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**THE ROLES OF INTERNAL AUDITOR AND LEADERSHIP**  
**STYLE IN FRAUD PREVENTION AND DETECTION**

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***Abstract***

This research aimed to investigate the roles of internal auditor and leadership style in the prevention and detection of fraud within state higher education institution environment. This is a mixed methods research study which combined qualitative and quantitative data. The data were collected through interview and questionnaire. The population of the research was the internal auditors of PTN-BLU (state higher education institutions with the financial management system of public service board) across Java Island. From the population, a sample of 34 internal auditors from six PTN-BLU across Java Island was obtained by the purposive sampling technique. The multiple linear regression analysis method, aided with the software SPSS, was employed to analyse the quantitative data, while the software Nvivo was employed to analyse the qualitative data. The results of this research showed that internal auditor played a significant role in preventing and detecting fraud within state higher education institution environment, especially in monitoring the activities in financial and procurement aspects. Leadership style also had a significant influence on fraud prevention and detection within state higher education institution environment, with participative leadership style having the greatest contribution. The variables internal auditor and leadership style simultaneously had a significant effect on fraud prevention and detection in state higher education institution environment, suggesting that when the internal auditor was enhanced and the right leadership style was applied, the prevention and detection of fraud could also be improved.

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**Keywords:** Internal auditor, leadership, fraud, state higher education institution.



## 1. Introduction

State higher education institutions are state-owned institutions in the form of college (sekolah tinggi), academy, polytechnic, institute, and university. All higher education institutions, including the state-owned ones, have the responsibility for exercising higher education tridharma, which is comprised of community service, education, and research. Government Regulation No. 30 of 1990 Chapter 2 in article 2 section 1 states:

*Higher education aims to prepare students to become members of community with academic and/or professional abilities and the abilities to apply, develop, and/or create knowledge, to develop and spread knowledge, technology, and/or arts, and to make use of them and contribute to the improvement of community's life as well as enrichment of national cultures. (Government of Indonesia, 1990, p. 2)*

One way the community evaluate organizations, including higher education institutions, in terms of the governance implemented is by looking into fraudulent cases. Fraud is a deceit committed in such a way by an individual or a group of individuals deliberately for their personal or collective interests and causes a party to sustain loss. Of late, fraudulent cases have been a common occurrence in educational institutions, in particular higher education institutions. A news article published in October 2016 revealed that based on the Indonesia Corruption Watch (ICW), at least 37 cases of corruption allegation in higher education institutions were reported since 2006 through August 2016, dealing a blow to the State with a loss of Rp218.804 billion. At least 65 perpetrators from academic society, private sector, and local governments were implicated in the cases. Employees or structural officials of universities and faculties accounted for the largest part with 32 people involved. Rectors, vice rectors, and former rectors made up the second largest portion with 13 people involved. The rest were lecturers (5 people), deans of faculty (3 people), private employees (10 people), and local government officials (2 people) (Paat, 2016).

ICW later identified 12 patterns of corruption in higher education setting. Corruption in goods and services procurement was the most common among the 12 patterns, followed by corruption in research and scholarship funds, value "trade" bribe, corruption in higher education internal budget, corruption in grant or CSR, corruption in students' tuition fee, and corruption in higher-education-institution-owned assets (Yuntho, 2016). Another case occurred in March 2017, when the Ministry of Research, Technology, and Higher Education was holding coaching for 243 higher education institutions in Indonesia. Out of the number, 140 turned out to be fake and closed (Raharjo, 2017).

Fraudulent cases are not only widespread in Indonesia but also overseas. Mohamedbhai (2016) researched the instances of corruption in higher education occurring in several countries.

a. In April 2015, the Four Corners program by the Australian Broadcasting Corporation unveiled how the standards of Australian universities were compromised through corrupt practices.

b. In September 2014, there was a case in Russia where a dean received a €30,000-worth bribe for PhD acceptance.

c. A 2015 article on the e-journal International Higher Education referred to the corruption in Chinese higher education system as “malignant tumor” and revealed that since the 1990s, corruption has been dealing a serious impact to the academic activities of the universities in the country.

d. There was the most staggering corruption scandal known as the Vyapam Scam happening in India.

e. It was reported in May 2015 that there were as many as 42 false universities in South Africa closed due to offering forgery programs.

State higher education institutions are among the institutions that manage funds from individuals, community, and/or government in big amounts, requiring them to provide reporting that is accurate and free of any fraudulent elements. Fraudulent cases as mentioned above can damage higher education reputations, notably in the tridharma respect. The improvement in higher education institution management can be realized by a number of parties, one of whom is internal auditor. The presence of internal auditor in a state higher education institution is mandatory as set forth in Article 28 of Government Regulation No. 4 of 2014 (Government of Indonesia, 2014). The duties of internal auditor in a state higher education institution cover all processes of audit, review, evaluation, monitoring, and other oversight activities on organizational tasks and functions aimed to control activities, secure properties and assets, conduct sound financial reporting, improve effectiveness and efficiency, and perform early detection of fraud and non-compliance with the provisions of laws and regulations (Article 1 of Regulation of the Minister of National Education No. 47 of 2011 (Ministry of Indonesia, 2011).

