



Determinations of Fraud in Local Governments in the Province of Aceh

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ABSTRACT: Fraud refers prohibited activities undertaken by individuals both internal and external to the organization, with the aim of obtaining personal and/or collective benefits that result in an immediate disadvantage to other entities. This study aims to examine the effect of the fraud hexagon theory on fraud in Local Government. The test tool used is multiple linear regression analysis using SPSS. Participants in this study consisted of districts and cities in Aceh Province. The findings of this study show that each independent variable, specifically pressure (X^1), opportunity (X^2), rationalization (X^3), capability (X^4), arrogance (X^5), and collusion (X^6), has a major effect on fraud activities in the local government environment in Aceh Province. This research is expected to assess and ensure the effectiveness of risk mitigation measures in countering the various factors that contribute to the occurrence of fraudulent activities. In addition, the findings of this study can serve as additional scientific material for local government entities that intend to improve their fraud prevention strategies.

KEY WORDS: Fraud, Fraud Hexagon and Local Government

PRELIMINARY

Fraud is a widespread global problem that requires significant concern due to its potential to cause huge financial losses of up to trillions of dollars each year. The ACFE categorizes fraud into three major categories: asset misappropriation, financial statement fraud, and corruption. ACFE (2019) provides further explanations on the topics of asset misappropriation, financial statement fraud, and corruption. Asset misappropriation refers to the unauthorized or improper use, as well as theft, of assets or property belonging to the organization. This type of misappropriation is relatively easy to identify, as it can be quantified and assigned a specific value. The act of making false statements refers to the intentional act of a government official who is involved in financial manipulation to conceal the true state of finances, usually motivated by personal gain.

Corruption, marked by the act of engaging in collaborative practices involving the exchange of bribes, is a form of fraudulent activity. This phenomenon is especially occurring in some developing countries such as Indonesia, where the existence of inadequate laws and poor governance aggravate the occurrence, acts of corruption becomes a type of fraud that is difficult to detect because it is carried out by many people or in groups. In Indonesia, corruption is a common form of fraudulent activity, which counts for 64.4% of reported cases. In contrast, on a global scale, asset misappropriation emerged as the most common form of fraud, consisting of 28.9% of reported incidents, followed by financial statement fraud at 6.7% (ACFE, 2020).

This research observes the overall variables of the Fraud Hexagonal that influence the occurrence of fraud, such as, pressure, opportunity, rationalization, capability, arrogance, and collusion. The underlying motivations behind individuals' involvement in fraudulent activities can be explained through various theoretical perspectives, including the hexagonal fraud theory. The most recent fraud approach, known as the Fraud Hexagon Model, was developed by Georgios L. Vousinas in 2019. The Fraud Hexagon extends the concept of fraud as a precursor for individuals to commit fraudulent activities, which builds on Cressey's (1953) fraud. According to Vousinas (2019), there is a need to update the pentagon fraud model to effectively address the increasing number of fraud incidents and accommodate the evolving nature of incidents.

The hexagon fraud model incorporates all the mentioned factors from the previous model, including pressure, opportunity, rationalization, capability, and arrogance. However, the hexagonal fraud model introduces an additional element, which is collusion. The occurrence of fraud in regional apparatus organizations in Aceh Province can be seen from various problems of suspected corruption that have been revealed by Law Enforcement, External Auditors, and APIP. These investigations revealed that several agencies in Aceh Province had involved in fraudulent activities. These cases display the deficiencies in internal control systems within government organizations. Based on some of the current issues that have occurred in local governments in Aceh Province, fraudulent practices contribute a lot of losses and can cause continuous regional losses if these fraud practices are not stopped, thus



research on fraud detection in local government organizations is important research to continue to be conducted in order to identify fraud practices properly and to reduce regional losses that continue to occur.

