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## Article

The moderating role of natural resources between fiscal decentralization, government internal audit, law enforcement and corruption: Evidence from Indonesian local government

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# The Moderating Role of Natural Resources Between Fiscal Decentralization, Government Internal Audit, Law Enforcement and Corruption: Evidence from Indonesian Local Government

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## ABSTRACT

This research is a quantitative study which aims to examine the level of corruption in the Indonesian local government with its influencing determinants, namely fiscal decentralization, government internal audit, and law enforcement and natural resources as moderating variables. The population in this study is the district and city governments in Indonesia. The sample in this study consisted of 81 district governments and 33 city governments based on the purposive sampling method with the criteria of district and city governments having permanent legal force corruption cases in 2019. Testing the hypothesis in this study using Moderated Regression Analysis (MRA) with the SPSS Version 24 program. The results showed that fiscal decentralization had a significant effect on the level of corruption, government internal audit and law enforcement had no significant effect on the level of corruption, natural resources had a significant effect on moderating the effect of fiscal decentralization on the level of corruption. This research was conducted to examine and analyze the factors that can influence the level of corruption in local governments. In addition, with this research, it can be seen how local governments carry out their government affairs and the role of local governments in suppressing the level of corruption.

**KEY WORDS:** fiscal decentralization, government internal audit, law enforcement, natural resources, and levels of corruption.

**JEL Classification:** D73, H83, K20, O10.

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## 1. Introduction

Corruption is considered a "disease" because it is basically an act of fraud and of course it is detrimental, especially if it is carried out in government circles that involve the interests of many people. Ibrahim et al. (2018) stated that acts of corruption

in Indonesia have become a social disease or in the bureaucracy it is known as social pathology. These corrupt practices in government circles can lead to a decline in government performance in resource management, a decrease in state revenue from the taxation sector, distortions in public spending, and a decrease in the quality of public infrastructure

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(Ariva & Ermawati, 2020). This is because the deviation from public funds has reduced the state's ability to provide benefits to society, such as education, environmental protection, research and development. (Ibrahim et. al, 2018).

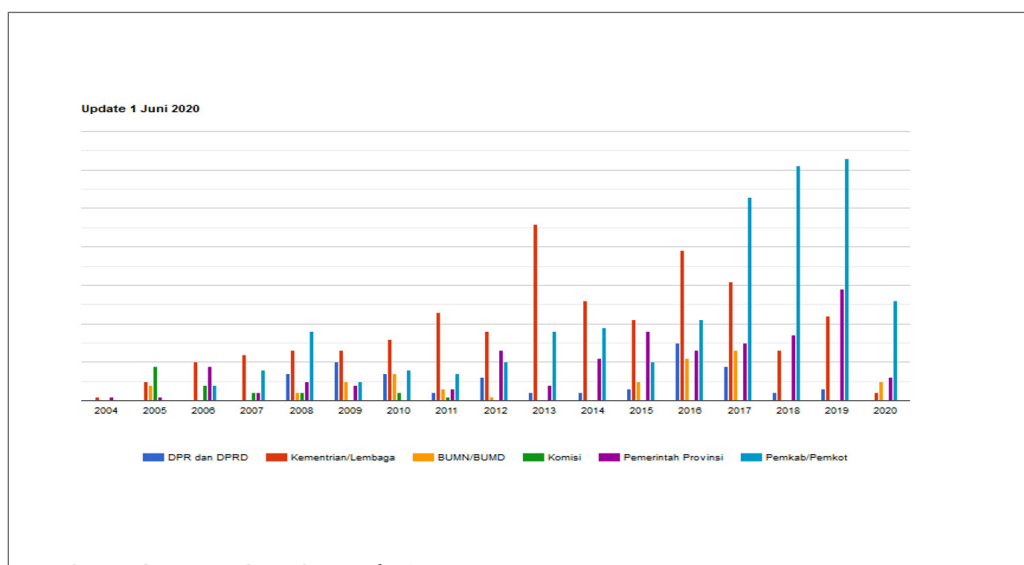
According to the corruption perception index data in 2019 released by Transparency International Indonesia (TII), Indonesia experienced an increase in the corruption perception index score at 40, bringing Indonesia from 89 to 85. This proves that the government's efforts to eradicate corruption shows positive results. Suyatmiko, as Manager of the TII Research Department, stated that this increase was triggered by four data sources, including the Political Risk Service, the IMD World Competitiveness Yearbook, Political and Economy Risk Consultancy, and the World Justice Project - Rule of Law Index. Suyatmiko also explained that there was the biggest increase from the previous year, which was worth 10 points from the IMD World Competitiveness Yearbook.

