



The Implementation Of A Fraud Risk Assessment In The Disbursement Of Government Assistance At The ABC Government Institution

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INTRODUCTION

Government assistance refers to aid that does not fall under the category of social assistance as defined by the Ministry of Finance Regulation Number 168/PMK.05/2015. This type of assistance may include, among others, operational assistance. According to Article 15, Paragraph (1) of the Ministry of Finance Regulation Number 168/PMK.05/2015 concerning the Budget Implementation Mechanism for Government Assistance in Ministries/Agencies—as last amended by Regulation Number 132/PMK.05/2021 on the Second Amendment to Regulation Number 168/PMK.05/2015—operational assistance is provided to Community Groups, Non-Governmental Organizations, Educational Institutions, Religious Institutions, and Health Institutions. Specifically, for operational assistance to Educational Institutions, the budget allocation is also included in the 20% of the State Budget (APBN) and Regional Budget (APBD) designated for the implementation of education.

ABSTRACT

The potential for fraud in distributing government assistance, particularly operational assistance, remains relatively high. The ABC Government Institution is one of the institutions responsible for distributing such assistance. Therefore, concrete efforts are needed to prevent fraud in the distribution process. This study aims to apply a Fraud Risk Assessment (FRA) to identify potential fraud risk scenarios that may occur in the distribution of government assistance by the ABC Government Institution. A qualitative research approach with a case study method was used in this study. Based on the FRA results, seven fraud risk scenarios were identified that the organization needs to address. These include two scenarios classified as very high risk, one as medium risk, three as low risk, and one as very low risk, evaluated by the organization's risk appetite.

Based on the results of the Education Integrity Assessment Survey (SPI Pendidikan) released by the Corruption Eradication Commission (KPK) during the launch of the SPI Pendidikan 2023 and the SPI Pendidikan Socialization 2024, the national SPI Pendidikan index in 2023 was 73.7 on a scale of 1 to 100. This indicates that the level of integrity is still at level 2, categorized as corrective (KPK, 2024). The SPI Pendidikan measures three dimensions: student character, the educational ecosystem, and the governance of educational institutions. The survey also highlighted several findings, including the misuse of School Operational Assistance (BOS) funds. According to the 2023 SPI Pendidikan report, 97.94% of the schools surveyed reported receiving BOS funds. However, 13.39% of those respondents admitted that the use of BOS funds at their schools was not in accordance with its intended purpose. The most common form of misuse was cost inflation, accounting for 30.83%, followed by nepotism in the procurement of goods and services/projects at 20.52%, and extortion/deductions/illegal levies at 8.74%. The remaining 39.91% fell into other categories of misuse. In addition, Indonesia Corruption Watch (ICW) reported that corruption in the education sector remains alarmingly high and consistently ranks among the top five most frequent corruption cases. In 2023, law enforcement authorities handled 30 corruption cases in the education sector, with 40% of these cases related to BOS funds (ICW, 2024).

The risk of corruption within Ministries/Agencies (K/L) and Regional Governments remains relatively high (KPK, 2024). Before releasing the SPI Pendidikan 2023, KPK had also published the results of the Integrity Assessment Survey (SPI) 2023. The SPI is a survey developed and utilized as a tool to measure corruption risk, aiming to map risks and assess the progress of corruption prevention efforts carried out by government institutions. The national SPI index in 2023 was 70.97, representing the average SPI score across all Ministries/Agencies and Regional Governments in Indonesia. Based on the three existing categories—vulnerable (<73), alert (73–77), and safeguarded (78–100)—the national index still falls under the "vulnerable" category. Furthermore, this index reflects a decline compared to the 2022 score, which stood at 71.94.

The ABC Government Institution falls under the category of institutions with a large budget and a high number of employees. According to the SPI 2023, the integrity index of Institution ABC is categorized as "alert," with a score of 74.62. This indicates that improvements are still needed for the institution to reach the "safeguarded" category. The BOS fund is not classified as social assistance under the State Ministries/Agencies (K/L) budget sourced from APBN. According to Article 3, letter (d) of the Ministry of Finance Regulation Number 168/PMK.05/2015 concerning the Budget Implementation Mechanism for Government Assistance in K/L—as last amended by Regulation Number 132/PMK.05/2021 on the Second Amendment to Regulation Number 168/PMK.05/2015—operational assistance is one of the components of government assistance funding. Several government institutions are responsible for distributing operational assistance funds, one of which is institution ABC. The findings from KPK's SPI Pendidikan 2023 and records from ICW show that the potential for fraud in the distribution of government assistance, particularly operational assistance, remains high. Therefore, efforts must be made to prevent fraud in the distribution process within the ABC government institution.