THEORETICAL BASE

Agency Theory

Principals give authority to agents with the expectation that agents will act in accordance with the best interests of the principal. The assigned authority in this context raises agency problems that derive from information disparity or asymmetric information, which ultimately leads to conflict. The theory under consideration emphasizes the underlying assumption that agents tend to act opportunistically, especially when the agent's interests are not aligned with the principal (Bendickson et al., 2016). Agency theory presents two main challenges. The first relates to the inability of the principal to ensure whether the agent has fulfilled his obligations. This problem arises when there are differences in interests between the principal and the agent, and the principal faces challenges in effectively monitoring the actions taken by the agent. One of the issues that arise is the difference in risk perception between the agent and the principal, leading to different decision-making in dealing with risks that occur in the organization's operations (Eisenhardt, 1989). In practical scenarios, it is observed that agents may not consistently make decisions that effectively generate profits for the principals in exchange for the principal capital they provide.

This phenomenon consequently reduces the incentives received by the agent. The occurrence of challenges in agency relationships arises due to different expectations between the parties involved, which is the main focus of agency theory. From the principal's perspective, the main expectation is to achieve maximum return on the capital invested in the company. In contrast, agents anticipate receiving substantial compensation for their efforts in managing the company. The existence of these circumstances and the unequal expectations between these parties create opportunities for agents to act irrationally to prioritize their personal gain and maximize their compensation, rather than prioritizing the interests of the principal in achieving a return on their investment (Putri, 2017). The emergence of conflicts of interest between the two parties is observed as a result of these conditions (Mulya et al., 2019). The concept of information imbalance or information asymmetry refers to a situation where there is a difference in the level of information possessed by the agent and the principal. This gap is accompanied by different interests between the two parties (Nurbaiti and Hanafi, 2017). Agents have a greater wealth of knowledge about the company due to their role as operational managers, while principals, who are not directly involved in the management of the company, will have access to relatively less information. In general, the principal usually gets financial information on the agent's report submitted to the principal.

Budget

According to Nafarin (2012), the definition of a budget is a written plan regarding the activities of an organization which is stated quantitatively for a certain period of time and is generally expressed in units of money. Meanwhile, the definition of a budget according to the National Committee on Governmental Accounting cited by Haruman (2010) states that "A budget is a financial operating plan that includes estimates of proposed expenditures and expected sources of income to pay for them within a certain period of time". The budget is a short-term work plan that is prepared based on a long-term activity plan established in the work program preparation process. If the budget is not prepared based on a long-term activity plan prepared in advance, the budget actually does not take the company anywhere. Budgeting is often referred to as profit planning. In profit planning, management prepares an operational plan whose financial implications are expressed in short and long-term income statements, balance sheets, cash flow and working capital projected in the future. Indrayeni, as cited in Halim (2014), concludes that the definition of a budget is a document containing performance estimates, both in terms of revenue and expenditure, presented in monetary terms to be achieved during a specific period and including historical data as a form of control.

Fraud

In particular, the ACFE divides the types of fraud into 3 branches, which are: asset misappropriation, fraudulent statements, and corruption. Asset misappropriation is the improper use or theft of an organization's assets or property, this form is easy to detect because it can be calculated (defined value). Fraudulent statements are actions taken by officials of a government agency by conducting financial engineering to cover the actual financial condition, this is also done to obtain personal gain. Corruption includes acts of collaborating with other parties by making bribes, this type of fraud is most widespread in developing countries such as Indonesia due to the inappropriate management and weak laws, corruption is a type of fraud that is difficult to detect because it is



carried out by many people or in groups (Christofel, 2010). The quality of an organization's reporting depends on the prevalence of fraudulent practices being minimized, in addition to effective management of economic resources. The implementation of an effective control system and supervision of management performance is necessary in order to proactively anticipate and mitigate any deviant actions of management.

Fraud Hexagon

The most recent theory related to fraud is the Fraud Hexagon theory, as proposed by Vousinas in 2019. In his scientific investigation, Vousinas identified collusion as a new component in the fraud theory, thus improving his proposed fraud model, which later evolved into the SCCORE model. The SCCORE model includes the following elements: Stimulus, Capability, Collusion, Opportunity, Rationalization, and Ego. According to Vousinas, the main factor that contributes to fraud cases, exemplified by high-profile cases such as Enron, World.Com, and Parmalat, is the collusion of white-collar offenses, which can potentially result in significant financial consequences. Collusion refers to the intentional collaboration between two or more employees with the purpose of misappropriating assets or engaging in a fraudulent practice concerning record-keeping. The presence of collusion, especially when it involves third parties, can significantly interfere with the detection of fraudulent activity, as stated by Arens et al. (2012). According to the Indonesia's Law No. 28/1999 on the implementation of a state that is ethical and free from corruption, collusion can be defined as an unlawful arrangement or cooperation between state administrators, or between state administrators and external organizations, which results in losses to individuals, society, and/or the state (BPK, Financial Supervisory Agency).

