

Influence of Transformational Leadership Style, Internal Control System, and Government Internal Auditor (APIP) Capability Level on Fraud Prevention

Klara Indra Pratiwi^a, Dini Rosdini^b, Fury Khristianty Fitriyah^c,
^{a,b,c}Fakultas Ekonomi dan Bisnis Universitas Padjajaran Jl. Dipatiukur No 35
Bandung, Indonesia, Email: klaraindra@gmail.com,
dini.rosdini@unpad.ac.id, fury@unpad.ac.id

This study examined the effect of transformational leadership, internal control system, and government internal auditor (APIP) capability level on fraud prevention in local government in West Java, either partially or simultaneously. The population in this research are 28 local government bodies located in West Java, namely the West Java Provincial Government, 18 district governments and nine city governments. Variables of Transformational Leadership Style (X1) and Fraud Prevention (Y) were assessed using primary data through questionnaires. The questionnaire for the Transformational Leadership Style variable was the Head of the Office, and for Fraud Prevention was the financial department. The Internal Control System (X2) and the APIP Capability Level (X3) variables use secondary data. Data analysis was performed using a descriptive analysis, and hypothesis testing was performed using a multiple regression analysis through the SPSS program. The results showed that the transformational leadership style positively influences the prevention of fraud, where the better the transformational leadership style, the better the prevention of fraud is being applied. Meanwhile, the internal control system does not affect the prevention of fraud. This is because the level of maturity of SPIP is relatively low, so this device cannot be used to detect fraud prevention adequately. In relation to the APIP capability level, it partially has a positive effect on fraud prevention, where the higher the level of APIP capability, the better the prevention of fraud is being applied.

Keywords: *Transformational Leadership Style, Internal Control System, Government Internal Auditor (APIP) Capability Level, Fraud Prevention.*

Introduction

One of the ways to achieve a clean, effective, democratic, and trustworthy governance in accordance with the program of the Government Work Plan (RKP) of 2016, stated in Presidential Regulation No. 60 of 2015, is to improve the quality of accountability of State financial management. However, we still have some problems, including that there is still a great deal of fraud that occurs in the government environment. In the ranking of Corruption Perceptions Index (CPI) in 2015 issued by Transparency International (TI), Indonesia ranks 88th out of 168 countries as measured by a CPI score of 36. This ranking is still far below some of its neighbouring countries, such as Thailand, Malaysia and Singapore.

From the results of the examination conducted by BPK on 85 Financial Statements of State Ministries and Institutions (LKKL), including the State General Treasurer's Financial Report (LKBUN), it revealed that there are 833 issues of non-compliance with the provisions of legislation that have financial impacts worth Rp 16.075, 68 billion. Furthermore, the inspection has been followed up with the deposit to the State Treasury and/or asset delivery of Rp 140.81 billion. As for the audit of the Local Government Financial Report, BPK found 6,016 non-compliance issues that had financial impacts and consisted of problems that resulted in regional losses of Rp 1.17 trillion, potential regional losses of Rp 538.88 billion, and a shortfall of Rp 809.01 billion. On the issue of non-compliance, the Regional Government has made deposits of money to the Treasury of State or the region, or the delivery of assets amounting to Rp 281.16 billion. Based on KPK's annual report 2015 (www.kpk.go.id), corruption crime by agency and local government was ranked highest with a total of 28 cases. Meanwhile, regarding the corruption crimes based within the region, West Java was ranked second with as many as 44 cases, where the first rank is the central government. In other words, at the regional level, the area of West Java is ranked first in terms of the number of cases of corruption.

In 2015, Transparency International Indonesia conducted a Corruption Perception Survey in eleven cities spread across Indonesia. The results of the survey found that Bandung was ranked last with the lowest corruption perception index score of 39. Based on the phenomenon, the researchers chose local governments which exist in West Java as the unit of analysis of this study.

There are still many findings and cases of fraud that occur in the government, which means there are still many improvements that must be made by the government. According to



Albrecht et al. (2012), one of the ways to fight fraud is by preventing fraud. The prevention of fraud is an attempt to prevent the act before the fraud occurs. The usual ways are to create a culture of honesty, openness, and assistance, and reduce fraud opportunities. This is in line with what is expressed by the Chartered Institute of Management Accountants (CIMA), that there are two main elements that can be undertaken in preventing fraud, namely ethical culture and an internal control system.

Between these two factors, developing a culture of ethics and a work environment with a high degree of integrity within an organisation are the main actions that can prevent fraud (Sabau, Sendroiu, & Sgardea, 2013). Without the existence of an ethical culture, an internal control system will not function optimally. An organisation can develop an ethical culture beginning with the commitment of the leader of the organisation. A leader is responsible for developing an ethical culture within an organisation and is responsible for the success or failure of an organisation. As leaders, they have the authority and responsibility for making organisational policies and interactions with their employees, so leaders must play an important role in influencing ethical and unethical behaviour in their employees (Trevino & Brown, 2004). Tuannakota (2010) in his book, *Forensic Accounting and Investigative Audit*, states that the examples given by superiors have proven to be an important fraud prevention element.

There are various leadership theories and the latest theories about leadership are much influenced by James McGregor Burns. According to Burns, leadership is distinguished between transforming leadership with transactional leadership (Yukl, 2009). Transformational leadership refers to leaders who can inspire followers to transcend their own self-interest and can have a profound and extraordinary influence on their followers. What is meant by transactional leadership are leaders who guide or motivate followers who are directed toward defined goals by explaining the roles and tasks required (Robbins & Judge, 2015). Transformational leadership is believed to balance the mindset and reflection of a new paradigm in globalisation.

