

Government Sector Fraud Analysis From the Fraud Diamond Perspective (Case Study of the Regional Financial Statements of the Southwest Papua Local Government)

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ABSTRACT

Supreme Audit Board of Republic of Indonesia gave Adverse Opinion for the Financial Statement of Southwest Papua Local Government for the Fiscal Year 2023. Even the Audit Report of the Supreme Audit Board of The Republic of Indonesia on Financial Statement of Southwest Papua Local Government for the Fiscal Year 2023 does not mention "fraud" term on the report, it does not mean that Financial Statement of Southwest Papua Local Government for the Fiscal Year 2023 is fraud free. The purpose of this research is to provide a more explicit understanding to identify fraud indications in the Financial Statement of Southwest Papua Local Government for the Fiscal Year 2023, and to identify whether the elements of fraud in expenditure audit findings are present or not, through analysis using fraud theory. This research relies on secondary data as its source and uses qualitative approach and case study methods. The scope of this study was limited by using the Audit Report of the Supreme Audit Board of The Republic of Indonesia on Financial Statement of Southwest Papua Local Government for the Fiscal Year 2023. The result of the study indicates that from 14 regional expenditure findings, there are indications of fraud in 12 expenditure findings based on analysis using component of fraud action theory and fraud diamond theory due to the fulfillment of the fraud elements.

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Introduction

The Southwest Papua Local Government, as one of the new autonomous regions, has submitted the Regional Government Financial Report (Laporan Keuangan Pemerintah Daerah/LKPD) for the 2023 Fiscal Year (TA) for audit by the Supreme Audit Board of Republic of Indonesia (BPK RI). Submitting Financial Reports to the Republic of Indonesia BPK is a form of Regional Government accountability to the public, because the results of the BPK audit will be used as a basis for supervision by the executive and legislature. [1]. BPK RI is a State Institution that is given the authority by laws to carry out audits of the management and responsibility of state finances, including the authority to conduct audits of regional finances. BPK RI has an important role in ensuring the transparent and accountable use of the state budget and providing recommendations to improve state financial management [2]. Regarding the Financial Report of the Government of West Papua Province, which has been audited, the Opinion given by BPK RI on the Financial Report of the Regional Government of Southwest Papua Province for FY 2023 is *Adverse Opinion*. One of the reasons for giving an Adverse opinion is that the accountability for spending on goods and services and grant spending cannot be guaranteed to be reasonable. Adverse Opinion indicates that the financial statements contain material irregularities that are pervasive, so they cannot be trusted for making economic decisions [3].

The better the audit opinion obtained, the lower the potential for corruption in the local government environment, so that audit opinions can be hypothesized to hurt perceptions of corruption [4], so that public agencies, including local governments, strive to obtain the title of Unqualified Opinion (Wajar Tanpa Pengecualian/WTP). In general, there are quite a lot of factors that hinder the achievement of an unqualified opinion on Regional Government Financial Reports (LKPD). However, the main inhibiting factors are not yet known with certainty. The factors that usually hinder obtaining unqualified opinion in general are weaknesses in the Internal Control System (Sistem Pengendalian Intern/SPI), non-compliance with laws, follow-up to BPK recommendations, and the quality of human

resources [1], [5]. These inhibiting things include *fraud*, which may arise from weaknesses in the internal control system and non-compliance with laws. They can be one of the factors causing obstacles to achieving the unqualified opinion.

Financial statements as a product of management can reflect the characteristics of the corporate's management itself. [6]. The audit opinion included in the opinion without modification is an unqualified audit opinion, research proves that audit opinions negatively affect financial statement frauds. In accordance with this explanation, if a company or organizations obtains an unqualified opinion, it can be believed that the company's financial statements have been prepared in accordance with the applicable provisions and free from material misstatement. [7]. Although the BPK RI Audit Results Report (Laporan Hasil Pemeriksaan/LHP) on the Financial Report of the Regional Government of Southwest Papua Province for Fiscal Year 2023, Number 41/B/LHP/XIX.MAN/09/2024, dated September 4, 2024, does not mention the term "kecurangan" in Bahasa Indonesia or "fraud" in its findings; this cannot necessarily be used to conclude that the Southwest Papua Local Government's Financial Report is free from *fraud*. This is because in carrying out audits, BPK RI refers to state financial audit standards, in BPK Regulation Number 1 of 2017 concerning State Financial Audit Standards, one of which regulates that if there are indications of fraud, this is not stated explicitly.

Statement of Audit Standards 300 on Audit Reporting Standards, in the Provisions Section number 14, states that "Inspection findings that contain initial indications of fraud are presented in the LHP without explaining in detail the alleged fraud, but the Examiner focuses more on the impact of the findings on the main matter/information on the main matter according to the purpose of the audit." (Supreme Audit Board of Indonesia, 2017) Thus, the consequence of this provision is that the Auditor reveals a discrepancy in regional financial governance with the criteria without explicitly stating that there has been *fraud*. This research is intended to: 1) provide a more explicit understanding in order to identify indications that fraud or fraud has occurred *fraud* on the 2023 Southwest Papua Local Government's Financial Report which may be one of the factors causing the Southwest

Papua Local Government to obtain an Adversed opinion; and 2) identify whether the elements are fulfilled or not *fraud* in regional spending findings based on theory *fraud* so that expenditure findings can be categorized as indicative findings *fraud*. It is hoped that the results of this research will provide a scientific contribution in encouraging improvements in the quality of financial information presented by the Southwest Papua Local Government, so that the presentation of financial reports is more in line with the level of fairness specified in laws.