According to The Institute of Internal Auditors (IIA) Indonesia and the Association of Certified Fraud Examiners (ACFE) Indonesia Chapter (2023), fraud is a serious threat across various sectors, potentially resulting in significant financial losses, reputational damage, and even the collapse of an organization. Fraud Risk Management (FRM) is a strategic approach aimed at identifying, preventing, detecting, and responding to fraudulent activities within an organization (IIA & ACFE, 2023). FRA is a key component of FRM and serves as a proactive step in identifying and addressing fraud risks within an organization.

According to Rehman & Hashim (2020), FRA has a significant direct impact on good corporate governance, and its implementation supports the achievement of effective governance practices. Moreover, adopting FRA as a tool for fraud detection, a control mechanism, and embedding it within governance policies is highly recommended for

organizations. In the public sector, Wibowo & Tobing (2021) conducted a study on a government institution by applying the FRA. The study identified thirteen fraud risk scenarios that the organization needed to anticipate. In response, several anti-fraud strategies were recommended to mitigate these identified risks, including preventive, detective, and responsive strategies. These strategies involve optimizing existing anti-fraud measures as well as adopting other relevant anti-fraud approaches (Wibowo & Tobing, 2021).

According to IIA & ACFE (2023), internal audit can assist in identifying and assessing fraud risks relevant to an organization's business processes. Internal audit also plays a crucial role in identifying areas vulnerable to fraud, as well as recognizing risk factors and potential weaknesses that may be exploited by fraud perpetrators through in-depth analysis and evaluation of business processes. Bonrath & Eulerich (2024) further emphasize that internal audit plays a vital role in both the prevention and detection of fraudulent activities.

In line with this, Government Regulation Number 60 of 2008 concerning the Government Internal Control System (SPIP) states that the Inspectorate General is responsible for providing early warnings and enhancing the effectiveness of risk management. Additionally, the Inspectorate General must be able to evaluate and provide input on how institutions manage risk. Furthermore, according to the IIA in the Global Internal Audit Standards (2024), to mitigate fraud risk, organizations must develop and implement an effective internal control system. In line with this, Kesuma & Fachruzzaman (2024) assert that strengthening communication and information systems within internal control can help prevent potential fraud. Moreover, Saut et al. (2025) note that opportunities for fraud often arise from weak oversight systems, a lack of transparency, and inadequate internal control mechanisms.

Thus, FRA is a highly effective strategic step in preventing fraud within an organization. By conducting FRA, organizations can proactively identify potential fraud risks before they escalate into more serious issues. This process enables organizations to understand areas vulnerable to fraud, assess the contributing factors, and design appropriate control measures to close gaps that could be exploited by fraud perpetrators.

LITERATURE REVIEW

Fraud refers to any intentional act characterized by deception, concealment, dishonesty, misuse of assets or information, and falsification, carried out by an individual or organization to obtain illegal benefits (IIA, 2024). On the other hand, according to the Fraud Examiner Manual (2022) published by the ACFE, fraud is defined as a deliberate act intended to gain unlawful personal advantage, whether through deception, abuse of power, or manipulation of information that harms another party.

Fraud Tree

The ACFE The ACFE classifies various types of fraud into a framework known as "The Fraud Tree." This classification consists of three main categories: corruption, asset misappropriation, and financial statement fraud (FSF). Corruption refers to a range of unlawful acts intended to result in unfair advantage or personal gain. It includes four forms: conflict of interest, bribery, illegal gratuities, and economic extortion.

On the other hand, according to the Fraud Examiner Manual (2022), asset misappropriation is the most common type of fraud, although it typically has a smaller financial impact compared to financial statement fraud. Lastly, financial statement fraud (FSF) is defined as the intentional misrepresentation of a company's financial condition through the misstatement or omission of amounts or disclosures in financial statements, with the purpose of misleading the users of those statements.

