



# Revealing the Effectiveness of Government Intern Control Systems in Cash Management for Fraud Prevention

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**Abstract:** This study aims to reveal the potential for fraud in the Internal Control System for cash receipts and disbursements conducted by BPS Regency X. The research method used is descriptive research method with a qualitative approach. The informants in this study consisted of three people, namely the head of the general subdivision who doubled as the official signing the payment order, the commitment making officer, and the expenditure treasurer of BPS Regency X. The results of this study indicate that BPS Regency X is good at managing its cash, judging from implementation of the Government Internal Control System which is in accordance with the provisions of Government Regulation of the Republic of Indonesia Number 60 of 2008 which identifies that there is no potential for fraud related to receipts and disbursements cash at BPS Regency X.

**Keywords:** Fraud Potential; Government Internal Control; System; Cash

## Introduction

Cash is crucial in the government sphere (Tuerah, 2013). Cash can't be separated from any government activity. This is because the quantity of cash must be determined by budget planning. In addition, cash management will be supervised throughout the planning, receiving, and disbursement processes to prevent *fraud* from impending agency operations (Parera et al., 2019). Based on the Summary of Semester Examination Results (IHPS) I of 2014, the Supreme Audit Agency found 14,854 cases worth Rp 30.87 trillion with details of 8,323 cases worth Rp 30.87 trillion were non-compliance with statutory provisions and 6,531 cases were weaknesses in the Internal Control System (Badan Pemeriksa Keuangan, 2014). The BPK's examination found that the budget deviation mode constantly recurs yearly. The mode that is often used and caused the greatest state losses in semester 1 of 2014 is the inflation in the value of procurement of goods and services.

Another mode that is often used is fictitious or multiple business trips (Badan Pemeriksa Keuangan, 2014).

Most cases of state losses are caused by negligent and reckless officials and inadequate oversight and control

by the inspector general. From this description, it can be seen that the potential for *fraud* in government agencies still often arises, especially *fraud* in financial or cash management. The modes used to achieve personal gain also vary, so the possibility of *fraud* can occur. *Fraud* practices that are now rife were initially accused of starting from the 1998 economic crisis (Didi & Kusuma, 2018). Opportunities to commit *fraud* are usually triggered by possibilities that cause perpetrators to freely carry out their actions due to weak internal controls and indiscipline (Singgih et al., 2018).

As the organization most responsible for ensuring the community's welfare, the government must be managed professionally and efficiently (Wowor et al., 2015). Realizing these goals must be supported by good behavior or actions from its employees (Mustikasari, 2013). Low regional financial transparency and accountability is a problem that is currently being hotly discussed in the government sector (Purba & Umar, 2019). For this reason, a good internal control system is needed in the agency's continuity. The internal control system is a process driven by the entity's management board and other staff that is expected to provide assurance for the achievement of the objectives of an

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agency (Atieno & Kiganda, 2019). The internal control system is a tool used to carry out checks on an organization in the daily activities of an organization (Eton, 2019).

In research conducted by Novasari & Kusumo (2022) there are indications of *fraud* in the management of village funds in the Semarang Regency government because the internal control system that is implemented is still weak, especially on the environmental aspects of control. In addition, Parera et al (2019) revealed that the internal control system at the Regional Secretariat of the Sangihe Islands Regency had not functioned optimally due to indications of *fraud* resulting from mistakes made by the assistant treasurer or the party responsible for the recording process due to a lack of accuracy in the recording process. This shows that fraud often occurs due to weak government internal control systems run by related agencies. In addition, research conducted by Kewo (2017) revealed that strong internal control has an effect on the financial accountability of regional administrations in Indonesia, which an effect on *fraud* prevention as well. The same thing can be seen in the results of research conducted by Kewo & Afiah (2017), which revealed that the internal control system partially positively affects the quality of financial reports. From the research results that has been described, the researcher sees that SPIP can contribute to *fraud* prevention, so it is important to see the potential for *fraud* in agency financial management, especially in agency cash management. So, this study aims to reveal the potential for *fraud* in cash management in agencies, in this case, the Central Agency of Statistics X District.

