

The Influence of Professionalism, Effectiveness of Internal Control Systems, and Investigative Audits on Fraud Prevention in Government Institutions (Empirical Study at the Ambon City Inspectorate and the Maluku Province Inspectorate)

Jeffrey Gasperz¹, Pranatalindo Simanjuntak², Hardion Klief Solisa³, Vesly T Tuwaidan⁴

Department of Accounting, Faculty of Economics and Business, Pattimura University, Indonesia

Email: jeg66er@yahoo.co.id

Abstract

Keywords:

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This study aims to analyze the influence of auditor professionalism, the effectiveness of internal control systems, and investigative audits on fraud prevention in government institutions. The study was conducted on auditors at the Ambon City Inspectorate and the Maluku Province Inspectorate using a quantitative approach. Primary data were obtained through questionnaires distributed to 36 respondents and analyzed using multiple linear regression. The results show that professionalism, the effectiveness of internal control systems, and investigative audits have a positive and significant effect on fraud prevention. Theoretically, these results support the Fraud Diamond Theory, which states that factors such as ability, opportunity, pressure, and rationalization can be controlled by increasing auditor professionalism and strengthening internal control systems. The implications of this study emphasize the importance of risk-based investigative audits and strengthening internal controls to reduce the opportunities and abilities of perpetrators to commit fraud.

INTRODUCTION

Fraud in regional financial management is a major problem faced by local governments in Indonesia, including in Maluku Province. Fraud in the public sector can lead to a decline in public trust, budget inefficiency, and a reduced quality of public services. According to data from the Maluku Regional Police (Polda Maluku), 39 corruption cases have been uncovered in the past two years, with total losses reaching Rp 33 billion (Polda Maluku, 2023). This fact indicates persistent weaknesses in the internal control system and a lack of effective oversight by the government's internal supervisory apparatus (APIP), particularly the Ambon City Inspectorate and the Maluku Provincial Inspectorate.

One of the main factors in preventing and detecting fraud is the professionalism of internal auditors. Professional internal auditors possess high competence, independence, and integrity in carrying out their duties. This professionalism is key to ensuring that every regional financial transaction is conducted transparently and accountably. Research by Widaningsih (2017) shows

that the professionalism of internal auditors has a significant influence on fraud prevention efforts in the public sector.

Furthermore, the effectiveness of the internal control system is also a crucial factor in preventing fraud. A sound internal control system can ensure that government operational procedures comply with regulations and can detect irregularities early. Research by Soleman (2020) shows that the more effective the internal control system, the lower the likelihood of fraud within government institutions.

Investigative audits are also a crucial tool in uncovering cases of fraud that have already occurred. An investigative audit is a specialized audit process aimed at identifying and proving the existence of fraud within an entity. Akhtar et al. (2021) state that in-depth investigative audits can be an effective tool in uncovering fraud and providing recommendations for improving internal control systems.

While many studies have examined the role of professionalism, internal control effectiveness, and investigative auditing separately, this study offers novelty by combining these three variables into a single analytical model within the Ambon City Inspectorate and the Maluku Provincial Inspectorate. Thus, this study is expected to provide a more comprehensive understanding of how these three factors interact in fraud prevention efforts within local government.

Through this research, it is hoped that more effective strategies can be found to increase accountability and transparency in regional financial management, thereby reducing the level of fraud and increasing public trust in regional governments in Maluku Province.

Based on the above background, the research problem formulation is: 1) Does the professionalism of internal auditors influence fraud prevention? 2) Does the effectiveness of the internal control system influence fraud prevention? And 3) Does investigative audits influence fraud prevention?

THEORETICAL BASIS

Fraud Diamond Theory

Fraud Diamond Theory As stated by Wolfe & Hermanson (2004), fraud is influenced by four elements, namely: (1) pressure, (2) opportunity, (3) rationalization, and (4) capability. Fraud prevention can be done by narrowing opportunities and reducing the perpetrator's capabilities through an effective internal control system, as well as increasing the professionalism of auditors to suppress the rationalization of fraudulent actions.