There is gap in research among this study and previous research studies. Several previous studies have been conducted to identify the factors that influence the occurrence of fraud in local governments. The first, previous study on factors affecting fraud in the West Bandung Regency Local Government by Padhilah and Burhany in year 2020 [8] which concluded that the government's internal control system, law enforcement, and suitability compensation simultaneously have a negative effect on fraud. Furthermore, a similar study conducted in the Pekalongan City Local Government by Adi et. al [9] in 2016 found that there was no significant influence of law enforcement, the effectiveness of internal control, compensation suitability, procedural justice, and ethical organizational culture on fraud in the government sector. However, information asymmetry and organizational commitment were found to have a significant effect on fraud in the government sector. Both studies used quantitative research methods to examine the relationships between variables, with data collected through questionnaires distributed to the relevant institutions. In contrast to these previous studies, which had limited objectives focused on identifying the dominant factors influencing fraud based on employee perspectives, this study presents a further development of the earlier research. It aims to provide evidence that fraud does indeed occur in regional financial management by analyzing information contained in the Audit Reports on the Local Government Financial Statements issued by the Supreme Audit Board of Republic Indonesia.

Theoretical Framework

An analysis based on the theory of fraud causes needs to be carried out to determine whether regional spending findings indicate fraud or not. Since fraud is synonymous with deception and concealment strategies, understanding fraud theory and the factors that give rise to fraud is a systematic step in detecting and preventing fraud. [11] The theoretical basis section discusses various theories *fraud* and its development, among others: 1) *fraud triangle theory* proposed by Donald R. Cressey; 2) and *fraud diamond theory* proposed by David T. Wolfe and Dana R. Hermanson. Apart from that, this section will also explain the classification of types of fraud (*fraud tree*) and a conceptual framework related to the meaning of *fraud* itself.

Fraud Triangle Theory

Based on *fraud triangle theory* presented by Donald Cressey in 1953 [12], three leading causes encourage someone to cheat or *commit fraud*: *pressure*, secondly, there is a chance (*opportunity*), and third is rationalization. These causes can be interpreted as conditions that create conducive conditions that provide opportunities for someone to commit *fraud* [13]. Joseph T. Wells then provides a more in-depth understanding of each of the causes that exist within *the fraud triangle theory* [14]. The first aspect of the causes of *fraud* is the presence of pressure, namely the existence of a motive or incentive (profit) for one or more employees to misuse cash or other assets belonging to the organization or company. The second aspect is the existence of opportunities, namely, conditions that allow an officer or employee to misuse cash or other assets belonging to an organization or company. Moreover, the last one is rationalization, namely the presence of an unethical way of thinking or character on the part of one or more employees that allows them to deliberately misuse cash or other assets belonging to an organization or company, accompanied by justification or omission for the dishonest actions they commit.

Fraud Diamond Theory

In progress, *the fraud triangle theory is experiencing* development, where previously, three leading causes supported its occurrence. Then, David T Wolfe and Dana R Hermanson added another leading cause of *fraud* to the four aspects of *the fraud diamond theory*, they are: a. Pressure; b. Opportunity; c. Rationalization; and d. Capability. The *three leading causes of fraud diamond theory* are the same as *those of fraud triangle theory*. However, one more main causal factor is added: *capability*. Wolfe and Hermanson added factor *capability* because they argue that even if someone has *pressure, opportunity, or rationalization*, they may not necessarily be able to commit *fraud* without having adequate *capability*) adequate. Permatasari et al confirmed in their research on *fraud diamond theory* that the perpetrators of fraud not only must have the opportunity and motivation to commit *fraud*, but also the ability to do it successfully [15]. Dorminey, et. al's research paper on *fraud theory evolution* [16] also emphasizes the importance of competence in the occurrence of *fraud*. A fraud perpetrator must be competent enough to understand the system, identify weaknesses, and implement *fraud* without arousing suspicion. Without sufficient competence, a person may have no intention of committing *fraud* but will be unable to do so effectively. Competence is part of *capability*, the fourth element in *the fraud diamond theory*.

Component of Fraud Action

The theory of the three acts of fraud was proposed in 2019 by Albrecht et.al [17] in the Fraud Examination book, where this theory focuses on how fraud is committed, rather than merely discussing why a person commits fraud. The three main components of this theory can be described as follows: 1) The Act, that means the actual fraudulent action or behavior itself. Examples include falsifying documents, concealing assets, or inflating project costs (price mark-up). 2) Concealment, which means the perpetrator's effort to disguise or cover up the fraud to avoid detection. Examples include creating false reports, deleting evidence, or using fictitious accounts. 3) Conversion, which means the process of

turning the proceeds of fraud into personal wealth. Examples include using embezzled funds to purchase a car, a house, or depositing them into a personal bank account.

