

# The Influence of Organizational Culture and the Role of Internal Auditors on Fraud Prevention, with Internal Control Systems as Mediators: A Case Study on IGE

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## ABSTRACT

The purpose of this research is to examine the influence of organizational culture and the role of internal auditors on fraud prevention, with internal control systems as a mediator. This study utilizes primary data by distributing questionnaires to employees working at IGE (General Inspection of the State) and five Ministries, namely the Ministry of Agriculture, Ministry of Transportation and Communication, Ministry of Health, State Ministry, and the Ministry of Higher Education. The sampling is done using the census sample method, with 100 employees as the sample in this research. The analysis method used to test hypotheses is path analysis using the SmartPLS data analysis tool version 4.0. The results of this study indicate that organizational culture influences fraud prevention, the role of internal auditors influences fraud prevention, organizational culture influences internal control systems (SPI), the role of internal auditors does not influence SPI, SPI influences fraud prevention, organizational culture influences fraud prevention through SPI, and the role of internal auditors influences fraud prevention through SPI.

**Keywords:** organizational culture, role of internal auditor, internal control system, fraud prevention

## I. INTRODUCTION

Accounting fraud is an issue that consistently captures public attention. Financial losses due to accounting fraud cannot be underestimated, as these losses often have material value, causing significant harm to various parties. In line with Wilopo's statement (2006) that accounting fraud is a misrepresentation leading to deception in financial reporting, it involves intentional misstatements or omissions in financial statements to deceive financial statement users.

Amrizal (2004:4) explains that fraud prevention is an effort or method undertaken to minimize or eliminate the causes of fraud. Fraud must be prevented as early as possible because delaying action until fraud occurs will result in losses for the company. According to Arens (2008:441), one factor that can prevent fraud is a culture of honesty and high ethics. Tunggal (2012:59) also argues that a culture of honesty and high values can prevent fraud in an organization. According to the Indonesian Institute of Accountants (Ikatan Akuntansi Indonesia, 2001), internal control is a process run by the board of commissioners, management, and other entity personnel designed to provide adequate assurance about the reliability of financial statements, the effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

According to Mary-Jo Kranacher et al. (2011) in Haryono Umar (2016), there are three elements in fraud: (1) Conversion, which means deceiving, engineering, lying, and so on. In this case, fraud begins with malicious intent to manipulate and engineer a situation for personal and group interests that can harm others; (2) Concealment, which means hiding or diverting. Since fraud is a form of crime, perpetrators do not want to be known by others; (3) Nepotism, meaning perpetrators engage in nepotism and collusion to conceal their crimes so that their actions are not known to outsiders.

In Timor Leste, there is now the General Inspection of the State (Inspeção Geral Estado or IGE), which applies governance principles, controls, audits, and investigates government activities related to accountability and responsibility according to Ministerial Decision No. 02/2013, dated March 6, 2013. Article 09 states, "The competence of Internal auditors at IGE is assigned to carry out the functions of examination, investigation, and follow-up audit to develop public services, prevent fraud to improve government performance, protect national interests, and enhance compliance with applicable laws and regulations and ethical values (code of conduct) in force" (Ministerial Diploma 2014).

Internal auditors play a role in assisting management in the prevention, detection, and investigation of fraud in an organization. According to the Interpretation of Internal Audit Professional Standards (SPAI) – standard 120.2 in 2004, on knowledge about fraud, internal auditors must have adequate knowledge to recognize, investigate, and test indications of fraud. Furthermore, Statement on Internal Auditing Standards (SIAS) No. 3, on Deterrence, Detection, Investigation, and Reporting of Fraud (1985) in Zelmianti and Anita (2015), provides guidelines for internal auditors on how to prevent, detect, and investigate fraud. SIAS No. 3 also emphasizes the responsibility of internal auditors to create audit reports on fraud.

Internal auditors play a crucial role in the company, acting as independent assessors to examine the company's operations by measuring and evaluating the adequacy of controls, as well as the efficiency and effectiveness of the company's work (Sawyer, 2012). Internal auditors provide the necessary information to management to effectively carry out their responsibilities. Internal review of controls in accounting and management is the responsibility of internal auditors. Internal auditors only propose a method or alternative method to improve conditions, while choosing corrective action is management's job.

In Timor Leste, there are cases similar to: 1. The case of Parliament's car auction involving members of the Timor Leste parliament, where Toyota Hilux Prado cars were purchased for \$63,000 each and auctioned for \$8,000 each. Therefore, the Justice System Monitoring Program (JSMP) suspects fraudulent activities by the Parliament Secretary Council, as they used their competence to determine prices that did not match the auction prices (<https://jsmp.tl/>). 2. Case of Fraud in Fund Allocation at the Timor Leste Press Council where funds transferred by the Ministry of Finance were not used according to the items specified. For example, the purchase of 3 official cars with the brand Pajero Sport for \$40,000 each, where the staff used them with personal plates. According to the IGE, the cars bought with state money should have government plates, but the staff used the cars with personal plates (IGE Source). 3. Invoice case at the National Hospital of Timor Leste, where in this case, IGE auditors found fraud committed by the finance department that manipulated and eliminated payment invoices for foreign patients. In the annual financial report, Invoice Numbers 17, 18, 19, 20 were missing (IGE Source).

From the above cases, a significant question arises: why couldn't internal auditors detect fraud committed by management? This can happen if management manipulates the tasks and functions of internal auditors. Management strives to ensure that the committed fraud remains untouched or even impossible to discover. In addition, management may ask internal auditors to alter reports from internal audit assignments they have conducted. In this case, internal auditors are required to maintain professionalism.

The reporting of various corruption cases in Timor Leste is a significant issue for the country. When measured based on the level of corruption in the Corruption Perception Index for Southeast Asia in 2022, Timor Leste scored 42 points, ranking fourth in Southeast Asia after Singapore, Malaysia, and Vietnam (Transparency International, 2022). However, this score could increase if the Anti-Corruption Commission of Timor Leste and the State Supervision Body of Timor Leste do not seriously prevent it, leading to a bleak future for Timor Leste. Therefore, with the spirit of collaboration among NGOs, the government, the public, and business actors, efforts are needed to prevent and eradicate corruption, ensuring that Timor Leste is free from corruption.