The second factor to be considered in preventing fraud is the internal control system. The Indonesian Government itself has been concerned with its internal control system since 2008. It can be seen in the Government Regulation Number 60 Year 2008 regarding Government the Internal Control System. The purpose of the internal control system is to provide a reasonable assurance for achieving the effectiveness and efficiency of achieving the objectives of State governance, the reliability of financial reporting, the safeguarding of State assets, and compliance with laws and regulations. Although the government has made the internal control system, it does not necessarily prevent fraud properly, because the internal control system has no effect if the system is not effective.

In 2016 the government began to measure the maturity level of the implementation of the government's internal control system. In the Regulation of the Head of Badan Pengawasan Keuangan dan Pembangunan No. 4 of 2016, it stated that the maturity level of SPIP shows the quality of integrated control processes in the day-to-day implementation of managerial actions and technical activities of government agencies. According to the IIA (2013), the maturity model describes the process stages that are believed to lead to a better output and outcomes.

In supervising the internal control system of the government, the internal government auditor (APIP) was established. What is meant by APIP is BPKP, Inspectorate General, Provincial Inspectorate and Regency or City Inspectorate. The role of APIP, as stated in the Government Regulation Number 60 Year 2008 Article 11, is (1) to provide adequate assurance on the obedience, efficiency, efficiency and effectiveness of the achievement of the purpose of organising the duties and functions of Government Institutions; (2) provide early warning and improve the effectiveness of risk management in the implementation of duties and functions of Government Institutions; and (3) maintaining and improving the quality of governance of the duties and functions of Government Agencies.

In order for this role to be achieved, it must be accompanied by an adequate level of APIP capability. The meaning of APIP capability as described in the Regulation of the Head of Badan Pengawasan Keuangan dan Pembangunan Number: PER-1633/K/Jf/2011, is the ability to carry out supervisory duties consisting of three interrelated elements of capacity, authority and competency of human resources APIP that APIP must have in order to realise APIP's role effectively. Furthermore, with APIP's high level of capability, it is expected that APIP in performing its duties, functions and authority, can detect the occurrence of fraud and can provide useful suggestions to management to prevent fraud. One of them is what is stated in the Statement on Internal Auditing Standards (SIAS) no. 3, which is the role of internal auditors are urgently required to take a proactive role in the prevention and detection of financial reporting fraud by identifying possible signs of fraud, investigating fraud symptoms, and reporting their findings to audit committees or other appropriate management levels (Rezae, 2009).

Based on the description above, the researcher intends to conduct research entitled "Influence of Transformational Leadership Style, Internal Control System, and Government Internal Auditor (APIP) Capability Level on Fraud Prevention". As for the formulation of the problem in this study, it includes: whether the style of transformational leadership influences on the prevention of fraud in local governments in West Java? Does the internal control system affect the prevention of fraud in local governments in West Java? Lastly, does the level of APIP capabilities affect fraud prevention in local government in West Java?

Literature and Development Hypothesis

Fraud

According to the Association of Certified Fraud Examiner (ACFE), fraud is defined as the use of one's office for personal gain, either by intentional abuse or by employing personnel, resources or organisational assets. While, the Institute of Internal Audit (IIA) states that fraud includes a variety of illegal acts that are deliberate. This can be done for the benefit of the organisation or to harm the organisation. Furthermore, this can be done by outsiders as well as those within organisations.

Albrect et al. (2012) define fraud as a generic term, which encompasses all the ingenuity of man to gain more advantage than he should, by giving false information. There is no definite rule in defining fraud, because deception, cunning and other unfair ways are included in fraud. The one who limits it is human dishonesty. Meanwhile, the definition of fraud according to Silverstone and Sheetz (2009) is an activity that takes place in the social environment and has severe consequences for the economy, companies, and individuals who do so because of greed to meet the opportunity of fraud.

From the above definitions it can be concluded that in general, fraud consists of the elements as follows:

1. Intentional misuse;
2. Harm the other side;
3. Illegal action;
4. To gain personal or group benefits;
5. Conducted by insiders or outside organisations.

Previously, there was the theory of the fraud triangle, which is the theory first proposed by Donald R. Cressey in 1953. Cressey believed that there must be a reason for every one's actions. From his trust, Cressey conducted research on the reasons why someone commits fraud. From his research, he found a model known as the fraud triangle theory. In theory there are three factors that underlie the occurrence of fraud; namely, pressure, opportunity, and rationalisation. In 2004, Wolfe and Hermanson, in the journal *The Fraud Diamond: Considering the Four Elements of Fraud*, introduce a fourth factor that can influence a person to commit fraud; i.e. capability. Wolfe and Hermanson state that opportunity is an entrance into committing an act of fraud, and pressure and rationalisation can attract a person on the occasion. However, one must have the capability to be aware of an open opportunity.

Transformational Leadership Style

The transformational leadership style is a form of leadership that calls for increased moral values in an effort to raise the awareness of ethical issues and mobilise their energy and resources to reform institutions. Meanwhile, the transactional leadership style is utilised more to conduct transaction motivation by calling for the personal interests of its employees (Yukl, 2009).

Bass states that transformational leaders have a good vision, rhetoric and management skills that are memorable. These skills are used to build strong emotional relationships with their followers. Transformational leaders are believed to be more successful in directing organisational change because of their high followers' emotional level and willingness to work according to the leader's vision (Hughes et al., 2015).

Transformational leadership has four characteristics. They are individualised consideration, intellectual stimulation, inspirational motivation and idealised influence (Robbins & Judge, 2015).

