ATESTASI: JURNAL ILMIAH AKUNTANSI
Vol 5, Issue 2, (2022), 540 - 555

Mediation Effects of Fraud Prevention on the Relationship of Internal Control, Risk Management and Organizational Performance

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Received: June, 14, 2022 **Revised:** August, 31, 2022 **Accepted:** September, 30, 2022

Abstract

This study aims to determine the effect of internal control and risk management on organizational performance through fraud prevention. This quantitative research type uses descriptive analysis methods and inferential statistics, namely Structural Equation Modeling (SEM) using Partial Least Square (PLS) and Microsoft Excel software. The population in this study were all auditors who worked at the Inspectorate of Southeast Sulawesi Province, amounting to 37 apparatus. By taking a sample using a saturated piece, the number of samples is 37 Apparatus at the Inspectorate of Southeast Sulawesi Province. This research is sourced from primary data and secondary data. Primary data is obtained from the results of questionnaires distributed to each respondent; secondary data is data that has been collected or data obtained from previous research results—analysis of the Structural Equation Model (SEM) using the PLS program. The study's results found that internal control and risk management had a positive and significant effect on fraud prevention; fraud prevention has a positive and significant impact on organizational performance; internal control and risk management have a positive and significant impact on organizational performance through fraud prevention. Although the internal control implemented is reasonable, it needs to be improved by increasing the identification of every possible risk to avoid risks that will occur in the future. We suggest that the Southeast Sulawesi Provincial Inspectorate can review the performance of each division in carrying out operational activities based on the achievement of performance indicators. Improve regular system maintenance activities, thereby minimizing system disturbances—more follow-up on recommendations on audit findings.

Keywords: Internal Control, Risk Management, Organizational Performance, Fraud Prevention

DOI : https://doi.org/10.57178/atestasi.v5i2.123
p-ISSN : 2621-1963
e-ISSN : 2621-1505

Introduction

Performance is the process of accomplishing things with success. Organizational performance is said to be good if the organization successfully manages its activities and meets its objectives (Lannai & Amin, 2020). In the context of government, the performance of regional apparatus organizations is currently under public scrutiny, so the professionalism of the apparatus is evident in program implementers as well as those in charge of the program, as there are still numerous disparities between the activities carried out and the performance obtained (Fuada & Amin, 2021). In the government setting, irresponsible individuals frequently commit fraud to obtain benefits for themselves and their groups. From the central government environment to the local government environment, fraud or fraud frequently occurs, including acts of corruption and cooperation, such as altering financial records for profit, resulting in losses for other parties (Rahim et al., 2019).

Fraud is an illegal conduct that can cause harm to multiple people for personal or collective gain (Amin et al., 2022). Alternatively, organizations that directly damage others (Tuanakotta, 2013). Fraud is defined by Lannai & Muslim (2021) as any illegal or purposely inappropriate conduct intended to deceive others, resulting in losses for the victim and gains for the perpetrators. Based on this description, three terms require special consideration: illegal, purposeful, and harmful to others. The fraud triangle notion describes the components contributing to fraud, including pressure, opportunity, and justification. Typically, money needs are the source of the pressure elements that motivate someone to commit fraud—the opportunity factor results from the ineffectiveness of the organization's internal controls. The rationalization component is the perpetrator's justification of his fraudulent behavior as something natural (Tuanakotta, 2013). Moreover, Jensen, (2003) argues that an agency relationship is a contract in which one or more owners (shareholders) hire agents to perform labor for their advantage by delegating several policies as decision-making. Because the agent is able to have more information about the organization than the principal, the connection between the principal and agent might result in asymmetrical information. Under these asymmetries, the agent can influence the accounting figures displayed in the financial statements through earnings management. A method for monitoring control difficulties. Under these asymmetric conditions, the agent can alter the accounting numbers displayed in the financial statements through earnings management, one of the techniques used to monitor control issues. In demonstrating fraud, management (principal) employs the auditor (agent) to determine whether fraud has happened (Su'un & Sari, 2021). Auditors are expected to exhibit professional skepticism, experience, and skill while conducting audits of fraud indicators (Muslim, Ahmad, et al., 2020).

