

The Impact of the Implementation of Good Governance Principles and Internal Audit Functions on Fraud in the Management of BOS Funds In Bengkulu City

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This study aims to provide empirical evidence of the influence of the implementation of good governance principles and internal audit function on fraud in the management of BOS (School Operational Assistance) funds in Bengkulu City. This research is classified as descriptive quantitative research. Data were collected through online questionnaires distributed to respondents. The research respondents consisted of BOS fund managers in elementary and junior high schools, including school principals of BOSP treasurers. The sample was selected using a simple random sampling technique, with a total of 168 respondents. The analytical methods used include descriptive analysis and regression analysis. The results show that the implementation of good governance principles and internal audit has a significant negative effect on fraud in the management of BOS funds in Bengkulu City. This indicates that the application of good governance principles and the effective implementation of internal audit functions can narrow the space for irregularities to occur and serve as mechanisms for early detection and prevention of misuse and mismanagement of BOS funds.

Keywords: Good Governance Principles, Internal Audit Function, Fraud.

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1. Introduction

The implementation of good governance currently faces serious challenges in the form of rampant fraudulent practices, including corruption, abuse of authority, and manipulation of financial reports that harm state finances. This phenomenon can be theoretically explained through the Fraud Triangle Theory, where pressure, opportunity, and rationalization are the main triggers for individuals to commit illegal acts. One of the public sectors most vulnerable to this risk is the management of the School Operational Assistance Fund (BOS). As a vital instrument in funding national education, BOS Funds are often targeted for misappropriation due to weak internal control systems and a lack of transparency at the educational unit level.

Empirical data from the 2024 Education Integrity Assessment Survey (SPI) by the Corruption Eradication Commission (KPK) shows that approximately 12% of schools in Indonesia still misuse School Operational Assistance (BOS) funds, using various methods such as price markups, fictitious procurement, and manipulation of accountability reports. In Bengkulu City, the corruption case of BOS funds at a junior high school (SMPN) that recorded losses of more than Rp1 billion is clear evidence that individual integrity and effective oversight remain systemic issues. Therefore, strengthening the principles of good governance and optimizing the internal audit function are crucial to creating a strong check and balance mechanism.

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This study aims to examine the influence of these two variables on fraud prevention in the management of BOS funds in Bengkulu City, in order to provide theoretical contributions to the public sector accounting literature and practical benefits for policymakers in improving the education oversight system.

2. Literature Review and Problem Statement

Agency Theory

Agency theory, developed by Jensen and Meckling (1976), explains the working relationship between the principal (mandate giver) and the agent (mandate recipient). In the context of the School Operational Assistance (BOS) Fund, the government acts as the principal, while the school acts as the agent. Agency conflicts arise due to information asymmetry and the inherent tendency of humans to be self-interested. This triggers moral hazard, where agents report the use of funds administratively but not in accordance with the actual data. To reduce agency costs, a strict monitoring mechanism is needed through a digital reporting system and public involvement in oversight.

Fraud Triangle Theory

Cressey (1953) proposed that there are three main factors that drive someone to commit fraud: pressure, opportunity, and rationalization. Pressure often stems from personal financial problems or performance targets, while opportunity arises from weak internal control systems. Rationalization is a mental justification for illegal acts. In public sector organizations, implementing good governance principles and strengthening internal audits serves to eliminate the "opportunity" element in this triangle, thereby minimizing the potential for fraud.

Fraud

Fraud is an illegal act committed intentionally through deception and concealment to obtain a unilateral advantage (Tuanakotta, 2014). Legally, fraud includes material misrepresentation of information, manipulation of accounting records, and abuse of trust. In auditing standards (SPAP), the primary focus of fraud is actions that cause material misstatements in financial statements that could mislead stakeholders.

Fraud measurement in this study is based on warning signs (red flags) which include:

- **Behavioral Indicators:** Drastic lifestyle changes (living beyond means), unwillingness to share duties, and personal financial pressures.
- **Operational Indicators:** Based on ACFE (2022) and IAPI standards, fraud is measured through the presence of fraud in financial reporting (data manipulation) and misappropriation of assets such as the use of public funds for personal gain (for example, online gambling or purchasing personal assets).

Good Governance in the Public Sector

Good governance Corruption is defined as the transparent and accountable management of state resources for the benefit of the community (Gharrafi et al., 2024). The primary strategy for preventing corruption is through the application of the principles of accountability, transparency, participation, and the rule of law. In schools, good governance ensures that every rupiah of BOS funds is openly accounted for to the

government and the community, thereby reducing the scope for individuals seeking to commit irregularities.

Internal Audit Function

Internal auditing is an independent and objective activity designed to add value and improve organizational operations (Lubis et al., 2024). The role of internal auditors in the education sector is to conduct systematic oversight to ensure compliance with BOS Fund management regulations. A quality audit not only detects fraud that has already occurred but also plays a preventative role by evaluating the effectiveness of internal control systems and creating an anti-corruption organizational culture.