Internal Control System

Still the same as the 1992 COSO framework, in the COSO 2013 framework there are five components of internal control and the definition is more expanded. The five components are the control environment, risk assessment, control activities, information and communication, and supervisory activities. In 2016, the government began to measure the maturity level of the implementation of the government's internal control system. The maturity model describes the process stages that are believed to lead to a better IIA output and outcomes (2013). There are six characteristics of the maturity level of SPIP implementation, comprising non-existent (level 0), initial/ad hoc (level 1), repeatable but intuitive (level 2), defined process (level 3), managed and measurable (level 4), and optimised (level 5).

Government Internal Auditor (APIP) Capability Level

As mentioned in the Regulation of the Head of Badan Pengawasan Keuangan dan Pembangunan Number: PER-1633/K/Jf/2011, the meaning of APIP Capability is the ability to perform supervisory duties consisting of the three interrelated elements of capacity, authority, and the competence of Human Resources (HR), that APIP must have in order to realise its role effectively. At present the model used to assess APIP capability is the Internal Audit Capability Model (IACM). The IACM model itself is a model developed by The Institute of Internal Auditors (IIA) in identifying the fundamental aspects of effective internal

control in the public sector to meet the requirements of organisational governance towards professionals.

In this IACM model, there is a level of APIP capability, which is characterised by APIP capability characteristics at a certain level. The APIP capability level consists of the initial (level 1), infrastructure (level 2), integrated (level 3), managed (level 4), and optimising (level 5).

Development of Hypotheses

There is a relationship between transformational leadership styles and fraud prevention. As revealed by Tuannakotta (2010) in his book, *Forensic Accounting and Investigative Audit*, he states that the examples given by superiors have proven to be an important fraud prevention element. To form an ethical environment far from fraud, it requires being a good leader figure in the eyes of an employee. An employee who has a bad view of his leader's leadership style, will tend to do things that will harm the company, in this case, commit fraud (Aditya, 2013).

As well as in other studies, as in the study of Domoro and Syed (2012), the results of this research identified three dimensions of transformational leadership style that have a significant relationship with acts of corruption in the police. They are idealised influence, inspirational motivation and intellectual stimulation. Rifqi (2013) concluded that there is a negative influence between the leadership style on fraud. Thus, the better the leadership style, the lower the occurrence of fraud within the organisation. Therefore, that can make the formulation of the hypothesis as follows:

H1: The transformational leadership style positively influences the prevention of fraud in the government sector.

An internal control system in an organisation aims to provide reasonable assurance that the implementation of activities has been implemented in accordance with the plan and can achieve the set goals. The results of Joseph et al. (2015) found there is a significant and positive relationship between an adequate internal control system with fraud prevention and detection in the finance department of the Kakamega Region. Further, Adetiloye et al. (2016) state that internal control is quite effective against fraud in the banking system in Nigeria. Iyinomen and Nkechi (2016) concluded that there is a positive influence between internal control and prevention and fraud detection in Nigeria. Similarly, in research by Mirinaviciene (2014), the results of the study stated that the prevention of fraud that implements appropriate internal control will result in a good prevention of financial losses that occur. In line with the research results of Renata (2016), the lower the level of internal control, the higher the level of accounting fraud. Chairun et al. (2013) concluded that internal controls have a significant

influence on fraud prevention. Putu et al. (2015) also state that the effectiveness of internal controls has a significant negative effect on fraud. Likewise, Memen (2016) found that internal control positively affects the prevention of fraud. Aditya (2013) states that the effectiveness of the internal control system has a negative effect on fraud. Rifqi (2013) concludes that there is a negative influence between the Internal Control System on fraud in the government sector.

From the above descriptions, the hypothesis formulation can be suggested as follows:

H2: The internal control system has a positive effect on fraud prevention.

The capability of APIP is the ability to carry out supervisory tasks consisting of the three interrelated elements of capacity, authority and competence of Human Resources (HR), that APIP must have in order to realise its role effectively. The role of APIP is to conduct internal supervision, namely the whole process of audit activity, review, monitoring, evaluation, and other supervisory activities in the form of assistance, socialisation and consultancy on the implementation of duties and functions of the organisation. This occurs in order to provide reasonable assurance that the activities have been carried out in accordance with the benchmarks. It has been established effectively and efficiently for the benefit of the leadership in realising good governance.

Kehinde (2015), sees that internal auditors and corporate management are responsible for the effectiveness of internal control systems and preventing fraud. Adetoso et al. (2013) concluded that internal auditors at private universities in Southwest Nigeria are effective in controlling fraud and financial irregularities. Perry et al. (1997) argued that organisations should increase the responsibility of internal auditors to perform tasks, to either "monitor" or "check", so that the organisation can be better protected from internal fraud and fraudulent financial reporting. Fury (2016) concluded that the Internal Supervisory Unit was able to detect and prevent fraud within the state college environment through red flags to mark accounting irregularities. The results of Taufeni's (2010) research partially highlighted that the influence of internal auditors on fraud prevention is quite high compared to external auditors and DPRD. Simultaneously, the influence of internal auditors, external auditors and DPRD is enough to affect the prevention of fraud. From this description, the hypothesis formulation can be made as follows:

H3: The level of APIP capability has a positive effect on fraud prevention.

Research Methodology

Research Objects, Population, and Data

The objects of this research are transformational leadership style, internal control system, level of APIP capability, and the prevention of fraud at the local government level and which exist in the West Java Province. In this study, the unit of analysis is the local government in the area of the West Java Province.