According to attribution theory, a leader's or authority's actions are influenced by causal qualities (Norberg & Horne, 2007). Fritz Heider, (1958) and Aida, (2021) contend that a combination of internal strengths and external pressures, such as challenges and good fortune at work, determines a person's behavior. This study uses attribution theory with variables because attribution theory examines how a person interprets an event, the reason or because of his conduct, which is impacted by internal and external forces and reflects a leader's behavior. Attribution theory is inextricable from organizational behavior, namely the behavior of leaders and subordinates (Hewett et al., 2018). Leadership is a method of thinking, feeling, acting, and dealing with subordinates in an organization. Causal qualities cause behaviors or decisions by leaders or those in authority, such as unethical behavior and accounting fraud (Dewi & Ratnadi, 2017). Fraud prevention efficiently decreases fraud-related losses (Amin et al., 2021). Organizations must take decisive action against fraud perpetrators to deter others from committing fraud in the future. In addition to minimizing fraud, preventative activities substantially benefit the organization (Suryandari et al., 2021). Fraud prevention organizations must develop a climate that discourages fraud, increase the disparity in doing so, enhance detection methods, and minimize losses if fraud does occur (Drogalas et al., 2017).

In Indonesia, the Inspectorate, also known as the Government's Internal Supervisory Apparatus, is the government's internal auditor (APIP). It is the primary internal government institution responsible for preventing fraud in central and regional government circles. Through monitoring, supervision, and inspection, internal auditors must test and assess systems and processes that are methodically developed, appropriately implemented, and correctly executed in each unit. Internal auditors' responsibilities include detecting fraud (Muslim, Nurwanah, et al., 2020). Concerning fraud or fraud, the Inspectorate of Southeast Sulawesi Province is the subject of this inquiry. The researcher determined that the Southeast Sulawesi Provincial Inspectorate would be the focus of the study because it was an agency within the Southeast Sulawesi Provincial government that oversaw the activities of the Southeast Sulawesi Provincial government and was directly accountable to the Governor. In addition to formulating and determining policies, the provincial inspectorate supervises the implementation of government affairs in the Regency or City region and the implementation of village government affairs. However, a common occurrence in the government sector is the possibility of fraudulent financial management practices.

Building an excellent internal control structure, streamlining control operations, streamlining the internal audit function, and fostering an excellent organizational culture are methods for preventing fraud, and internal control is the first step in preventing fraud. Internal audit functions as an independent evaluator of an organization with the objective of testing and assessing all activities conducted by the company so that each activity conducted has a report from each unit (Wulandari & Nuryanto, 2018). Therefore, internal examiners or internal audits should analyze and evaluate for assessment purposes and make valuable recommendations for future enhancements. According to Tuanakotta (2013), internal controls are designed, implemented, and maintained by TCWG (Those Charged with Governance), management, and other employees to address business risks and identified fraud that threaten the achievement of entity objectives such as reliable financial reporting. For this reason, the purpose of a control is to provide an answer (reaction) to ward off (mitigate) a threat (potential risk) so that management can create controls so that any hazards associated with organizational asset management can be spotted early (Slovic et al., 2013). Fraud can be averted through solid controls and decent labor practices. Lack of training, employee responsibilities, competition, and low compliance rates are the primary causes of fraud. Organizations must implement effective safeguards to prevent fraud (Ardiyanti & Supriadi, 2018). By designing and executing internal controls, firms are anticipated to be able to prevent employee violations (Humam et al., 2020). With effective internal controls, fraud may be recognized and dealt with promptly, allowing losses to be avoided (Amin, 2020).

Internal controls are utilized by various parties to prevent fraud (Indrasti & Karlina, 2020). According to Government Regulation of the Republic of Indonesia Number 60 of 2008, the internal control system is a necessary process of actions and activities performed continuously by leaders and all employees to provide adequate assurance of achieving organizational goals through effective and efficient activities, reliability of financial reports, protection of state assets, and adherence to laws. Effective internal control is required to implement a fraud prevention plan; by constructing and implementing internal controls, it is believed that fraud will be deterred (Akhtar & Damayanti, 2022). Fraud prevention can be compared to sickness, which is preferable to treatment. If you wait for fraud to be addressed, it implies that losses have occurred and been enjoyed by specific parties; if we had prevented them, not all losses would have gone to the fraudsters. By engaging internal controls, fraud can be prevented. Organizational processes and policies must implement internal control via a system designed to be accurately and adequately monitored. The most common reason for inadequate internal controls is fraud. Operational risk is one of the dangers firms face when they fail to adopt appropriate internal controls (Su'un & Sari, 2021). When internal controls are inadequate, fraud is easy to commit, damaging organizational performance (Muslim, Ahmad, et al., 2020). Several research, including (Yuniarti & Ariandi, 2017; Zarlis, 2018; Kurniawan & Izzaty, 2019), explore the effect of internal control on fraud prevention and conclude that internal control influences fraud prevention. This indicates that the better the implementation of internal control, the greater the organization's fraud prevention. Then, it was discovered (Noviyana & Pratolo, 2018; Yudhasena & Putri, 2019) that internal control has a favorable and considerable impact on organizational performance.