Fraud Risk Assessment

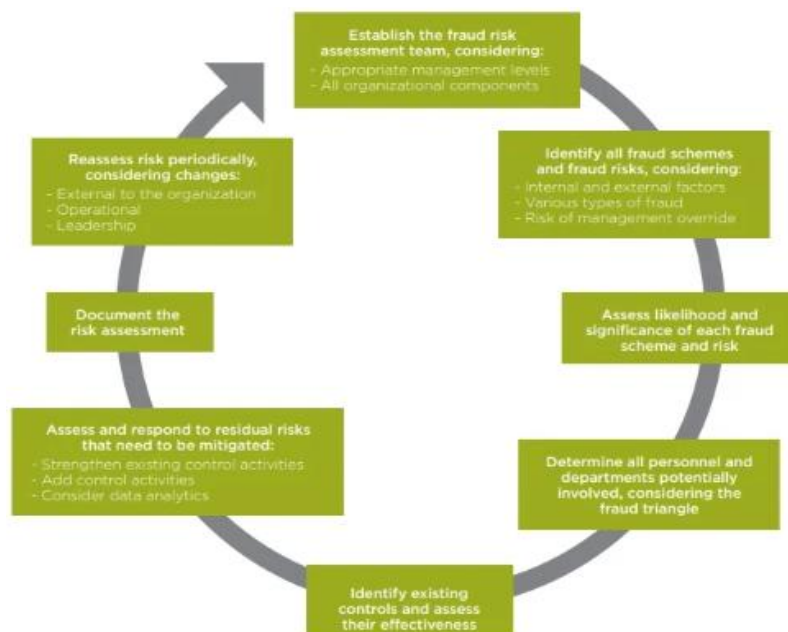
According to the ACFE in the Fraud Examiner Manual (2022), Fraud Risk Assessment (FRA) is a process aimed at proactively identifying and addressing an organization’s vulnerabilities to both internal and external fraud. Because each organization is different, the FRA process is often more of an art than a science. What is assessed and how it is assessed must be tailored to the specific organization—there is no one-size-fits-all approach.

The Committee of Sponsoring Organizations of the Threadway Commission (2023) emphasizes that fraud is not static. Therefore, the Committee of Sponsoring Organizations of the Threadway Commission (COSO) and ACFE have initiated an update process that involves engaging various stakeholders to gather recommendations on how fraud risk management guidance can be improved. FRA serves as a tool that helps management identify and assess relevant fraud risks within the organization. It focuses on identifying applicable fraud schemes and evaluating whether internal controls have been effectively designed and implemented to prevent, detect, and respond to potential fraud occurrences.

According to COSO & ACFE (2023), conducting a specific and focused FRA, separate from the overall fraud risk management process, provides greater assurance that the process truly concentrates on identifying intentional acts. COSO also emphasizes that a comprehensive approach to FRA results in a more robust fraud risk assessment. By identifying and evaluating risks in a structured manner, organizations can more effectively design appropriate mitigation strategies. Furthermore, organizations that integrate the FRA with the COSO Internal Control–Integrated Framework 2013 have the potential to establish more effective mechanisms for fraud prevention and detection. The COSO 2013 framework provides a solid foundation for building internal controls, while the FRA complements this approach with a dedicated focus on fraud risks. The combination of both enables organizations to identify, assess, prevent, and detect fraud risks more thoroughly and systematically.

According to COSO & ACFE (2023), the process of conducting a Fraud Risk Assessment (FRA) consists of eight stages. The initial stage begins with establishing the fraud risk assessment team and concludes with reassessing risks periodically, as illustrated in Figure 1 below.

Figure 1. Fraud Risk Assessment Process



Source: COSO & ACFE, 2023

FRA is a dynamic and iterative process used to identify and assess fraud risks relevant to the organization. The details of each step involved in conducting an FRA are as follows:

1. Establish The Fraud Riks Assessment Team

A sound risk assessment requires input from a variety of sources. Before conducting the risk assessment, management should identify the risk assessment team. This team should include individuals from across the organization who possess diverse knowledge, skills, and perspectives, and should consist of a combination of internal and external resources.

2. Identify All Fraud Schemes and Fraud Risks

The fraud risk assessment team should consider both internal and external factors and their impact on the achievement of the organization's objectives. Internal factors include the types of activities typically carried out by the organization, as well as the processes and controls implemented to manage and account for those activities.

3. Estimate Likelihood and Significance of Each Fraud Scheme and Risk

Management's assessment of the likelihood of fraud risk is based on specific examples of fraud that have occurred in the past within the organization, the prevalence of fraud risks within the organization's industry, and other relevant factors.