Culture has been an important concept in understanding societies and human groups for a long time. In the anthropological and historical sense, culture is the core of different groups and societies in terms of how their members interact with each other and how they resolve their activities (Rivai, 2003). Currently, the concept of organizational culture is extensively studied by management experts and practitioners, leading to a diverse range of definitions. This diversity is due to varying perspectives of experts and practitioners regarding organizational culture and the realities associated with the six organizational cultures.

Organizational culture is a factor that directly influences individual behavior. Although organizational culture is shaped and influenced by individuals, on the flip side, it influences individual behavior and motivation, as stated by Jain. An individual within an organization can be motivated or even demotivated by the organizational culture in which they work. If organizational culture acts as a motivator, it becomes a factor that provides positive energy for individuals in the organization. However, if it becomes a factor that demotivates

individuals, it directly hinders individuals from achieving their goals. Even demotivation caused by organizational culture can result in an individual losing opportunity to develop their talents and creativity (Milos Cambal, Dusan Baran, 2006).

In addition to organizational culture, another factor that reduces fraudulent activities is the role of internal auditors. Internal audit activities assist organizations in implementing effective controls by evaluating efficiency and effectiveness and encouraging continuous improvement (Sawyer, 2012). The role of auditors should be able to drive the achievement of the company's goals through good governance. The internal auditor's role as an internal consultant to the company should provide early warnings to management to prevent and minimize the impact of fraud that could harm the organization.

Internal audit functions to help management in the prevention, detection, and investigation of fraud within an organization (company). According to the Interpretation of the Internal Audit Professional Standards (SPAI) - standard 120.2 of 2004, regarding knowledge of fraud, it is stated that internal auditors must have sufficient knowledge to recognize, investigate, and test indications of fraud. In addition, the Statement on Internal Auditing Standards (SIAS) No. 3, on Deterrence, Detection, Investigation, and Reporting of Fraud (1985) in Zelmiyanti and Anita (2015), provides guidelines for internal auditors on how to prevent, detect, and investigate fraud. SIAS No. 3 also emphasizes the responsibility of internal auditors to create audit reports on fraud. The internal auditor plays a crucial role in the company, acting as an independent assessor to examine the company's operations by measuring and evaluating the adequacy of controls, as well as the efficiency and effectiveness of the company's work (Sawyer, 2012). Internal auditors provide management with the necessary information to effectively carry out their responsibilities. Internal review of controls in the accounting and management areas is the responsibility of internal auditors. Internal auditors only propose a method or alternative method to improve conditions, while choosing corrective action is the responsibility of management.

The internal control system is a process designed to provide reasonable assurance regarding the achievement of management objectives (Arens, 2008:378). The presence of policies and procedures in banking will form the structure of the company's internal control. Management has eight common goals in designing an effective internal control system: reliability of financial reporting, efficiency and effectiveness of operations, and compliance with laws and regulations. According to Arens (2008:370), there are five components of internal control: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

The internal control system in banking is closely related to organizational culture; Robbins (2002:283) states that culture functions as a shaper of attitudes and a control mechanism that provides guidance for employee behavior. New employees may not immediately adhere to all company rules, but they will observe the habits or culture within the company. Therefore, when the organizational culture is strong, the implementation of the existing internal control system will be more effective. An effective internal control system will reduce fraudulent activities in banking. Internal auditors evaluate and provide recommendations for the internal control

system. Internal auditors with good competence will lead to the effective implementation of the internal control system, thereby reducing the risk of fraud. The internal control system is an intervening variable. Organizational culture influences Organizational Culture and the Role of Internal Auditors in Fraud Prevention.

The State Supervisory Board of Timor-Leste identified a problem, namely the low quality of financial information in the Ministry's financial reports, which is caused by the accountants' understanding directly related to the competence of human resources, the suboptimal implementation of financial accounting systems, and the weakness of the internal control system. According to Warisno (2008) in Sukmaningrum (2012), for effective financial management in local governments, employees must have competent human resources, supported by an accounting education background, frequent participation in education and training, and experience in the financial field. There are several issues that need further investigation, and the Internal Control System (SPI) influences fraud prevention.

## **II. LITERATURE REVIEW**

### **A. Fraud Hexagon Model Theory**

The Hexagon Fraud Model Theory is an explanation of why a company or a particular party engages in fraud. The theory originated from the fraud triangle, also known as Cressey's Theory by Donald R. Cressey in 1953. A new perspective was later developed by Wolfe & Hermanson (2004) by adding a fourth element known as capability, or what is known as the fraud diamond. Crowe (2011) then further developed the theory by introducing the element of arrogance, refining it into what is called the fraud pentagon. The latest and more complex theory in detecting fraud is the fraud hexagon theory, developed and introduced by Vousinas (2019), which adds a new element, making it the sixth element: collusion. According to Vousinas (2019), if collusion has already occurred, especially among employees or between employees and external parties, fraud becomes more difficult to stop. Unintentionally, this factor can inadvertently encourage the occurrence of fraud.

### **B. Types of Fraud**

According to the Association of Certified Fraud Examiners (ACFE) as cited in Priantara (2013), fraud is divided into three types: a. Deviation of assets Asset deviation includes the misuse, embezzlement, or theft of assets or company property by individuals within or outside the company. b. Deceptive or falsified statements or reporting This includes actions taken by officials or senior executives in a company or government agency to cover up the actual financial condition by manipulating financial reports for personal gain. c. Corruption This type of fraud is the most difficult to detect because it involves collaboration with other parties or collusion. It includes abuse of authority or conflicts of interest, bribery, gifts, and other similar activities.

### C. Fraud Prevention

Fraud is an unlawful act committed by one or more individuals within or outside a company, with the intention of gaining personal and/or group benefits to the detriment of others (Priantara, 2013). According to the Indonesian Institute of Accountants (IAI, 2012), fraud is defined as "any accounting action": a) Misrepresentation arising from fraud in financial reporting, which involves intentional misstatement or omission of amounts or disclosures in financial statements to deceive financial statement users. b) Misrepresentation arising from improper treatment of assets (often referred to as misuse or embezzlement) related to the theft of entity assets, resulting in financial statements not being presented in accordance with generally accepted accounting principles.