According to the analysis conducted by Johnsen and Kvaløy (2021), collusion can be defined as any form of cooperation involving two or more entities that results in harming the general public. The tests conducted show that the observed side effects have the potential to reinforce collusive behavior. At the beginning of a collaborative venture, the possibility of collusion is still relatively small. However, as the parties involved gain experience and realize that their fellow participants, despite the harmful consequences, they still choose to maintain a cooperative relationship and will continue their collaboration at least until their or initial goals are achieved.

Laffont and Martimort (1997) argue that collusion occurs in the context of asymmetric information when multiple agents, such as company management, can communicate easily and without barriers. In such circumstances, these agents are likely to engage in coordinated efforts to manipulate the reports they submit to their principals. Collusion is observed in some cases in reports where the inclusion of unverifiable information is evident. In their study, Che and Kim (2006) describe various factors that contribute to the significant challenges associated with collusion. One of these situations is when collusion occurs after the agent has made a contractual agreement with the principal, where the agent is explicitly prohibited from engaging in collusive behavior when making decisions.

The Six Factors in The Fraud Factor Theory

Pressure

Individuals holding positions of trust face situational pressures, particularly in times of financial difficulty and instances of poor decision-making. Pressure is generally understood as a driving force or incentive that compels individuals engaged in fraudulent activities to conceal them from relevant stakeholders (Rusmana & Tanjung, 2019).

Opportunity

Opportunity refers to the circumstances that provide management with the ability to engage in fraudulent activities for their personal gain (Sari & Safitri, 2019).

Rationalization

Rationalization is the common mindset, disposition, or moral principle that serves as the basis of thinking for individuals engaged in dishonest activities or when they find themselves in high-pressure environments that encourage the tendency to rationalize their dishonest behavior (Vousinas, 2019). According to Vousinas (2016), individuals involved in fraudulent activities often do not acknowledge themselves as wrongdoers. As a result, they tend to rationalize their actions as justified until a point when they finally accept the reality that their behavior constitutes a crime.



Capability

Capability refers to an individual's capacity to disregard or to go beyond internal regulations with the intention of devising advanced strategies to conceal information and manipulate social circumstances for personal gain or to market it to others (Rusmana & Tanjung, 2019). This observation highlights that engaging in deception requires possessing knowledge or understanding related to the subject matter being deceived, enabling the deceiver to exploit existing opportunities or even invent new ones to engage in fraudulent activities.

Arrogance

Vousinas (2019) shows that one personality type in dishonesty is "egotistic", an individual who is driven to succeed in many ways, self-absorbed, self-assured, and often narcissistic. According to Rusmana and Tanjung (2019), arrogance or ego can be characterized as the attitude of individuals who view themselves as superior, accompanied by a sense of entitlement or greed, and a belief that they are exempt from internal regulations. Arrogance can be seen as an attitude marked by superiority or pride, as exhibited by individuals who believe they are exempt from the need for self-regulation (Aprilia, 2017).

Collusion

Collusion refers to the intentional collaboration between two or more employees with the intention of misappropriating assets or engaging in fraudulent practices related to recordkeeping. The presence of collusion, particularly when third parties are involved, can significantly interfere with the detection of fraudulent activity (Arens et al., 2012). In Law Number 28 of 1999 regarding the administration of a state that is ethical and free from corruption, collusion and nepotism, collusion is defined as an unlawful arrangement or cooperation between state officials or between state officials and other parties that harms other people, the community, and or the state.