Fraud Classification (*Fraud Tree*)

Association of Certified Fraud Examiners or ACFE categorizes fraud or *fraud* into three large groups, namely: 1. Fraudulent Statement; 2. assets misappropriation; and 3) Corruption. The first, Fraudulent statement is Presentation of false and intentional financial reports regarding the financial condition of an entity. This form of misdirection can be carried out through misrepresentation or omission of amounts or disclosures in financial reports to deceive users of financial statements. Schemes of *fraudulent statement* includes [18]: 1) Falsification, alteration, or manipulation of financial records, supporting report documents, or especially material business transactions; 2) Intentional omission or misleading presentation of events, transactions, accounts or other material information on which the financial statements are prepared; 3) Intentional misuse of accounting principles, policies and procedures in measuring, recognizing, reporting and disclosing economic events and business transactions; And 4) Deliberate omission of disclosures or presentation of inadequate disclosures regarding accounting principles and policies and related financial amounts. The second, The assets misappropriation means as the misuse or theft of company or other party's assets. This is the easiest form of fraud to detect because it can be measured or calculated (*defined value*). Third, corruption, that includes four classifications of fraud, namely: 1) Bribery, giving or receiving something of value to influence a business decision that could be detrimental to the company. In the private sector, bribery is a type of corruption that often occurs. Bribery in the private sector is the same as bribery in the public sector, but the party receiving the bribe (*passive bribery*) is not a public official.

Fraud Theory Elements

The theory that will be used to identify *fraud* in the findings of regional expenditure on LHP in the 2023 Southwest Papua Local Government's Financial Report in this research

is the elements of *the diamond fraud theory*. The use of *the fraud diamond theory* is based on qualitative considerations, where the data analyzed is secondary data, namely the LHP of BPK, which is a written document on the results of the audit of regional government financial reports. The elements that will be used to do analysis are: 1) pressure; 2) opportunity; 3) rationalization; and 4) capability.

Method

This research is qualitative, using case studies and secondary data obtained from literature. The data acquisition method is carried out through literature searches or document studies. The document used in this research is the Audit Results Report on the Financial Statements of the Local Government of Southwest Papua Province for the 2023 Fiscal Year, published by the Supreme Audit Board of Indonesia. Case studies and data analysis are conducted using a qualitative approach, focusing on an in-depth understanding of the events or problems being studied through descriptive data collection, especially document analysis [10]. The resulting data is in the form of a description of what is stated by the research objectives, as well as the truth of the data or the final premise of the research determined by the author himself. Data processing is done by classifying or categorizing data based on several themes according to the research focus. Qualitative data analysis in this research was carried out through three stages, namely 1) data reduction, 2) data presentation, and 3) conclusion drawing and verification. Data is reduced by selecting, centralizing, and categorizing data according to the research focus. Data presentation is carried out in the form of narratives and tables. After the data is presented, analysis is conducted to find patterns, explanations, and cause-and-effect paths to obtain conclusions. Conclusions can be in the form of a description or understanding of an object so that it becomes clearer and its validity can be tested, in this case, namely, understanding the indications of the occurrence of *fraud* in the Financial Report of the Southwest Papua Local Government for Fiscal Year 2023.

In this qualitative approach, the theories for doing the analysis are 1) Components of fraud action theory by Albrecht et. al; and 2) the fraud diamond theory as the development of fraud triangle by Wolfe and Hermanson. The components of fraud and the elements described in diamond fraud theory are identified based on the information, statements, and explanations provided by the Supreme Audit Board of Indonesia (BPK) in each audit finding presented in the Financial Audit Report (LHP) on the 2023 Fiscal Year Financial Statements of the Southwest Papua Local Government. The relevant information includes the condition of the audit findings, the criteria or legal basis that were violated, the impact resulting from the findings, and the cause section, which outlines the parties within the Southwest Papua Local Government responsible for the occurrence of the audit findings.

Results and Discussion

Fourteen Regional Expenditure Findings in the LHP for the 2023 FY 2023 Southwest Papua Province Financial Report

In the Financial Report of the Government of Southwest Papua Province for Fiscal Year 2023, Number 41/B/LHP/XIX.MAN/09/2024 dated September 4, 2024, it is stated that there are 14 findings regarding regional expenditure with the following brief conditions.

The first findings: Financial Administration Officials in 19 Regional Departement Units (Satuan Kerja Perangkat Daerah/SKPD) Have Not Been Appointed by the Head of Departement Unit.

Minister of Home Affairs Regulation Number 77 of 2020 regulates that the Head of the Regional Departement Unit (SKPD), as the Budget User, appoints an SKPD Financial Administration Officer (PPK SKPD) tasked with carrying out financial administration functions in the SKPD. The SKPD Financial Administration Officer has duties and authorities, including verifying Payment Request Letters (SPP), preparing Payment Orders (Surat Perintah Membayar/SPM), and verifying the accountability reports of the Receipt Treasurer and the Expenditure Treasurer. Based on BPK testing, it is known that in 16

Regional Departement Units, there are no Regional Departement Unit financial administration officials.

The second findings: Realization of Employee Expenditures in Two Regional Departement Units/SKPDs Exceeds Provisions.

There is an excessive realization of personnel expenditure in two SKPDs, namely the Regional Secretariat and BPPKAD. The realization of Honorarium Expenditures at the Regional Secretariat exceeded the provisions, because the Regional Secretariat Expenditure Treasurer indicated that the person concerned did not know the amount of the UKPBJ Head's honorarium rate and was only guided by the results of calculations and submissions from the Goods and Services Procurement (Pengadaan Barang dan Jasa/PBJ) Bureau Staff. Furthermore, based on an interview with the Head of the Goods and Services Procurement Bureau as Head of UKPBJ, it was discovered that the staff and leadership of UKPBJ did not know the amount of the honorarium rate for the Head of UKPBJ, and were limited to accepting payments made by PBJ Bureau Staff. Meanwhile, in BPPKAD, Additional Employee Income (Tambahan Penghasilan Pegawai/TPP) expenditures were realized excessively due to errors in TPP calculations and a lack of accuracy in the verification process by officers.