The Financial Services Authority (2018) defines risk management as a collection of strategies and procedures to identify, measure, monitor, and control all business-related risks. One of the objectives of risk management is to enhance the performance of an enterprise or entity (Cahyaningtyas & Sasanti, 2019). The objective of implementing risk management is to reduce risks connected with the chosen field to an acceptable level for the community. This can result from numerous environmental, technological, human, organizational, and political dangers. In contrast, executing risk management requires using all human resources, notably for risk management entities (humans, staff, and organizations). In practice, however, several governments still require optimal implementation. A practical and unified risk management strategy must enhance corporate performance. For firms to execute successful risk management, extensive resources are required. Consequently, firms anticipate performance from the utilized risk management system (Siswanti et al., 2020). Effective risk management can enhance an organization's risk awareness. Integrated and effective risk management can help decision-making to increase organizational performance because it can view risk as an opportunity (Arum Ardianingsih, 2021).

A strong commitment from the organization's many stakeholders will prevent fraudulent activities from occurring. Measure the risk of how many possibilities fraud criminals can take advantage of to ensure the smooth operation of fraudulent activities. Good risk management necessitates a set of procedures that enable management to identify, monitor, and mitigate risks with the potential to disrupt organizational performance (Mahadeen et al., 2016). The study's results (Soleman, 2013) indicate a clear and statistically significant correlation between risk management and fraud prevention. It is anticipated that integrated and efficient risk management will assist intelligent decision-making, ultimately enhancing organizational performance (Popoola et al., 2015). According to Serly & Viona, (2021) risk management significantly impacts organizational performance. This demonstrates that as the implementation of risk management improves, so will organizational performance.

H_1: Internal Control has a positive and significant effect on Fraud Prevention.
H_2: Risk Management has a positive and significant effect on Fraud Prevention.
H_3: Internal control has a positive and significant effect on organizational performance.
H_4: Risk Management has a positive and significant effect on organizational performance.
H_5: Fraud prevention has a positive and significant effect on organizational performance.
H_6: Internal Control has a positive and significant effect on organizational performance through Fraud Prevention.

Research Design and Method

This quantitative study employs descriptive analysis and inferential statistics, specifically Structural Equation Modeling (SEM) with Partial Least Square (PLS) software and Microsoft Excel. This study's population consisted of 37 auditors employed by the Inspectorate of the Province of Southeast Sulawesi. At the Inspectorate of Southeast Sulawesi Province, 37 devices have been used to collect samples using samples that have been saturated. This research utilizes both primary and secondary data sources. The outcomes of sending questionnaires to each respondent provided the primary data. Secondary data are data that have already been collected or data obtained from earlier study results—SEM analysis with the PLS program.

Table 1. Operational Research Variables

Variable	Definitions	Indicator	Reference
Control Internals	Processes affected by board of directors, management, an d other personnel within an entity designed to provide as surance that drives the achie vement of objectives related to operations, reporting, and compliance.	1. Control environment 2. Risk Assessment 3. Control Activities 4. Information and communication 5. Monitoring	(Tuanakotta, 2015)
Management Risk	A series of methodologies and procedures are used to identify, measure, monitor, and control risks arising from all business activities.	1. Liquidity Risk 2. Credit Risk 3. Operational Risk 4. Legal Risk	(Mishra et al., 2019)

Fraud Prevention	Integrated efforts that can reduce the occurrence of factors that cause fraud.	1. Determination of anti-fraud policies 2. Procedure, 3. Control Techniques	(Permana et al., 2017)
Organizational Performance	Organizational performance is a function of the work/activities within the organization that is influenced by internal and external organizational factors in achieving the goals set for a certain period.	1. Stakeholder Satisfaction 2. Strategy 3. Process 4. Ability 5. Owner's contribution.	(Muslim et al., 2019)

Results and Discussion

Statistical Result

In this study, 37 questionnaires were provided to the Auditor at the Inspectorate of Southeast Sulawesi Province, all of which were successfully gathered and manageable. As a result, the response rate from the distribution of the questionnaires was 100 percent.