There are two types of variables in the study; they are independent variables and dependent variables. The independent variables in this study consist of three variables of transformational leadership style, internal control system, and capability level of APIP. The independence variable of the transformational leadership style is measured by four characteristics referring to the Multi-factor Leadership Questionnaire model developed by Bass and Avolio (1995). They are individualised consideration, intellectual stimulation, inspirational motivation, and idealised influence.

The internal control system variables use secondary data that is the result of the maturity level assessment of the Government Internal Control System, which has been issued by the BPKP. The SPIP maturity level assessment is based on the control environment, risk assessment, control activities, information and communication, and supervisory activities in accordance with the Regulation of Head of BPKP Number 4 Year 2016.

The APIP Capability Level variables use secondary data in the form of an Implementation Activity Report of the APIP Improvement Capability from the BPKP. The assessment of the APIP capability level focusses on roles and services, HR management, professional practice, accountability and performance management, culture and organisational relations, and governance structures in accordance with the BPKP Regulation No. 6 of 2015.

The dependent variable in this research is fraud prevention variables, measured by looking at the fraud factor in accordance with fraud diamond theory (Wolfe & Hermanson, 2002), which consists of opportunities, pressure, rationalisation, and capability. For instance, where the lower the factor of fraud, the better the prevention of fraud by the local government.

The method of collecting primary data was done through questionnaires and interviews. Interviews were conducted to enrich and strengthen the results of the study. Respondents in this interview were four persons consisting of one Head of Service, one Secretary of Service, and two Heads of Finance.

Data Analysis Technique

Data analysis techniques in this study use multiple linear regression with the help of SPSS software. The multiple linear regression model analysis is done through several stages of test instrument research, test of classical assumption, and a statistical hypothesis test.

Results and Discussion

Research Instrument Test Results

A validity test was conducted using the r-table 0.3172 with a five per cent significance level. The results of the test show that all the item statements in the questionnaire for the transformational leadership style variables and fraud prevention used as the instrument of this study have a value of r-count larger than the r-table, and it can be concluded that the research instrument used is valid.

Test reliability in this study was completed using Cronbach's Alpha method, where the variable is said to be reliable if it gives Cronbach's Alpha value > 0.7 (Arikunto, 2013: 180). From the test results, it shows that all the variables used have Cronbach's Alpha (α) values above 0.7 and can be declared reliable.

Descriptive Statistics

From the results of the respondents' answers, the transformational leadership style of the regional heads in West Java is 80.1 per cent, which means they are in the good category. Whereas, when viewed from each characteristic, idealised influence is at 80.9 per cent; inspirational motivation is at 85.9 per cent; intellectual stimulation is at 79.3 per cent; and individualised consideration is at 74.5 per cent. The internal control system in local government in West Java is based on the assessment of maturity level of government's internal control system, with 89.3 per cent at the stub level and 10.7 per cent at the developing level. The APIP capability level in local government in West Java is 25 per cent at the initial level, 67.9 per cent at the infrastructure level, and 7.1 per cent at the integrated level. As for the prevention of fraud, based on the results of the respondents' answers, it is 65.1 per cent, which means it is in the category of quite well. When viewed from the factor of the occurrence of fraud, the prevention of fraud on the probability factor is at 69.1 per cent, the factor of capability is 62.1 per cent, the pressure factor is 57.1 per cent, and the rationalisation factor is 73.3 per cent.

Classic Assumption Test Results Normality Test Results

The test uses the Kolmogorov-Smirnov test with a 0.05 significance level and is said to be normally distributed if the significance level is greater than 0.05. From the results of the tests that were completed, they show that the value of Asymp. Sig. (2-tailed) has a number of 0.144 and is greater than 0.05, so it can be said that the data is normally distributed.

Multicollinearity Test Results

Multicollinearity is something where some or all of the independent variables are highly correlated. To detect the presence or absence of multicollinearity, it is completed by using Variance Inflation Factors (VIF). With the help of SPSS software, it obtained the VIF result for transformational leadership style is 1.054, internal control system is 1.015, and the APIP level is 1.055. The three values are less than 10, so it can be concluded that there is no multicollinearity in the data.

Heteroscedasticity Test

The heteroscedasticity test aims to test whether in the regression model there is a variance inequality of the residual from one observation to another observation. If the variance of the residual from one observation to another observation remains, then it is called homoscedasticity. To test whether or not heteroscedasticity is present, it is done by correlating every independent variable with its absolute value using the Rank Spearman correlation. With the help of SPSS software, the obtained results showed that there is no significant correlation. This is seen from the p-value (Sig) value being greater than 0.05. Thus, it can be concluded there is no heteroscedasticity on the regression model.

F Test

The F test results that were completed using the SPSS application obtained the following description:

Table 1: Results of F test

F	df	F table	Sig	Description	Conclusion
22.355	df1 = 3	3.009	0.000	Ho Rejected	There is
	df2 = 24				influence (Significant)

Source: SPSS processed data

From the table above, the results obtained a value of F arithmetic of 22.355. Because the value of F arithmetic ($22.355 > F$ table (3.009), then H_0 is rejected. Thus, it can be concluded that simultaneously, there is a significant influence of transformational leadership style (X1), internal control system (X2) and level of APIP (X3) in the ability to prevent fraud (Y) in the local government in West Java.

T Test

This statistical test t is used to test the success of partial regression coefficients. With this test, it can be known whether the independent variable (X) singularly affects the dependent variable (Y), namely by comparing between the value of each independent variable t count with a t-table value with a degree of error of 5% ($\alpha = 0.05$). If the value \geq t-table, then the independent variable gives significant influence on the dependent variable. In addition, this test can simultaneously be used to find out how much influence the leadership style, internal control system and the level of APIP capability have against fraud prevention by looking at the value of t in each variable. Based on the value of t, it can be known which independent variables have the most meaningful or significant influence to the related variables.