RESEARCH METHODS

This research explores the relationship between variables, specifically focusing on the cause-and-effect relationship. By utilizing associative research, an individual can distinguish correlations between variables and determine the extent of interdependence between dependent and independent variables. In the context of research, causal studies are conducted with the aim of testing potential causal relationships between specific variables and others, assessing whether the former has a significant impact on the latter (Sekaran & Bougie, 2017:112). This research explains the impact of various variables, such as pressure, opportunity, rationalization, capability, arrogance, and collusion, on the occurrence of fraudulent activities within the local government environment in the Aceh Province. The subjects of analysis in this study are the Financial Reports and Reports on Monitoring Regional Losses of the Regional Government in Aceh Province for the period from 2020 to 2022. The total sample size consists of 216 reports (72 Financial Reports and 144 Reports on Monitoring Losses). The data used in this research consists of secondary data, particularly examination reports and monitoring reports related to the resolution of regional losses, obtained by requesting Examination Reports and Monitoring Reports on Regional Losses from the authorized institution.

Variable Operationalization

This study uses fraud as the dependent variable measured by the amount of regional financial losses originating from the APBD in each Regency / City Regional Government. This study uses the Fraud Hexagon theory as a framework to examine the factors that contribute to fraudulent activity. The use of proxies and measurements on the independent variables in this study can be described as follows:

Measurement of Pressure variables with Regional Financial Performance Proxies

$$\text{Regional Financial Efficiency Ratio} = \frac{\text{Regional Expenditure Realization}}{\text{Regional Revenue Realization}} \times 100 \% \text{ (Ratio)}$$

Measurement of the Opportunity variable with the proxy of the Capital Expenditure Ratio

$$\text{Capital expenditure Ratio} = \frac{\text{Capital Expenditure Realization}}{\text{Total Expenditure Realization}} \times 100 \% \text{ (Ratio)}$$



Measurement of the Rationalization variable is conducted using the proxy of SPIP Maturity Value, which is rated on an ordinal scale from 1 to 5. Measurement of the Capability variable is done using the proxy of APIP Capability Value, rated on an ordinal scale from 1 to 5. Measurement of the Arrogance variable is conducted using the proxy of Budget Determination, rated on an ordinal scale from 1 to 5. Measurement of the Collusion variable is carried out using the proxy of the Whistle Blowing System, with values assigned on an ordinal scale ranging from 1 to 5.

Methods of Analysis

This research data analysis uses the SPSS (Statistical Production and Service Solution) program with several stages and tests. Data analysis is a process of simplifying data into a form that is easier to read and interpret. This study uses multiple regression analysis due to more than one independent variable. The model in this study is:

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 \varepsilon$$

Abbreviation:

- Y = fraud in the government
- α = Constant
- X₁ = Pressure
- X₂ = Opportunity
- X₃ = Rationalization
- X₄ = Capability
- X₅ = Arrogance
- X₆ = Collusion
- $\beta_1\beta_2\beta_3\beta_4\beta_5\beta_6$ = Coefficient X₁ X₂ X₃ X₄ X₅X₆
- ε = Error term

RESEARCH RESULTS

The research was conducted on local governments in Aceh Province. The study used a cluster analysis approach, with a specific focus on 24 local governments in Aceh as the unit of analysis. Data for this study was collected over three years, based on Audit Reports on LKPD, Local Loss Monitoring Reports, APIP Maturity and Capability data sourced from BPKP, as well as APBD Stipulation data sourced from the Government of Aceh. The total observations from this study were 216 reports (72 LHP on LKPD and 144 LHP on Loss Monitoring).

Descriptive Statistical Analysis

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Y	72	1.28	4.93	2.7342	.85272
Tekanan	72	.87	1.00	.9881	.02256
Kesempatan	72	.11	.90	.1640	.09075
Rasionalisasi	72	1.00	3.00	2.3472	.53497
Kapabilitas	72	2.00	3.00	2.3750	.48752
Arogansi	72	1.00	6.00	4.8472	.91405
Kolusi	72	.00	6.00	1.5556	1.20899
Valid N (listwise)	72				

The mean value of Fraud in local governments in Aceh Province during the 2020-2022 period is 2,7342, the mean value of pressure is 98,81, the mean value of opportunity is 16,41, the mean value of Rationalization is 2,3472, the mean value of capability is 2,3750, the mean value of arrogance is 4,8472, and the mean value of collusion is 1,5556.