However, there is a recapitulation of corruption based on agencies and the results of monitoring conducted by the Indonesian Corruption Watch

(ICW) which illustrates that the level of corruption that occurs in Indonesia is still high, especially in the district / city government (KPK, 2020). This statement is supported by the data shown in the graph below. This phenomenon shows that behind the increase in scores achieved by Indonesia, there are still problems in handling the level of corruption itself. This indicates that corruption is still a major problem for the Indonesian nation.

There are several factors that are indicated to influence the level of corruption in Indonesian local governments. The first factor is fiscal decentralization. Since Law No. 32 of 2004 was enacted, there have been changes in government governance from centralized to decentralized. The existence of this decentralization resulted in the central government having to give up financial resources to help finance regional government development (Aswar & Surbakti, 2013). On the other hand, this regional autonomy also poses its own obstacles in the administration of regional finances so that it is prone to corruption (Kiswanto et al., 2019). It is evident that the problem of corruption in Indonesia is increasing after the government reform (Rahmatika, 2016).

**Figure 1**  
*Level of Corruption in the Indonesian Government*



The increase in the problem of corruption is also supported by the existence of discretionary powers that arise as a result of decentralization (Dong & Torgler, 2013).

In addition, the government's internal audit is also a factor that can affect the level of corruption in Indonesian local governments. Monitoring the operation of public power, especially how it performs in the use of public resources, government internal audit can increase accountability and reduce abuse of power and resources (Liu & Lin, 2012). If the government's internal audit can be carried out and used properly, the chance of corruption should be minimized because the government's internal audit can quickly check and detect if there are irregularities in the government's performance mechanism.

The next factor that can influence the level of corruption in Indonesian local governments is law enforcement. Law enforcement, regional financial management mechanisms carried out by local governments will become transparent in accordance with the interests of the community (Kurrohman et al., 2017). Law No. 20 of 2001 or commonly known as the Anti-Corruption Law is a form of law enforcement in eradicating and following up acts of corruption in Indonesia. Therefore, this Anti-Corruption Law needs to be drafted and updated to become more detailed on a regular basis so as to ensure that there are no loopholes in the Law that potential violators can use to optimize and even commit acts of corruption (Mai, 2020). The results by Fernandes and Meyer (2018) state that law enforcement has no significant effect on the level of corruption fraud. However, Kurrohman et al. (2017) and Mai (2020) give the results that law enforcement has a significant influence on the occurrence of corruption.

Ariva and Ermawati (2020) on the level of corruption in Indonesia's local government and Ulum et al. (2019) who examined the role of natural resources and fiscal decentralization on corruption in Indonesia became a reference in this study. Carrying out further development, decided to conduct research with several differences. This difference, among others, is by adding the internal government audit and law enforcement variables sug-

gested by Ariva and Ermawati (2020) and natural resources as a moderating variable adopted from the research of Ulum et al. (2019).

This research was conducted to examine and analyze the factors that can influence the level of corruption that occurs in local governments. In addition, with this research, it can be seen how local governments carry out their government affairs and the role of local governments in suppressing the level of corruption.