Table 2: Result of t Test

Variable	t	df	t table	Sig	Descripti on	Conclusion
Leadership Style (X1)	7.213	24	2.064	0.000	Ho rejected	There is influence
Internal Control (X2)	1.146	24	2.064	0.263	Ho accepted	No influence
Level of APIP (X3)	2.290	24	2.064	0.031	Ho rejected	There is influence

Source: SPSS processed data Hypothesis Test Results

The results of the SPSS software processing for multiple regression analysis are presented in the following table:

Table 3: Multiple Regression Analysis

Variable	Regression Coefficients	Std. Error	t	Sig.
(Constant)	-1.291	0.569	-2.271	0.031
Leadership Style (X1)	0.969	0.134	2.064	0.000

Internal Control (X2)	0.166	0.144	2.064	0.263
Level of APIP (X3)	0.194	0.085	2.064	0.031

Source: SPSS processed data

Based on the calculation results in the table above, it obtained the form of the multiple linear regression equation as follows:

$$Y = -1,291 + 0,969 X1 + 0,166 X2 + 0,194 X3$$

The value of the regression coefficients in the independent variables illustrates that if the estimated independent variables rise by one unit and the value of the other independent variables is estimated to be constant or equal to zero, then the value of the dependent variable is estimated to rise or may decrease in accordance with the sign of the regression coefficient of the independent variables.

From the multiple linear regression equation above, it obtained a value of constant equal to -1.291. That is, if the fraud prevention variable (Y) is not influenced by the three independent variables of the transformational leadership style (X1), the internal control system (X2) and the APIP (X3) capability level are zero, then the average fraud prevention will be worth -1.291.

The sign of the independent variable regression coefficient shows the direction of the relationship of the variables concerned with fraud prevention. The regression coefficient for the independent variable X1 is positive, indicating a direct relationship between the transformational leadership style (X1) and fraud prevention (Y). The regression coefficient of variable X1 of 0.969 means that any increase of the transformational leadership style (X1) of one unit will lead to an increase of fraud prevention (Y) to the local government in West Java of 0.969.

The regression coefficient for the independent variable X2 is positive, indicating a direct relationship between the internal control system (X2) and fraud prevention (Y). The regression coefficient of variable X2 of 0.166 means that for each increase of the internal control system (X2) of one unit, it will cause the increase of fraud prevention (Y) to the local government in West Java of 0.166.

The regression coefficient for the independent variable X3 is positive, indicating a direct relationship between APIP capability level (X3) and fraud prevention (Y). The regression coefficient of variable X3 of 0.194 means that each increase of the APIP (X3) level of

capability by one unit will cause the increase of fraud prevention (Y) to the local government in West Java of 0.194.

Coefficient of Determination

With the coefficient of determination, it can measure how far the ability of the model goes in explaining the variation of the dependent variable. In Table 4, it can be seen how much the coefficient of determination for the three independent variables is to the dependent variable.

Table 4: Coefficient of Determination

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.858 ^a	.736	.704	.23467

a. Predictors: (Constant), Level APIP (X3), Internal Control System (X2), Transformational Leadership Style (X1)

Source: SPSS processed data

The value of adjusted R² of 0.704 means that the transformational leadership style (X1), internal control system (X2) and APIP capability level (X3) can explain the prevention of fraud (Y) to the local government in West Java by 70.4 per cent. Meanwhile, the remainder of 29.6 per cent is the contribution of other variables besides transformational leadership style (X1), internal control system (X2), and level of APIP capability (X3).

Discussion

Influence of Transformational Leadership Style on Fraud Prevention

The result of the hypothesis test shows that the variable of transformational leadership style partially has a positive effect on the fraud prevention variable, proven from the existence of the t-count value equal to 7.213, bigger than on the t-table value of 2.064, with a significance value of less than 0.05. The test results can conclude that the higher the transformational leadership style possessed in carrying out its duties as the regional head, the better the prevention of fraud is achieved. The results of this study support previous research conducted by Salmasi and Boohloli (2014), Aditya (2013), Rifqi (2013), Domoro and Syed (2012), and Dellaportas, Cooper and Braica (2007).

In accordance with the results of the descriptive statistics on the answers in the questionnaire, it can be seen that the overall style of transformational leadership owned by the head of the region in the implementation of the task is good. However, the more dominant characteristic

is inspirational motivation, in which leaders are able to apply high standards but are also able to encourage their subordinates to achieve these standards. The descriptive statistical description is also reinforced through the results of interviews with heads of related offices, where the head of the region placed more emphasis on the vision and mission of government to the heads of the office and motivated subordinates, in this case, the head of the department to help realise the vision and mission.

The lowest characteristic of the transformational leadership style variables is individualised consideration, in which a leader is able to understand, and respect subordinates based on the needs of subordinates and pay attention to the desires of achievement and development from subordinates. This is supported by the findings of the interviews, that there are limited training offerings for heads of related agencies. In order to optimise the prevention of fraud, the results of this study expect that the head of the region can further improve the characteristics of individualised consideration. One way this can be achieved is to provide training in accordance with the needs of employees.

Influence of Internal Control System on Fraud Prevention

The result of hypothesis test shows that the internal control system variables partially do not have an effect on the fraud prevention variable, which is proven by the t-count value being smaller than the t-table value $1.146 < 2.064$, with a significance value greater than 0.05. It can be concluded that the government's internal control system has no effect on fraud prevention.

