

# Fraud Prevention: A Study In Regional Public Service Agency (BLUD) For Hospital In Malang Regency, Indonesia

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**Abstract:** This study aims to understand the effect of management perceptions in Regional Public Service Agency (BLUD) for Hospital in Malang regency, Indonesia on the role of the Independent Auditor and their understanding towards Good Governance, the General Audit Engagement and its implications for the prevention of corruption. This research is quantitative, which placed latent variables General Audit Engagements as intervening variables. Partial Least Square (PLS) is used to confirm the model created in order to explain the relationship between variables. The results show that the perception of BLUD hospital management on the role of independent auditors and their understanding of good governance to give effect to the implementation of the audit engagement, and the implications for the prevention of fraud in BLUDs hospital. This is consistent with the theory of auditing and fraud prevention concepts. JEL Classification: M420, K420

**Keywords:** Perception, Independent Auditor, Good Governance, General Audit, Fraud Prevention.

## 1. Introduction

In the development pattern of management of local government, hospitals experience several changes in its pattern from the model of work units, self-financing, up to the last del which is Regional Public Service Agency (BLUD). Those changes lead to the orientation of authority change in the financial governance of the hospital. In the past, financial hospital had to be incorporated firstly into the Regional Treasury, then the hospital would periodically propose the budget to the local governments for hospital operations. At this time, a hospital can accommodate its income and spend it directly without deposit some cash to regional treasury. This meant that the services provided by the hospital to the patient can be performed optimally, especially with regard to activities that are routine operational activities. While for the activity related to investment, it must be approved firstly in a plenary meeting with local government and parliament. With the flexibility and authority given to the Regional Public Service Agency (BLUD) for Hospital today, it demands for transparency and accountability in financial management in order to achieve good corporate governance. The embodiment of transparency and accountability is based on the rule stated in the Government Regulation (PP) No. 23 of 2005, declaring his or her willingness to do financial reports audit done by an independent auditor. Independent auditor mentioned in that rule ISA public accounting firm. Involving an independent auditor is an effort to prevent the occurrence of fraud in the entity.

The current phenomenon is that some hospitals refuse to conduct general audit although it is already stated in the PP. No. 23, 2005. Some BLUD hospitals are also indicated in corruption cases, similar to the cases happened in Nganjuk and Ponorogo regency as reported by online and printed media. In Malang regency, the setting of this study, there are two BLUD hospitals owned by the Government of Malang Regency. Those are Lawang hospital and Kanjuruhan hospital. Lawang hospital is categorized as BLUD hospital type C while Kanjuruhan hospital is type B. Lawang hospital has done general audit with the help of independent auditor. In contrast, Kanjuruhan hospital which is located in Kepanjen did not conduct general audit because the people in charge in Kanjuruhan hospital claimed that their hospital has been checked routinely by Supreme Audit Agency (BPK). Although the scope of the audit performed by BPK and independent auditor (AUDIT FIRMS) is different, BPK focuses on compliance audit while AUDIT FIRMS focuses on general audit based on BLUD monthly financial report, Kanjuruhan hospital still insists not to follow the rule stated in PP. No. 23, 2005. That behavior inflicts Kanjuruhan hospital reputation in the eyes of BPK and hospital accreditation team.

## 2. LITERATURE REVIEW

### 2.1. Auditing and Auditor Independence

Arens, Elder, Beasley (2012) define auditing as accumulation and evaluation of evidence about information to determine and report the degree of correspondence between the information and the criteria set. Auditing should be performed by a competent and independent person. To conduct the audit, there must be information in the verified form with some standards or criteria in which the auditor can evaluate the information. Information can be or cannot be vary in forms. Regular auditor is performed for financial information, including financial statements and income tax. The auditor also audits the subjective information, such as the effectiveness of computer system and the efficiency of manufacture operations. Furthermore, William F. Messier, Jr., Steven M. Glover, Douglas F. Prawitt., (2008), define auditing as the systematic objective process to obtain and evaluate the evidence regarding assertions about economic

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actions and events to ascertain the degree of correspondence between statements and defined criteria in order to communicate the results to interested users. Auditor compares the evidence gathered for the statement of economic activities in order to assess the degree of correspondence between the statements and the defined criteria. Some set of criteria may have been available in a variety of settings. General accounting principles that are often used for compiling financial statements act as the basis for the auditor to assess the management's statement. Rick Hayes, Roger Dassen, Arnold Schilder, Philip Wallage. (2005) state that audit is a systematic approach. Audit follows the structured and documented plan. In the process of auditing, accounting records are analyzed by the auditor using various techniques that are commonly used. Audits should be planned and structured so that for those who conduct an audit can examine and analyze all the important evidence. Audits were conducted objectively. Auditor is an independent, objective and expert in the examination and evaluation of evidence. During auditing, the auditor must be fair and he or she also does not allow prejudice or bias which can affect their objectivity. They maintain an attitude of impartiality. From the definitions above, it can be synthesized that auditing is the process of verifying the economic management statement in the form of assertions which is connected to the defined criteria (in standard form) assigned by independent and competent people to provide reliable information about the management's assertions. The independence and competence are the key words in auditing. The definition of independence attached to the words of Independent Auditor, is an important prerequisite for the auditor to perform auditing. It is important because the products produced by auditors in the audit are independent accountants' general opinion which aim to perform the opinion about the credibility of the assertions in the financial statements presented and be the responsibility of the management. If accountants are deemed as non-independent, then the product produced in the form of the auditor's opinion would not provide any additional (Mautz and Sharaf, 1961). Related to the auditor independence, some of the literatures reveal that the credibility of financial statements depends on the perception of the users of financial statements, conducted by an external auditor (Firth, 1980). A study conducted by Firth (1980), claimed that if auditors cannot perform their independence, the financial statements users are more likely to distrust the financial statements produced by the auditor and the auditor's opinion on the entity financial statements become worthless. An auditor's credibility depends not only on the independence in fact, but also depends on independence in the perception/appearance, in order to preserve and maintain the public's trust and his profession as an auditor (Pany and Reckers, 1980). The majority of existing empirical studies on the perception of the independence which focus on identifying factors that can potentially affect the independence and assess their impact on the perception of independence. That is because the actual independence is not easy to observe. Several studies have tried to find a relationship between these factors with the independence of the auditor, whether they are significantly related or not, whether related positively or negatively (Pany and Reckers, 1980). The other groups have tried to create a ranking

based on the degree of influence on the perception of auditor independence (Shockley, 1981; Bartlett, 1993).