4. Determine All Personnel and Departments Potentially Involved

At this stage, in order to determine which employees and departments are most likely to commit fraud, it is necessary to consider the fraud triangle. Therefore, based on the fraud triangle concept, the assessment should take into account incentive and pressure, opportunity, and attitude or rationalization.

5. Identify Existing Controls and Assess Their Effectiveness

The fraud risk assessment team identifies existing control activities. Then, the team evaluates the effectiveness of these fraud control activities in mitigating fraud risks. Management needs to assess the residual risk and determine the nature and extent of preventive and detective fraud controls, as well as the procedures required to address those risks.

6. Assess and Respond to Residual Risks That Need to be Mitigated

Risk assessment also includes considering how the risks can be managed and whether they can be accepted, avoided, mitigated, or shared. Risk tolerance varies between organizations. Risk tolerance provides organizations with guidance on how to respond to fraud risks.

7. Document The Risk Assessment

Organizations can use a matrix to document fraud risk assessments, such as a fraud risk register or a fraud risk assessment matrix. A fraud risk register can help management document all identified risks.

8. Reasses Risk Periodically

Risk assessments must be conducted periodically. Every organization inevitably undergoes changes, and each of these changes can impact fraud risks. Changes may arise from factors beyond management's control, such as external changes.

Government Assistance

Based on Minister of Finance Regulation Number 168/PMK.05/2015 concerning the Mechanism for the Implementation of Government Assistance Budget in Ministries/Institutions (K/L), as last amended by Regulation Number 132/PMK.05/2021, government assistance refers to aid that does not meet the criteria of social assistance provided by the government to individuals, community groups, or government/non-government institutions. Government assistance in the form of operational assistance is given to Community Groups, Non-Governmental Organizations, Educational Institutions, Religious Institutions, and Health Institutions, which may be either government or non-government entities. Therefore, operational assistance funds are used to support the routine activities or operations of the recipients. Additionally, recipients of this operational assistance can be government institutions

(such as public schools) as well as non-government institutions (such as private foundations or community organizations).

Previous Researches

In the private sector, Rehman & Hashim (2020) examined the relationship between FRA and good corporate governance in companies listed on the Muscat Stock Market in the Sultanate of Oman. This study employed a quantitative method with a descriptive cross-sectional survey design, and the data were analyzed using PLS-SEM. The results concluded that FRA has a significant direct impact on good corporate governance. The adoption and implementation of FRA help achieve good corporate governance. Furthermore, according to Julian et al. (2021), the quality of FRA depends not only on management support but is also greatly influenced by the backing of senior executives within the company

Research discussing the implementation of FRM and FRA in the public sector, particularly in the process of government assistance distribution, is still relatively limited. In the public sector, Alfatah & Tobing (2020) identified potential fraud scheme risks, evaluated risk controls, and discussed anti-fraud strategies using a case study at the Directorate General of Taxes (DJP) in Indonesia. This study expands on previous literature by providing evidence that fraud can be prevented by increasing the likelihood of detecting fraud schemes.

Then, Wibowo & Tobing (2021) conducted a study at Government Institution XYZ. This research aimed to carry out a fraud risk assessment to identify, analyze, evaluate, and determine appropriate anti-fraud strategies for various potential fraud risk scenarios at Government Institution XYZ. The study was conducted qualitatively using a case study approach. Data were collected through document analysis, questionnaires, interviews, and Focused Group Discussions (FGD). Based on the FRA results, thirteen fraud risk scenarios were identified that the organization needs to anticipate. Consequently, several anti-fraud strategies need to be implemented to reduce fraud risks, including preventive, detective, and responsive strategies by optimizing existing anti-fraud measures and other relevant anti-fraud strategies.

Additionally, Sidabutar & Julian (2024) described the implementation of existing fraud prevention strategies within an entity and evaluated them based on the principles of Fraud Risk Management by COSO in 2023. This study is a case study with an evaluative approach that presents an analysis of data from interviews and questionnaires, as well as documentation such as internal regulations and the entity's risk management reports. The results of the study indicate that the principles of Fraud Risk Management have been implemented quite adequately. However, the existing fraud prevention strategies within the entity have not been effective because there is no specific focus on addressing fraud risks.