The results of this study are not the same as previous research, which states that internal control system variables affect the prevention of fraud. Such as the research conducted by Adetiloyo, Olokoyo and Taiwo (2010), Iyinomen and Nkechi (2016), and Memen (2016). Joseph, Albert and Byaruhanga (2015) state that there is a significant and positive relationship between an adequate internal control system with the prevention and detection of fraud in the Finance Department of the Kakamega Region. Similar findings were recorded in the research conducted by Gbegi and Adebisi (2015), Chairun et al. (2013), and Putu et al. (2015).

The difference between the results of this study and previous research is due to the assessment of the SPIP maturity in the West Java Regional Government. The majority is at the level of one, initial/ad hoc, where there are already internal control practices, but the risk and control approach is still ad-hoc and unorganised, without communication and monitoring so that weaknesses are not identified. However, the prevention of fraud that occurs and in accordance with the results of the descriptive analysis, reached the category of quite well. So, with a relatively low SPIP maturity level, this device cannot be used to detect fraud prevention adequately. Meanwhile, in previous studies, data used for internal control system

variables was collected using primary data through questionnaires. This is what results in the different research results.

The focus of the assessment on the maturity level of the government's internal control system consists of five elements, namely the control environment, risk assessment, control activities, information and communication, and monitoring. From the assessment of the SPIP maturity level, the control environment obtained the highest score, while the risk assessment received the lowest rating. This is because the average in the local government in West Java's risk assessment and risk analysis is still at the 'not yet' level. Consequently, because where each work unit in the local government environment is in general, organisation and/or unit-organisation does not have formal risk assessment guidelines established by the leadership of other organisations or organisational units or formal risk assessment guidelines.

Although, the results of this study suggest that internal control system variables have no effect on fraud prevention. In fraud diamond theory there are four factors of fraud occurrence, namely opportunity, pressure, rationalisation, and capability. This internal control system is very important as an effort to suppress the opportunity factor of fraud. Therefore, efforts to increase the level of SPIP maturity should continue to be improved.

Influence of APIP Capability Level on Fraud Prevention

The result of the hypothesis test shows that the t-count value (2.290) in the APIP capability level variable is bigger than the t-table value (2.064), with a significance value of less than 0.05, which proves that the APIP capability level variable partially has a significant positive effect on the prevention of fraud. The existence of a significant positive influence indicates that the higher the level of the APIP capability, the better the prevention of fraud occurs.

The results of this study are in accordance with the results of research conducted by Taufeni (2010), which states that internal auditors affect the prevention of fraud. Other studies also show similar results with research conducted by Flostoiu (2012), and Adetoso, Oladejo and Akesindro (2013).

Based on descriptive statistics on the results of the Implementation Activity Report of the APIP Improvement Capability from the BPKP, it found that the majority of APIP capability level in local government in West Java is in level two, that is infrastructure. Where the implementation of monitoring activities undertaken by the APIP organisation, in this case, is the audit process, it has been done regularly and repeatedly and has built the infrastructure but only part of which has been aligned with the audit standards. With the outcome able to provide adequate confidence, the process is in accordance with regulations and has been able to detect corruption.

The obstacles of increasing the level of APIP capability in local government in West Java includes a lack of adequate commitment from some Head of Regions to increase the level of APIP Capability. Given the significant relationship between the variables of APIP capability level with fraud prevention, where the higher the level of APIP capability, fraud prevention is improving. Therefore, efforts to increase the level of APIP capability need support, either from the Head of the Region or from the internal APIP itself.

The F test result on the hypothesis found that the F-count value is equal to 22.355, bigger than the F-table at 3.009, with a significant value of 0.00 (less than 0.05). It shows that simultaneously, the variables of transformational leadership style, internal control system, and the level of APIP capability, have a positive and significant effect on fraud prevention. This positive and significant influence indicates that the higher the transformational leadership style, internal control system, and the level of APIP capability, the better the prevention of fraud is achieved.

The results of this study are in accordance with what was proposed by Albrecht et al. (2012), that in preventing fraud there are two main things that must be done. First, to create a culture of honesty, openness and support. Secondly, to eliminate any chance of fraud. The transformational leadership style of a Regional Head can support the creation of an honest, open and supportive culture. This is because the Head of the Region has the authority, responsibility to make policy, and interacts with their employees. Meanwhile, to eliminate every possible occurrence of fraud, it can be achieved by implementing an internal control system effectively and supervised by the Internal Government Auditor (APIP). Combining these three things will result in better fraud prevention in government.

Of the four factors that occur — fraud opportunities, capabilities, pressure and rationalisation — the highest prevention of fraud is on the factor of rationalisation or justification, in which employees, especially on the financial side of local government in West Java, have been responsive enough to act in accordance with morals and ethics. They no longer look for excuses or justifications to act inappropriately with morals and ethics. Meanwhile, the lowest prevention of fraud is pressure. Wherein, employees still feel the pressures they face are quite high, especially the pressure on the economy. This is reinforced by the results of the interviews with local government employees who feel the benefits they received are relatively little compared with their needs and expectations. For that, we need more attention in the prevention of fraud on the pressure factor. This can be achieved by reviewing the benefits given to employees, of course, followed by the obligations that must be met by employees.

Conclusions and Recommendations

Conclusion

Based on the results of testing and the discussion that has occurred about the influence of transformational leadership style, internal control system, and the level of APIP capability against fraud prevention, it can be concluded that: 1) The transformational leadership style of the local government in West Java partially influences the prevention of fraud. This means that the transformational leadership style undertaken by the Regional Head is able to perform its role well, so increasing the prevention of fraud becomes more optimal; 2) The partial internal control system has no significant effect on fraud prevention. The results of this study differ from the results of previous studies. This is possible because the results of the responses from the respondents about fraud prevention is in the category of quite well. While, the maturity level of the internal control system in the local government is currently still at the level of stub, so that this device cannot be used to detect fraud prevention adequately; and 3) APIP capability level partially affects fraud prevention in local government in West Java. Where there is a higher level of APIP capability, fraud prevention efforts are more optimal.