## 2. Literature Review

### 2.1. Theoretical Perspective

Agency theory is a theory that describes organizational behavior by emphasizing the existence and relationship between the principal, namely the owner and the agent, namely the manager (Zogning, 2017). Agency relationship in this theory can be defined as a contract made by one or more people as a principal to employ other people as agents who will perform services on their behalf and give the agent the authority to make decisions (Jensen & Meckling, 1976). The existence of this contract is the background for the emergence of this theory because the principals and agents in the company or organization have different risk tolerances and different actions. In this case, the principal, or owner, is the party who invests capital and takes risks in order to gain economic rewards, whereas the agent, or manager, is the party who does not want to take chances and is solely concerned with his own personal interests. This has illustrated that there are different risk preferences which ultimately lead to agency conflicts (Panda & Leepsa, 2017).

Therefore, Panda and Leepsa (2017) also concluded that this theory is used to assist in the application of various corporate or organizational governance mechanisms as monitoring and supervisory agency actions in the company or joint organization. In supervising the agent's actions, it is certain that the principal requires a fee known as agency fee. This agency fee will also help the principal to ensure that the agent has made decisions that are in the interests of the principal (Zogning, 2017).

## 2.2. Corruption

According to Ibranke (2019), corruption is defined as an act of dishonesty committed by someone at the upper management level who collects wealth to him through bribery, embezzlement, fraud, collusion, extortion, and nepotism. Corruption is an action that has a negative impact and is considered an obstacle to sustainable development, causing inefficiency, inadequate incentives for economic investment which ultimately hinders the population from seeking the common good (Fernandes & Meyer, 2018). Therefore, corrupt behavior is a problem that must be overcome because it is considered as behavior that always prioritizes personal gain and ignores the interests of many people. The United Nations (UN) recognizes that corruption is a major global problem and has made corruption eradication one of the seventeen sustainable development goals (Assakaf et al., 2018). Especially for developing countries whose economies are not yet stable, it is likely that they have low CPI scores, which means that the level of corruption in the country is high.

Chalil (2020), Changwony and Paterson (2019) and Capasso, Goel and Saunoris (2019) conducted cross-country research related to the level of corruption using the perception of corruption index (CPI). Meanwhile, according to Alfada (2019) and Nurhasanah (2016), to measure the level of corruption at the provincial level is the number of corruption cases investigated by the KPK which are normalized by the provincial population in millions.

## 2.3. Hypothesis Development

### 2.3.1. Fiscal decentralization and the level of corruption

Decentralization is the handover of government affairs from the central or regional government at the top level to the regions to become their own household affairs (Aswar & Surbakti, 2013). District and city local governments are considered to be the right levels in managing and managing the resources submitted by the central government (Ulum et al. 2019). In this case, local governments must perform better in terms of governance to achieve progressive economic growth (Chalil, 2020). In the implementation of decentralization, the central government gives authority

to local governments to manage and administer and make their own decisions for the benefit of their regions. However, discretionary powers were given over the implementation of decentralization so that local officials could establish and implement many regulations related to the distribution of resources which led to a higher incidence of corruption (Dong & Torgler, 2013). This statement is supported by Ghimire (2018) that decentralization leads to more corruption because local officials have more power and are more likely to submit to pressing demands from local interest groups.

H1: Fiscal decentralization has a significant effect on the level of corruption

### 2.3.2. Government internal audit and the level of corruption

Based on the Institute of Internal Auditing (2017), internal audit is defined as an activity to evaluate and improve the effectiveness of risk management, control and governance processes which are carried out independently and objectively and through a systematic and orderly approach so as to provide added value and improve the operation of an organization. If the results of the audit conducted prove that there are fake and incomplete accounts, it can be interpreted that there are signs of corruption. This is what is called the internal audit can detect corrupt practices. The more effective the internal audit function is, the lower the level of corruption in various institutions (Asiedu & Deffor, 2017). According to Liu and Lin (2012), government internal audit will make adequate efforts to correct misappropriation in government resource management by ensuring that all audit decisions and suggestions are fully carried out so that they can serve as a strong deterrent against corruption. It can be said that this audit is used as a monitoring tool used by principals in detecting irregular behavior by agents (Rosyadi & Budding, 2017). Avis et. al (2018) in his research, it proved that by increasing the likelihood of auditing it would greatly reduce acts of corruption. Audits can be a useful policy tool for increasing judicial penalty as well as promoting government accountability.