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Auditor Professionalism

Auditor professionalism is the auditor's attitude and behavior in carrying out their duties based on expertise, responsibility, integrity, and independence to produce objective and accountable audits. Arens, Elder, and Beasley (2019) emphasize that professional auditors must adhere to audit standards and a professional code of ethics to provide assurance regarding the fairness of financial statements. Widaningsih (2017) explains that auditor professionalism is measured through five main dimensions: dedication to the profession, social obligations, independence, confidence in the profession, and relationships with fellow professionals. Auditors with high professionalism tend to have greater integrity, objectivity, and are able to identify indications of fraud early. Thus, auditor professionalism plays a crucial role in strengthening the internal control system and reducing the rationalization of fraud perpetrators, as explained in the Fraud Diamond Theory (Wolfe & Hermanson, 2004).

Effectiveness of Internal Control System (ISC)

The effectiveness of an internal control system (ISC) is the ability of an organization's system to provide reasonable assurance that financial management objectives can be achieved efficiently, in compliance with regulations, and free from irregularities. Based on the COSO (2013) framework, ISC effectiveness is measured through five main components: the control environment, risk assessment, control activities, information and communication, and monitoring. The stronger the ISC implementation, the lower the opportunity for fraud because this system functions as a prevention mechanism and early detection of irregularities (Soleman, 2020). Thus, ISC effectiveness is closely related to the opportunity element in the Fraud Diamond Theory, where an effective control system can reduce opportunities for perpetrators to commit fraud.

Investigative Audit

An investigative audit is a specialized audit aimed at proving and uncovering fraudulent acts through the collection of valid and accountable evidence. Singleton and Singleton (2010) define an investigative audit as a systematic process encompassing audit planning, evidence collection, analysis of suspicious transaction patterns, reporting of results, and recommendations for follow-up. According to Akhtar, Khan, and Fayyaz (2021), investigative audit indicators include the auditor's ability to detect fraud, analyze forensic evidence, report audit results, and follow-up investigations. Properly implemented investigative audits can suppress the capabilities of fraud perpetrators and strengthen prevention efforts in the public sector, as explained in the Fraud Diamond Theory (Wolfe & Hermanson, 2004).

Fraud Prevention

Fraud prevention is a systematic effort undertaken by organizations to prevent fraud through the implementation of effective policies, ethics, and oversight mechanisms. According to Wolfe and Hermanson (2004), fraud prevention can be achieved by controlling four main elements that cause fraud: pressure, opportunity, rationalization, and capability. Fraud prevention in government institutions is measured through several indicators, namely the implementation of anti-fraud policies, employee integrity and ethics, reporting transparency, the effectiveness of internal oversight, and the enforcement of sanctions and follow-up (Ghozali, 2021). With effective fraud prevention practices, public organizations can create a work environment that is characterized by integrity, transparency, and free from financial irregularities.

METHODS

This study used a quantitative approach with a survey method. The study population was all auditors of the Ambon City Inspectorate and the Maluku Province Inspectorate (36 respondents). The sampling technique used saturated sampling because the entire population was sampled. Data were collected through a 5-point Likert scale questionnaire and analyzed using multiple linear regression with the help of SPSS 26.0.

Analysis model:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Information:

Y = Fraud Prevention

X₁ = Auditor Professionalism

X₂ = SPI Effectiveness

X₃ = Investigative Audit

RESULTS AND DISCUSSION

This research was conducted at the Ambon City Inspectorate and the Maluku Province Inspectorate with 36 auditors as respondents. This study aims to analyze the influence of Professionalism (X₁), Internal Control System Effectiveness (X₂), and Investigative Audit (X₃) on Fraud Prevention (Y). Data were obtained through the distribution of a questionnaire containing 28 statements arranged based on the indicators of each variable with a Likert scale of 1–5.

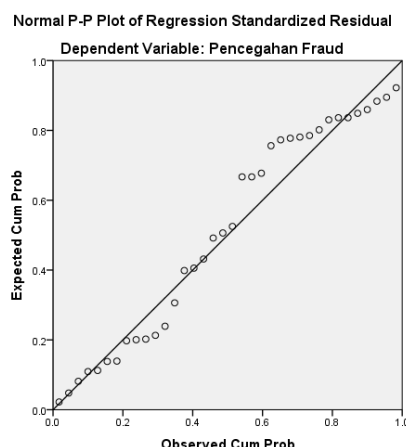
Normality Test

The normality test aims to determine whether the residuals of a regression model are normally distributed. This normality assumption is important in classical linear regression because it affects the validity of the t-test and the t-test.