## 2.2.Fraud and Fraud Prevention

Auditing standards-based ISA (International Standards on Auditing) which is currently implemented in Indonesia, provides guidance for the auditors to be able to detect misstatements materials in the financial statements, whether due to error or for fraud. The duty of auditors at this time is to be able to express the possibility of fraud through audits. Cheating or fraud is defined by Bologna, G. Jack, Joseph T.Wells, Robert J.Lindquist (1994), as the criminal fraud that intends to provide financial benefit to the fraudster (Fraud is a criminal deception intended to financially benefit the Deceiver). Criminal here means any act of serious errors committed to malicious intent. As the result from the evil acts he obtained the benefits and harm the victim financially. Albrecht (2012: 6) in his book "Fraud examination" states that: "Fraud is a generic term, and Embracing all the multifarious means the which human ingenuity can devise, the which are resorted to by one individual, to get an advantage over another by false representations. No definite and invariable rule can be laid down as general proportion in defining fraud, as it includes surprise, trickery, Cunning and unfair ways by the which another is cheated. The only boundaries defining it are human limits roomates reviews those knavery". Association of Certified Fraud Examiners (ACFE) is an anti-fraud organization in the world and as a major provider of education and training of anti-fraud. ACFE defines fraud (fraud) as an act of fraud or mistakes made by the person or entity who knows that the mistake can result in some benefits either to individuals or entities or any other party. Fraud prevention according to Amrizal (2004), can be done by: (1) Building a good internal control structure. (2) Making of control activities. (3) Improving the organization's culture through information processing. (4) Effecting the function of internal audit. Furthermore, Amrizal states that one of the most effective way to prevent fraud is through the improvement of the internal control system. In this case, the most responsible internal control is the management of an organization. In order to prevent fraud, efforts should be made to make the perpetrators of fraud do not dare to commit fraud. If fraud occurs, then the impact from fraud is expected to be minimized. The internal auditor is responsible for helping prevent fraud by testing the adequacy and effectiveness of internal control systems and evaluating how much potential risks have been identified. In the implementation of the performance audit, financial audit, and operational audits, internal auditors should identify the fraud symptom in the form of a red flag or a fraud indicator. This becomes important, so that in case of fraud, the internal auditors can be more easily to conduct an investigation of the fraud. The second step is performed through effecting control activities by reviewing the performance which includes a review of actual performance compares to the budgets, estimation, or the performance from the previous period; connecting a series of different data operations or financial together with the analysis of the relationship and actions of investigation and repair; and reviewing the functional performance or a credit manager's activity on the company branch report about approval and loan collection. The third is done through increasing the

organization's culture through information processing. Various controls are performed to check the accuracy, completeness, and authorization of transactions. Two broad groupings of information systems control activities are general control and application control. General controls generally include controls over data center operations, processing and maintenance of software systems, access security, development and maintenance of application systems. This controls applied to mainframe, minicomputer and the end users environment. It also helps to define that the transaction is legitimate, properly authorized, and completely and accurately processed. Another important aspect is physical control. Physical control activities includes the physical security of assets, custody facilities which are adequately protected from access towards assets and records; access authorization to computer programs and data files; and periodic calculation and comparison with the amounts listed in the records of the controller. Separation of duties is the next step in making the construction of an organization's culture through information processing. Imposition of responsibilities to different people to give authorization, transaction records, organizes storage assets that are aimed to reduce the chance for someone to cheat and hide mistakes and also errors in fulfilling the regular duties. The final thing is streamlining the internal audit function. Although internal auditors cannot guarantee that fraud will not happen, he must use his skills precisely to detect fraud and to provide helpful suggestions to the management about fraud prevention. One of previous studies which took hospitals theme is conducted by Lewis, Maureen (2006), in her research she was questioning about the factors affecting the provision of health services in developing countries. Lewis' paper explains about factual evidence to describe the main challenges in facing health care in developed countries, including attendance, corruption, levies, and mismanagement. The researcher concludes that good governance is essential in ensuring the provision of effective health services, and the one who is responsible for returning the low investment in health is when governance issues has not been addressed. Vian, Taryn (2008), in their study state that there is an awareness increase among the policy-makers, planners and donors about how corruption affects health care access and outcomes, and what can be done to fight corruption in the health sector. There are some attempts to explain the risk of misuse of entrusted power for private benefits. Researchers had examined the relationship between corruption and the various aspects of management, financing and governance. Experts in behaviorism and anthropology also provide clues about the individual characteristics and social factors that affect the behavior of government agents and clients. Researchers present a comprehensive framework and a set of methodologies to describe and measure how opportunity, pressure and rationalization influence on corruption in the health sector. This study also discusses the implications for intervention and provides examples of how the theory has been applied in research and practice. Challenges to adjust anti-corruption strategy for a particular context and future directions for research are also proposed. Research conducted by Suwardi and Neni (2015) on the Influence of Internal Audit and Accountability HR to the embodiment of Good Governance in the Public Service Agency