Research Model

School Operational Assistance (BOS) is a government program designed to support the operational costs of primary and secondary education. However, its management still faces challenges, including the potential for fraud, which can harm state finances and hinder educational effectiveness. Therefore, the implementation of good governance principles and internal audit functions are crucial in preventing fraud in the management of BOS funds.

The School Operational Assistance (BOS) funds disbursed by the government aim to support school operations and improve the quality of basic education. However, because they involve managing large sums of money distributed across educational units, BOS funds are vulnerable to misappropriation, embezzlement, and fraud if not managed accountably and transparently.

Internal audit also plays a strategic role as a monitoring tool capable of detecting and preventing fraud. By evaluating internal control systems and compliance with applicable policies and regulations, internal audit helps ensure that School Operational Assistance (BOS) funds are managed in accordance with correct and efficient procedures. Furthermore, the internal audit function contributes by providing recommendations for improvements to potential systemic weaknesses that could be exploited to commit fraud. Integrating good governance principles with the internal audit function will strengthen the BOS fund management system, minimize opportunities for corruption, and increase public trust in the management of education funds. Based on this description, the schematic framework or research model that will be discussed further is as follows.

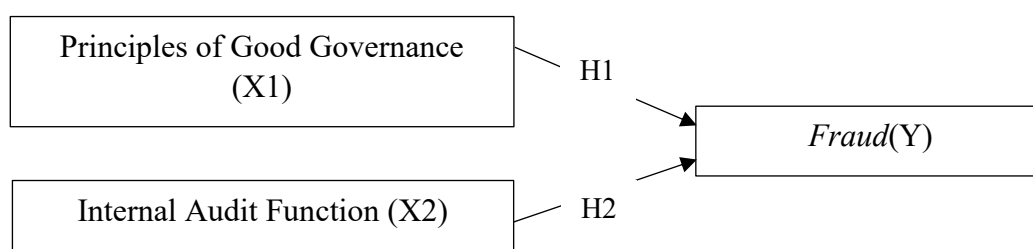


Figure 1. Research Framework

This analytical framework illustrates the influence of good governance principles and the internal audit function on fraud in the management of School Operational Assistance Funds (BOS). BOS funds, which are public funds provided to support school operations, require transparent, accountable, and responsible governance. The application of good governance principles and the role of the internal audit function will ensure that every fund management process is carried out in accordance with applicable regulations and policies, thus ensuring that potential misappropriation can be detected and prevented early.

This study aims to test the factors that influence fraud prevention with two main hypotheses:

- H1: Good Governance has a negative effect on Fraud.

The application of the principles of transparency, accountability, and responsibility is believed to be able to reduce the opportunities for individuals to commit fraud in accordance with the Fraud Triangle Theory.

- H2: Internal Audit Function has a negative effect on Fraud.

Through the role of independent oversight and risk evaluation, internal audit can detect early and narrow the scope for fraud perpetrators (Fraud Diamond Theory).

3. Method

This study uses a quantitative explanatory approach with a survey method to examine the influence of governance and oversight on fraud rates. The focus of the study was directed at the management of BOS funds in Bengkulu City, involving a population of 340 people consisting of Principals and BOS Treasurers at the elementary and junior high school levels. Through the Slovin formula calculation with a 5% error rate, a representative sample of 184 respondents was determined, selected because of their direct involvement in the planning process through to school financial reporting. The data used were primary data collected through distributing questionnaires to these respondents.

The variables in this study are divided into a dependent variable, namely fraud, and two independent variables, namely the Principles of Good Governance and the Internal Audit Function. Fraud is measured through indicators of asset misappropriation, financial statement manipulation, and corruption. Meanwhile, Good Governance is measured through 13 governance principles (such as transparency and accountability), and the internal audit function is assessed based on independence, objectivity, and follow-up on audit results. To ensure the accuracy of the results, the research instrument will undergo a data quality test that includes a validity test using the Confirmatory Factor Analysis (CFA) method and a reliability test using Cronbach's Alpha.

The data analysis phase began with descriptive statistical analysis to capture the characteristics of the respondents, followed by classical assumption tests, including normality, multicollinearity, and heteroscedasticity tests, to ensure the regression model was unbiased. Hypothesis testing was conducted using multiple linear regression analysis to determine the direction of influence between variables. Model feasibility was tested using the F-test, and the strength of the relationship was measured using the Coefficient of Determination (R²). Finally, partial testing was conducted using the t-test with a significance

threshold of 0.05 to determine whether Good Governance and Internal Audit significantly negatively influence fraud.