Method

This study uses a descriptive qualitative approach because it will focus on disclosure related to potential fraud in cash management carried out by BPS Regency X Which is seen through the government's internal control system implemented by the agency. This research uses primary data sources obtained from the results of structured interviews, observations, and also supported by documentation. In this investigation, three informants were selected based on their financial management expertise at the BPS Regency X. Following is a description of the informants utilised:

Tabel 1. Source's Information

| Nu. | Name     | Position                                                         |
|-----|----------|------------------------------------------------------------------|
| 1.  | Source 1 | Head of General Subdivision and Signing Officer of Payment Order |
| 2.  | Source 2 | Commitment Making Officer                                        |
| 3.  | Source 3 | Spending Treasurer                                               |

Result and Discussion

Control Environment

The control environment is the initial foundation that can be used to build a good control system in a government agencies. At this point, researcher focus on cas management procedures carried out by BPS Regency X, starting from incoming cash that will be used in the agency's daily activities. Then, another important thing is the delegation of authority carried out by BPS Regency X, this is important to do because the cash handling section is a part tht is very prone to be misused so it requires people who are not only competent but also have high integrity.

For cash management procedures, initially the Budget User Authority (KPA) of the BPS Regency X prepares a Budget Implementation Entry List (DIPA) which would then be ratified by the Director General of the Treasury or the Head of the Regional Office of the Directorate General of Treasury on behalf of the Minister of Finance as the State General Treasurer (BUN). Once approved, the Budget User Authority (KPA) will give a mandate to the Commitment Making Officer (PPK). The Commitment Making Officer (PPK) will manage agency finances based on the Budget Execution List (DIPA), both in terms of the posts that will appear up to money that will be issued for various purposes that have been planned.

When there are invoices consisting of personnel expenditures, capital expenditures, and goods expenditures, the Commitment Making Officer (PPK) will test these expenditures which consist of proof of payment proof conformity with existing invoices. Payment proof or supporting documents in cash disbursements consist of various types that are adjusted to the expenditure items on the invoice. After payment proof is available, the Commitment Making Officer (PPK) will then check the availability of funds for the shopping post. Then, if there are funds for the shopping post, then the payment mechanism will be determined, whether directly (LS) or using supply money (UP). If done directly, it will be transferred to a third-party account, which will be directly managed by the Commitment Making Officer (PPK). However, if this is not possible, then the supply money will be used which is managed by the Spending Treasurer.

Before the transfer is made, the Spending Treasurer will match the supporting documents related to the Payment Order before it is given to the Payment Order Signatory Officer (PPSPM) to be signed so that funds can be released later. These supporting documents will also be re-examined by the Payment Order Signatory Officer (PPSPM) before being signed. This is done by the Paying Order Signatory Officer (PPSPM) to avoid discrepancies in payments stated on the Payment Order (SPM) and related supporting documents such as receipts and so on. After checking by the Payment Order Signatory Officer (PPSPM) has been completed, it will be

signed by the Payment Order Signatory Officer (PPSPM) and funds will be issued for shopping purposes in accordance with what is stated in the Payment Order (SPM).

Then related to the delegation of authority to BPS Regency X guided by the Law of the Republic of Indonesia Number 17 of 2003 concerning State Finance and Regulations of the Regency/City Central Statistics Agency. In addition, the delegation is also based on the competencies they have. Employees placed in the cash handling section are employees who already have certification in the state treasury sector. So that the competencies they have the ability to be placed in that position. In terms of supporting the work of employees placed in the cash handling department in carrying out good cash management, these employees also need to be seen from the performance side they have in handling cash. Employees placed in the cash handling section have good performance in handling cash. In addition, employees who are placed in the cash handling department are also considered to have good integrity and cooperation while carrying out their duties as Expenditure Treasurer. In addition, as an employee placed in the cash handling department, he is also involved in a series of trainings to improve his performance and knowledge in public sector finance so that he can always adapt to changing conditions and regulations in the public sector finance sector.

#### *Risk Assessment*

The risk assessment is realized with operational objectives in terms of cash management at the BPS Regency X about operational plans prepared for the use of cash in the current fiscal year which are adjusted to the programs implemented during that period. Financial reporting from BPS Regency X is prepared through quarterly reports. Meanwhile, from the compliance side, the BPS Regency X has carried out various SOPs by applicable regulations by always trying to be on time in sending files related to cash management before the deadline for collection is up. Agency policies related to procedures for cash receipts and disbursements regarding policy stipulations from BPS Regency X related to cash management. In addition, it is also related to the policy changes that have occurred, where all types of policies or rules related to cash receipts and disbursements at the Central Bureau of Statistics for Regency X are adjusted to regulations originating from the Minister of Finance as the State General Treasurer. These regulations are followed and cannot be changed by the relevant agencies.