H2: Government internal audit has a significant effect on the level of corruption

### 2.3.3. Law enforcement and the level of corruption

According to Capasso et. al (2019), law enforcement is a description of the “direct means” or “visible tools” that are applied to prevent and control deviant actions and behavior that a person wants to do, one of which is corruption. This law enforcement is considered as the right step taken by the organization to oversee the performance of the managers in realizing the common interest. This is because the existence of law enforcement should be able to make people who have the intention of breaking the law feel afraid to do so, including if there is the possibility of engaging in corrupt practices (Choi, 2011; Mai, 2020). When the government can ensure an efficient judicial system for its people, the better it will control corruption (Moene & Søreide, 2016). Power and enhanced enforcement, as well as changes in laws and regulations, are critical components that can help eliminate or at least reduce corruption (Fernandes & Meyer, 2018). The more likely the government is to ensure an efficient justice system including prosecutors with the necessary competence to combat crime without risking interference from the executive branch of government, the better corruption control will be (Moene & Søreide, 2016). Strengthening the legal system coupled with reducing discretionary actions against local governments are important anti-corruption measures to take (Montes & Luna, 2020).

H3: Law enforcement has a significant effect on the level of corruption

### 2.3.4. Moderate effect of natural resources in influence fiscal decentralization

This research uses natural resources as a moderating variable. Indonesia is a country that has 34 provinces with different governmental conditions, rich natural resources and economic structures. Under these conditions, the government has made various efforts to be able to take advantage of its resources (Ulum et. Al., 2019). But in fact, the resource sector and the state of the regions that are rich in resources are very vulnerable to acts of corruption (Zhan, 2017). According to Ulum et. al

(2019), the abundance of natural resources is utilized by local officials to attract resource tenants to collaborate which can lead to massive acts of corruption. Abundance or it can be said that dependence on natural resources is likely to result in low-quality institutions that can lead to irregularities (Dong et al. 2019). This is because local officials are entrusted with powers including to allocate rights to natural resources as a result of fiscal decentralization, especially since there is no effective secondary market for transactions on these rights (Zhan, 2017). So that in practice, local officials can illegally make and assign permits for activities related to natural resources in order to get rewards in the form of bribes for the profits generated from these activities.

H4: Natural resources has significant effect in influence of fiscal decentralization on the level of corruption

## 3. Research Methodology

The population is Indonesia's 416 district governments and 98 city administrations. District/city governments were chosen based on study findings that identified district/city governments as the government agencies in Indonesia with the greatest levels of corruption cases. In addition, fiscal decentralization system in Indonesia, district and city governments are the lowest levels of government. Furthermore, this study used purposive sampling approaches to collect data for fiscal year 2019. Data was gathered via official website publications and electronic correspondence with appropriate entities. The data collected consisting of Regional Government Financial Statements (LKPD), recapitulation of BPKP's audit findings, District Court Decisions Data, Population Data, and Gross Regional Domestic Product (GRDP) Data.

This study employs a causal research approach. Causal methods are used to determine the effect of fiscal decentralization, government internal audit, law enforcement and natural resources on the level of corruption in Indonesian local governments. Each research variable has its own set of measurements that have been adapted from past study. Measurement of research variables are listed in Table 1.