Fraud is an intentional act committed by one or more individuals in management, Those Charged With Governance (TCWG), employees, or third parties (Kusuma, 2018). Fraud committed by management is referred to as management fraud, while fraud involving employees is termed employee fraud. Tuanakotta (2014) states that in both management fraud and employee fraud, there may be collaboration within the company or with third parties outside the company. Purba (2015) defines fraud as any dishonest act (abuse or deviation from duties) aimed at taking money (property or resources of others or organizations) through cunning, deceit, fraud, trickery, concealment, or other intentional means, resulting in organizational or individual loss and/or benefiting the perpetrator.

According to Black Law Dictionary eighth edition, cited in Priantara (2013), fraud is an intentional action or deed designed to deceive, or dishonest methods or ways to take or eliminate money, property, or legitimate rights of others, either due to an action or the fatal consequences of the action itself. In summary, fraud is an dishonest act committed by one or more individuals, utilizing their position in a company to take over all assets and resources belonging to others for personal gain, resulting in losses for others. ACFE (2018) states that there are three common types of fraud: corruption, asset misappropriation, and fraudulent financial statements. The following is an explanation of these three types of fraud.

#### **1) *Corruption, divided into four types as follows:***

- a. Conflict of interest, the misuse of authority often found in various forms, generally occurring in state-owned or official business and their families and cronies who become suppliers or partners of government institutions and in the business world (Tuanakotta, 2017). Conflict of interest occurs in purchase schemes and sales schemes.
- b. Bribery involves providing something of value, either goods or services, with the aim of influencing the actions of the person to achieve the desired goal. Bribery is divided into two types: invoice kickbacks and collusive bidding (bid rigging).
- c. Illegal gratuities involve giving something to a person as a reward for achieving the desired goal. Illegal gratuities are similar to bribery, but the difference is that illegal gratuities occur after official action has been taken.

d. Economic extortion, the opposite of bribery.

**2) *Asset misappropriation is an act of misusing assets owned by an institution or company for personal gain.***

Asset misappropriation is divided into two types: misuse of cash and misuse of other assets.

a. Misuse of cash is generally carried out in three types:

- Theft of cash on hand
- Theft of cash receipts
- Fraudulent disbursements

b. Misuse of other assets, such as inventory and other assets, is generally carried out in the form of misuse and larceny.

**3) *Fraudulent financial statements are intentional actions by individuals to manipulate financial statements with the aim of covering up or hiding conditions related to the perceived poor performance of the company. Fraudulent financial statement practices generally occur in two forms:***

- a. Assets and revenue presented lower than actual (assets and revenue understated)
- b. Assets and revenue presented higher than actual (assets and revenue overstated)

Fraudulent actions have a significant negative impact on companies or institutions. The most tangible consequence is the occurrence of losses and damage to the company's image due to fraud. Therefore, effective fraud prevention efforts are needed to minimize the occurrence of fraud, implemented by companies.

## **D. Organizational Culture**

Culture is a perspective that is simultaneously adopted as a way of life by a society. It influences the regular behavioral patterns of humans because culture depicts appropriate behavior for specific situations. Organizational culture essentially comprises values and norms believed by an organization in achieving its goals. As organizational culture can determine the achievement of organizational goals, management or leaders need to accurately understand the organizational culture embraced by its members and how it is directed towards the effective and efficient achievement of organizational goals.

According to Suastawan et al. (2017), organizational culture consists of norms, values, assumptions, beliefs, and habits created and approved by an organization's members as guidelines or references in conducting its activities, both for employees and others. Schein (2004:7) states that organizational culture is a pattern of basic assumptions that are valid and operate within the organization. These assumptions can be learned by organizational members, act as problem-solving agents in organizational issues, balance external factors affecting the organization, and internally integrate its members. When related to fraud prevention, one factor that can prevent fraud is a culture of honesty and high ethics (Arens et al., 2012:346).

Arens' statement is supported by Tunggal (Suastawan et al., 2017), who states that fraud can be prevented by enhancing organizational culture through the implementation of good corporate governance principles. All

elements of the organization are responsible for promoting a positive culture to minimize the risk of fraud. Organizational culture is an opportunity to build human resources by influencing attitudes and behaviors to adapt to current and future challenges. It is a social force that invisibly motivates individuals within an organization to perform work activities.

Robbins (2002) defines organizational culture as a shared meaning system embraced by members that distinguishes the organization from others. Various organizational cultures exist, influenced by the environment in which they operate. Organizations are open systems, constantly adapting to their environment to achieve their goals, with different cultures shaped by their vision, mission, and organizational strategies.

### ***1) Functions of Organizational Culture***

According to Kreitner and Kinicki (2001:73) as cited in Wibowo (2011:49), the functions of organizational culture are:

- a. Providing members with organizational identity, distinguishing one organization from another.
- b. Facilitating collective commitment, creating a sense of pride and shared commitment among members regarding organizational norms.
- c. Enhancing the stability of the social system, reflecting a positive and strong work environment that effectively manages conflict and change.
- d. Shaping behavior by helping members become aware of their surroundings.

## **E. Definition of the Internal Auditor's Role**

An internal auditor is an employee of a company engaged in independent research activities aimed at assisting management in providing effective accountability (Boynton et al., 2003:8). The scope of internal audit functions covers all stages of company activities, especially compliance and operations. However, internal audit work can also complement external audit work in auditing financial statements. The Institute of Internal Auditors (IIA) defines internal auditors as independent, objective assurance and consulting activities designed to add value and improve organizational operations. With a systematic and disciplined approach, internal audit helps companies achieve their goals and enhance the effectiveness of risk management, internal control, and good corporate governance processes.