METHODS

The research approach used is qualitative with a case study method. According to Wahyuni (2019), qualitative research is an approach used to understand social, psychological, or cultural phenomena from the perspective of the subjects involved. The case study method is employed to conduct an in-depth analysis of a phenomenon or issue occurring within a specific context, with the aim of gaining a broader and more detailed understanding of that phenomenon. According to Ellet (2018), a case is a situation or event selected for thorough analysis in research or learning. Furthermore, Stake (2000), states that case study research requires systematic and organized mechanisms for data collection and processing. The primary focus of case study research is on a specific topic, event, or phenomenon, with clearly defined boundaries.

The types of data used in this study include primary and secondary data. Primary data are obtained directly through various data collection techniques, while secondary data are sourced from relevant written documents. The primary data in this research consist of: (1) fraud schemes and scenarios; and (2) types of internal controls designed and implemented by the organization.

Meanwhile, the secondary data used include: (1) organizational risk profiles; (2) standard operating procedures (SOP)/technical guidelines for assistance; (3) supervision results from the Inspectorate General and audit findings from the Audit Board of Indonesia (BPK); and (4) information obtained from literature, previous studies, regulations, policies, and guidelines related to the research subject. This secondary data is used to complement, deepen, and clarify the analysis results derived from the primary data.

The objective of this study is to identify potential fraud schemes/scenarios that may occur in the government assistance distribution process and to apply FRA to these possible fraud risk scenarios. The research utilizes instruments such as document analysis, questionnaires, and interviews to gather the necessary data to achieve the study's objectives. The research stages following these instruments are carried out sequentially, beginning with document analysis, followed by further exploration through questionnaires and interviews.

According to Bowen (2009), document analysis is a qualitative data collection method that involves a systematic examination of documents relevant to the research topic. These documents can include reports, records, archives, or other written materials that provide pertinent information to address the research questions. In this study, the documents analyzed include: (1) the organization's risk profile; (2) standard operating procedures (SOP)/technical guidelines for assistance; (3) audit reports from the Inspectorate General, audit reports from BPK, and monitoring reports from ICW.

The questionnaire is one of the research instruments used to collect data related to the research objectives regarding potential fraud scenarios and the effectiveness of internal controls in mitigation efforts. Additionally, the questionnaire is used to gather information about the general condition of the organization. The questionnaire consists of several questions adapted from the ACFE FRA Tool Module, presented in a "yes/no" question format. It is designed to explore information about the organization's general condition, control environment, and certain factors that may trigger fraud and indicate red flags. The number of respondents in this study was 44, each being an operational assistance manager from the ABC government institution across 15 provinces and 29 regencies/cities.

This study used semi-structured interviews, which are typically employed to explore information more deeply. In this approach, the researcher has a list of questions as a guide but still allows the interviewees to provide broader or more detailed responses. In line with Creswell & Creswell (2018), semi-structured interviews involve the researcher using an interview guide with predetermined questions or topics, while maintaining flexibility to further explore the interviewees' answers. In this study, interviews were conducted with 13 respondents, consisting of operational assistance managers at the central level, internal auditors, and officials from the Inspectorate General of the ABC government institution.

This study applied the content analysis method. The first step was to formulate the research objectives and determine actions aligned with those objectives. Next, the unit of analysis was established, which could be sentences or paragraphs, themes, words or phrases, audit findings, or their recommendations. After defining the unit of analysis, a category scheme was developed based on the classification in the fraud tree, namely corruption, asset misappropriation, and financial statement fraud. The next step was to assign codes to each category. These codes consisted of operational definitions intended to ensure consistency in the developed categories.

Coding was conducted using the definitions classified by ACFE. After the coding process, data interpretation was performed to understand the meaning behind the analyzed content. Finally, conclusions were drawn based on the patterns and findings emerging from the data and linked to the research objectives.

RESULTS AND DISCUSSION

Based on the document analysis results, several fraud scenarios potentially occurring in the operational assistance distribution process were identified. The analysis revealed that the fraud schemes the organization should be vigilant about are corruption, asset misappropriation, and financial statement fraud. The analysis successfully identified seven fraud scenarios related to the operational assistance distribution process across these three fraud schemes. Additionally, the document analysis uncovered various forms of internal controls that have been implemented and applied by the organization. Following the document analysis, the researcher conducted further data collection through questionnaires and interviews.