**Table 1***Operational Measurements*

<b>Variable</b>	<b>Measurement</b>	<b>Source</b>
Corruption Level	The number of corruption cases with permanent legal force divided by the total population per 10,000	Liu and Lin (2012)
Fiscal decentralization	The proportion of overall expenditures by regional governments to total expenditures by the central government.	Changwony and Paterson (2019)
Government Internal Audit	The number of audit findings discovered by internal auditors during the audit process, as reported in BPKP's summary of investigative audit results.	Nurhasanah (2016)
Law enforcement	Percentage of adults convicted per suspect for all offenses	Capasso et al. (2019)
Natural Resources	Total value of a district / city Gross Regional Domestic Product	Bhattacharyya and Hodler (2010), Zhan (2017) and Ulum et al. (2019)

**Table 2***Final Samples*

<b>Criteria</b>	<b>Total</b>
Population	514
Governments in districts and cities that do not have a legally enforceable corruption lawsuit based on a district court judgement from 2019	(344)
For fiscal year 2019, district / municipal governments do not have complete data for all variables.	(5)
Samples before being exposed to outliers	165
Samples affected by outliers	(51)
Final Samples	114

The used an outlier technique to generate consistent research data after screening the research data population as indicated in Table 2. Outliers were done using data standardization in SPSS software that will change the data of independent and dependent variables used in this research into a Z-Score form (Basuki & Yuliadi, 2015). The results of Z-Score value, it was found that data were affected by outliers then manually discarded because the data was too extreme to be used. 35 district administrations and 16 city governments were among the samples affected by the outliers. After the outlier, the final sample consisted of 81 district a and 33 city governments. Following that, using the Statistical Package for Social Sciences (SPSS) tool, ran a series of data analyses and hypothesis tests. The final sample of the study is shown in Table 2.

## 4. Empirical Findings and Discussion

### 4.1. Statistic Descriptive

Based on the findings of the descriptive statistical analysis presented below, each variable has a maximum and minimum score which will describe the highest and lowest values held by the local government as a sample in this study for each tested variable. The standard deviation score for the level of corruption, fiscal decentralization, law enforcement, and natural resources is lower than the average score. Meanwhile, the standard deviation of the government internal audit is higher than the average score. In addition, the mean scores on the variables of the level of corruption, fiscal decentralization, law enforcement, and natural resources are close to the maximum score. Meanwhile, the mean score for

government internal audit is close to the minimum score. This illustrates that the local governments as the sample of this study have quite high levels of corruption, fiscal decentralization, law enforcement and natural resource conditions. However, the level of supervision by government internal audit is interpreted to be quite low.

#### 4.2. Classic Assumption Test

The classical assumption test was carried out in this study to ensure that the data collected and met the requirements in accordance with the regression model. This classical assumption test consists of normality test, heteroscedasticity test, and multicollinearity test. Normality test is used to perform statistical analysis using residual skewness and kurtosis score. If the Z calculated for skewness or kurtosis exceeds the specified critical value, then the distribution is considered abnormal in terms of that characteristic. These critical values are derived from the Z distribution (table Z) and the most commonly used

are  $\pm 2.58$  for the 0.01 level of significance and  $\pm 1.96$  for the 0.05 level of significance (Hair et. al, 2014). Therefore, in this study the data is said to be normally distributed if the residual skewness and kurtosis values show a number smaller than the Z table, namely 1.960. Based on the normality test with statistical analysis below, it is known that the calculated Zskewness score is 1.1681 or smaller than the Z table score, which is 1.960. Likewise, with the calculated Zkurtosis score of -1,459, where the score is smaller than the Z table score, which is 1,960. Therefore, the key data used in this study has passed the normality test. Normality test using statistical analysis gives the following test results (see Table 4).