Internal audit implementation is carried out independently and objectively, meaning it is not influenced by any party and is not involved in the activities being audited. Thus, the results of the audit can be relied upon. In performing their duties, internal auditors analyze and assess financial, accounting, operational, and other areas, providing objective recommendations and information about the examined activities at all management levels. Internal auditors must possess good mental attitudes reflected in honesty, objectivity, diligence, and loyalty to the profession. They should adhere to a Code of Ethics that includes behaving honestly, courteously, unimpeachably, objectively, and responsibly; demonstrating high dedication; not accepting anything that may

influence their professional opinion; maintaining confidentiality according to regulations; and continuously improving their professional abilities (The Institute of Internal Auditors, 2016).

## **F. Definition of Internal Control**

Tuanakotta (2010:275) defines internal control in four ways: pre-September 1992, post-1992, AICPA 1988, and a specific definition for preventing fraud. The first definition (pre-September 1992) is interpreted as desired conditions or outcomes resulting from various processes implemented by an entity to prevent and deter fraud. The second definition (post-1992) is known as the COSO definition (Committee of Sponsoring Organizations of the Treadway Commission). It defines internal control as a process designed and implemented by the board, management, and all employees to provide reasonable assurance in achieving effective and efficient business activities, financial reporting constraints, and compliance with relevant laws and regulations. The third AICPA definition (1988) explains through Statement on Auditing Standards No. 18 53, April 1988, that for the purpose of auditing financial statement balances, the internal control structure of an entity consists of control environment elements, accounting systems, and control procedures. The fourth definition (specifically for fraud prevention) defines it as a system with processes and procedures specifically designed and implemented for the primary purpose, if not the sole purpose, of preventing and obstructing fraud.

## **G. Organizational Culture's Relationship to Fraud Prevention**

Organizational culture is also a variable that can influence the tendency for accounting fraud. This organizational culture is related to the third component of the fraud hexagon theory, Rationalization. Such actions are typically present in organizations with poor cultures, as a good organizational culture will not provide any opportunity for individuals to engage in fraudulent activities. If the organizational culture functions well, it will shape the character of individuals within the organization, fostering a sense of belonging and identity. Organizational culture itself comprises norms, values, assumptions, beliefs, and habits created and approved by all members of the organization as guidelines or references that influence the way work is done and how employees behave. According to Ekayanti (2017), the better the organizational culture applied, the more effective internal control will be, contributing to organizational development and minimizing the tendency for fraud. Suastawan's (2017) research supports this by stating that organizational culture has a significantly positive impact on preventing fraud in the management of BOS funds.

## **H. The Role of Internal Auditors in Fraud Prevention**

Internal auditors serve as controllers or overseers within a company and play a crucial role in fraud prevention. Perry (1997) asserts that internal auditors help management in preventing, detecting, and investigating fraud within an organization because they are in the best position to detect fraud. The presence of internal auditors in a company is believed to assist management in preventing fraud. Activities carried out by internal audit are a key support in achieving company objectives. When conducting internal audit tasks, objectivity is crucial, and the internal audit position in the company is independent.

Based on the explanations from various previous studies and the theories outlined above, the author constructs the conceptual framework for this research as follows:

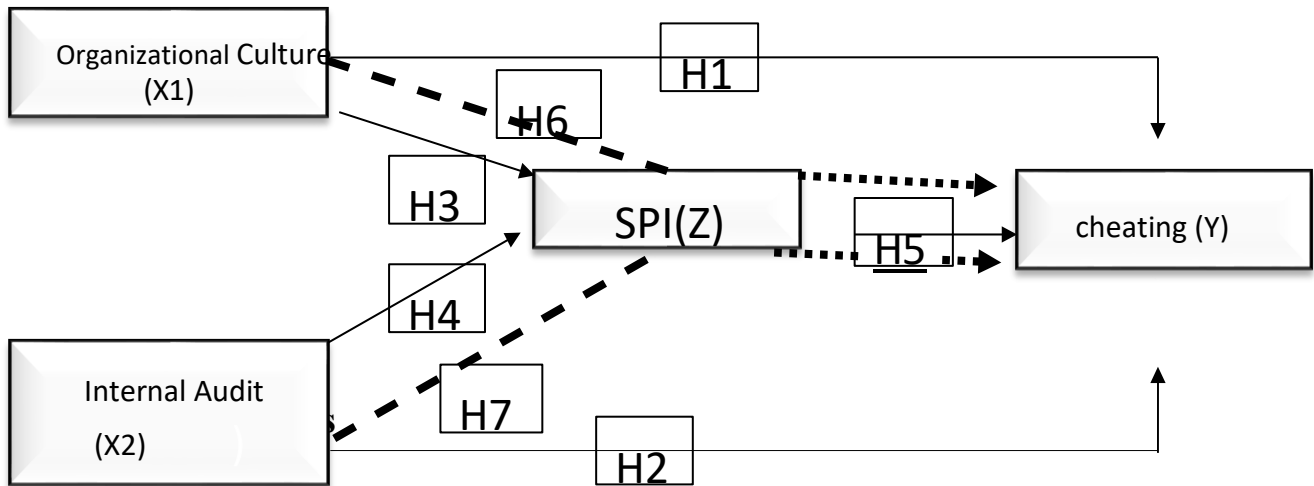


Figure 1. Conceptual Framework

- (H1) = "Organizational culture has a positive influence on fraud prevention".  
 (H2) = "Internal auditors have a positive influence on fraud prevention".  
 (H3) = "Organizational culture has a positive influence on Internal Control Systems"  
 (H4) = "Internal auditors have a positive influence on Internal Control Systems"  
 (H5) = "Internal Control Systems have a positive influence on fraud prevention"  
 (H6) = "Organizational culture has an influence on fraud prevention through Internal Control Systems"  
 (H7) = "Internal auditors have an influence on fraud prevention through Internal Control Systems".

### III. RESEARCH METHODOLOGY

#### A. Types of Research

The research method is essentially a scientific approach to obtaining data for specific purposes and utility (Sugiyono, 2017: 2). This type of research employs a quantitative research method, characterized as such because the research data consists of numerical figures, and statistical analysis is used to test hypotheses. Based on its analytical approach, this research can be classified as causal quantitative research, which aims to reveal the magnitude of an influence or relationship between variables expressed in numerical terms. In this study, the variables are "Organizational Culture and Internal Audit Role on Fraud Prevention, with SPI as a mediator (a case study on IGE (Inspectorate General of the State of Timor-Leste) and five ministries in Timor-Leste (Ministry of Agriculture, Ministry of Transportation and Communication, Ministry of Health, Ministry of State, and Ministry of Higher Education))."