Based on the results Normality test using the Normal P–P Plot of Regression Standardized Residual graph on the dependent variable Fraud Prevention, shows that the data points are spread around the diagonal line and follow the direction of the line. This pattern indicates that the residuals of the regression model are normally distributed. Thus, the normality assumption is met and the regression model is suitable for use in hypothesis testing.

This result is in accordance with the opinion of Ghozali (2021) who stated that normality is fulfilled if the points on the P–P Plot graph are around the diagonal line.

Figure 1.
 Normal P–P Plot of Regression Standardized Residual graph



Heteroscedasticity Test

The heteroscedasticity test was also carried out using the Glejser Test method, namely by regressing the absolute value of the residual against the independent variables used in the regression model.

Table 1.
Heteroscedasticity Test

Model	Coefficients ^a					
	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.	
	B	Std. Error				
1	(Constant)	-7,360	3,964		-1,857	.073
	Professionalism	.444	.133	.330	3,345	.002
	SPI Effectiveness	.339	.121	.329	2,794	.009
	Investigative Audit	.504	.123	.429	4.104	.000

a. Dependent Variable: Fraud Prevention

Based on the test results shown in Table 1, the significance value (Sig.) for the Professionalism variable is 0.355, SPI Effectiveness is 0.522, and Investigative Audit is 0.958. All significance values are greater than 0.05, so it can be concluded that there is no heteroscedasticity in the regression model.

Multicollinearity Test

Based on the analysis results shown in Table 2, the Tolerance values for the variables Professionalism, Internal Control System Effectiveness, and Investigative Audit are 0.707, 0.495, and 0.630, respectively, while the Variance Inflation Factor (VIF) values are 1.414, 2.021, and 1.588, respectively. Since all Tolerance values are greater than 0.10 and the VIF value is less than 10, it can be concluded that there is no multicollinearity between the independent variables.

Table 2.
Multicollinearity Test

Model	Coefficients ^a						Collinearity Statistics	
	Unstandardized Coefficients		Standardize d Coefficients	t	Sig.			
	B	Std. Error	Beta			Tolerance	Tolerance	
	(Constant)	-7,360	3,964		-1,857	.073		
1	Professionalism	.444	.133	.330	3,345	.002	.707	1,414
	SPI Effectiveness	.339	.121	.329	2,794	.009	.495	2,021
	Investigative Audit	.504	.123	.429	4.104	.000	.630	1,588

a. Dependent Variable: Fraud Prevention

t-test

Based on the results of multiple linear regression analysis in Table 3, it is known that the variables Professionalism, Effectiveness of Internal Control System (SPI), and Investigative Audit have a positive and significant effect on Fraud Prevention.

The Professionalism variable has a t-value of 3.345 with a Sig. of 0.002, SPI Effectiveness has a t-value of 2.794 with a Sig. of 0.009, and Investigative Audit has a t-value of 4.104 with a Sig. of 0.000. All Sig. values are smaller than 0.05, so all three hypotheses are accepted..

Table 3.

t-test

Model	Unstandardized Coefficients			Standardized Coefficients	t	Sig.
			Beta			
	B	Std. Error				
	(Constant)	-7,360	3,964		-1,857	.073
1	Professionalism	.444	.133	.330	3,345	.002
	SPI Effectiveness	.339	.121	.329	2,794	.009
	Investigative Audit	.504	.123	.429	4.104	.000

a. Dependent Variable: Fraud Prevention

Discussion

The Influence of Professionalism on Fraud Prevention

The analysis results show that auditor professionalism has a positive and significant effect on fraud prevention, with a t-value of 3.345 and a Sig. 0.002 < 0.05. This means that the higher the level of professionalism of internal auditors within the Ambon City Inspectorate and the Maluku Provincial Inspectorate, the more effective the auditors are in preventing fraud. This empirical fact is in line with conditions in Maluku Province, which still recorded 39 corruption cases with total losses reaching IDR 33 billion (Maluku Regional Police, 2023), indicating the still weak implementation of ethics and integrity of supervisory apparatus.