Hypothesis Test

The assessment of the feasibility of the regression model is carried out by evaluating its reliability using the F test. This feasibility test aims to determine the feasibility of various regression models. The term "feasible" or "reliable" displays that the estimated model has the ability to effectively explain the impact of the independent variable on the dependent variable. The F test results are presented in the ANOVA table.

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	49.923	6	8.321	317.580	.000 ^b
	Residual	1.703	65	.026		
	Total	51.626	71			

a. Dependent Variable: Y

b. Predictors: (Constant), Kolusi, Rasionalisasi, Kesempatan, Tekanan, Arogansi, Kapabilitas

The test results showed an F value of 317.580 with a significance level of 0.000. The significance value of the analysis results, which is 0.000, is smaller than the significance level of 0.05. Therefore, it can be concluded that the estimated regression model is suitable for explaining the effect of pressure, opportunity, rationalization, capability, arrogance, and collusion factors on fraud in the Local Government environment in Aceh Province from 2020 to 2022. The results of the regression analysis can be seen in Table coefficients.

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.747	.865		-.864	.391
	Tekanan	1.993	.870	.053	2.292	.025
	Kesempatan	.578	.216	.061	2.670	.010
	Rasionalisasi	.264	.038	.165	6.891	.000
	Kapabilitas	.991	.042	.567	23.625	.000
	Arogansi	-.493	.022	-.528	-22.417	.000
	Kolusi	.535	.016	.759	32.792	.000

a. Dependent Variable: Y

The equation for the multiple linear regression model can be derived from the results of data analysis using the SPSS program as follows:

$$Y = -0,747+1,993X_1+0,578X_2+0,264X_3+0,991X_4- 0,493X_5+0,535X_6+\epsilon$$

The regression coefficients of the independent variables, such as pressure, opportunity, rationalization, capability, arrogance, and collusion, are 1,993; 0,578; 0,264; 0,991; -0,493 and 0,535, respectively. The results of hypothesis testing concluded to reject the null hypothesis (H₀) and did not reject the alternative hypothesis (H_a) and stated that pressure, opportunity, rationalization, capability, arrogance, and collusion together (simultaneously) affect fraud (Fraud) in Local Government in Aceh Province in 2020-2022.

The first alternative hypothesis (H_{a1}) is accepted with a coefficient of determination (R²) calculated at 0.967. This shows that fraud in local governments in Aceh Province during the period 2020 to 2022 is influenced by the six independent variables, including pressure, opportunity, rationalization, capability, arrogance, and collusion factors. The value of Fraud in Local Government in Aceh Province is influenced by the factors of pressure, opportunity, rationalization, capability, arrogance and collusion can be explained by 96,4%.

The purpose of regression testing on the second hypothesis in this study is to determine whether there is a relationship between pressure and the incidence of fraud in local governments in Aceh Province. The findings from hypothesis testing show that



the alternative hypothesis (Ha2) is supported, showing that pressure has a significant influence on the occurrence of fraud, but still to a limited extent. The regression coefficient displays a positive relationship between the pressure factor and fraud during the 2020 to 2022 timeframe. The findings of this study are in line with previous research conducted by Siregar (2022), Maria et al. (2018), Jannah et al. (2021), Navira Erliani and Rustiarini et al. (2019), which show that pressure has a positive impact on fraud.

This study conducted regression testing to examine the potential influence of opportunity on fraud in local government in Aceh province. The aim was to determine whether there is a relationship between these variables. The findings from hypothesis testing show that the alternative hypothesis (Ha3) is supported, showing that there is a partial impact of opportunity on fraud. The regression coefficient displays a positive relationship between the opportunity factor and the incidence of fraud in the 2020 to 2022 timeframe. The findings of this study are in line with research conducted by Navira Erliani (2023) and Wicaksono and Prabowo (2022), which show that capital expenditure has a statistically significant positive impact on corruption.