The Third findings: Realization of Official Travel Expenditures in 12 Regional Departement Units/ SKPDs Does Not Match Real Conditions.

The hotel confirmation results showed that all official travel operators who were tested did not stay overnight, as per the invoice attached to the accountability document. The airline confirmation results showed that the ticket number attached to the Accountability Report (Laporan Pertanggungjawaban/LPJ) did not match the official traveler's data. Apart from that, the confirmation results from the vehicle rental service provider show that the payment receipt attached to LPJ's official travel does not originate from the parties listed.

The fourth findings: Realization of Expenditures on Goods and Services for Autonomy Development Activities and Arrangement of Affairs at the Regional Secretariat is Not Assured to be True.

The Nusantara UMKM (Micro, Small, and Medium Enterprises) Association, as a community organization that provides support and guidance for newly started UMKMs or those already running in Southwest Papua, has appointed PT X to carry out activities due to limited human resources (job transfer). The BPK carried out inspections of accountability documents through confirmation by sampling nine transactions with shops and providers in Sorong City. The examination results show that actual expenditure values do not match the actual conditions (invalid evidence and *markup*). Based on the confirmation results by the event organizer (*event organizer*) with the initials JVD, it is acknowledged that he prepared invoices and proof of responsibility, and there are other expenses that cannot be accounted for.

The fifth findings: Realization of Food and Drink Expenditures in Two Regional Departement Units/SKPDs Does Not Match Actual Conditions.

Physical observations at the business location show no activities or conditions related to the food catering business as evidence of responsibility. The Regional Secretariat Expenditure Treasurer admitted that the food and drink expenditure did not occur and only borrowed the name of the service provider company to cover expenses for which there was no budget. The results of the inspection of accountability documents and confirmation to the service provider in a sample test at the restaurant, as well as the receipt attached to the accountability, show a discrepancy between the spending on food and drink and the actual conditions.

The sixth findings: Realization of Expenditures for Consumables in Five Regional Departement Units/SKPDs Does Not Match Real Conditions.

Confirmation results from the service providers show that spending on consumables does not match the actual conditions. The confirmation results for CV SK showed no invoice

with the transaction value according to the expenditure accountability document. Realized spending on stationery is also used to finance other activities for which there is no budget. The Person in Charge of Activities acknowledges this discrepancy and is willing to return the value of expenditures for consumable materials that do not match actual conditions to the Regional Cash Account (Rekening Kas Umum Daerah/RKUD) of Southwest Papua Local Government.

The seventh findings: Realization of Goods and Services Expenditures in Nine Regional Departement Units/SKPDs is Not Supported by Accountability Documents.

The inspection results showed that Disbursement of Refund Claim (SP2D TU) had been recorded as expenditures at the general ledger were not supported by evidence of cash expenditures. The Expenditure Treasurer is limited to carrying out accountability in financial administration applications without relying on complete and valid document accountability. Production Treasurer is responsible for these funds and will deposit them into the Regional Cash Account of West Papua Local Government. Recognition of actual expenditure on goods and services is not based on complete and valid accountability documents.

The eighth findings: Realization of Goods and Services Expenditures in Five Regional Departement Units/SKPDs Exceeds Provisions.

A review of the accountability documents shows that payments for accommodation and daily allowances exceed the number of days assigned. Furthermore, there are local transport payments for business trips within the city held in Sorong City to business travelers who exceed the value stipulated in the Governor of Southwest Papua Regulations regarding Government Unit Prices.

The ninth findings: Shortage of Work Volume on Realized Expenditures on Goods and Services in Two Regional Departement Units/SKPDs.

Based on the physical inspection results, there is a shortage in the volume of work, including earthwork, flooring, woodwork, aluminium, roofing, glass, and painting work. The

results of the physical inspection and calculation of the volume of work carried out show that only 540 tree seedlings were planted out of a total of 2,200 tree seedlings stated in the contract. The physical examination results showed that 566 agarwood trees were planted, a difference of 434 trees.

The tenth findings: Realization of Educational Assistance Expenditures for Students Does Not Comply with Provisions.

Based on search results through PDDikti, application proposals and confirmation by trial and error to 16 campuses/universities regarding the realization of educational aid expenditures to 795 students shows that there are students who do not meet the criteria for receiving aid, including status as inactive students and not domiciled in Southwest Papua Province.

The eleventh findings: Realization of Grant Expenditures in Four SKPDs Does Not Comply with Provisions.

Inspection by confirmation of the service provider regarding the purchase of stationery showed a discrepancy in the price between what was accounted for and the selling price of the provider. Examinations, comparing the accountability documents from the university with outgoing transactions on the checking account, showed discrepancies in the form of debit mutations or outgoing transactions from the checking account for payment of employee and lecturer salaries. Salary payments are not supported by proof of expenditure on accountability documents. The confirmation results for 18 students registered to study in China showed that only 17 students departed, but the Foundation was responsible for the study departure costs for 19 students. The confirmation results for five students studying in Switzerland showed that only five students were sent to study in Switzerland, but the Foundation was responsible for the studies of 10 students.