Homoscedasticity occurs when the dependent variable shows the same level of variance across the range of independent variables (Hair et. al, 2014). To ascertain the symptom of homoscedasticity used scatterplots graphs. If the plots of research data are spread above and below the number 0 on the y-axis and do not form a certain pattern, it can be said that

**Table 3**  
*Statistic Descriptive*

	N	Minimum	Maximum	Mean	Std. Deviation
Corruption Level	114	0.00263	0.08251	0.0293567	0.01949179
Fiscal Decentralization	114	0.000331	0.003968	0.00092104	0.000601324
Government Internal Audit	114	0	1	0.10	0.297
Law enforcement	114	0.01	1.00	0.5538	0.36591
Natural resources	114	28.51	34.00	30,8398	1.12263

**Table 4**  
*Normality Test*

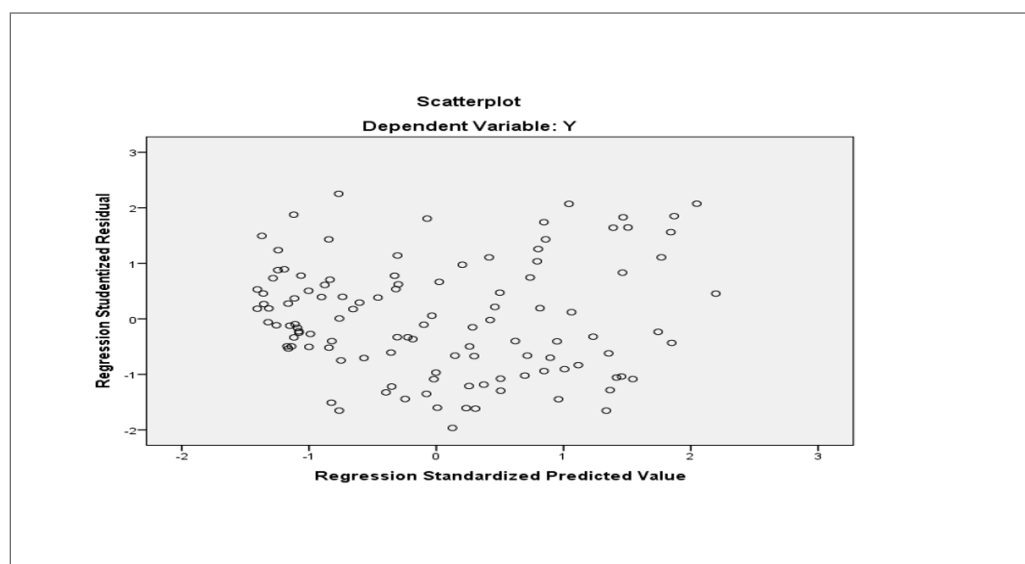
	N	Skewness		Kurtosis	
		Statistic	Std. Error	Statistic	Std. Error
Unstandardized Residual	114	.264	.226	-.655	.449
Valid N (listwise)	114				



the data is free from the symptom of homoscedasticity. Based on the results of the heteroscedasticity test, it shows that the plots on the scatterplot graph are spread above and below the number 0 on the Studentized Residual Regression axis and do not form a certain pattern. Thus, it can be concluded that the data used in this study did not have symptoms of homoscedasticity. The results of the heteroscedasticity test on the data of this study which were carried out using a scatterplot graph (see Figure 2).

Furthermore, symptoms of multicollinearity can be identified by looking at the tolerance score and VIF. The recommended limit for the tolerance score is 0.1 or equivalent to a VIF score of 10, which corresponds to a multiple correlation of 0.95 with other variables (Hair et. al, 2014, p. 200). Table 5 it can be concluded that the tolerance score is greater than or equal to 0.1 and the VIF score is less than or equal to 10, it can be concluded that the data does not have symptoms of multicollinearity. The results of the multicollinearity test are included in Table 5.

**Figure 2**  
*Scatterplots Graph*



**Table 5**  
*Multicollinearity Test*

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
Fiscal Decentralization	0.336	2.980
Government Internal Audit	0.987	1.014
Law enforcement	0.887	1.127
Natural resources	0.316	3.169
Final Samples	114	

### 4.3. R Square Test

R-Square is a description of the combined effect of independent variables on the dependent variable. This effect ranges from 0 to 1 with 1 representing complete predictive accuracy (Hair et. al, 2014). The R-Square is divided into three categories according to the prediction accuracy score, including weak 0.25; medium 0.5; and high 0.75. The results of the R-Square are included in Table 6.