(BLUD/BLU) in Sleman hospital concludes that (1) Audit Internal has positive effect on the achievement of good governance in Sleman hospital; (2) Accountability of human resources has positive influence on the achievement of good governance in Sleman Hospital. Masniar Elisabeth (2009) conduct a study on the Influence of Good Corporate Governance towards the patients' satisfaction in Dr.Cipto Mangunkusomo hospital in Jakarta. The study aims to determine the effect of applying GCG which consist of transparency, accountability, responsibility, and fairness simultaneously or partially towards patients' satisfaction. Febriana Puspa Dewi and Rosidi (2010) conduct a study to find out about the implementation of financial management of Public Service Board which has been applied in General Hospital of Nganjuk and their impact on service performance. The study used a descriptive approach. Nganjuk Hospital has developed and implemented all the administrative requirements of the CO-BLUDs including Governance pattern, Strategic Business Plan, Business Plan Budget, Minimum Service Standards, and Financial Statements. The result of that study shows that each year the hospital has potential to increase in revenue. Results of Public Satisfaction Index (HPI) shows that there is an increase per year and in 2012 the quality objectives has been achieved. The result of efficiency assessment indicators of service each year shows an increase and a positive trend with service utilization increasing. The current obstacle in BLUD hospital which affects the service is the insufficient knowledge of financial management performed by the employees. The number of facilities and infrastructure is not adequate for all the patients which increase day by day. Therefore, the infrastructure still needs to be improved for better service. Research on the audit in relation to the prevention of fraud was conducted by Azwar Anwar (2013), it focused on the role of internal control system (SPI) towards the achievement of unqualified opinion (WTP) and corruption prevention through implementing good university analysis (Analysis of Literature Studies). The research is qualitative research that aims to explain the phenomenon of the role of the Internal Audit Unit (IAU), Good Governance, an independent audit opinion and the prevention of corruption. The results show that the optimal role of SPI can support the implementation of audit, so that the opinion on the financial statements can be unqualified opinion (WTP). WTP is the mirror of the order and the administration rules of financial management with sufficient level of accountability and transparency. WTP is not a guarantee free of corruption because corruption can be shrouded in an orderly and systematic process. Another study was conducted by a team of researchers from the University of Bengkulu (2013), entitled the role of SPI at State University of Indonesia. In that study, it is explained that the public university as a government work unit which manages public funds is required to improve accountability in achieving good university governance. Internal audit or Internal Control Unit (SPI) are needed in that process. The roles of SPI are more likely determined by management commitment as supervisor. The results of this study show a difference between the audit scope of State Universities (PTN) and non BLU; and different perceptions on the role of SPI itself in State University and non BLU. However, there is no difference between the area of internal audit in state

university and non BLU. There is also no difference in perception between the management of the State SPI and non BLU. The role of the independent auditor as a supervisor on duty is to maintain the security of assets from undue abuse, ensure financial accountability reports are recorded and reported in accordance facts of events; make sure the activities and the rules which have short-term and long-term effect. That role is done in order to bring transparency and accountability, which sometimes lead to conflict of interest with the management, so that the role may cause a range of perceptions of management. If the management perception on the role of the independent auditor is perceived positively, it can be said that the perception of the role of management run by an independent auditor is supported, so there is an intention to routinely carry out general audits. That matter has an implications for the prevention of fraud and vice versa.

### 2.3. Perception

One of the concepts examined in this study is about perception. The terminology of perception according to Kreitner and Kinicki (2005: 208) is "a cognitive process that allows one to interpret and understand the surrounding environment based on the best understanding". Matlin and Solso in Suharnan (2005: 23) in Denis and Megasari (2012), argues define that "Perception is a process of using the knowledge that they have saved in memory in order to detect and interpret the stimulus received by the senses such as the eyes, ears and nose". Rahmat (2005) mentions that perception is divided into two forms: positive and negative, if the object is perceived according to the appreciation and acceptable rational and emotional then people will perceive it positively or tend to like and respond according to the object perceived. If it is not, the appreciation will make negative perceptions or tend to avoid, resist and respond adversely to the objects of perception. Robbins (2002) adds that a positive perception is an individual assessment of an object or information with a positive outlook or as expected from the object perceived or of the existing rule. Meanwhile, the negative perception of the individual's perception of objects or certain information with a negative view, contrary to what is expected of the object perceived, or of the existing rule. Leavitt (1997) argues that people tend to look at things that they think will satisfy their needs, and ignore things that are considered detrimental / disturbing. Davidoff (1988) adds that the interpretation is strongly influenced by the personal characteristics of the offender's perception, among other attitudes, motives / needs, interests / interests, past experience and expectations. The process of perception involves interpretation resulting perception results from one person to another person of a different nature (individualistic). According to Robbins (2002) psychological state becomes very involved in the process of interpretation or the interpretation of the stimulus, so it may make individual perception becomes different from other people, even though the object or the stimulus are the same. Another research which uses perception among other variables was conducted by Emanuela Novieyanti Deasy (2006), entitled "The Perception of Employees' towards the Role of Internal Audit in St. Carolus Health Care in Jakarta". This study aims to determine the employees' perception of the role of internal audit whether as a supervisor,

consultant, or a catalyst. The result of the analysis states that the perception of employees, internal audit's role as consultants are the most important. Listiatik (2007) conducts a research entitled "Employee Perceptions About the Role of the Internal Auditor" (Case Study at Panti Rini Hospital). The result of the analysis in this study states that the employees' perception on the role of the internal auditor as a consultant is in the first rank with a total score of 1,215 or 34.7%. Employee perceptions of internal auditors as a supervisor is in the second rank with a total score of 1,166 or 33.3%. Employee perceptions about the role of internal auditors as a catalyst ranks third with a total of 1,121 or 32%. Management perception of BLUDs hospital is a response from the management to anything or process about something, and the management knows and understands some things through its senses. In other words, perception is a process where a management looks at an object and tries to interpret what is seen and felt. Perception management is influenced by several factors, including the Locus Of Control (Rotter, 1966), Actors perception, Target perception and situation (Robbins, 2001). Perception of hospital management is needed to determine the role that is run by an independent auditor in BLUDs hospital. The concept of locus of control which is firstly formulated by Rotter is based on social learning theory. Within this theory, Rotter presents three major aspects of a potential behavior, expectations and values of the amplifier. According to Rotter locus of control is a person's belief of the events in his life, whether the events that happened to him is controlled by the power his or herself or from the outside. In this concept, Rotter distinguishes between the external and internal locus of control. Someone who has the belief that his life is determined by chance, luck and good fortune is said to have an external locus of control. While someone who has the belief that his life is determined by the strength and potential of the business is said to have an internal locus of control.