The twelfth findings: Realization of Social Assistance Expenditures in Three Regional Departement Units/SKPDs Does Not Comply with Provisions.

Confirmation with the provider and the relevant provider, based on proof of accountability for social assistance (Bantuan sosial) submitted by the foundation/indigenous community institution, shows a discrepancy between the realization of the use of funds and the actual conditions.

The thirteenth findings: Lack of Volume for Implementation of 15 Work Packages in Three Regional Departement Units/SKPDs.

The accountability document shows that the work has been declared 100% complete and handed over based on the Work Handover Minutes. However, the physical inspection results show that there is a lack of work volume in 12 work packages at the Public Works Department (clean water facilities, road paving, building construction, area planning, etc.), two work packages at the Transportation Department (terminal construction), and one package at the ESDM Service Installation.

The fourteenth findings: Delays in Completion of Work on Seven Work Packages in Two Regional Departement Units/SKPDs Have Not Been Subject to Minimum Late Fines.

The accountability document shows that the work has been declared 100% complete and handed over based on the Work Handover Minutes. However, the physical inspection results show that there has been a delay in completing the work, which has not been subject to late fines for work at the Public Works Service and the Transportation Service. A physical inspection with the PPK, Provider, Supervisory Consultant, and accompanied by the Inspectorate showed that the work had not been completed 100% on the contract's end date, which was different from the information in the Minutes of Handover of Work (Berita Acara Serah Terima/BAST). The work for the Public Works Department is the construction of bridges, roads, buildings, and area planning, and for the Transportation Department, it is three terminal construction works.

Results of Analysis of Fraud Indications in Regional Expenditure Findings Based on Fraud Diamond Theory

The analysis result is done by analyzing the conditions of the findings in the Audit Report (LHP) on the Financial Report of the Southwest Papua Local Government (*Audited*), FY 2023, to assess the fulfillment of fraud elements in the discovery conditions. If the elements of fraud are met, then a finding can be said to be indicative of *fraud*. Then, based on the findings indicating fraud, classification was carried out based on a *fraud tree*.

The analysis results show elements of fraud in the 14 regional spending findings. Based on Albrecht's three acts of fraud and Wolfe's fraud diamond theory, the following 12 findings contain fraud elements.

Table 1. Analysis of Fraud Indications in Southwest Papua Regional Expenditure Findings

No	Expenditure Findings Title	Indications of Fraud Conditions Finding	Acts of Fraud and Fraud Theory Element Test Results	Classification based on Fraud Tree (ACFE)
1	Financial Administration Officials in 19 Regional Department Units Have Not Been Appointed by the Head of Department Unit.	administrative irregularities in the process of appointing officials	is not fraud, but rather administrative disorder in determining the names of officials.	-
2	Realization of Employee Expenditures in Two Regional Department Units Exceeds Provisions	excess payments due to incorrect use of standards (not using the latest legal regulations) and calculation errors by related staff	It is not fraud, but overpayment due to misuse of standards (not using the latest legal regulations) and calculation errors by related staff	-

- | | | | | |
|---|--|--|---|--|
| 3 | Realization of Official Travel Expenditures in 12 SKPDs Does Not Match Real Conditions | Forgery of hotel invoices, airline tickets and boarding passes, and vehicle rental receipts by business travelers. | <p>Opportunity:
The negligence of the parties conducting the verification (Head of SKPD and Treasurer of Expenditures) provides an opportunity for the Perjadin implementer to submit fictitious evidence.</p> <p>Rationalization and Concealment:
The act of intentionally submitting fictitious evidence of official travel even though they did not go on an official trip.</p> <p>Capability:
The perpetrator understands the weakness of the control system in verifying evidence of accountability for official travel and takes advantage of it.</p> | <p>Category:
Fraudulent financial statements</p> <p>Scheme:
Submitting invalid evidence of accountability.</p> |
| 4 | Realization of Expenditures on Goods and Services for Autonomy Development Activities and Arrangement of Affairs at the Regional Secretariat is Not Assured to be True | There is evidence of purchases and invoices that are marked up, as well as invalid invoices. | <p>Pressure:
By transferring work and attaching evidence of fictitious transactions, the activity implementer obtains illegitimate benefits.</p> <p>Opportunity:
Weak supervision by the Regional Secretary and Expenditure Treasurer in conducting verification provides an opportunity for activity implementers to submit fictitious evidence.</p> <p>Rationalization and Concealment:</p> | <p>Category:
Fraudulent financial statements</p> <p>Scheme:
Submitting invalid evidence of accountability.</p> |

The act of submitting evidence of fictitious spending bills and mark-ups indicates that the act was carried out intentionally.

Capability:

The perpetrator understands the weakness of the control system in supervising and verifying evidence of accountability for activity spending and takes advantage of it.

5 Realization of Food and Drink Expenditures in Two Regional Departement Units Does Not Match Actual Conditions.	The perpetrators work together with third-party service providers to borrow CV names to cover expenses that are not available for budget, as if there were expenditure activities for food and drinks. While the CV in question is not engaged in the food catering business.	Pressure: By attaching evidence of fictitious transactions, the Implementing Party and the Regional Government receive funds whose actual use cannot be accounted for. Opportunity Explanation: The Regional Secretary and the Head of the Health Office's carelessness in supervising the budget provides an opportunity for the Expenditure Treasurer and the Implementing Party to submit fictitious evidence.	Category: Fraudulent financial statements Scheme: Submitting invalid evidence of accountability.
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Rationalization and concealment: The act of submitting evidence of fictitious spending bills and mark-ups shows that the act was carried out intentionally.