## **B. Population and Sample**

Population is the subject of research that serves as the target for obtaining and collecting data. Based on this definition, the population in this study consists of all internal auditor employees at IGE (Inspectorate General of the State of Timor-Leste) and 5 Ministries of Timor-Leste (Ministry of Agriculture, Ministry of Transportation and Communication, Ministry of Health, State Ministry, and Ministry of Higher Education), totaling 100 people.

The sampling technique used in this research is census sampling. According to Usman (2008), census sampling is a technique of collecting samples when all members of the population are used as samples. In this study, the number of internal auditor employees at IGE and the 5 Ministries of Timor-Leste is 100 people.

## **C. Type and Source of Data**

In this research, quantitative data from Primary Data sources are used, obtained directly from the source or subjects/respondents to be studied.

## **D. Techniques and Procedures for Data Collection**

Data for this research is collected by distributing questionnaires to directors and internal auditors from the accounting staff at IGE and the 5 Ministries of Timor-Leste. The questionnaires are delivered directly to the respondents' addresses, and their return is arranged according to the agreement.

## **E. Research Variables**

- a. Endogenous Variable (Y): fraud prevention.
- b. Exogenous Variables (X1, X2): organizational culture and internal audit role (X1) and internal audit role (X2).
- c. Intervening Variable (X3): internal control system (X3).

## **F. Data Analysis Technique - Descriptive Statistical Analysis**

According to Ghozali (2012), descriptive analysis aims to collect, process, and analyze data so that it can be presented in a better display. Descriptive statistics is a method to describe and provide an overview of the frequency distribution of variables in a study, where data processing and analysis use the SPSS program application. Descriptive analysis is used by compiling frequency distribution tables to determine whether the level of variable research values (scores) falls into categories: strongly agree, agree, neutral, disagree, and strongly disagree. The initial step in analyzing data in this study is to calculate the scores for each item, and these scores can be summed to obtain a total score. Umar (2007:225) calculates the score for each component studied by multiplying all frequency data. In this analysis, central tendency values (mean, maximum, and minimum) and variability (variance) are used, described in tables, graphs, and diagrams to measure the trends of organizational culture, Auditor Role, Fraud Prevention, and Internal Control System variables.

### G. Inferential Analysis PLS

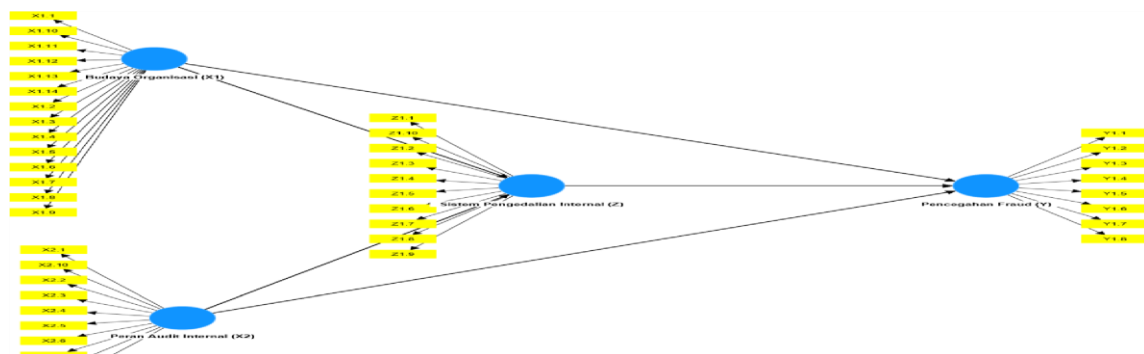
The analysis technique used to analyze sample data, and the results are applied to the population. In line with the formulated hypotheses, inferential analysis in this study is measured using Smart PLS, where the type of test to be used in the study is explained in more detail in the following section. This research describes the intervening relationship on the SPI variable. To see whether the research variable mediates perfectly or partially, compare the direct effect with the indirect effect. When the direct effect is greater than the indirect effect, the research variable mediates perfectly, and vice versa. To see the direct effect, refer to the original sample table, while the indirect effect is obtained through the multiplication of the magnitude of the exogenous variable's influence on the intervening variable, with the magnitude of the intervening variable's influence on the endogenous variable (Y).

## IV. FINDINGS

### A. Factor Loading

Figure 2. Factor Loading

Table 1. Factor Loading



X1.1 <- Organizational Culture (X1)	0.945
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X1.10 <- Organizational Culture (X1)	0.929
X1.11 <- Organizational Culture (X1)	0.946
X1.12 <- Organizational Culture (X1)	0.942
X1.13 <- Organizational Culture (X1)	0.955
X1.14 <- Organizational Culture (X1)	0.883
X1.2 <- Organizational Culture (X1)	0.910
X1.3 <- Organizational Culture (X1)	0.908
X1.4 <- Organizational Culture (X1)	0.903
X1.5 <- Organizational Culture (X1)	0.919
X1.6 <- Organizational Culture (X1)	0.896
X1.7 <- Organizational Culture (X1)	0.927
X1.8 <- Organizational Culture (X1)	0.904
X1.9 <- Organizational Culture (X1)	0.962
X2.1 <- Internal Audit Role (X2)	0.836
X2.10 <- Internal Audit Role (X2)	0.911
X2.2 <- Internal Audit Role (X2)	0.836
X2.3 <- Internal Audit Role (X2)	0.825
X2.4 <- Internal Audit Role (X2)	0.950
X2.5 <- Internal Audit Role (X2)	0.903
X2.6 <- Internal Audit Role (X2)	0.902
X2.7 <- Internal Audit Role (X2)	0.870
X2.8 <- Internal Audit Role (X2)	0.880
X2.9 <- Internal Audit Role (X2)	0.923
Y1.1 <- Fraud Prevention (Y)	0.946
Y1.2 <- Fraud Prevention (Y)	0.906