### 2.4. Good governance

In accordance with Government Regulation (PP) No.23 of 2005, with BLU organizational, it is expected that the Hospital (RS) has a flexible Financial Management (PPK) access to implement healthy business practices in order to improve services to the public. Conducive business practices is the implementation of organizational function based on the principles of good management (good corporate governance) in the context of the provision of quality services and sustainable. Good corporate governance is a concept for hospitals to improve transparency and accountability in order to ensure that the goals can be achieved with the use of hospital resources as efficiently as possible, the hospitals are allowed to manage their finances PPK-BLU if they meet various requirements, namely:

1. Substantive can be fulfilled, i.e. when the relevant government agencies held a public service related to: (a) the provision of goods and / or services in general. (B) Management of areas / regions. (C) Management of special funds.
2. Technical can be fulfilled, i.e. when the service performances in accordance with its duties and functions are decent, well-managed. It is also by

improving performance through the achievement of BLU, as well as the financial performance of the agencies concerned work units: healthy.

3. Administrative can be fulfilled i.e. if it can present the document;
4. Commitment to improve service performance, financial, and increase the benefits for the community;
5. The pattern of governance;
6. The strategic plan of the business;
7. The financial statements of the principal;
8. Minimum standards service;
9. The last audit report or statement is willing to be independently audited.

The World Bank provides a definition of governance as the way governments manage the social and economic resources for the benefit of community development, while the United Nations Development Program (UNDP) focuses more on how the country manage by considering the political aspect which refers to the policy-making process; Economic aspects which refers to the decision-making process that has implications for issues of equity, poverty reduction, and improving the quality of life; and the latter referring to the administrative aspects of policy implementation system. UNDP provides some characteristics of good governance, including transparency, responsiveness, consensus orientation, equity, efficiency and effectiveness, and accountability. Daniri (2005) argues that in general there are five basic principles embodied in good governance: transparency, accountability, responsibility, independence and equality / fairness. However, in Regulation minister of the interior (Permendagri) article 61 In 2007, the principles which are required to be implemented only the first four principles.

### 2.5. Stewardship Theory

Two main theories related to good governance are: Stewardship Theory and Agency Theory (Chinn, 2000; Shaw, 2003). Stewardship theory is built on philosophical assumptions about human nature that human beings are essentially trustworthy, able to act with full responsibility, integrity and honesty of the other party. This is implicit in the desired fiduciary relationship of the shareholders. In other words, stewardship theory views management as a party that can be trusted to act in the best possible way for

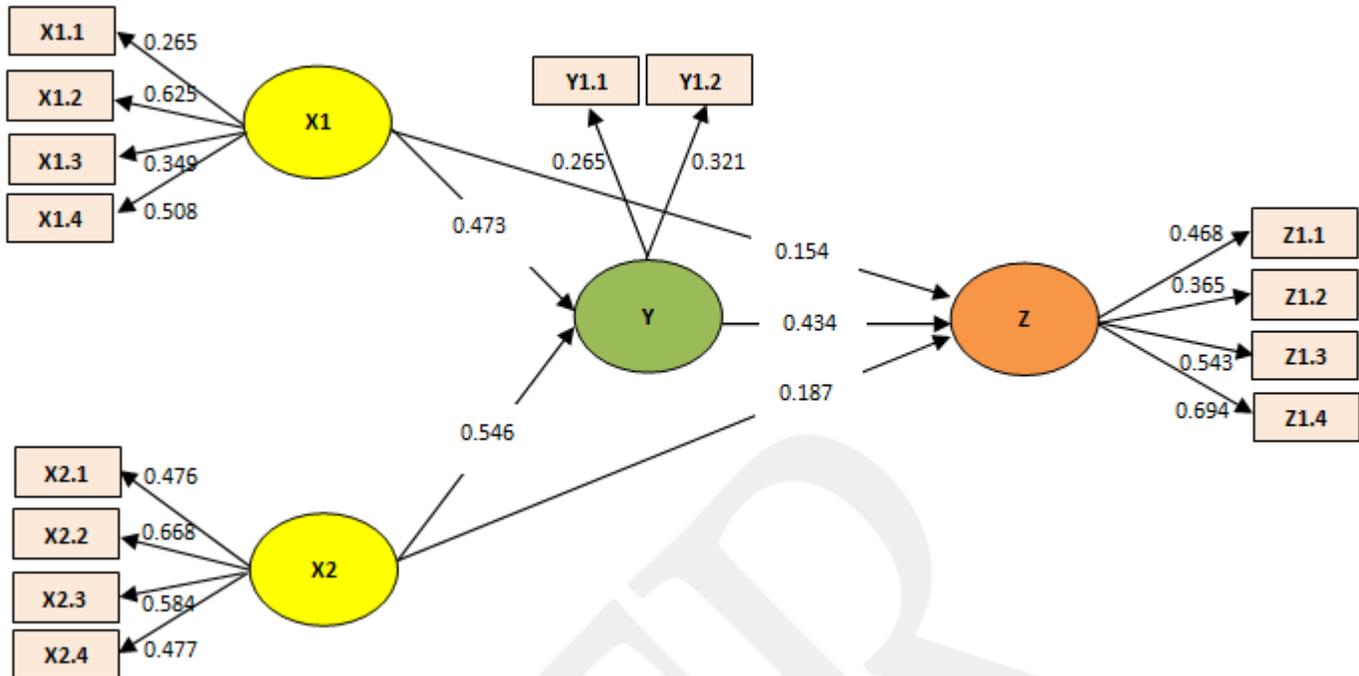
the benefit of the public or stakeholders. Implications Stewardship theory in this paper is the steward (in this case is the hospital management) will work as well as possible for the benefit of the principal (community and government).