Table 2. Characteristics of Respondents

Variable	Measurement	N	%
Gender	Man	21	56,7
	Woman	16	43,2
Age	20 – 30 Year	8	21,62
	≥ 30 – 40 Year	17	45,95
	≥ 40 – 50 Year	11	29,73
	≥ 50 Year	1	2,70
	Bachelor	32	86,49
	Magister	5	13,51
Work-length	1 – 5 Year	9	24,32
	≥ 5 – 10 Year	12	32,43
	≥ 10 – 15 Year	11	29,73
	≥ 15 Year	5	13,51

The outer model's convergent validity is determined by examining the outer loading value of each variable. The indicator is deemed convergent if the outer loading is more significant than 0.5. The AVE approach for verifying discriminant validity is then compared to the correlation between latent variables. A valid discriminant is indicated if the AVE root is greater than the latent variables' correlation. The outcomes of testing discriminant validity with the AVE root model. According to table 3, the outer loading of each study variable's measurement is more significant than 0.5. Consequently, all indicators as measures of the constructs of all research variables are valid and convergent. The AVE root values of all study variables are more significant than the correlation values between latent variables. Consequently, it has passed the discriminant validity test. The test findings presented in Table 3 indicate that all composite reliability values are more than 0.70. Thus, composite reliability is met, and it can be argued that the research variables, which comprise internal control, risk management, fraud prevention, and organizational performance, are trustworthy.

Table 3. Validity and Reliability Test Results

Variable	Instrument	Outer loading	AVE	Composite Reliability	Result
Internal control	PI1	0,827	0,676	0,902	Valid dan reliable
	PI2	0,709			
	PI3	0,921			
	PI4	0,874			
	PI5	0,726			
Risk Management	MR1	0,813	0,689	0,912	Valid dan reliable
	MR2	0,868			
	MR3	0,899			
	MR4	0,732			
Fraud Prevention	PF1	0,861	0,792	0,924	Valid dan reliable
	PF2	0,917			
	PF3	0,910			
Organizational Performance	KO1	0,913	0,589	0,874	Valid dan reliable
	KO2	0,786			
	KO3	0,749			
	KO4	0,735			
	KO5	0,845			

Source: PLS 3.0 Test Results (2022)

Table 4. Summary of Hypothesis Testing Results

No	Hypothesis	B	t-value	Sig	Result
1	Internal Control has a positive and significant effect on Fraud Prevention	0,253	2,512	0,046	Accepted
2	Risk Management has a positive and significant effect on Fraud Prevention.	0,559	3,309	0,001	Accepted
3	Internal control has a positive and significant effect on organizational performance.	0,453	3,621	0,003	Accepted
4	Risk Management has a positive and significant effect on organizational performance.	0,631	3,060	0,004	Accepted
5	Fraud prevention has a positive and significant effect on organizational performance.	0,381	1,982	0,045	Accepted
6	Internal Control has a positive and significant effect on organizational performance through Fraud Prevention	0,819	2,289	0,037	Accepted
7	Risk management has a positive and significant effect on organizational performance through Fraud Prevention	0,196	1,902	0,048	Accepted

Source: PLS 3.0 Test Results (2022)

The presented hypothesis is examined by examining the path coefficients, which display the parameter coefficients and the statistical significance value of t. Calculations utilizing partial least squares (PLS) yielded the following test outcomes: Internal control impacts fraud prevention, according to the hypothesis (accepted). Testing the direct effect of internal control on fraud prevention yielded a weight coefficient of 0.253, a T-statistic of 2.512, and a significance level of 0.046. Given that the T-statistic is less than 1,692 and the P-value is less than 0.002, there is a direct relationship between internal control and fraud prevention. Given that the inner weight coefficient is positive, it suggests that the link between the two is positive, i.e., the higher the internal control, the greater the fraud prevention, supporting the theory that internal control influences fraud prevention (accepted). Testing the impact of risk management on fraud prevention yielded an inner weight coefficient of 0.559, a t-statistic of 3.309, and a significance level of 0.001. Because the t-statistic is more significant than 1.69 and the P-value is less than 0.001, there is a direct relationship between risk management and fraud prevention. Given that the inner weight coefficient is positive, the greater the risk management, the greater the fraud prevention—the theory that risk management influences fraud prevention (accepted).

