing number of inspections are closely linked to the auditors' capabilities. As stated by Efendy (2010), auditors need to possess knowledge and abilities to conduct effective audits. The better the auditor's ability, the more audits can be conducted, and the benefits of these audits become increasingly evident.

In practice, the Government Inspectorate of Banyumas Regency has taken steps to enhance the auditors' abilities by investing in capacity-building initiatives such as training, workshops, coaching, and knowledge-sharing. Additionally, the inspectorate conducts comparative studies to motivate auditors to improve their skills and competencies further. These efforts have resulted in auditors demonstrating good capabilities and competence, leading to an increase in the number of audits conducted.

The provided documentation strengthens the findings of the study, highlighting the Government Inspectorate's commitment to improving auditors' abilities, thus ensuring the effectiveness of internal audits and facilitating the growth in the number of inspections conducted by the Inspectorate of Banyumas Regency:



Figure 2. An Image Depicting a Workshop Focused On The Assessment of The Integrated New SPIP was Observed.

Achievement of the Inspection Program

The success of the inspection program is of utmost importance for the Government Inspectorate of Banyumas Regency, and it revolves around the evaluation of the audited entities and the careful prioritization of high-risk areas in the audit planning process. Tunggal (2010) underscores the significance of the internal audit function in identifying and assessing substantial risks, which in turn contributes to the improvement of risk management and the reinforcement of internal control systems. In practice, the inspectorate adopts a risk-based approach by preparing the PKPT, a document that aids in prioritizing high-risk areas for inspection. This method ensures that critical issues are promptly addressed, ultimately bolstering the overall effectiveness of the audit program.

The effectiveness of the internal audit at the Government Inspectorate of Banyumas Regency is a critical factor in preventing fraud. As emphasized by various experts such as Sutaryo (2018) and Wahyuni (2020), a strong internal control system, coupled with effective internal audits, is essential for minimizing risks, promoting good governance, and preventing fraudulent activities. The diligent focus of internal auditors in carrying out their responsibilities contributes to operational efficiency and serves as an early prevention mechanism against fraud within the organization. Additionally, the role of internal audit as a supervisor in detecting fraud involves rigorous testing and evaluation of controls to identify potential risks of fraudulent behavior. By effectively performing these functions, the Government Inspectorate of Banyumas Regency can reinforce its fraud prevention efforts and maintain transparency and accountability in the government agencies it oversees.

In practice, the Government Inspectorate of Banyumas Regency has exhibited a high level of internal audit effectiveness in its fraud prevention efforts. The auditors have demonstrated professionalism and cooperation in various aspects, such as the feasibility and importance of audit findings and recommendations, the response from the entities being inspected, and the achievement of the audit program. This effective implementation of the internal audit function reflects the Inspectorate's dedication to preventing fraud and enhancing the overall efficiency of government operations. Through their diligent work, the auditors have proven their ability to carry out their roles and responsibilities related to internal audit and fraud prevention effectively. This success reinforces the importance of internal audit in maintaining accountability and transparency within the government agencies they oversee.

D. CONCLUSION

The research findings and discussion suggest that the internal audit conducted by the Government Inspectorate of Banyumas Regency has effectively prevented fraud. The study evaluated the effectiveness of the internal audit using multiple dimensions, such as the importance of audit findings and recommendations, the response from the audited entities, auditor professionalism, early warning systems, cost-saving measures, personnel development, feedback from other management, increased audit frequency, and the achievement of audit programs. The auditors demonstrated their competence in addressing each of these aspects, indicating that the internal audit process has been efficient and successful in thwarting fraudulent activities within the organization.

The research implies several important points. First, the recommendations provided by the inspectorate to OPDs in the Banyumas Regency government are valued and followed up, making the Inspectorate a crucial actor in fraud prevention efforts. Second, auditors' professionalism and coordination between auditors and auditees contribute to effective audits. Third, early warning reports enable quick and accurate responses to identified issues. Fourth, budget efficiency and improved infrastructure optimize the Inspectorate's performance. Fifth, continuous efforts to develop human resources enhance the inspection process. Sixth, support from OPDs facilitates effective audits. Seventh, strong auditor capabilities lead to better fraud

prevention. Eighth, priority standards guide the Inspectorate in determining inspection strategies for OPDs with identified findings.

The research faced limitations due to the COVID-19 pandemic, resulting in suboptimal data collection relying mainly on accessible secondary data. Additionally, the absence of informants from the auditee side introduced a level of subjectivity in the research. Future studies could include informants from auditees to enhance the research's objectivity.

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