### 2.6. Agency Theory

Agency theory was proposed by Jensen and Meckling in 1976. Agency theory describes the relationship between shareholders and management of business entities that are described in the relationship of principal and agent. Agency theory is a theory that addresses issues related to the relationship of principal and agent, as well as the separation of ownership (ownership) and control (control) in the enterprise. Agency theory analyses the interests and behaviors of those who act as decision maker (agent), for others acting as a conduit of authority (principal), with the intention that the agent act and make decisions in accordance with the interests of the giver as the principal authority. Jensen and Meckling (1976) define an agency relationship (agency relationship) as a contract in which one or more people (the owner or principal) bind to another person (the agent) to perform some service on his behalf and involves delegating some decision makers to the agent. Implications of agency theory in this paper is that the agent (management) will carry out its duties under the contract or government regulations and statutes of the hospital if surveillance activities are carried out properly. Eisenhardt (1989) uses three assumptions of human nature in order to explain the agency theory, namely: (1) Humans in general selfishness (self interest), (2) Human beings have limited power of thought on the perceptions of the future (bounded rationality), and (3) Human beings always avoid the risk (risk averse). In addition, agents can also perform shirking & perk (profit of non-financial) for opportunistic actions (Watts & Zimmerman, 1986: 184). Based on the assumption that human nature, in this case the manager or managers of the hospital as humans, are likely to act on opportunistic nature.

## 3. THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

Based on the explanation above, the theoretical conceptual framework in this study can be described as follows:



**Figure 1. Theoretical Framework**

Based on the theoretical concept of Jensen and Meckling (1976), Watts and Zimmerman (1986), and Eisenhardt (1989) about the agency theory and the properties of opportunistic of human self-interest, there is a conceptual framework which relates elements of perception management BLUDs hospital on the role of the auditor general audit engagement. Perception management is influenced by several factors, including the Locus Of Control (Rotter, 1966), Actors perception, Target perception and situation (Robbins, 2001). Perception of the role of hospital management which is run by an independent auditor in BLUDs hospital is needed to excavated because it drives their actions in doing or not doing general audit engagements. Two main theories related to good governance: Stewardship Theory and Agency Theory (Chinn, 2000; Shaw, 2003), are used to connect the concept of understanding BLUDs hospital management on good governance to the general audit engagement. Five basic principles by Daniri (2005) are embodied in good governance, namely transparency, accountability, responsibility, independence and equality / fairness, as well as the four basic principles of good governance according to Permendagri 61 in 2007, are also used. Opinions from Chinn (2000) and Shaw (2003) on the use of stewardship theory and agency theory with regard to good governance are also used to describe the relationship between management perception of the role of the independent auditor on the prevention of fraud, as well as the relationship between management understanding on good governance to the prevention of fraud. Theory Schiavo-Campo and Tomasi (1999), Stanbury (2003), as well as Mardiasmo (2006) on accountability also explain the relationship. Research by Ali Mansouri, Reza Pirayesh, Mahdi Salehi (2009) on the Audit and Audit Quality Competence: Case in Emerging Economy, reveals that IACPA specialization influences the detection of fraud, in addition to the competence of member IACPA affects the

ability to detect fraud. The quality decrease of auditor independence is the main cause of many events and company collapse or the corporate scandals around the world. Without independence, the quality of engagement and detection by Auditor General on fraud become questionable. IAASB-IFAC (International Auditing and Assurance Standards Board), 2013, which issued auditing standards, provides guidance on the auditor's duty to detect fraud at the top of each general audit engagement. Theories and references from previous research provide an explanation of the relationship between the concept of general audit engagement and fraud prevention. The Figure 1 above describes the relationship of the conceptual framework of the study. From the theoretical framework and the above description, the hypothesis formulated in this study are:

**H1:** Perception management of hospital public service agencies on the role of the independent auditor general affects the audit engagement.

**H2:** Management understanding of hospital public service agencies on good governance affects the general audit engagement.

**H3:** Management understanding of hospital public service agencies on the role of independent auditors affects the prevention of fraud through general audit engagement.

**H4:** Management understanding of hospital public service agencies on good governance affects the prevention of fraud through general audit engagement.

**H5:** Management perception of hospital public service agencies on the role of independent auditors affects the prevention of fraud.