Capability: The position of the Expenditure Treasurer who actually oversees the function of preventing fraud actually

6	Realization of Expenditures for Consumables in Five Regional Departement Units Does Not Match Real Conditions.	The transaction invoice is not real and is self-made (not from the provider)	<p>participates in making unreal accountability.</p> <p>Pressure: By attaching evidence of fictitious transactions, the Implementing Party and the Regional Government receive funds whose actual use cannot be accounted for.</p> <p>Opportunity: The Head of SKPD's carelessness in budget supervision provides an opportunity for the Expenditure Treasurer and the Implementing Party to submit fictitious evidence.</p> <p>Rationalization and concealment: The act of submitting evidence of fictitious spending bills shows that the act was carried out intentionally.</p> <p>Capability: The position of the perpetrator in this case as the Expenditure Treasurer who actually oversees the verification function actually becomes the perpetrator in the alleged fraud.</p>	<p>Category: Fraudulent financial statements</p> <p>Scheme: Submitting invalid evidence of accountability.</p>
7	Realization of Goods and Services Expenditures in Nine Regional Departement	The Expenditure Treasurer could not show valid proof of accountability for spending, but the	<p>Pressure: By carrying out bookkeeping for transactions that are not supported by valid accountability documents, the Expenditure Treasurer is</p>	<p>Category: Fraudulent financial statements</p> <p>Scheme:</p>

	Units is Not Supported by Accountability Documents.	money in the regional treasury.	suspected of managing funds that cannot be accounted for.	Submitting invalid evidence of accountability.
			<p>Opportunity:</p> <p>The Head of SKPD's carelessness in budget supervision provides an opportunity for the Expenditure Treasurer to carry out bookkeeping for transactions that are not supported by accountability documents</p>	
			<p>Capability:</p> <p>Explanation:</p> <p>The position of the perpetrator in this case as the Expenditure Treasurer who should carry out bookkeeping functions according to accounting principles is suspected of being the perpetrator in hiding fraud</p>	
8	Realization of Goods and Services Expenditures in Five Regional Departement Units Exceeds Provisions.	The intention of the business travelers to claim payment for business travel expenses exceeding the number of days of assignment in order to gain personal gain.	<p>Pressure:</p> <p>Travelers are motivated to get money that exceeds their rights by claiming payment for travel expenses that do not match the day of assignment.</p> <p>Opportunity:</p> <p>The Head of BPPKAD was careless in preparing the Standard Unit Price (Standar Satuan Harga/SSH) without referring to the provisions of laws and regulations, giving the traveler the opportunity to receive payment that exceeds their rights according to the provisions.</p>	<p>Category:</p> <p>Asset misappropriation.</p> <p>Scheme:</p> <p>Misuse of Local Government assets by exaggerating working hours and days to obtain travel payments exceeding the real amount</p>

					to which they are entitled.
				<p>Rationalization: The traveler's actions in claiming payment for travel expenses that do not match the day of assignment indicate that the act was done intentionally.</p>	
				<p>Capability: Travelers understand the weakness of the control system in supervising and verifying evidence of accountability for travel and take advantage of it.</p>	
9	Shortage of Work Volume on Realized Expenditures on Goods and Services in Two Regional Departement Units	The provider submits a payment invoice even though the work is not 100% complete and approved by the Commitment Officer.	<p>Pressure: By making a full payment of the work contract of 100% but the work performance is not carried out according to the contract volume, the partner gains illegal benefits.</p> <p>Opportunity: The Commitment Officer is not optimal in controlling the contract, giving the partner the opportunity to obtain payment exceeding the work performance that is actually carried out.</p>	<p>Category: Fraudulent financial statements</p> <p>Scheme: Submitting invalid evidence of accountability.</p>	
			<p>Rationalization and Concealment: The partner's action of claiming 100% contract payment even though they do not carry out obligations according to the contract volume shows that the act was carried out intentionally.</p>		

10	Realization of Grant Expenditures in Four Regional Departement Units Does Not Comply with Provisions	The act of manipulating student names, by adding the names of students who are not active students and not students who reside in the Province of Southwest Papua so that more funds can be paid.	<p>Capability: The partner understands the weakness of the control system in supervising and controlling the work contract and takes advantage of it.</p> <p>Pressure: With the Verification Team not performing its function optimally, there are recipients of educational assistance who receive funds illegally.</p> <p>Opportunity: The Verification Team's carelessness provides an opportunity for prospective recipients of assistance to submit applications and receive assistance even though they do not meet the requirements.</p> <p>Rationalization: The actions of prospective recipients of assistance to submit applications and receive assistance even though they do not meet the requirements. shows that the act was carried out intentionally.</p> <p>Capability: prospective recipients of assistance understand the weaknesses of the control system in verifying applications and take advantage of it.</p>	<p>Category: Asset misappropriation.</p> <p>Scheme: Local Government asset misappropriation. There are exaggerated student names in the accountability. This can be equated with payroll fraud.</p>
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| <p>11 Realization of Grant Expenditures in Four Regional Departement Units Does Not Comply with Provisions</p> | <p>1) There is evidence of purchases that do not come from service providers, with different prices.
2) Payment of employee and lecturer salaries from the campus receiving the grant using grant funds is not supported by evidence of accountability.
3) Evidence of accountability is markedup by exaggerating the number of students going abroad.</p> | <p>Pressure:
By attaching evidence of accountability for fictitious grant funds, the grant recipient receives funds whose actual use cannot be accounted for.