Testing the direct effect of internal control on organizational performance yielded an inner weight coefficient value of 0.453 with a t-statistic value of 3.621 and a p-value of 0.000, as the t-statistic value was more significant than 1.69 and the p-value was less than 0.003, indicating a direct relationship between internal control and organizational performance. Given that the inner weight is positive, the link between internal control and organizational performance is positive, indicating that the higher the internal control, the greater the organizational performance. The testing of the effect of risk management on organizational performance yielded an inner weight coefficient of 0.631, a t-statistic of 3.060, and a p-value of 0.004; since t-statistic > 1,692 and p-value 0.05, there is a direct relationship between risk management and organizational performance. Given that the inner weight is positive, the connection is positive, indicating that risk management and organizational performance are positively correlated. The testing of the effect of fraud prevention on organizational performance yielded an inner weight coefficient of 0.381, a t-statistic of 1.982, and a p-value of 0.045. Since the t-statistic > 1,692 and the p-value 0.05, there is a direct relationship between fraud prevention and organizational performance. Given that the inner weight is positive, the connection is positive, indicating that fraud prevention and organizational success are positively correlated. Because the T-statistic value is more significant than 1.692 and the P-value is less than 0.037, internal control has an effect on organizational performance through fraud prevention. Considering that the inner weight is positive, it suggests that the relationship is positive, which means that a higher level of internal control mediated by Fraud Prevention will result in a higher level of organizational performance.

Testing the effect of risk management on organizational performance using Fraud Prevention yielded an inner weight coefficient value of 0.196, a T-statistic value of 1.902, and a P-value of 0.048, because the T-statistic value was more significant than 1.692, and the P-value was less than 0.05. Consequently, there is a relationship between risk management and organizational performance via fraud prevention. Given that the inner weight is positive, this shows that the link is positive, i.e., the more the risk management mediated by Fraud Prevention, the greater the organizational performance.

In the meantime, the R Square (R2) Fraud Prevention (Z) determination value displays 0.395%. This indicates that 39.50% of the fluctuation in the ups and downs of the Fraud Prevention variable (Z) may be accounted for by variations in the internal control (X1) and risk management (X2) variables. In the meantime, other variables outside the model were investigated to account for the remaining 100% - 39.50% = 60.50%. Consequently, the determination value of R Square (R2) Organizational performance (Y) is 0.546% or 54.60%. This indicates that 54.60 percent of the variation in the ups and downs of organizational performance factors (Y) may be attributed to differences in internal control (X1), risk management (X2), and fraud prevention (Z) variables. In the meantime, other variables outside the model were investigated to account for the remaining 100% - 54.60 % = 45.40 %. Consequently, the determination value of R Square (R2) Organizational performance (Z) is 0.631% or 63.10 percent. This indicates that fluctuations in internal control (X1), risk management (X2), and fraud prevention (Z) factors account for 63.10 percent of the variance in the ups and downs of organizational performance variables (Y). In the meantime, other variables outside the model were investigated to account for the remaining 100% - 63.0% = 36.9%.

Table 5. Summary of Determination Coefficient Analysis Results

Variable	R-Square
Fraud Prevention	0,395
Organizational Performance	0,546

Source: PLS 3.0 Test Results (2022)

Discussion

The findings of testing the first hypothesis (H_1) indicate that internal fraud prevention controls are significant and positive. This indicates that a high level of internal control significantly impacts fraud prevention at the Inspectorate of Southeast Sulawesi Province, if other parameters affecting the size of internal control remain constant. Even if building a pleasant work environment does not necessarily result in successful fraud prevention control, it is intended that employees will feel comfortable working so that they may provide their best effort, which will positively impact the firm's performance. The capacity to identify fraud is based on the attribution theory, which analyzes the elements that impact the behaviors or attitudes of persons. According to the investigation findings, firms have a positive correlation between internal control and fraud prevention. This is because internal control is one-way businesses can prevent fraud by minimizing opportunities for it. Internal control is closely tied to fraud prevention because installing internal controls in a business can reduce the likelihood of fraud, whether it be financial report fraud or acts of legalizing fake evidence by organization personnel (Cika, 2018). Implementing internal controls can at least decrease collaboration between management and fraud perpetrators. In addition, the results of this study reveal that all management and employees have developed and are implementing an internal control system. In this study, internal control concerning control activities, information and communication, and monitoring has been operating well. A good internal control system can detect an anomaly or a fraud attempt. In contrast, if internal controls are inadequate or ineffective, personnel will have more possibilities to perpetrate fraud. Internal controls are essential for preventing fraud. Several researchers, including (Zarlis, 2018; Kurniawan & Izzaty, 2019), analyze the influence of internal control on fraud prevention and conclude that internal control affects fraud prevention.