**H6:** Management understanding of hospital public service agencies on good governance affects the prevention of fraud.

**H7:** Engagement audit general affects the prevention of fraud.

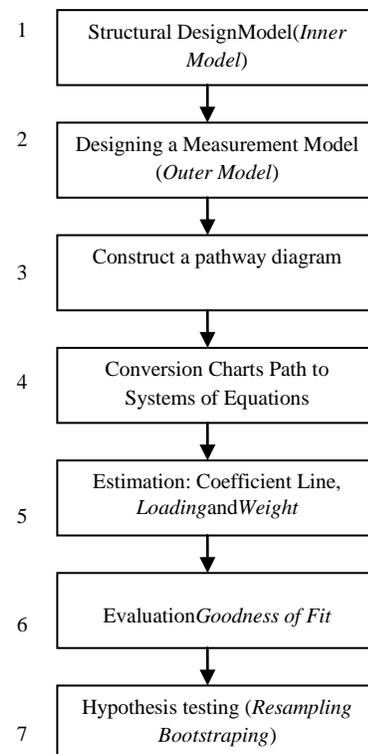
#### 4. RESEARCH METHOD

The purpose of the study is descriptive explanatory with the aim to be able to explain the characteristics of the variables studied better. Explanatory descriptive study was conducted to provide an overview to the researcher's history or to describe those aspects that are relevant to the phenomenon of attention from the perspective of a person, organization, or other industrial orientation. While the types of studies that have been selected are correlational Study. In this study, the studied respondents were staff and senior management working in BLUD district hospital in Malang, with 38 respondents (11 + 27 = 38), the criterion was for the post of head section level above. The variables in this study consisted of two types of exogenous variables and the endogenous variables, as well as an intervening variable, which was broken down as follows:

1. The exogenous variable was the perception of BLU Hospital Management on the role of the Independent Auditor (X1), and Management understanding of BLU Hospital on good governance.
2. Endogenous variables (Z) was Fraud Prevention. Endogenous variables were variables that influenced by exogenous variables.
3. The intervening variable (Y) was the General Audit Engagement, in this case the intervening variable was a variable which mediated between exogenous and endogenous.

In measuring the management perceptions, some previous researchers use Robbins or partially Rotter concept. In this study, researcher used the combination of combined concept, in measuring variable perception used a concept developed by Rotter (Locus of Control) and Stephen P. Robbins (Actor Perception, Target Perception, and situation), to measure the variables X1, perception management BLU top hospitals the role of the independent auditor. X2 variable, Management understanding of BLU hospital on good governance would include four indicators, transparency, accountability, responsibility, independence, in accordance with Regulation (Permendagri 61)2007. Indicators of fraud prevention (Z) covered a good Internal Control System, Effectiveness of Control Activities, Building a culture of information and Improvement of the Internal Audit function. The fourth indicator was believed to prevent fraud in the entity. Commitments for intervening variables General audit (Y) The indicator were the intention to make an engagement General Audit and Audit General Consistent been doing. All the indicators mentioned above were then translated in some of the questions which constructed using Likert scale format with five answer options for respondents i.e. 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, and 5 = very agree. The sampling technique used was the census, by taking all the populations having the same opportunity or chance to be selected into sample. The hypothesis in this study was tested by the method of PLS (Partial Least Square) using SmartPLS version 2.0 M3. PLS was selected as an analytical tool because of the number of samples required in the analysis was relatively small, and the data should not have a normal distribution; PLS was able to test the model with a formative and reflective using Likert scale as indicator measurement; PLS was more oriented on prediction not on confirmation model; and most importantly,

PLS was considered powerful because it is not based on assumptions. In general, the use of PLS analysis in this study was intended to overcome the problem of small sample size which was less than 38. PLS was also used to overcome the problem of missing value and multicollinearity (Gozhali, Imam. 2012). There were two models of the indicator description, formative indicators and indicators reflective. Formative indicators indicate that a construct is expressed as a function of the item (item forming or causing construct), while the reflective indicator expresses a construct where the observable expressed as a function of the constructs (item reflects or is a manifestation of the construct). To determine the level of significance partially between each independent variable and the dependent variable, the hypothesis must be tested using t-test at a significance level of  $\alpha = 5\%$ . Furthermore, a decision was taken, the results of the research was appropriate or not in accordance with the research hypothesis. The hypothesis was said to be accepted or rejected by comparing t arithmetic with t table with criteria or by comparing the significant value gained from the statistical test result with significant values determined at 0.05. Step-by-step analysis of the data using PLS according to Solimun (2010: 170-180) could be seen in Figure 2 below:



#### 5. RESULTS AND DISCUSSION

##### 5.1. Validity and Reliability Test Results

Validity test results using Pearson correlation appeared that the Sig. (2-tailed) showed a smaller individual items 0:05. Thus, it could be stated that the data collected were valid. Meanwhile, the results of reliability test using Cronbach alpha appeared that the Cronbach alpha values indicated greater 0.60. Thus, it could be stated that the collected data were reliable.

## 5.2. Goodness of Fit Model

Testing Goodness of Fit was done using predictive value-relevance (Q2). The R2 each endogenous variable were as follows: (1) variable Y earned R2 of 0.378; (2) the variable Z obtained R2 of 0.457. While the predictive value-relevance obtained by the formula:

$$Q2 = 1 - (1 - R12) (1 - R22) \dots (1 - Rp2)$$

$$Q2 = 1 - (1 - 0.378) (1 - 0.457)$$

$$Q2 = 0.6623$$

The results of those calculations indicated that the predictive value-relevance was 0.6623, or 66.23 percent. Relevance predictive value with 66.23 percent indicated that the information contained in the data 66.23 percent could be explained by a model built in this study. The remaining 33.77 percent was explained by other variables (which has not been attached in the model) and error. With this result, it could be said that the PLS model formed was

quite good, because it could explain 66.23 percent from the overall information.

## 5.3. Outer Model

The variables of this study covered hospital management perception of BLUD on the role of independent auditors (X1), BLUD hospital management understanding on good governance (X2), general audit engagement (Y) and the prevention of fraud (Z). Values of outer loading showed that the weight of each indicator as a measure of each latent variable. Indicators with the biggest outer loading or outer weight showed that the indicator was the strongest (dominant) measurement of variables. Variable BLUD hospital management perception of the role of independent auditors (X1) was measured by four reflective indicators. The results of outer weight from each indicator was presented in Table 1 below.