From the perspective of the Fraud Diamond Theory, auditor professionalism plays a crucial role in suppressing rationalization and capability. Auditors with high integrity are less likely to rationalize fraudulent acts, while their competence and expertise enable them to more accurately recognize fraud patterns. This is consistent with the view of Arens, Elder, & Beasley (2019) that professionalism encompasses integrity, objectivity, and technical competence, which serve as barriers to fraud opportunities.

This research reinforces the findings of Widaningsih (2017), which demonstrated that internal auditor professionalism significantly influences fraud prevention efforts in the public sector. Therefore, improving internal auditor professionalism is a strategic step in building an ethics- and competency-based oversight system, ultimately reducing the ability and justification for perpetrators to commit fraud, as explained in the Fraud Diamond Theory.

The Influence of the Effectiveness of Internal Control Systems on Fraud Prevention

Based on the t-test results, the calculated t-value was 2.794 with a Sig. $0.009 < 0.05$, indicating that the effectiveness of the internal control system has a positive and significant effect on fraud prevention. This means that the more effective the implementation of the internal control system within the Inspectorate, the lower the chance of financial irregularities occurring. This condition aligns with the phenomenon of weak internal oversight mentioned in the background, where budget misuse and violations of administrative procedures still occur in several work units in Maluku.

Within the Fraud Diamond Theory framework, an effective internal control system serves to reduce the opportunity for fraud. A robust control system—such as segregation of duties, transaction authorization, and internal audit mechanisms—reduces the scope for individuals to manipulate financial statements or misappropriate state assets. This aligns with the COSO (2013) framework, which emphasizes the importance of the control environment, control activities, and risk monitoring in preventing fraud.

This research finding aligns with Soleman's (2020) findings, which show that the effectiveness of internal control systems negatively impacts fraud rates in government institutions. In other words, the more effective the internal control system, the lower the opportunity for fraud. Therefore, strengthening internal control systems is a concrete effort to reduce the "opportunity" factor, as explained in the Fraud Diamond Theory, while simultaneously supporting transparent and accountable governance.

The Impact of Investigative Audits on Fraud Prevention

The results of the regression analysis show that investigative audits have a positive and significant effect on fraud prevention, with a t-value of 4.104 and a Sig. $0.000 < 0.05$. This means that the more optimal the implementation of investigative audits within the Ambon City Inspectorate and the Maluku Provincial Inspectorate, the greater their contribution to fraud prevention efforts in local government. Empirical facts show that a number of corruption cases in Maluku were only uncovered after an investigative audit was conducted, indicating the importance of this audit's role in identifying irregularities in a more in-depth and evidence-based manner.

Based on the Fraud Diamond Theory, investigative audits play a role in reducing the capability and opportunity of fraud perpetrators. Through an in-depth, risk-based investigative audit approach, auditors are able to uncover the methods, patterns, and opportunities for fraud that cannot be identified through routine audits. According to Singleton & Singleton (2010), investigative audits function not only as a detection tool but also as a preventative mechanism that reduces the perpetrator's ability to commit fraud.

CONCLUSION

Based on the analysis results, it can be concluded that auditor professionalism, the effectiveness of the internal control system, and investigative audits have a positive and significant effect on fraud prevention in the Ambon City Inspectorate and the Maluku Province Inspectorate. This indicates that the higher the level of auditor professionalism, the more effective the internal control system, and the more optimal the implementation of investigative audits, the stronger the fraud prevention efforts in the local government environment. This finding emphasizes the importance of strengthening auditor capacity through continuous training, increasing integrity and independence, and implementing risk-based investigative audits. Therefore, it is recommended that the Inspectorate strengthen the role of the Government Internal Supervisory Apparatus (APIP) in promoting an anti-fraud culture through improving audit quality, information technology-based supervision, and implementing an effective whistleblowing system to realize clean, transparent, and accountable governance. Further research is recommended to expand the scope of respondents to other districts/cities in Maluku Province or in Eastern Indonesia to obtain more representative results. In addition, future researchers can add other variables such as whistleblowing systems, organizational culture, and individual morality that have the potential to influence fraud prevention in the public sector.

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