#### *Control Activities*

Because all kinds of needs related to financial management are carried out in a systematic manner, the

role of the application in identifying potential fraud has a considerable influence. For the role of this application, researchers focus on the type of application used, the process of recording the application, the performance of the application used, and the security of financial data sourced from the application. The application used in cash management is a type of website-based application, making it easier for the Spending Treasurer to manage cash anywhere and anytime. In addition, this application has features that are also very easy to understand and the notifications provided by this application are also very helpful for the Treasurer in remembering the deadline for collecting files related to cash management. Apart from that, another application that is also used in terms of monitoring financial movements which is also website-based is SPAN.

Then, related to the recording and performance of applications used in cash management, the performance was given a very good rating. There are no application defects even though this application is still considered very new, and the features developed in this application make it less likely for users to commit fraud in terms of managing agency cash. Meanwhile, regarding the security of financial data contained in the application, the Expenditure Treasurer has guaranteed confidentiality as a form of integrity towards his duties and functions. However, regarding the printed data, there are concerns that the data will be misused if there is no paper shredder. Checks related to cash are carried out by independent checks by the Inspectorate and the Supreme Audit Agency (BPK). At the time the independent examination was carried out, there were no findings that could be detrimental to state finances. This happened because all matters related to cash receipts and disbursements carried out by the BPS Regency X were always controlled and systematic on its website, so that the possibility of *fraud* was very small to occur.

Then, from the cash security aspect, the researcher focuses on the feasibility of the place or location of cash security in the office and anyone who can access the cash depository. Securing cash in the office has been done to the maximum. This can be seen from the cash storage location which uses a secure safe in the form of a password which can only be accessed by the Spending Treasurer and the KPA. In addition, KPA controls related to cash adjustments in safes and cash management applications to ensure that the use of cash does not fall short of the targeted realization.

#### *Information & Communication*

Information and communication in this study focused on the use of information related to the cash management process as well as transparency from BPS Regency X regarding cash management to internal and external parties. The use of information in recording

cash receipts and disbursements is focused on relevant sources of information in the process of recording cash receipts and disbursements used by BPS Regency X. The use of information that serves as a guideline from BPS Regency X in managing its finances has been carried out properly in accordance with these provisions. Thus, all information used in cash management is relevant to developments in the financial sector and is always complied with. Furthermore, the point of information disclosure with internal and external parties is focused on communication related to cash management procedures and policies. BPS Regency X continues to provide procedural information related to its financial condition to employees so that employees can know the financial posts of BPS Regency X. BPS Regency X also reports compiled and sent to external parties as a form of accountability from the BPS Regency X for managing cash.

#### Control Monitoring

The evaluation phase of internal control in cash management at BPS Regency X is focused on evaluation related to cash receipts and disbursements. In the evaluation of cash receipts and disbursements activities, researchers focused on the volume of cash evaluations carried out, the parties who carried out the evaluation and were involved in the evaluation, as well as the final results of the evaluations carried out. The evaluation results related to cash management carried out by BPS Regency X didn't find any irregularities that caused state losses. The results of the evaluation only found errors from the administrative side, and everything could be handled immediately so that there was no potential for *fraud* in cash management. Administrative matters are the weakness of the government's internal control system implemented by BPS Regency X, so BPS Regency X is always committed to fixing these small things because it could be that these small things can give rise to indications for fraud which if continued will become a fraud case that is detrimental to agencies and the state.

#### Conclusion

Based on the results of the research and description above, the conclusion that can be drawn is, there is no potential fraud in the government's internal control system implemented related to cash receipts and disbursements by BPS Regency X. This is because BPS Regency X always does everything related to receipts and disbursement cash accordance with the regulations by the Minister of Finance as the State General Treasurer. In addition, procedures related to cash receipts and reporting are always carried out in an orderly manner, so that potential fraud is not found.

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