Y1.3 <- Fraud Prevention (Y)	0.910
Y1.4 <- Fraud Prevention (Y)	0.890
Y1.5 <- Fraud Prevention (Y)	0.914
Y1.6 <- Fraud Prevention (Y)	0.950
Y1.7 <- Fraud Prevention (Y)	0.937
Y1.8 <- Fraud Prevention (Y)	0.953
Z1.1 <- Internal Control System (Z)	0.863
Z1.10 <- Internal Control System (Z)	0.897
Z1.2 <- Internal Control System (Z)	0.953
Z1.3 <- Internal Control System (Z)	0.946
Z1.4 <- Internal Control System (Z)	0.955
Z1.5 <- Internal Control System (Z)	0.968
Z1.6 <- Internal Control System (Z)	0.950
Z1.7 <- Internal Control System (Z)	0.914
Z1.8 <- Internal Control System (Z)	0.907
Z1.9 <- Internal Control System (Z)	0.910

**B. Convergent validity**

Convergent validity can be seen by comparing the Average variance extracted (AVE) value with the correlation between other constructs in the model. If the AVE root value > 0.50, it means that convergent validity is achieved.

**Table 2. AVE value**

	<b>AVE</b>
Organizational Culture	0.853
Fraud Prevention	0.858
Internal Audit Role	0.782

Internal Control System	0.859
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Based on the table above, the AVE value on the organizational culture variable (0.853), the fraud prevention variable (Y) (0.858), the role of internal audit (0.782), and the internal control system (0.859) are above the value > 0.50. So it can be said that the measurement model has valid convergent validity.

## C. Reliability

### 1) Construct Reliability

Table 3. Construct Reliability

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)
Organizational Culture	0.987	0.987	0.988
Fraud Prevention	0.976	0.977	0.980
Internal Audit Role	0.969	0.969	0.973
Internal Control System	0.982	0.983	0.984

Composite reliability is good if the value is above 0.70. Based on the table above, it can be seen that the Composite reliability value for variable X1 is 0.988, X2 is 0.980, Y is 0.973, and Z is 0.984, where the Composite reliability values of the 4 variables in the model are all greater than 0.70, so it can be said that the measurement model in this study has met the composite reliability.

### 2) R Square Value

Table 4. R square value

	R-square	R-square adjusted
Fraud Prevention	0.988	0.988
Internal Control System	0.966	0.964

Based on table 5.9, it is known that the R-square for the internal control system variable (Z) is 0.966, which means that Z is influenced by X1 and X2 by 96.6%. Meanwhile, the R-square value for the fraud prevention variable (Y) is 0.988, which means that Y is influenced by X1, X2 and Z by 98.8% .

### 3) Goodness of Fit (GoF)

The goodness of fit assessment is known from the Q-Square value. The Q-Square value has the same meaning as the coefficient of determination (R-Square) in regression analysis, where the higher the QSquare, the better or more fit the model is with the data. The results of the calculation of the Q Square value are as follows:

$$\begin{aligned}
 \text{Q-Square} &= 1 - [(1 - R^2_1) \times (1 - R^2_2)] \\
 &= 1 - [(1 - 0,966) \times (1 - 0,988)] \\
 &= 1 - (0,034) \times (0,012) \\
 &= 1 - 0,00041 \\
 &= 0,9996
 \end{aligned}$$

Based on the results of the above calculations, the Q-Square value is 0.9996. This shows that the amount of diversity of research data that can be explained by the research model is 99.96%. While the remaining 0.04% is explained by other factors that are outside this research model. Thus, from these results, this research model can be stated to have a good goodness of fit index because the Q-Square value is above 0.9996.

#### D. Hypothesis Testing Hypothesis Testing With Direct Effect

Direct effect testing consists of five hypotheses, namely: 1) testing the effect of organizational culture on fraud prevention (Y), 2) the effect of organizational culture on the internal control system (Z), 3) the effect of internal audit roles on fraud prevention (Y), 4) the effect of internal audit roles on the internal control system (Z), and 5) the effect of the internal control system (Z) on fraud prevention (Y). In testing hypothesis on the 5 variables above, it can be analyzed based on the following table :

**Table 5. Path Coefficients**

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics ( O/STDEV )	P values
Organizational Culture (X1) -> Fraud Prevention  (Y)	0.300	0.330	0.129	2.319	0.020
Organizational Culture (X1) -> Internal Control System (Z)	1.045	1.032	0.157	6.660	0.000
Internal Audit Role (X2) -> Fraud Prevention Fraud Prevention (Y)	1.274	1.280	0.077	16.528	0.000
Internal Audit Role (X2) -> Internal Internal Control System (Z)	-0.065	-0.053	0.173	0.377	0.706

Control System Internal Control System (Z) -> Fraud Prevention (Y)	-0.618	-0.653	0.123	5.039	0.000
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**1) The influence of testing the influence of organizational culture (X1) on fraud prevention (Y).**

Based on the first hypothesis, the results of data processing show a t-statistic value of  $2.319 > 1.96$  and a significance value of  $0.020 < 0.05$ . Thus, the hypothesis on the variable organizational culture (X1) regarding fraud prevention (Y) is accepted. It can be concluded that organizational culture (X1) significantly influences fraud prevention (Y) in the five dimensions.

**2) The influence of organizational culture on internal control system (Z).**

The table shows the results of data processing with a t-statistic value of  $6.660 > 1.96$  and a significance value of  $0.000 < 0.05$ . Therefore, the hypothesis on the variable influence of organizational culture on the internal control system (Z) is accepted. It can be concluded that organizational culture significantly influences internal control (Z).

**3) The influence of internal audit role on fraud prevention (Y).**

Based on the table above, the third hypothesis shows the results of data processing with a t-statistic value of  $16.528 > 1.96$  and a significance value of  $0.000 < 0.05$ . Thus, the hypothesis on the variable internal audit role in fraud prevention (Y) is accepted. It can be concluded that the internal audit role significantly influences fraud prevention (Y).

**4) The influence of internal audit on the internal control system (Z).**

From the fifth hypothesis in the table: 5.49 shows the results of data processing with a t-statistic value of  $0.370 < 1.96$  and a significance value of  $0.706 > 0.05$ . Therefore, the hypothesis on the variable internal audit role in the internal control system (Z) is rejected. It can be concluded that the internal audit role does not have a significant influence on internal control (Z).