Suggestion

Based on the above conclusions, the following suggestions can be given, among others:

- 1) The Head of Region is expected to improve the style of transformational leadership, especially on the character of individualised consideration, in which a leader sees his subordinates not merely as subordinates, but as unique individuals; sees the achievements and needs of developing his subordinates; and facilitates so that fraud prevention which occurs in government can be achieved optimally.
- 2) All levels of local government are required to further improve the maturity level of the internal control system, especially within the scope of risk assessment.
- 3) The Internal Government Auditor (APIP) is to continuously strive to increase the level of capability, and the Regional Head is required to support the effort to increase the capability of APIP.
- 4) Advice is provided for academics in the framework of developing accounting science, especially regarding prevention of fraud in the future. There should be further research on fraud prevention and academics should consider doing research using other research methods or researching other factors that may affect fraud prevention efforts, such as organisational culture, external auditor, the House of Representatives, and others.



REFERENCES

- Adetiloye, K. A., Olokoyo, F. O., & Taiwo, J. N. (2016). Fraud Prevention and Internal Control in the Nigerian Banking. *International Journal of Economics and Financial Issues*, 1172- 1179.
- Adetosho, J. A., Oladejo, K. S., & Akesinro, A. S. (2013). Effectiveness of Internal Auditor in Controlling Fraud and Other Financial Irregularities in Private Universities in South-West, Nigeria. *Research Journal of Finance and Accounting*, Vol. 4, No. 13, pp: 106-110.
- Aditya Pramudita. (2013). Analisis Fraud di Sektor Pemerintahan Kota Salatiga. *Accounting Analysis Journal*, 35-43.
- Albercht, W. S., Albrecht, C. O., Albrecht, C. C., & Zimbelman, M. F. (2012). *Fraud Examination, Fourth Edition*. Mason: South-Western.
- Arikunto, S. (2013). *Prosedur Penelitian: Suatu Pendekatan Praktik*. Jakarta: Rineka Cipta.
- Association of Certified Fraud Examiners. o. (n.d.). What is Fraud. Retrieved Desember 28, 2016, from ACFE: <http://www.acfe.com/fraud-101.aspx> Association of Certified Fraud Examiners Manual, 2006 Edition.
- Association of Certified Fraud Examiners. Fighting Fraud in The Government. Retrieved February 1, 2017, from ACFE: <http://www.acfe.com>
- Chairun Nisak, Prasetyono & Fitri Ahmad Kurniawan. (2013). Sistem Pengendalian Intern Dalam Pencegahan Fraud pada Satuan Kerja Perangkat Daerah (SKPD) pada Kabupaten Bangkalan. *Journal of Auditing, Finance and Forensic Accounting*, Vol. 01 No. 1 pp: 15-22.
- Committee of Sponsoring Organizations of the Treadway Commission. 2013. *Internal Control - Integrated Framework Executive Summary*.
- Dellaportas, S., Cooper, B., & Braica, P. (2007-11). Leadership, Culture and Employee Deceit: the case of the National Australia Bank. *Corporate governance: an international review*, vol. 15, no. 6, pp. 1442-1452.
- Domoro, O. M., & Syed, S. O. (2012). The Impact of leadership styles on corruption in the Libyan Police Force . *British Journal of Arts and Social Sciences*, 45-55.



- Doody, Helene . (2009, May). Corporate fraud Topic Gateway Series No. 57. Retrieved Januari 9, 2017, from Chartered Institute of Management Accountants (CIMA): <http://www.cimaglobal.com/>
- Flostoiu, S. (2012). The Relationship Between Internal Audit and Fraud. Buletin Stiintific, No. 1 (33) pp: 24-28.
- Fury Khristianty Fitriyah. (2016). The Role of the Internal Audit Unit in Detecting and Preventing Fraud at Public Universities in West Java, Indonesia. International Journal of Social, Behavioral, Educational, Economic, Business and Industrial Engineering, Vol:10, No:5.
- Gbegi, D. O. (2015). Analysis of Fraud Detection and Prevention Strategies in The Nigerian Public Sector. Journal of Good Dovernance and Sustainable Development in Africa (JGGSDA), Vol. 2, No. 4.
- Gujarati, D. (2008). Dasar-dasar Ekonometrika. Jakarta: Penerbit Erlangga.
- Hughes, R. L., Ginnet, R. C., & Curphy, G. J. (2015). Leadership Enchancing the Lessons of Experience Eighth Edition . New York: Mc Graw Hill Education.
- Imam Ghozali. (2013) Aplikasi Analisis Multivariate dengan Program SPSS. Edisi Ketujuh, Semarang: Badan Penerbit Universitas Dipenogoro.
- Institute of Audit Internal (IIA). (2013). Selecting, Using, and Creating Maturity Models: A tool for Assurance and Consulting Engagements. Practice Guide.
- Institute of Audit Internal (IIA). Retrieved January 13, 2017 from IIA <https://www.theiia.org>.
- Iyinomen, O. D., & Nkechi, O. T. (2016). Effect of Internal Control on Fraud Prevention and Detection in Public Sector in Nigeria. Journal of Accounting and Financial Management, Vol. 2 No. 4 pp: 21-27.
- Joseph, O. N., Albert, O., & Byaruhanga, J. (2015). Effect of Internal Control on Fraud Detection and Prevention in District Treasuries of Kakamega County. International Journal of Business and Management Invention, 47-57.
- Kehinde, J. S. (2015). Asset Protection and Financial Statement Fraud: The Audit and Management Function in Nigeria Business Organisation. Journal of Policy and Development Studies Vol. 9, No. 3 , Vol. 9, No. 3, pp: 166-175.



