

UNIVERSITI TEKNOLOGI MARA

**FRAUD RISK ASSESSMENT AND
DETECTION OF FRAUD
OCCURRENCES: EXAMINING
INDIVIDUAL AND SITUATIONAL
FACTORS OF GOVERNMENT
INTERNAL AUDITORS**

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ABSTRACT

Regional autonomy is one of Indonesia's main reform agendas aimed at reducing the economic-political gap between the central and local governments. However, in its development, in the two decades since the Reformation era, regional autonomy has been obscured by the fact that there are rampant corruption cases at the regional level. The discovery of cases of irregularities in the management of regional finances by external supervisors raises questions about the role of the internal supervisor, the inspectorate in the local government. Therefore, it is necessary to examine the internal supervisor's role as an internal auditor in detecting possible fraud. Based on the behavioural decision theory and social cognitive theory, this study aims to address the above gaps by examining the behavioural factors (which are classified into two dimensions - individual factors or internal factors and situational factors) that can affect the ability to detect the possibility of fraud occurrence. Data collection was carried out by survey method using a questionnaire. Based on the 149 questionnaire responses collected, the data were analysed using Partial Least Squares of Structural Equation Modelling. The results of this study, testing of antecedent factors that can affect the ability to detect the possibility of fraud show that individual factors (professional skepticism, professional commitment and auditor experience) are significant in influencing the detection of fraud occurrences. This study also shows that fraud risk assessment mediates relationships between individual factors and the detection of fraud occurrences. This study tested the possible moderating effect of situational factors (namely, workload compression and perceived organizational support). The results show that workload compression and perceived organizational support provides evidence of a moderating effect on the relationship between fraud risk assessment and the detection of fraud occurrences. This study makes a significant contribution in confirming the theoretical basis underlying behavioural assessments and adding value to existing knowledge about fraud risk assessment and fraud detection. Expanding studies on assessing internal auditors' behaviour in the context of fraud risk and fraud detection in local governments is expected to form new branches of research in related fields. The theoretical foundation that underlies this research can provide input for further studies by the academic community. In practical terms, these findings can provide a solid framework for local governments and policymakers to improve internal auditors' role related to fraud risk assessment and fraud detection with a better understanding of internal auditors' behaviour. The additional knowledge about fraud risk assessment and fraud detection provided by this study can also provide benefits for other stakeholders such as the central government, regional parliament, and Audit Board of the Republic of Indonesia as external auditors to increase their understanding of government auditors' behaviour in assessing fraud risk to detect fraud occurrences.

Keywords: Regional autonomy, local government, government auditor

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