4. Results and Discussion

This study successfully collected data from 168 BOS fund managers in Bengkulu City with a very adequate response rate of 91.30%. Based on the demographic profile, the majority of respondents were women (63.7%), with a mature age above 35 years (78%) and a bachelor's degree (76.8%). Although this profile indicates a mature experience, there is a challenge in the lack of technical financial and legal educational background because the respondents are predominantly educators (99.4%). The results of descriptive statistics reveal that the implementation of good governance principles and internal audit functions have been running very well, as reflected in the high average scores of respondents' answers on both variables. Correspondingly, the level of fraud in BOS fund management is very low, although respondents still perceive the risk of embezzlement of cash or assets as a potential fraud loophole that is most wary compared to other aspects.

Data Analysis Results

This study used multiple regression analysis to examine the effect of the implementation of good governance principles and the internal audit function on fraudulent management of BOS funds in Bengkulu City. In addition to obtaining statistical coefficients, the analysis also yielded F-statistics, t-statistics, and coefficients of determination. These values were used to test hypotheses regarding the influence of each research variable. The data analysis yielded the following regression analysis results, as summarized in Table 2.

Table 2. Regression Analysis Results

No	Variables	N	Coefficient (β)	T-count value	p-value
1	Principles of Good Governance	β_1	-0.510	-6,122	0,000
	Internal Audit Function	β_2	-0.174	-2,092	0.038
2	R2		0.415		
3	R2 Adjusted		0.408		
4	F-count		58,528		0,000

The regression coefficient value (β_1): Good Governance (GG) Principle. The coefficient value of -0.510 indicates that according to the BOS Manager, every one unit increase in the application of good governance principles will reduce the fraud rate by 0.510 units, assuming other variables remain constant.

The regression coefficient value (β_2) : Internal Audit Function (AI). The coefficient value of -0.174 indicates that according to the BOS Manager, if the internal audit function is carried out properly and

adequately in supervising the management of BOS funds, it will reduce the fraud rate by 0.174 units, assuming other variables remain constant.

The negative (-) sign on this coefficient indicates an inverse relationship, meaning that the better the implementation of good governance principles and internal audit functions, the lower the level of fraud in the management of BOS funds. Logically, good governance limits the scope for irregularities through transparent oversight and accountability mechanisms.

DISCUSSION

The Influence of Good Governance Principles on Fraud

Based on the t-test results, the good governance principle variable has a regression coefficient value of -0.510 with a significance level of 0.000. Since the p-value is far below 0.05, it can be concluded that H1 is accepted, which means that the principle of good governance has a negative and significant effect on fraud. The higher the implementation of good governance, the lower the level of fraud in the management of BOS funds.

These findings demonstrate that accountability and transparency are not merely administrative formalities but rather primary defense mechanisms. Descriptive data shows that the BOS fund accountability indicator has the highest score (4.83), indicating that a clear reporting system can close the gap for manipulative actions. Theoretically, this supports Public Governance Theory, which posits that public information disclosure creates strong social control, thereby suppressing perpetrators' intentions to commit irregularities.

The Influence of Internal Audit Function on Fraud

The statistical analysis results show that the internal audit function has a regression coefficient of -0.174 with a significance value of 0.038 ($p < 0.05$). This result confirms that H2 is accepted, namely that the internal audit function has a negative and significant effect on fraud. Although its influence is not as significant as the good governance variable, the role of internal auditors remains a crucial instrument in detecting and preventing fraud in the school environment.

This effectiveness is supported by systematic audit documentation (mean score of 4.74), which serves as an audit trail to track every transaction. However, this study also noted that coordination between auditors and BOS fund managers remains a weak point. In accordance with Internal Control Theory, internal audit acts as the "eyes and ears" of an organization; if coordination is improved, oversight will become more collaborative and preventative rather than simply one-way inspections.

5. Conclusion

Based on the data analysis and discussion, it can be concluded that the management of BOS funds in Bengkulu City has generally been very well-run, transparent, and accountable. The results of the hypothesis testing prove that the implementation of good governance principles has a significant negative effect on fraud, meaning that the stronger the implementation of transparency, accountability, and participation, the lower the chance of fraud occurring. A similar finding was found for the internal audit

function variable, which was proven to have a negative effect on fraud; independent oversight and systematic audit documentation effectively narrow the room for fraud perpetrators to maneuver. Theoretically, this finding supports the Fraud Triangle Theory that strengthening the governance and internal oversight system is the most effective way to mitigate the element of opportunity in fraudulent practices in the school environment. Referring to the research findings, it is recommended that the Education Office and related institutions pay special attention to improving the technical competence of BOS fund managers through accounting and legal training, considering that the majority of respondents come from purely educational backgrounds with minimal understanding of financial technicalities. In addition, there is a need to increase the frequency of coordination and two-way communication between internal auditors (Inspectorate) and schools to avoid information barriers that can trigger administrative errors. For further researchers, it is recommended to expand the scope of the research by adding other variables such as organizational culture or professional commitment, as well as using in-depth interview methods to further explore the phenomenon of asset embezzlement risk which is still perceived as a potential loophole for fraud by fund managers.

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