- Memen Kustiawan. (2016). Pengaruh Pengendalian Intern dan Tindak Lanjut Temuan Audit Terhadap Kualitas Laporan Keuangan yang Berimplikasi Terhadap Pencegahan Fraud. *Jurnal Akuntansi*, Volume XX, No. 03 pp: 345-362.
- Mirinaviciene, S. (2014). *Internal Control and Fraud Prevention : Prior Research Analysis*. *Electroninio Leidinio*, No. 1 (9) pp: 173-179.
- Perry, L., & Bryan, B. (1997). Heightened Responsibilities of the Internal Auditor in the Detectin of Fraud. *Managerial Finance*, Volume 23 Number 12 pp: 38-43.
- Putu Rita Saftarini, Gede Adi Yuniarta, & Ni Kadek Sinarwati. (2015). Pengaruh Efektivitas Pengendalian Internal, Asimetri Informasi dan Implementasi Good Governance Terhadap Kecurangan (Fraud) Akuntansi (Studi Empiris pada SKPD di Kabupaten Bangli). *e-Journal S1 Ak Universitas Pendidikan Ganesha*, Volume 3 No. 1 .
- Renata Oektakisti. (2016). Pengaruh Efektivitas Pengendalian Internal dan Asimetri Informasi Untuk Mengatasi Kecurangan Akuntansi. *Jurnal Akuntansi UNESA*, Vol 5, No. 1.
- Rezae, Z., & Riley, R. (2009). *Financial Statement Fraud Prevention and Detection Second Edition*. New Jersey: John Wiley & Sons, Inc.
- Rifqi Mirza Zulkarnain. (2013). Analisis Faktor yang Mempengaruhi Terjadinya Fraud pada Dinas Kota Surakarta. *Accounting Analysis Journal*, 125-131.
- Robbins, Stephen P., & Judge, Timothy A. (2015). *Perilaku organisasi (Organizational Behaviour) Edisi 16*. Jakarta: Salemba Empat.
- Sabau, E. M., Sendroiu, C., & Sgardea, F. M. (2013). Corporate Anti-Fraud Strategies-Ethic Culture And Occupational Integrity. *Cross-Cultural Management Journal*, 59-65.
- Salmasi, F., & Bohlooli, N. (2014). Effects of Transformational Leadership on Organizational And Personal Outcomes Emphases on Employee's Empowerment. *Journal of Current Researche in Science*, Vol 2, No.3, pp: 355-368.
- Sekaran, U., & Bougie, R. (2013). *Research Methods for Business*. United Kingdom: Jhon Wiley & Sons Ltd.
- Silverstone, H., & Sheetz, M. (2009). *Forensic Accounting and Fraud Investigation for Non-Experts Second Edition*. New Jersey: John Wily & Sons, Inc.



- Sugiyono. (2014). *Metode Penelitian Kuantitatif, Kualitatif, dan Kombinasi (Mixed Methods)*. Bandung: Alfabeta.
- Taufeni Taufik. (2010). Pengaruh Internal Auditor, Eksternal Auditor dan DPRD Terhadap Pencegahan Fraud. *Pekbis Jurnal*, Vol. 2 No. 2 pp: 292-300.
- Trevino, L. K., & Brown, M. E. (2004). The Role of Leaders in Influencing Unethical Behavior in the Workplace. In *Managing Organizational Deviance* (pp. 69-87).
- Tuannakotta, T. M. (2010). *Akuntansi Forensik dan Audit Investigatif*. Jakarta: LP-FEUI.
- Yukl, G. 2009. *Kepemimpinan dalam Organisasi*, Edisi Kelima. Jakarta: PT. Indeks.
- Wahyudi & Ilham Saenong. (2016, January 27). Beranda: Publikasi: Corruption Perceptions Index 2015. Retrieved November 11, 2016, from Transparency International Indonesia: <https://www.ti.or.id>
- Wolfe, David T and Hermanson, Dana R. 2004. *The Fraud Diamond: Considering the Four Elements of Fraud*. New York : CPA Journal, 2004.
- Ikhtisar Hasil Pemeriksaan Semester I Tahun 2016. Badan Pemeriksa Keuangan. www.bpk.go.id
- _____. Laporan Tahunan 2015, Menolak Surut. Komisi Pemberantasan Korupsi. www.kpk.go.id
- _____. Peraturan Presiden Nomor 60 Tahun 2015 Tentang Rencana Kerja Pemerintah Tahun 2015
- _____. Peraturan Pemerintah Republik Indonesia Nomor 60 Tahun 2008 Tentang Sistem Pengendalian Intern Pemerintah
- _____. Peraturan Kepala Badan Pengawasan Keuangan dan Pembangunan Nomor 4 Tahun 2016 Tentang Pedoman Penilaian dan Strategi Peningkatan Maturitas Sistem Pengendalian Intern Pemerintah
- _____. Peraturan Kepala Badan Pengawasan Keuangan dan Pembangunan Nomor 16 Tahun 2015 Tentang Pedoman Teknis Peningkatan Kapabilitas Aparat Pengawasan Intern Pemerintah
- _____. Peraturan Kepala Badan Pengawasan Keuangan dan Pembangunan Nomor: PER- 1633/K/Jf/2011 Tentang Pedoman Teknis Peningkatan Kapabilitas APIP