The results of testing the second hypothesis (H_2) indicate that the relationship between risk management and fraud prevention at the Inspectorate of Southeast Sulawesi Province is positive and statistically significant, with a path coefficient value of 0.559, indicating that risk management is effective. The findings of this study demonstrate that risk management positively affects fraud prevention, indicating a close relationship between risk management and fraud prevention. Risk management is a coordinated activity that directs and controls an organization's risk management. Risk management identifies, measures, develops alternative risk treatments, monitors, and controls risk management or prevention to create a map of potential hazards (Olson & Wu, 2015). Risk management can lower the likelihood of organizational failure, which results in losses. The findings of this study corroborate the agency's idea that there is an information mismatch between fraud prevention and risk management. This is because the agent has more excellent knowledge about the organization than the principal. This informational disparity will result in the agent committing fraud. The implementation of risk management will also aid the firm in minimizing losses. Risk management aims to be a means of development for organizations to minimize the occurrence of fraud (fraud), which has an impact on the financial side of the organization; therefore, the application of risk management is crucial for the organization's sustainability in order to prevent fraud. For this reason, firms must comprehend and acknowledge the potential risks associated with conducting business activities. Therefore, to prevent and decrease the occurrence of fraud, a combination of organizational risk management and fraud prevention mechanisms is required.

The results of testing the third hypothesis (H_3) indicate that internal control has a positive and statistically significant effect on organizational performance at the Inspectorate of Southeast Sulawesi Province with a path coefficient value of 0.453, indicating that the better an organization's internal control, the more significant the improvement in organizational performance. The critical function of internal control for an organization is to protect against errors and activities that do not adhere to preset guidelines and to ensure that the organization is operating according to its stated objectives. As stated, organizational performance aggregates the results of all organizational units' efforts to achieve organizational objectives. Organizational entities can enhance their effectiveness in anticipating potential threats with a risk assessment in the internal control component. The internal control component's control operations will encourage organizational entities to comply with and implement the established rules and operational standards. This study's findings corroborate the attribution theory, which examines the internal and external elements that contribute to the occurrence of an event. According to Heider (1958), internal and external attributions have been said to impact performance appraisal. Internal control is both an internal and external aspect that influences the device's performance. This is because the information and communication components of internal control will positively affect performance improvement, as all entities within the company may receive and exchange the necessary information for organizational and operational operations. This is consistent with the findings of Dharmawan and Supriatna (2016) concerning the impact of installing an internal control system on the performance of Bandung City Government agencies. The findings of the study indicate that internal control favorably influences agency performance. According to research (Noviyana & Pratolo, 2018) and (Yudhasena & Putri, 2019), internal control has a favorable and considerable influence on organizational performance. A dependable and effective internal control system is supposed to offer the necessary information for managers and the board of directors to make the appropriate decisions and implement the relevant policies to accomplish more effective and efficient organizational objectives. Based on the preceding description, a good internal control system can facilitate the organization's attainment of the required performance standard by generating excellent performance.

The results of testing the fourth hypothesis (H_4) indicate that risk management has a positive and statistically significant effect on organizational performance at the Southeast Sulawesi Provincial Inspectorate, with a path coefficient value of 0.631, indicating that the more effective risk management is implemented, the more significant the improvement in organizational performance. A practical and unified risk management strategy must enhance corporate performance. For firms to execute successful risk management, extensive resources are required. Therefore, firms anticipate that their risk management system will result in performance (Pagach & Warr, 2011). Effective risk management can enhance an organization's risk awareness. Integrated and effective risk management can help decision-making to increase organizational performance because it can view risk as an opportunity (Mohammed & Kanpkova, 2016). This study's findings confirm research (Soleman, 2013) that discovered a favorable and statistically significant association between risk management and fraud prevention. The association between risk management and organizational performance is favorable and strong. Risk management has an essential function inside the organization. Suppose the firm can adopt effective and integrated risk management. In that case, there will be a greater awareness of the risks encountered, which may even be transformed into opportunities. This will affect the organization's constituents (stakeholders). Stakeholders will feel secure if the organization can effectively manage risk, and they will continue to believe in contributing to the organization. As a result, the organization will continue to receive resource support from stakeholders. It will be able to innovate in a sustainable manner, which will have an undeniable effect on organizational performance. Therefore, if risk management is executed appropriately, organizational performance will be expected to grow.