The results of the R-Square test showed that the R-Square score was 0.821. The score illustrates that the combined effect of the variables of fiscal decentralization, government internal audit, law enforcement and natural resources x fiscal decentralization is 82.1% from 100% on the variable level of corruption. As for the score of 17.9% the rest is influenced by other variables outside the variables used in this study.

### 4.4. Hypothesis test

For each variable, coefficients can be obtained by regression analysis and by using an equation to predict the value of an independent variable. To assess if the proposed hypothesis was accepted or rejected,

the t test was used. Multiple linear regression methods were used to test hypotheses, yielding the results included in Table 7.

The hypothesis formed for fiscal decentralization is that there is a significant influence between fiscal decentralization on the level of corruption. This hypothesis is supported by findings of hypothesis testing conducted in this study, which shows that the level of significance is 0.00 or less than 0.05, which means H1 accepted. In addition, fiscal decentralization has a t-score of 11.331 which indicates that the influence exerted by this variable is in a positive direction. As a result, when the central government gives the delegation of government power or fiscal decentralization to a region, it will be an opportunity for the region to do corruption practices and causing an increase in the level of corruption. The assertion that fiscal decentralization has a major impact on corruption levels is consistent with agency theory, which assumes the existence of a contractual connection between the community as the principal and the government as the agent. The implementation of the fiscal decentralization policy gives responsibility to local governments to have more authority and

**Table 6**  
*R Square Test*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.906a	.821	.813	.00843290

**Table 7**  
*Results of Multiple Linear Regression*

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	-.401	.068		-5,871	.000
Fiscal Decentralization	45,753	4,038	1,411	11,331	.000
Government Internal Audit	-.002	.003	-.030	-.728	.468
Law enforcement	.000	.002	-.005	-.107	.915
Natural resources	.067	.006	3,836	11,657	.000
Natural Resources *	-.070	.005	-5,774	-14,111	.000
Fiscal Decentralization					

autonomy in the decision-making process which in turn provides a greater possibility of creating more opportunities for corruption that can threaten government accountability (Shon & Cho, 2019).

The hypothesis formed for the government internal audit is that there is a significant influence between government internal audit on the level of corruption. However, the results of the hypothesis testing carried out in this study do not support the hypothesis that has been formed because the results of the significance level are 0.47 or greater than 0.05, which means that the effect generated by government internal audit is not significant to the level of corruption or it can be said that there is no the influence between the government's internal audit and the level of corruption. In addition, government internal audit has a t-score of -0.728 which indicates that if there is an influence between government internal audit on the level of corruption, the resulting effect will be negative. Agency theory as the theory underlying this variable state that a government internal audit is a monitoring tool used by principals to monitor and detect deviant behavior by agents in carrying out their duties and responsibilities so that it can be a strong deterrent against corruption. However, this study provides the results that the existence of government internal audit has no influence on the level of corruption in local governments, which indicates that government internal audit is considered unable to carry out its role effectively. This can be caused by several factors, such as the inadequate number of auditors, fewer independent auditors, or the auditor's lack of knowledge and experience in carrying out audit assignments.