Opportunity:
The Head of SKPD and the Monitoring and Evaluation Team's carelessness in budget supervision provides an opportunity for the grant recipient to submit fictitious evidence.

Rationalization and Concealment: The act of submitting evidence of accountability for fictitious grant funds shows that the act was carried out intentionally.</p> | <p>Category:
Fraudulent financial statements

Scheme:
Submitting invalid evidence of accountability.</p> |
| <p>12 Realization of Social Assistance Expenditures in Three Regional Departement</p> | <p>There is evidence of fictitious liability.</p> | <p>Capability:
The grant recipient understands the weakness of the control system in the supervision and verification of evidence of accountability for grants so that he takes advantage of it. The grant recipient is an educated university party so that he has the ability/intelligence to create false evidence.

Pressure:
By attaching evidence of accountability for fictitious social assistance funds, grant recipients receive funds whose actual use cannot be accounted for.</p> | <p>Category:
Fraudulent financial statements

Scheme:</p> |

Units	Does Not Comply with Provisions.	<p>Opportunity: The Regional Secretary and Head of the relevant SKPD's carelessness in supervising the realization of social assistance spending provides an opportunity for social assistance recipients to submit fictitious evidence.</p>	Submitting invalid evidence of accountabilit y.
		<p>Rationalization and Concealment: The act of submitting evidence of accountability for fictitious social assistance shows that the act was carried out intentionally.</p>	
		<p>Capability: The grant recipient understands the weakness of the control system in supervising and verifying evidence of grant accountability so that he takes advantage of it. Grant recipients are educated foundations/institutions so that they have the ability/intelligence to create false evidence.</p>	
13	Lack of The Provider's Volume for intention is to Implementation submit a payment of 15 Work invoice even though Packages in the work is not Three 100% complete. Regional Departement Units	<p>Pressure: By making a full payment of the work contract of 100% but the work performance is not carried out according to the contract volume, the partner gains illegal benefits.</p> <p>Opportunity:</p>	<p>Category: Fraudulent financial statements</p> <p>Scheme: Submitting invalid evidence of</p>

			<p>The Commitment Officer is not optimal in controlling the contract, giving the partner the opportunity to obtain payment exceeding the work performance that is actually carried out.</p>	accountability.
			<p>Rationalization and Concealment:</p> <p>The partner's action of claiming 100% contract payment even though they do not carry out obligations according to the contract volume shows that the act was carried out intentionally.</p>	
			<p>Capability:</p> <p>The partner understands the weakness of the control system in supervising and controlling the work contract and takes advantage of it.</p>	
14	<p>Delays in Completion of Work on Seven Work Packages in Two Regional Departement Units Have Not Been Subject to Minimum Late Fines</p>	<p>The Provider submitted a payment invoice even though the work is not 100% complete.</p>	<p>Pressure</p> <p>By making a Minutes of Handover of Work/BAST stating that the work has been completed 100% but the work performance does not match the conditions, the partner benefits because they are not subject to sanctions in the form of fine payments.</p> <p>Opportunity</p> <p>The Commitment Officer is not optimal in making Minutes of Handover of Work/BAST according to the actual conditions, giving the partner the opportunity to</p>	<p>Category:</p> <p>Fraudulent financial statements</p> <p>Scheme:</p> <p>Submitting invalid evidence of accountability.</p>

avoid the obligation to pay late fines.

Rationalization and concealment:

The partner's action stating that the work has been completed 100% even though it does not match the actual conditions shows that the act was carried out intentionally.

Capability:

The partner understands the weakness of the control system in supervision and control in the preparation of the Minutes of Handover of Work/BAST work and takes advantage of it.

Source: Audit Report (LHP) of Southwest Papua Local Government Financial Report for FY 2023 Number. 41/B/LHP/XIX.MAN/09/2024

Based on the results of the analysis of 14 expenditure findings, ten expenditure findings are included in the classification of *fraudulent statement* (72%), two findings were included in the classification *assets misappropriation* (14%), and two findings were not *fraud* because they are administrative findings and errors (14%). The analysis results and percentages are presented in the following figure.

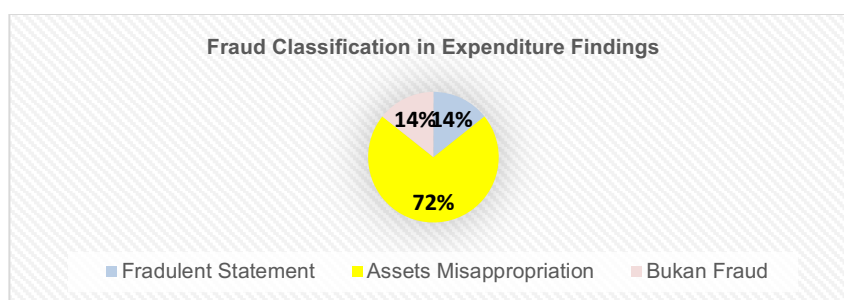




Figure 1. Classification of Fraud in Expenditure Findings on Audit Report on Financial Report of the Southwest Papua Local Government FY 2023

Source: Audit Report (LHP) of Southwest Papua Local Government Financial Report for FY 2023 Number 41/B/LHP/XIX.MAN/09/2024, Processed by Author

Based on the categorization results using classification Fraud Tree, known that the alleged findings are indicated fraud dominated by findings with classification fraudulent statement as many as ten findings, which are generally carried out through a scheme for submitting evidence of responsibility that is not by actual conditions, while for findings that are classified as assets misappropriation, the scheme carried out is: misuse of Regional Government assets. This indicates that the internal control system and accountability verification procedures have not been carried out carefully.