Google Forms was used to facilitate the distribution and collection of questionnaire data. Based on the questionnaire results, the fraud schemes with the most significant likelihood, in order, are financial statement fraud, corruption, and asset misappropriation. Consistent with the findings from the document analysis and questionnaires, the interview results also indicated that the potential fraud schemes are corruption, asset misappropriation, and financial statement fraud, as classified by ACFE in the fraud tree. The fraud scenarios identified also align with those found in the document analysis. The possible fraud scenarios derived from the document analysis, questionnaires, and interviews are presented in Table 1 below.

Table 1. Fraud Risk Scenarios List

No	Scheme	Risk Code	Scenario
1	Corruption	FR1	Recipients of assistance funds do not meet the eligibility criteria and are not appropriately targeted
		FR2	Demands for a certain amount of compensation as a requirement for disbursement or administrative processing of assistance funds
		FR3	Deductions from assistance funds under the pretext of administrative fees
		FR4	Conditioning the use of specific vendors for the procurement of goods and services
2	Asset Misappropriation	FR5	Manipulation of recipient data for assistance funds
3	Financial Statement Fraud	FR6	Incomplete or inaccurate disbursement documents that nevertheless pass the verification stage
		FR7	Submission of fictitious reports or manipulated evidence for subsequent disbursement stages

Source: Data Processed, 2025

The ABC government institution only has a general risk management guideline regulated by a ministerial decree concerning the implementation of SPIP. However, the agency does not yet have a specific guideline related to the implementation of fraud risk management. This aligns with the findings of Sidabutar & Julian (2024), which state that fraud risk identification and assessment are still integrated into the general risk management program within the entity, resulting in a lack of focused attention on fraud risk. Nevertheless, the FRA published by COSO and ACFE in 2023, along with the risk management implementation guidelines applicable to the ABC government agency in 2023, were adapted for use in this study. According to COSO & ACFE (2023) FRA consists of several steps.

Forming the FRA Team

According to Ostrom & Wilhelmsen (2019), data plays a crucial role in risk assessment. Before conducting a risk assessment, management must identify the risk assessment team. This team should include individuals from across the organization with diverse knowledge, skills, and perspectives, and must comprise a combination of resources. According to ACFE, the implementation of FRA should be carried out by a team consisting of various elements and management levels because fraud risks can arise at different levels and business processes within the organization. A good risk assessment requires input from multiple sources. Therefore, to meet this requirement, all respondents and informants involved in this study represent managerial elements, as well as the second and third lines of defense within the organization's internal control system structure.

Identifying Inherent Fraud Risks

Based on the results of document analysis, questionnaires, and interviews, there are three inherent fraud risk schemes identified in the operational grant disbursement process: financial statement fraud, corruption, and asset misappropriation. Within these three schemes, seven potential fraud risk scenarios may occur during the disbursement of operational grants, including the following (1) Recipients of assistance funds do not meet the eligibility criteria and are not appropriately targeted (FR1); (2) Demands for a certain amount of compensation as a requirement for disbursement or administrative processing of assistance funds (FR2); (3) Deductions from assistance funds under the pretext of administrative fees (FR3); (4) Conditioning the use of specific vendors for the procurement of goods and services (FR4); (5) Manipulation of recipient data for assistance funds (FR5); (6) Incomplete or inaccurate disbursement documents that nevertheless pass the verification stage (FR6); and (7) Submission of fictitious reports or manipulated evidence for subsequent disbursement stages (FR7).

Assessing the Likelihood and Impact of Fraud Risk Scenarios

According to COSO & ACFE (2023), management's assessment of the likelihood of fraud risk is based on specific instances of past fraud within the organization, the prevalence of fraud risks in the organization's industry, and other contributing factors. These factors include the number of individual transactions, the complexity of the risk, the number of individuals involved in reviewing or approving processes, and the results of prior audits. This study adopts the criteria proposed by COSO and ACFE to assess the likelihood of fraud risk scenarios, primarily based on past fraud incidents. The assessment was conducted through document analysis, including audit reports from the Inspectorate General and BPK over the past six years, as well as monitoring reports from ICW.

In addition to adopting COSO and ACFE, the criteria for assessing the likelihood and impact of fraud risk scenarios also refer to the risk management implementation guidelines established by the ABC government institution. The criteria used include the low tolerance event category, which applies to events with low or zero tolerance and very low frequency, typically occurring less than once a year within a single work unit. Examples include corruption, economic/financial crises, fatal workplace accidents, natural disasters, and building fires to assess the impact of these scenarios, the criteria are based on financial losses or state losses, as outlined in the risk management implementation guidelines of the ABC government institution.