**Table 1**  
*Testing Results Indicators*  
*Perception Management BLUDs Hospital On The Role of the Independent Auditor (X1)*

Indicators	Outer weight	p-value	Result
1. Locus of control (X <sub>1.1</sub> )	0.265	0.002	Significant
2. perception perpetrators (X <sub>1.2</sub> )	<b>0.625</b>	<b>0.000</b>	<b>Significant</b>
3. Perception Target (X <sub>1.3</sub> )	0.349	0.000	Significant
4. Situation (X <sub>1.4</sub> )	0.508	0.000	Significant

Table 1 shows the value of weight indicator outer locus of control with 0.265 and 0.002 p-value of <0.05. It means that indicator of locus of control variables was significant in measuring perceptions of hospital management BLUD on the role of independent auditors. Values of outer perception perpetrators weight indicator was 0.625 and 0.000 p-value of <0.05. It means that indicator of the perpetrator's perception was significant in measuring BLUD hospital management perceptions on the role of independent auditors variable. Values of weight outer perception target indicators was 0.349 and 0.000 p-value of <0.05. It means that target indicator of perception was significant in measuring BLUD hospital management perceptions on the role of independent auditors variable. The value of situation

indicators outer weight was 0.1508 and 0.0200 p-value of <0.05. It means that situation indicator was significant in measuring variables of BLU hospital management perceptions on the role of independent auditors. Based on the magnitude of outer weight, the indicator of perception had the highest value. Thus, the perception indicator was the most important indicator in determining the perception BLUDs hospital management on the role of independent auditors. Variable of management understanding of BLUDs hospital management on good governance (X2) was measured by four reflective indicators. The results of outer weight from each indicator were presented in Table 2 below.

**Table 2**  
*Testing Results Indicators*  
*BLUDs hospital management understanding on good governance (X2)*

Indicators	Outer weight	p-value	Result
1. Transparency (X <sub>2.1</sub> )	0.476	0.008	Significant
2. Accountability (X <sub>2.2</sub> )	<b>0.668</b>	<b>0.000</b>	<b>Significant</b>
3. Responsibility (X <sub>2.3</sub> )	0.584	0.000	Significant
4. Independence (X <sub>2.4</sub> )	0.477	0.004	Significant

Table 2 shows that the values of outer weight transparency indicator was 0.476 and 0.0028 p-value of <0.05. It means that indicator of the transparency is significant in measure variables of BLUD hospital management understanding on Good Governance. Values of weight outer accountability indicators was 0.668 and 0.000 p-value of <0.05. It means that accountability indicators was significant in measuring BLUD hospital management understanding on Good Governance. Values of weight outer responsibility indicators was 0.584 and 0.000 p-value of <0.05. It means that responsibility indicators is significant to measure variables of BLUD hospital management understanding on Good

Governance. Values of outer weight indicator independence was 0.477 and 0.004 p-value of <0.05. It means that independence indicator variable was significant in measuring BLUD hospital management understanding on Good Governance. Based on the magnitude of outer weight, accountability indicator had the highest value. Thus, indicators of accountability was the biggest indicator in determining management understanding BLUD hospital on Good Governance. Variable of general audit engagement (Y) was measured by two reflective indicators. Results of outer weight from each indicator are presented in Table 3 below.

**Table 3.**  
*Testing Results Indicators*  
*General Audit engagement (Y)*

Indicators	Outer weight	p-value	Result
1. general intent perform audit engagements (Y <sub>1,1</sub> )	0.265	0.010	Significant
2. consistently been doing general audit engagements (Y <sub>1,2</sub> )	0.321	0.000	Significant

Table 3 shows that the value of weight indicators intention outer conduct general audit engagements was 0.265 and 0.0010 p-value of <0.05. It means that indicator of general intended to perform audit engagements significant measure variables general audit engagement. Values of outer weight indicators had consistently committed themselves to conduct general audit within 0.321 and 0.000 p-value of <0.05. It means that indicators consistently performed audit engagements general, it was also significant to measure

the general audit engagement. Based on the magnitude of outer weight, the indicators who consistently doing general audit engagements had the greatest value. Thus, the indicators who consistently doing general audit engagement was the biggest indicator in determining the general audit engagement. Variable of fraud prevention (Z) was measured by four indicators are reflective. Results of outer weight from each indicator is presented in Table 4 below.