## **2. Problem Statement**

The findings of fraudulent cases in state higher education institutions, both in Indonesia and overseas, indicated that there has been a failure in preventing, detecting, and investigating fraud, which unquestionably injures many organizations, especially the state higher education institutions. According to the report generated by the ACFE (2018), the majority of fraudulent cases in the Asia-Pacific region are detectable through tip and internal auditor, and it was also stated that the principal weakness in internal control that contributed to the fraud in the region, accounting for 20%, was the lack of tone at the top. Tone at the top refers to the attitude, policy, rhythm, or style of a leader. It is a model built in an organization to avoid non-compliance. It has a considerable role in the prevention of corruption as both criminalized and non-criminalized policies are always made by the top management of an organization. The fraud prevention and reduction function requires a collaboration of governance, risk management, and control with the tone at the top arrangement (Amrizal, 2014).

But in the case of Indonesia, the Indonesia’s Fraud Survey (ACFE, 2016), the senior management’s disreputable attitude was the most striking weakness contributing to fraud. Senior management became the main perpetrator of fraud with the highest percent control weakness of 30.3%. A leader actually holds the key pivotal position in determining the success of an organization, thus they must be the one who has the ability to carry the organization in a better direction. They also have the role in instilling work discipline in the organization’s members in their work performance (Sule & Saefullah, 2010).

The problems above have inspired the researchers to conduct research pertaining to the roles of leadership style and internal auditor in preventing and detecting fraud but with a different object from that

of previous studies. The researchers carried out the research in higher education environment, in particular the internal auditor of PTN-BLU across Java Island.

### 3. Research Questions

1. What is the role of internal auditor in the fraud prevention and detection of PTN-BLU across Java Island?
2. What is the role of leadership style in the fraud prevention and detection of PTN-BLU across Java Island?
3. What is the simultaneous role of internal auditor and leadership style in the fraud prevention and detection of PTN-BLU across Java Island?

### 4. Purpose of the Study

1. To analyse the role of internal auditor in the fraud prevention and detection of PTN-BLU across Java Island.
2. To analyze the role of leadership style in the fraud prevention and detection of PTN-BLU across Java Island.
3. To analyze the simultaneous role of internal auditor and leadership style in the fraud prevention and detection of PTN-BLU across Java Island.

### 5. Research Methods

This research is a mixed methods research study. According to Sugiyono (2011), mixed methods is a research method that combines or mix quantitative and qualitative methods to be used together in a research activity for the purpose of collecting more comprehensive, valid, reliable, and objective data. The mixed methods research design used was the sequential explanatory design. As stated by Sugiyono (2011), the sequential explanatory design is characterized by collection and analysis of quantitative data in the first stage, followed by collection and analysis of qualitative data in the second stage to support the quantitative analysis results generated in the first stage. The data in this research were collected through direct interview and online questionnaire disseminated through Google Form to six internal auditors of PTN-BLU across Java Island, as reported in Table 01 below.

**Table 01.** Samples of PTN BLU across Java island

No	PTN	Number of SPI
1.	Universitas Negeri Malang	3 persons
2.	Politeknik Negeri Malang	6 persons
3.	Universitas Brawijaya	11 persons
4.	Universitas Sebelas Maret Surakarta	6 persons
5.	Universitas Negeri Yogyakarta	4 persons
6.	Universitas Negeri Surabaya	4 persons

Source: Processed by authors

## 6. Findings

### 5.1. Instrument testing results

The validity test results indicated that all items of the variables Internal Auditor ( $X_1$ ), Leadership Style ( $X_2$ ), and Fraud Prevention and Detection ( $Y$ ) had  $r_{count}$  values higher than 0.3. It could be concluded then that 14 items in the variable Internal Auditor ( $X_1$ ), 16 items in the variable Leadership Style ( $X_2$ ), and 15 items in the variables Fraud Prevention and Detection ( $Y$ ) were valid. The measurement instrument in the form of questionnaire had a good validity level, meaning that it could be used to measure the variables investigated.

The reliability score of the questionnaire for the three variables as represented by the Cronbach's Alpha was greater than the critical value of 0.6. The test results showed that all of the questionnaire items used were reliable. It could be concluded that the instrument used to measure the variables Internal Auditor ( $X_1$ ), Leadership Style ( $X_2$ ), and Fraud Prevention and Detection ( $Y$ ) was able to produce consistent results.

### 5.2. Classical assumption test results

#### 5.2.1. Normality test

From the One-Sample Kolmogorov-Smirnov Test, a statistical test value of 0.127 with Asymp.Sig (2-tailed) of 0.183 was obtained. Based on the unstandardized residual, the data of the variables used in this research—Internal Auditor and Leadership Style—had a normal distribution. This was as shown by the value that was greater than the significance level of 0.05. As the data were normally distributed, they could be used for further analysis.

#### 5.2.2. Multicollinearity test

From the SPSS-assisted calculation, a value inflation factor (VIF) below 10 was obtained, namely 2.642. It could be concluded that the regression model equation proposed was free of multicollinearity and that there was no significant relationship between the independent variables.