Assessing the Level of Inherent Fraud Risk

Based on the established criteria for the likelihood and impact levels of fraud risk scenarios, the next step is to assess the likelihood and impact of each fraud risk scenario. The results of the assessment of the likelihood and impact of the identified fraud risk scenarios are presented in Table 2.

Table 2. Likelihood and Impact of Fraud Risk Scenarios

Risk Code	Scenario	Likelihood	Impact
FR1	Recipients of assistance funds do not meet the eligibility criteria and are not appropriately targeted	Likely (4)	Moderate (3)
FR2	Demands for a certain amount of compensation as a requirement for disbursement or administrative processing of assistance funds	Rare (1)	Moderate (3)
FR3	Deductions from assistance funds under the pretext of administrative fees	Rare (1)	Moderate (3)
FR4	Conditioning the use of specific vendors for the procurement of goods and services	Rare (1)	Moderate (3)
FR5	Manipulation of recipient data for assistance funds	Rare (1)	Moderate (3)
FR6	Incomplete or inaccurate disbursement documents that nevertheless pass the verification stage	Almost Certain (5)	Severe (5)
FR7	Submission of fictitious reports or manipulated evidence for subsequent disbursement stages	Almost Certain (5)	Severe (5)

Source: Data Processed, 2025

Based on the results of the assessment of the likelihood and impact of the fraud risk scenarios, the next step is to map the level of vulnerability to inherent fraud risk for each scenario. The results of the assessment of the vulnerability to inherent fraud risk are presented in Table 3.

Table 3. Vulnerability Level of Inherent Fraud Risk Scenario

Inherent Fraud Risk Matrix			Impact				
			1	2	3	4	5
			Insignificant	Minor	Moderate	Significant	Severe
Likelihood	5	Almost Certain					FR6, FR7
	4	Likely			FR1		
	3	Possible					

Inherent Fraud Risk			Impact				
	2	Unlikely					
	1	Rare			FR2, FR3, FR4, FR5		
			Very High	High	Medium	Low	Very Low

Source: Data Processed, 2025

The organization's risk appetite is formally documented by the ABC government institution and is stated in a ministerial decree. According to the decree, the organization's risk appetite is at a very low to low level. Therefore, in Table 3, there are three fraud scenarios that exceed the organization's risk appetite: two risks at a very high level (FR6 and FR7) and one risk at a moderate level (FR1).

Evaluating the Effectiveness of Internal Controls

The evaluation of internal control effectiveness is conducted to determine: (1) whether each fraud scenario has an adequately designed internal control; and (2) whether the internal controls have been implemented as designed. The researcher analyzed technical guidelines/Standard Operating Procedures (SOP) related to the assistance program, SPIP (Government Internal Control System) documents, audit reports from the Inspectorate General, and audit findings from BPK. This analysis was further supported by information gathered through questionnaires and interviews with the assistance management team and internal auditors. The evaluation of internal control effectiveness refers to the criteria used by Wibowo & Tobing (2021), which categorizes the results into three conclusions: (1) ineffective, (2) less effective, and (3) effective. Internal control is categorized as ineffective if no internal control design exists or if a design is present but has never been implemented. It is considered less effective if the internal control design exists but fails to promptly prevent or detect fraud risks, or if it can prevent and detect fraud but is not consistently applied by the organization. Lastly, internal control is deemed effective if both the design and implementation are capable of promptly preventing and detecting fraud risks. The ABC government institution has implemented internal controls to reduce the level of risk to align with the organization's risk appetite, which is categorized as low and very low. However, the majority of the internal controls implemented have been found to be less effective, as shown in Table 4.

Table 4. Evaluation of Internal Control Effectiveness

Risk Code	Scenario	Internal Control	Conclusion
FR1	Recipients of assistance funds do not meet the eligibility criteria and are not appropriately targeted	<ul style="list-style-type: none"> - Technical Guidelines (Juknis) - Monitoring by the assistance management team to detect any errors or irregularities - Review of verification results by authorized officials based on the work conducted by staff or implementers 	Less Effective