**5) The influence of the internal control system (Z) on fraud prevention (Y).**

From the fifth hypothesis in the table: 5.49 shows the results of data processing with a t-statistic value of  $5.039 > 1.96$  and a significance value of  $0.00 < 0.05$ . Thus, the hypothesis on the variable internal control system (Z) regarding fraud prevention (Y) is accepted. It can be concluded that the internal control system (Z) significantly influences fraud prevention (Y).

## E. Hypothesis Testing with Indirect Influence

Testing of the mediation variable aims to detect the position of the mediation variable in the research model. This testing is conducted to examine the role of the internal control system mediation variable. The indirect influence hypothesis H6 is as follows: the internal control system mediates the relationship between organizational culture and fraud prevention, and hypothesis 7 (H7) is as follows: the internal control system

mediates the role of internal audit in fraud prevention. In testing the hypotheses on the mediation variables above, the analysis can be based on the following table:

**Table 6. Testing the Hypotheses**

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics ( O/STDEV )	P values
Internal Audit Role (X2) -> Internal Control System (Z) -> Fraud Prevention (Y)	0.040	0.022	0.109	0.370	0.712
Organizational Culture (X1) -> Internal Control System (Z) -> Fraud Prevention (Y)	-0.646	-0.663	0.096	6.725	0.000

- 1) The role of the internal control mediation system in the influence of organizational culture on fraud prevention. The results of the seventh hypothesis test in Table 5.50 above for the variable of the internal control system on the influence of organizational culture on fraud prevention, with a P-Value of  $0.000 < 0.05$  and a t-statistic value of  $6.725 > 1.96$ , mean that organizational culture through the internal control system has a significant influence on fraud prevention. This implies that there is a significant positive influence between the variables of organizational culture through the internal control system on fraud prevention. Therefore, the test of the indirect influence between the variables of organizational culture through the internal control system on fraud prevention has an effect. From the results of this hypothesis, it means that  $H_0$  is rejected, and  $H_1$  is accepted.
- 2) The role of the internal control system in the influence of the internal audit role on fraud prevention. The results of the sixth hypothesis test in Table 5.50 above show that the variable of the internal control system on the influence of the internal audit role on fraud prevention has a P-Value of  $0.712 > 0.05$  and a t-statistic value of  $0.370 \leq 1.96$ , meaning that the internal audit role through the internal control system does not have a significant influence on fraud prevention. Therefore, the test of the indirect influence between the variables of the internal audit role through the internal control system on fraud prevention has no effect. From the results of this hypothesis, it means that  $H_1$  is rejected, and  $H_0$  is accepted.

## V. DISCUSSION

### A. The Influence of Organizational Culture (X1) on Fraud Prevention (Y)

Culture within a company can prevent fraudulent activities, according to Tunggal's theory (2012:59). A culture of honesty and high values in ethics can prevent misconduct within an organization. The connection between organizational culture and fraud prevention is significant. According to Sulistiyowati (2007), a good

organizational culture eliminates any opportunity for individuals to commit fraud. A positive culture forms a sense of belonging and pride among the members, fostering a sense of identity within the organization.

Hence, a good organizational culture can reduce or prevent the occurrence of fraud within the organization. The habits in a company significantly influence the attitudes or behaviors of its members. Each member will behave in accordance with the habits or culture applied in the organization. A positive cultural climate will generate positive behavior among individuals within the organizational environment. If a company considers fraud to be commonplace, individuals within the company may rationalize such actions as normal. Therefore, it can be said that the better the organizational culture, the better the level of fraud prevention. This research aligns with studies by Zelmianti and Anita (2015), Dhany, Seger, and Mohammad (2016), and Suastawan, Sujana, and Sulindawati (2017), stating that organizational culture significantly influences fraud prevention. The hypothesis testing in this study yielded a t-statistic value of  $2.319 > 1.96$  and a significance value of  $0.020 < 0.05$  for the influence of the organizational culture variable on fraud prevention. This provides evidence that the organizational culture significantly and positively affects fraud prevention, indicating that the culture in the State Inspectorate (Inspeção Geral do Estado) and the five ministries (Ministry of Agriculture, Ministry of Transportation and Communication, Ministry of Health, Ministry of State, and Ministry of Higher Education) is well-implemented, thereby reducing and preventing fraud.

### **B. The Influence of Organizational Culture on Internal Control System (Z)**

Organizational culture and the internal control system are interrelated. With an internal control system in place, it oversees the achievement of the organization's vision, mission, and goals. An effective internal control system helps protect company assets, ensure reliable financial and managerial reporting, enhance compliance with applicable rules and regulations, and reduce the risk of losses, deviations, and violations (Susanto, 2008). However, an internal control system cannot function well without the support of a good organizational culture, as unethical behavior affects the prevalence of deviations (Kusumastuti, 2012).

The analysis of the data above yielded a t-statistic value of  $6.660 > 1.96$  with a significance value of  $0.000 < 0.05$ . Thus, the hypothesis regarding the influence of organizational culture on the internal control system is accepted. It can be concluded that organizational culture significantly influences the internal control system. This research aligns with the study conducted by Riba'ati (2003), proving that organizational culture influences the implementation of internal control, especially in cash management at IGE (Inspeção Geral do Estado) and the five ministries (Ministry of Agriculture, Ministry of Transportation and Communication, Ministry of Health, Ministry of State, and Ministry of Higher Education).

### **C. The Influence of the Internal Audit Role on Fraud Prevention (Y).**

The relationship between the internal auditor's role and fraud prevention in a company is highly interconnected, as the presence of internal auditors is believed to assist the company in preventing fraud. Suginam (2017) stated in his research that the influence of internal audit plays a significant role in controlling

and evaluating the activities of the company, especially in fraud prevention. Management must protect the company from any actions that may result in losses. Management needs to identify what needs protection (such as company assets), the risks to be faced, and the role of internal auditors in helping management manage and oversee activities that cannot be monitored independently by management. The internal auditor's role, according to Sawyer (2005:32), greatly assists management in minimizing these risks. This study aligns with research conducted by Widaningsih and Desy (2015), Yusriwati (2017), Festi, Andreas, and Riska (2014), stating that there is a positive influence of internal auditors on fraud prevention.