#### 5.2.3. Heteroscedasticity test

The scatter plot demonstrates a given pattern or form. It can be seen that the points spread randomly and the data are evenly distributed on the X and Y axes. It could be concluded then that there was no heteroscedasticity in the linear regression model.

### 5.3. Descriptive analysis

Overall, the responses pertaining to Internal Auditor gained a score of 92.09% (high), Leadership Style 88.66% (high), and Fraud Prevention and Detection 88.82% (near high).

### 5.4. Multiple linear regression analysis

Based on Table 02, the multiple linear regression equation for the research data used was as follows:

$$Y = 9.600 + 0.428 X_1 + 0.479 X_2,$$

where

$X_1$  = Internal Auditor,

$X_2$  = Leadership Style, and  
 $Y$  = Fraud Prevention and Detection.

**Table 02.** Multiple linear regression analysis results

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	9.600	4.697		2.044	.050
	The Role of Internal Auditor (X1)	.428	.193	.357	2.221	.034
	Leadership Style (X2)	.479	.147	.523	3.255	.003

a. Dependent Variable: Fraud Prevention and Detection (Y)

Source: Processed using SPSS version 25

## 5.5. Hypothesis testing results

### 5.5.1. Partial testing (t-test)

The result of the testing (acceptance/rejection of  $H_0$ ) was determined by comparing the  $t_{count}$  to the  $t_{table}$ . The  $t_{count}$  was 2.221, greater than the positive value of the  $t_{table}$  of 2.040 ( $2.221 > 2.040$ ). Thus,  $H_0$  was rejected. The value of 0.034 was smaller than the significance level of 0.05. It could be concluded that the effect was significant. In other words, Internal Auditor had a significant effect on Fraud Prevention and Detection.

The result of the testing (acceptance/rejection of  $H_0$ ) was determined by comparing the  $t_{count}$  to the  $t_{table}$ . The  $t_{count}$  was 3.255, greater than the  $t_{table}$  of 2.040 ( $3.255 > 2.040$ ). Thus,  $H_0$  was rejected. The value of 0.003 was smaller than the significance level of 0.05. It could be concluded that the effect was significant. In other words, Leadership Style had a significant effect on Fraud Prevention and Detection.

### 5.5.2. Simultaneous testing (F-test)

The test result showed that the  $F_{count}$  was smaller than the  $F_{table}$  ( $35.574 > 3.305$ ) and that the p-value was significant as it was smaller than  $\alpha$  ( $0.000 < 0.05$ ). Consequently,  $H_0$  was rejected in favor of  $H_a$ . It was concluded that the simultaneous effect was significant. In other words, Internal Auditor and Leadership Style had a simultaneous effect on Fraud Prevention and Detection.

### 5.5.3. Coefficient of determination ( $R^2$ )

An R-squared value of 0.697 was obtained from SPSS-assisted calculation. In other words, the effect of Internal Auditor and Leadership Style on Fraud Prevention and Detection was 69.7%, while the remaining 30.3% was the effect of other factors not examined in this research.

## 5.6. Qualitative data analysis

It was found out that Fraud Prevention and Detection should be performed by a relevant party, in this case internal auditor, by overseeing the organization to ensure that risk control is in place.

Audit techniques became the greatest concern to the data sources in relation to the role of internal auditor in preventing and detecting fraud. The internal auditor team possesses special techniques to explore

and reveal fraud, including communications skills, interview, and support from existing systems like the whistleblowing system, to name just a few.

The trainings for the internal auditor team should be focused on the audit techniques as the audit techniques are indispensable and thus must be optimal. Besides, it is also important to have investigation techniques to improve expertise in fraud detection.

## 7. Conclusion

Based on the data analysis and discussion above, the following conclusions were drawn.

1. Internal auditor had a significant effect on fraud prevention and detection in state higher education institution environment. In other words, if the internal audit was enhanced, the prevention and detection fraud would be improved. In monitoring an organization's activity for the purpose of preventing and detecting fraud in state higher education institution environment, internal auditor held the most important role. In monitoring activity, internal auditor prepared a supervision program and audit schedule in the organization, then supervised the policies and programs existing in the organization. Internal audit took part in supervising the organization from the planning to the reporting, notably in financial and procurement aspects.

2. Leadership style had a significant effect on fraud prevention and detection in state higher education institution environment. In other words, the right leadership style applied would improve the prevention and detection of fraud. Participative leadership was the most appropriate leadership style to apply as it provided the greatest contribution to the prevention and detection of fraud in state higher education institution environment. Participative leadership consults subordinates and applies their recommendations and ideas in making decisions, thereby increasing their motivation and enabling direct recognition of arising problems through good communication which involves subordinates at all time.

3. Internal auditor and leadership style had a simultaneous, significant effect on fraud prevention and detection in state higher education institution environment. In other words, when the internal auditor was enhanced and the right leadership style was applied, the prevention and detection of fraud could also be improved. This means that internal auditor was not the only factor in the prevention and detection of fraud; sound leadership style would also be needed to support the organization in preventing and detecting fraud.

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