Regression testing was conducted to examine the potential impact of rationalization on fraud in local government in Aceh province, as part of the fourth hypothesis of the study. The findings of the hypothesis testing show that the alternative hypothesis (Ha4) is supported, which displays that rationalization has a partial influence on the occurrence of fraud. The regression coefficient displays a positive relationship between the rationalization factor and fraud during the 2020 to 2022 period. The findings of this study are in line with research conducted by Rustiarini et al. (2019), which confirms that the influence of pressure and opportunity on the tendency of individuals to engage in fraudulent behavior is undeniably related to psychological factors, such as rationalization, as well as individuals' capabilities.

The purpose of regression testing in this study was to examine the potential impact of capability on fraud in local government in Aceh Province. The findings from hypothesis testing show that the alternative hypothesis (Ha5) is supported, showing that capability has a limited impact on the occurrence of fraud. The regression coefficient displays a positive relationship between the Capability factor and the incidence of fraud from 2020 to 2022. The findings of this study are not in line with research conducted by Wicaksono and Prabowo (2022) which states that internal audit capability does not have a statistically significant effect on corruption. However, the findings of this study are in line with research conducted by Putra and Rahayu (2019) which states that capability plays an important role in influencing fraudulent activities related to the utilization of village funds. According to Rustiarini et al. (2019), individual talent plays an important role in influencing individuals to engage in fraudulent activities. According to Navira Erliani (2023), the capability factor has an impact on fraudulent activities in the local government environment in Indonesia.

The purpose of regression testing in this study is to determine the potential impact of arrogance on fraud in the Aceh Provincial Government. The findings from hypothesis testing show that the alternative hypothesis (Ha6) is supported, suggesting that arrogance has a significant impact on fraud, but in a limited way. The regression coefficient displays a negative relationship, which indicates that the arrogance factor has a detrimental impact on fraud in the 2020 to 2022 period. The findings of this study are in line with research conducted by Navira Erliani (2023) which states that the arrogance variable is the fourth factor in the hexagon fraud framework, which has an impact on fraudulent activities within local government institutions in Indonesia.

The purpose of regression testing in this study was to investigate the potential impact of collusion on fraud within the Aceh Provincial Government. The findings from hypothesis testing show that the alternative hypothesis (Ha7) is supported, showing that collusion has a partial impact on the occurrence of fraud. The regression coefficient shows a positive relationship between the collusion factor and the incidence of fraud in the period 2020 to 2022. The findings of this study are in line with research conducted by Navira Erliani (2023) which states that the collusion is the last factor that has an impact on fraudulent activities within local government entities in Indonesia. The existence of a whistle blowing system in districts / cities in Indonesia is a proxy for this factor, showing that the implementation of WBS can be a means of identifying and preventing fraudulent activities.

CONCLUSION

The occurrence of fraud in local governments in Aceh Province from 2020 to 2022 was influenced by a number of factors, such as pressure, opportunity, rationalization, capability, arrogance, and collusion. The implementation of pressure in the context of local government in Aceh Province during the 2020-2022 period had a positive impact on the occurrence of fraud. The existence of opportunities in the Aceh Provincial Government during the 2020-2022 period was found to have a good impact on the occurrence of fraud. The phenomenon of rationalization has been observed to have a beneficial effect on fraud cases in local government entities



operating in Aceh province during the period 2020 to 2022. The existence of adequate capabilities is suspected to have a favorable influence on the occurrence of fraud in the local government environment in Aceh Province during the 2020-2022 period. The existence of arrogance in local governments in Aceh Province during the 2020-2022 period was observed to have a negative impact on the occurrence of fraud. The phenomenon of collusion in Aceh Province from 2020 to 2022 is known to have a significant impact on the occurrence of fraudulent activities within the local government apparatus. The use of alternative research analysis frameworks, such as path analysis or the generalized method of moments model, is different from that used in this study. The current model has the ability to examine the interconnections between variables, which makes it easier to identify the direct and indirect effects that the independent variables have on the dependent variable. Enhancing the scope of the study by including additional areas within regions and cities across Indonesia, as well as extending the time period of the study. Undertaking additional research on the completion of regional losses occurring within the local government.

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