Based on the hypothesis testing results in this study, there is evidence that the variable of the internal auditor's role has a significantly positive effect on fraud prevention. This indicates that internal auditors in the State Supervisory Agency (Inspeção Geral do Estado) and the five Ministries, namely the Ministry of Agriculture, Ministry of Transportation and Communication, Ministry of Health, Ministry of State, and the Ministry of Higher Education, have effectively carried out their tasks, preventing fraudulent actions in the company.

Based on the analysis results from the data processing above, with a t-statistic value of  $16.528 < 1.96$  and a significant value of  $0.000 < 0.05$ , the hypothesis regarding the internal audit role in fraud prevention (Y) is accepted. It can be concluded that the role of internal audit has a significantly influential effect on fraud prevention (Y).

#### **D. The Influence of Internal Audit Role on Internal Control System (Z)**

From the data processing results, with a t-statistic value of  $0.370 < 1.96$  and a significant value of  $0.706 > 0.05$ , the hypothesis regarding the variable of the internal audit role on the internal control system (Z) is rejected. It can be concluded that the internal audit role does not have a significant influence on internal control (Z). This finding contradicts the research conducted by Neli (2009), which stated that internal auditors have an impact on the implementation of the internal control system.

#### **E. The Influence of Internal Control System (Z) on Fraud Prevention (Y)**

From the data processing results, with a t-statistic value of  $5.039 > 1.96$  and a significant value of  $0.00 < 0.05$ , the hypothesis regarding the variable of the internal control system (Z) on fraud prevention (Y) is accepted. It can be concluded that the internal control system (Z) has a significantly positive influence on fraud prevention (Y). This result is consistent with previous research by Sumiati (2010), which stated that the internal control system has a significant negative impact on the tendency of accounting fraud.

#### **F. The Mediating Role of Internal Control System in the Influence of Organizational Culture on Fraud Prevention**

From the above analysis, with a t-statistic value of P-Value  $0.000 < 0.05$  and a t-statistic value of  $6.725 > 1.96$ , it means that organizational culture through the internal control system has a significant influence on fraud prevention. This implies that there is a significantly positive influence between the variables of organizational

culture through the internal control system on fraud prevention. Therefore, the indirect influence test between organizational culture through the internal control system has a significant impact on fraud prevention. This research result is in line with the study conducted by Zelmiyenti (2015), which stated that organizational culture influences fraud prevention through internal control components.

### **G. The Role of Internal Control System in the Influence of Internal Audit Role on Fraud Prevention**

From the above analysis, it is shown that the internal control system variable in the influence of the internal audit role on fraud prevention has a P-Value of  $0.712 > 0.05$  and a t-statistic value of  $0.370 \leq 1.96$ , meaning that organizational culture through the internal control system does not have a significant influence on fraud prevention. Therefore, the indirect influence test between the variables of the internal audit role through the internal control system on fraud prevention does not have a significant impact. This research result contradicts the study conducted by Zelmiyenti (2015), which stated that the internal auditor's role influences fraud prevention through internal control components.

## **VI. CONCLUSION AND RECOMMENDATION**

Based on the research findings and discussions, the researcher aims to investigate the influence of organizational culture and the role of internal audit on the prevention of fraud in internal control systems as a mediator. Therefore, it can be concluded that based on the conducted tests, first, the organizational culture variable has a significantly positive impact on fraud prevention. Second, the organizational culture variable significantly influences the internal control system. Third, the internal audit role variable has a significant impact on fraud prevention (Y). Fourth, the internal audit role variable does not influence internal control (Z). Fifth, the internal control system variable (Z) significantly influences fraud prevention (Y). Sixth, the organizational culture variable influences fraud prevention through the internal control system, and the internal audit role variable influences fraud prevention through the Internal Control System.

### **A. Limitations**

Based on the researcher's direct experience in this research process, there are limitations that may be considered by future researchers to improve their studies. The limitations include a small sample size of only 50 respondents, which may not fully depict the actual situation, considering that 100 questionnaires were distributed.

### **B. Recommendations**

Based on the conducted research, several recommendations can be proposed as follows:

1. For future researchers:

- a. In future studies, it is advised to take a larger sample to improve data accuracy.
- b. Conduct continuous research to observe and assess changes in respondent behavior over time.
2. Theoretical suggestions:
  - a. Given the research results showing that the indirect influence of the internal audit role through the internal control system does not significantly affect fraud prevention, but the direct influence of the internal audit role significantly affects fraud prevention, future researchers may use different analytical tools to explore the non-significant impact of the internal audit role through the internal control system on fraud prevention.
  - b. In this study, conducted in a ministry, the variable of the internal audit role does not significantly influence internal control (Z). Future researchers may use different analytical tools and measurements to explore this non-significant impact further.
  - c. Future research could be conducted in other ministries or institutions to compare organizational cultures mediated by internal control systems and the role of internal audit in other organizations or institutions.
3. Practical suggestions:
  - a. Decision-makers should decisively and confidently rely on existing audits to guide employees to work well, thereby improving organizational performance.
  - b. The researcher hopes that this study can contribute or be considered by the Inspectorate General of the State of Timor-Leste and the five Ministries of Timor-Leste (Ministry of Agriculture, Ministry of Transportation and Communication, Ministry of Health, Ministry of State, and Ministry of Higher Education) and leaders in providing special supervision, especially to prevent future fraud within the organization.

### **C. Implications**

From the results of existing research, based on the variables of organizational culture and the role of internal audit on fraud prevention through the internal control system as mediation. With these results, it can provide implications for the ministry to provide supervision as follows:

- 1) This research is very meaningful for employees and leaders in decision making because the results of this study provide an overview that organizational culture is very influential and a determining factor in fraud prevention.
- 2) Based on the theory formulated by the researcher, it can be seen that the role of internal audit does not have a significant effect on the internal control system but the role of internal audit is one of the factors that can affect fraud prevention so that it must be considered by the agency/organization.

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