Risk Code	Scenario	Internal Control	Conclusion
FR2	Demands for a certain amount of compensation as a requirement for disbursement or administrative processing of assistance funds	Inherent supervision by the leadership of each agency over their subordinates to identify potential errors or misconduct	Less Effective
FR3	Deductions from assistance funds under the pretext of administrative fees	Inherent supervision by the leadership of each agency over their subordinates to identify potential errors or misconduct	Less Effective
FR4	Conditioning the use of specific vendors for the procurement of goods and services	Inherent supervision by the leadership of each agency over their subordinates to identify potential errors or misconduct	Less Effective
FR5	Manipulation of recipient data for assistance funds	Implementation of verification processes using reliable information technology systems	Effective
FR6	Incomplete or inaccurate disbursement documents that nevertheless pass the verification stage	<ul style="list-style-type: none"> - Inherent supervision by the leadership of each agency over their subordinates to identify potential errors or misconduct - Monitoring by the assistance management team to detect any errors or irregularities - Review of verification results by authorized officials based on the work conducted by staff or implementers 	Less Effective
FR7	Submission of fictitious reports or manipulated evidence for subsequent disbursement stages	<ul style="list-style-type: none"> - Inherent supervision by the leadership of each agency over their subordinates to identify potential errors or misconduct - Monitoring by the assistance management team to detect any errors or irregularities - Review of verification results by authorized officials based on the work conducted by staff or implementers 	Less Effective

Source: Data Processed, 2025

Assessing the Level of Residual Fraud Risk

The level of residual fraud risk is assessed by taking into account the inherent fraud risk level and the effectiveness of the existing internal controls. This assessment process refers to the risk management implementation guidelines established by the ABC government institution. According to these guidelines, residual risk is classified based on the level and magnitude of the risk as presented in a risk map. The ABC government institution has a formally defined risk appetite at the very low and low levels. Therefore, any risks that remain above the organization's risk appetite require attention and should be prioritized. This can be achieved by developing and implementing additional control measures or strengthening existing controls to reduce the risk level to align with or fall below the organization's risk appetite. The assessment of residual fraud risk levels is presented in Table 5.

Table 5. Vulnerability Level of Residual Fraud Risk Scenario

Inherent Fraud Risk Matrix			Impact				
			1	2	3	4	5
			Insignificant	Minor	Moderate	Significant	Severe
Likelihood	5	Almost Certain					FR6, FR7
	4	Likely			FR1		FR6', FR7'
	3	Possible			FR1'		
	2	Unlikely					
	1	Rare		FR5'	FR2, FR3, FR4, FR5 FR2', FR3', FR4'		

Source: Data Processed, 2025

Based on Table 5, there are still three fraud scenarios that exceed the organization's risk appetite, despite the implementation of control measures. These include two risks at a very high level (FR6 and FR7) and one risk at a moderate level (FR1). As stated by the IIA in the Global Internal Audit Standards (2024), organizations need to establish and implement an effective

internal control system to mitigate fraud risks. In line with this, Kesuma & Fachruzzaman (2024) emphasize that strengthening communication and information systems within internal controls is essential to prevent potential fraud. Furthermore, Saut et al. (2025) highlight that opportunities for fraud tend to arise in the presence of weak oversight systems, a lack of transparency, and inadequate internal control mechanisms.

CONCLUSION

The implementation of the Fraud Risk Assessment (FRA) successfully produced a comprehensive fraud risk profile, which includes the identification of fraud schemes and scenarios, an assessment of the effectiveness of existing controls, and an evaluation of both inherent and residual fraud risks in the process of distributing government assistance within the ABC government institution.

Three main fraud schemes were identified: corruption, asset misappropriation, and financial statement fraud. Across these three schemes, seven fraud scenarios were identified—two with a very high level of risk, one with a moderate level of risk, three with a low level of risk, and one with a very low level of risk. This information provides the organization with a foundation to establish risk management priorities, particularly for the scenarios categorized as very high risk, which require immediate response. Furthermore, these findings highlight the importance of developing and implementing effective internal control systems to minimize the likelihood of fraud in the future.

Based on these findings, it is recommended that future research expand the scope of the study to include multiple government institutions, rather than being limited to a single institution. This would provide a more comprehensive understanding of the fraud risk profile in the distribution of government assistance. In addition, future studies could develop more quantitative methods for assessing the effectiveness of internal controls and explore organizational factors, work culture, and governance practices that influence the level of fraud risk.

LIMITATION

This study is focused on the ABC government institution, making it a case study in nature. While this approach allows for an in-depth analysis of a specific context, its limitation lies in the scope of generalizability. The findings of this study cannot be directly generalized to other government institutions without further validation. This is due to potential differences in institutional contexts, business processes, and organizational cultures across various government institutions.

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