Accordingly, it can be concluded that twelve out of fourteen expenditure findings, representing 86% of the total findings in the Audit Report on the Financial Statements of the Southwest Papua Local Government, indicate elements of fraud based on established fraud theories. The presence of fraudulent statements and asset misappropriation suggests the existence of two underlying issues that might become a significant challenge to achieve the Unqualified Audit Opinion (Wajar Tanpa Pengecualian/WTP) in accordance with Law No 15 of 2004 on Audit of State Financial Management and Accountability.

The issues that have emerged and require the attention of local governments are: 1) Weaknesses in the internal control system, where internal auditors and financial officials have not optimally carried out oversight of expenditure accountability, allowing fraudulent acts by employees or third parties to go undetected; 2) Unreasonable expenditure disclosures, as 86% of the expenditure findings indicate elements of fraud; and 3) The absence of an organizational culture that promotes compliance with laws and regulations, which has led to employees committing fraud due to rationalization and the belief that such misconduct will not result in serious consequences for the perpetrators. The summary is presented in Table 2.

Table 2. Matters in Achieving an Unqualified Audit Opinion

Requirements for Obtaining an Unqualified Audit Opinion (Law No. 15 of 2004)	Issues and Risks	Conclusion
Compliance with Government Accounting Standards	Financial statements do not comply with the standards due to expenditures with accountability that does not meet the required criteria.	This issue becomes a challenge in achieving Unqualified Audit Opinion
Adequate disclosures	Inadequate disclosure.	This issue becomes a challenge in achieving Unqualified Audit Opinion
Compliance with laws and regulations	Non-compliance with laws and regulations in 86% of regional expenditure findings.	This issue becomes a challenge in achieving Unqualified Audit Opinion
Effective Internal Control System	The internal control system is not yet fully effective in detecting fraud.	This issue becomes a challenge in achieving Unqualified Audit Opinion

Source: Law number 15 year 2004

Therefore, it is essential for Southwest Papua Local Government to address the weaknesses related to the occurrence of fraud, as these represent critical challenges to achieving an Unqualified Audit Opinion in the coming years.

Strategic Considerations in Preventing Fraud in the Future

Governor, Regional Secretary, Regional Inspector, and regional unit department heads need to be role models and take firm action against fraudulent practices. Based on organizational culture theory, when leaders demonstrate firm and honest conduct, individuals are likely to follow their leader's action. Conversely, if leaders do not care about

fraud, the employees will rationalize the fraud. Furthermore, when most employees engage in actions that deviate from established rules, individuals become more susceptible to committing similar acts as a form of rationalization. Prevention strategies and commitment are needed from the Regional Government, especially from leadership elements, to prevent this fraud, or at least reduce the risk of fraud.

The Governor as regional head who has a central position in efforts to develop the capability and effectiveness of regional government [19] is expected to encourage the strengthening of the Internal Control System (SPI) and compliance with laws and regulations by the parties responsible for accounting for state finances, including third parties, especially in the management and accountability of regional spending. This obligation is in line with the provisions of Law Number 17 of 2003 in Article 10 paragraph (2) which states that in the context of Regional Financial Management, the Governor as the Regional Financial Management Officer (PPKD) has duties, among other things, to prepare and submit financial reports as a form of state budget accountability. Regional heads and officials are responsible for designing a system to prevent fraud. This will likely encourage improvements in the quality of financial information.

Conclusion

Based on the analysis on the previous sections, it is known that from the 14 expenditure findings in the Audit Report (Laporan Hasil Pemeriksaan/LHP) for the Financial Audit Report of the Southwest Papua Local Government, there are indications that fraud in 12 expenditure findings is based on theory of fraud because the elements are fulfilled fraud under the circumstances of these findings. Furthermore, based on the classification of uses of Fraud Tree on 12 indicative findings of fraud, it is known that ten expenditure findings are included in the classification of fraudulent statements, and two findings are included in the classification of asset misappropriation. Thus, it can be concluded that there are indications that fraud has been one of the factors causing the BPK RI to give an Adversed opinion. The Southwest Papua Local Government needs to strengthen the internal control

system according to conditions in the field to reduce the risk of fraud in the realization of future expenditure so that the quality of financial reports can increase, supported by key personnel and optimizing internal supervision to ensure that expenditure accountability has been carried out according to the provisions and is accompanied by valid and real evidence. The limitation of this research is that the primary source of information is the written content presented in the BPK audit reports because this study contributes by offering an alternative method for identifying the occurrence of fraud in regional financial management through the analysis of implicit information contained in BPK's Audit Reports (LHP). A suggestion for future research development is to enrich the data sources by conducting direct interviews with the regional inspectorate as the internal auditor, or with BPK as the external auditor, to gain insights into the audit procedures used to identify fraud and the treatments or actions taken when auditors detect fraudulent activities.

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