The hypothesis formed for law enforcement is that there is a significant influence between law enforcement on the level of corruption. However, the results of the hypothesis testing carried out in this study do not support this hypothesis because the findings of the significance level are 0.92 or greater than 0.05, which means that the effect generated by law enforcement on the level of corruption is insignificant or it can be said that there is no effect. in the relationship between law enforcement and the level of corruption. This law enforcement has a t-score of -0.107, which means that if there is an effect of law enforcement on the level of corruption, the result-

ing effect will be negative. Although the results of descriptive statistics from this study indicate that the law enforcement variable has a mean score of 0.5538 or greater than the standard deviation score is 0.36591 which illustrates that the data used in this study is homogeneous and does not cause the possibility of bias. Based on agency theory, it states that law enforcement is an effective step in monitoring the performance of managers in realizing the public interest. The state of a strong legal system will have a beneficial effect in reducing perceptions of corruption (Montes & Luna, 2020). However, according to Capasso et al. (2019), to see the effectiveness of law enforcement in eradicating corruption, it is not only possible to increase law enforcement actions. This is considered ineffective because the improvements made only cover one dimension, without any improvement in the institution (rule of law) and improvements in the quality of regulations.

The hypothesis formed for this variable is that there is a significant effect of natural resources as a moderating the relationship between fiscal decentralization and the level of corruption. This hypothesis is supported by the results of the hypothesis test conducted in this study which shows that the significance level is 0.00 or less than 0.05, which means that there is a significant influence on the natural resource as moderating fiscal decentralization in influencing the level of corruption. In addition, the natural resource as a moderating variable has a t-score of -14,111 which indicates that the effect is negative or it can be said that this natural resource weakens the effect of fiscal decentralization on the level of corruption. As a result, when a region is granted the delegation of government power or fiscal decentralization and accompanied by an increase in the condition of natural resources owned by a region, it will actually reduce the level of corruption that occurs in that area. Ulum et al. (2019) stated that natural resources can strengthen the effect of fiscal decentralization on the level of corruption. This is due to the agency theory in terms of devolving power to local governments to manage existing natural resources. Abundant natural resources will tend to be connected with decreasing economic progress, poor institutions, and undemocratic political systems (Dong et. Al, 2019). Meanwhile, the findings of this

study show that the impact of natural resources on the amount of corruption in local governments is weakened by fiscal decentralization.

## 5. Conclusion

The purpose of this study is to investigate the level of corruption in Indonesia's local government, as well as the elements that influence it, such as fiscal decentralization, government internal audit, law enforcement, and natural resources as moderating variables. After carrying out a series of processes, data analysis and hypothesis testing, it can be concluded as follows: (1) fiscal decentralization has a significant effect on the level of corruption. This study reveals that the level of power transfer imposed by the center to the regions is directly proportional to the high level of corruption in the government; (2) government internal audit does not have a significant effect on the corruption level. The existence of an internal government audit, according to this study, has no effect on the level of corruption in local governments; (3) law enforcement does not have a significant effect on the level of corruption. The existence of law enforcement does not have an effective effect on the amount of corruption in municipal governments, according to this study; (4) natural resources as a moderator of fiscal decentralization in influencing the level of corruption have a significant effect. This study reveals that the abundance of natural resources owned by a region can reduce the negative impact caused by the fiscal decentralization policy as a trigger for high levels of corruption.

Based on the description above, suggest the central government can better supervise the performance of local governments in carrying out the tasks and responsibilities given through the fiscal decentralization policy, and the regional governments themselves can take actions, both preventive, and coercive, that can prevent corruption in managing resources for the public interest. This study also hopes that Financial and Development Supervisory Board (BPKP) will be more optimal in conducting audits and other monitoring activities on the use of the state budget and national development programs carried out by local governments as a way to prevent and detect indications of corrupt practices. Legal institutions, both at the regional and national levels,

are expected to improve the quality of their institutions by strengthening the rule of law. improving the quality of laws and increasing the number of legal institutions that can follow up on criminal acts of corruption in every district capital in Indonesia. This research is expected to be information for evaluating legal action in Indonesia related to eradicating corruption cases and as additional information for the public in supervising the running of government to realize a democratic and free government from corruption practices. This study is also expected for further research to be able to examine the level of corruption in Indonesia by using data which states that the corruption case occurred in the year that is being studied so that the data really describes the level of corruption in that year and add the influence of political factors, characteristics of local government, human resources.

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