The results of testing the fifth hypothesis (H5) indicate that fraud prevention has a positive and statistically significant effect on organizational performance at the Inspectorate of Southeast Sulawesi Province, with a path coefficient value of 0.381, indicating that fraud prevention is a low-cost activity to combat fraud. Fraud prevention can be compared to sickness, which is preferable to treatment. If you wait for the incidence of fraud to be addressed, it means that a loss has occurred and been enjoyed by some parties, as opposed to if we are successful in preventing it; of course, not all of the losses have gone to the fraudsters (Singleton & Singleton, 2010). Prevention of fraud is attempting to eliminate or eliminate the sources of fraud. Wirakusuma & Setiawan (2019) claim that fraud prevention in the public sector is accomplished through the issuance of various laws and regulations that establish various fines intended to deter or reduce fraud. An internal audit is an impartial examination of an organization that tries to test and evaluate all actions conducted by the business so that each activity has a report from each unit (Wulandari & Nuryanto, 2018). Therefore, internal examiners or internal audits should analyze and evaluate for assessment purposes and make valuable recommendations for future enhancements.

The results of testing the sixth hypothesis (H_6) found that Internal control influences organizational performance through fraud prevention at the Inspectorate of Southeast Sulawesi Province, with a positive and statistically significant path coefficient of 0.819, indicating that effective internal control is required in implementing prevention strategies; by constructing and implementing internal controls, it is expected to be a deterrent to fraud (Wulandari & Muhammad, 2018). Having effective internal controls is a widely utilized method for preventing fraud. The better the execution of internal control, the greater the organization's fraud prevention (Albrecht et al., 2012). Internal control has a significant impact on the continuity of the organization; with a good internal control system, the organization can carry out all of its activities under its goals and objectives; if the organization's goals have been met, it indicates that the employee's actions are following regulations and there are no actions that are harmful to the organization. By engaging internal controls, fraud can be prevented. Organizational processes and policies must implement internal control via a system designed to be accurately and adequately monitored. The most common reason for inadequate internal controls is a fraud (Indrasti & Karlina, 2020). Operational risk is one of the hazards organizations face due to failing to adopt effective internal controls (Dubihlela & Nqala, 2017). When internal controls are inadequate, fraud is simple to commit, which negatively influences organizational performance. This demonstrates that the organization, particularly management, implements internal controls to prevent fraud.

The results of testing the seventh hypothesis (H7) revealed that risk management influences organizational performance through fraud prevention at the Inspectorate of Southeast Sulawesi Province is positive and significant with a path coefficient value of 0.196, indicating that if each OPD understands the risk management process with high commitment from various interested parties, it can prevent fraudulent practices from occurring. Measure the risk of how many possibilities fraud criminals can take advantage of to ensure the smooth operation of fraudulent activities. Good risk management necessitates a set of procedures that enable management to identify, monitor, and mitigate risks with the potential to disrupt organizational performance (Carlsson-Wall et al., 2019). According to research (Soleman, 2013), risk management has a good effect on fraud prevention. According to Bhimani (in Van Greunen & Bratanovic, 2020), the interaction between ethics and risk management has substantial financial effects. Not only may it assist in identifying possible problems, but it can also aid in preventing fraud, protecting an organization's reputation, and reducing corporate litigation. This demonstrates that risk management can aid firms in preventing fraud, allowing them to minimize potential losses and concentrate on achieving their objectives. According to Yahaya et al. (2015), an organization's performance can be enhanced if it can control adverse conditions produced by risk exposure.

Conclusions

Internal control and risk management have a positive and significant impact on fraud prevention, fraud prevention has a positive and significant impact on organizational performance, and internal control and risk management have a positive and significant impact on organizational performance via fraud prevention. Even though the established internal control is adequate, it must be enhanced by improving the identification of every potential risk to prevent future risks. We propose that the Southeast Sulawesi Provincial Inspectorate evaluate the operational success of each division based on the achievement of performance metrics. Increase the frequency of system maintenance, hence reducing system interruptions. In addition, follow up on audit recommendations. According to the findings of this study, internal control does not affect organizational performance; consequently, internal control indicators can be used as a benchmark for measuring organizational performance.

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