**Table 4.**  
*Testing Results Indicators*  
*Fraud Prevention (Z),*

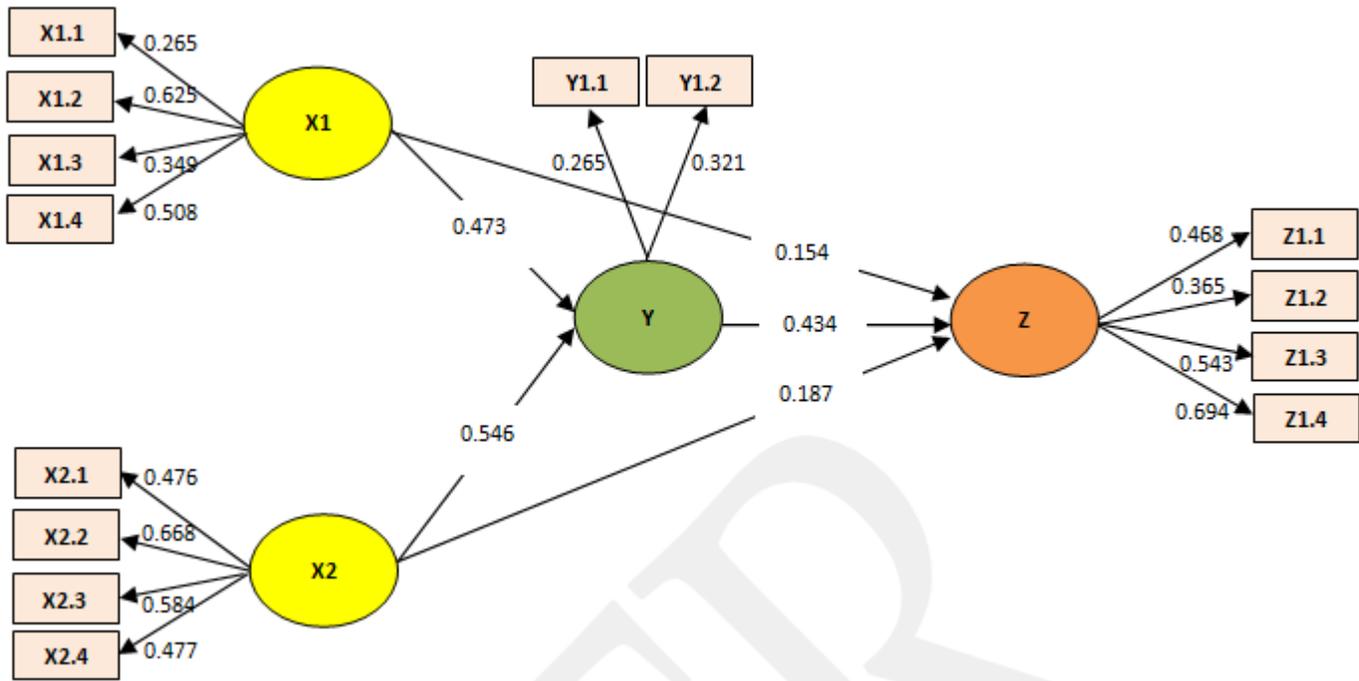
Indicators	Outer weight	p-value	Result
1. a good system of internal control (Z <sub>1,1</sub> )	0.468	0.000	Significant
2. effectiveness of control activities (Z <sub>1,2</sub> )	0.365	0.020	Significant
3. build a culture of information (Z <sub>1,3</sub> )	0.543	0.000	Significant
<b>4. increased internal audit function (Z<sub>1,4</sub>)</b>	<b>0.694</b>	<b>0.000</b>	<b>Significant</b>

Table 4 shows the value of outer weight indicator internal control system was 0.468 and 0.000 p-value of <0.05. It means that indicators of a good system of internal control was significant to measure fraud prevention variable. Values of outer weight indicator effectiveness of control activities was 0.365 and 0.020 p-value of <0.05. It means that indicator of the effectiveness of the control activities is significant to measure fraud prevention. Values of outer weight indicators build a culture of information was 0.543 and 0.000 p-value of <0.05. It means indicators of information to build a culture of fraud prevention was significant to measure variables. Values of outer weight indicator of increased internal audit function was 0.694 and 0.000 p-value of <0.05. It means that indicators of increase

in the internal audit function was significant to measure Fraud Prevention variable. Based on the magnitude of outer weight, an indicator of increased internal audit function had the greatest value. Thus, an indicator of increased internal audit function was the biggest indicator in determining fraud prevention.

#### 5.4.Inner Model

Testing inner model (structural model), the point was to test the research hypothesis. Hypothesis testing using t-test at each track. The results of the analysis using the PLS program were summarized in Figure 3 below:



**Description:**

○ : Latent variables  
 □ : indicator  
 → : influence between variables

<b>X<sub>1</sub> = Perception Management BLUDs Hospital On The Role of the Independent Auditor</b>	<b>Y<sub>1</sub> = General Audit Engagement</b>
X <sub>1.1</sub> = locus of control	Y <sub>1.1</sub> = general intent perform audit engagements
X <sub>1.2</sub> = perceptionperpretators	Y <sub>1.2</sub> = consistently been doing general audit engagements
X <sub>1.3</sub> = persepitiontarget	<b>Z<sub>1</sub> = Fraud Prevention</b>
X <sub>1.4</sub> = situation	Z <sub>1.1</sub> = a good system of internal control
<b>X<sub>2</sub> = BLUDs hospital management understanding on good governance</b>	Z <sub>1.2</sub> = effectiveness of control activities
X <sub>2.1</sub> = transparency	Z <sub>1.3</sub> = build aculture of information
X <sub>2.2</sub> = accountability	Z <sub>1.4</sub> = increased internal audit function
X <sub>2.3</sub> = responsibility	
X <sub>2.4</sub> = independence	

**6. CONCLUSIONS, AND LIMITATIONS**

Pertaining to the research findings and discussions, it can be said that:

1. Perception management of hospital public service agencies on the role of the independent auditor general affects the audit engagement.
2. Understanding of the management of the hospital public service agencies on good governance affects the general audit engagement.
3. Understanding the management of hospital public service agencies on the role of independent auditors affects the prevention of fraud through general audit engagement.
4. Knowledge management of hospital public service agencies on good governance affects the prevention of

5. fraud through general audit engagement.
6. Perception management of hospital public service agencies on the role of independent auditors affects the prevention of fraud.
7. Understanding the management of hospital public service agencies on good governance affects the prevention of fraud.
8. General audit Engagement affects the prevention of fraud.

By looking at the results of the discussion it can be concluded that the perception management of BLUD hospital on the role of independent auditors and their understanding (BLUD hospital) good governance gave effect to the implementation of the engagement of general

audit by an independent auditor Public Accounting Firm, so it implied the prevention of fraud in BLUDs hospital. General audit engagements with the independent auditors strengthened the influence of fraud prevention in BLUDs hospital. That was consistent with theories that have been mentioned previously on auditing, it was the process of verifying the economical statements management in the form of assertions which was connected to the established criteria (in standard form) by independent and competent in order to provide reliable information on the management's assertions. It was also in line with the opinion of Amrizal (2004) that fraud prevention can be done through (1) Building a good internal control structure; (2) Making of control activities; (3) Improving the organization's culture through information processing; (4) Making the internal audit function. Several important research findings provided empirical information on the phenomena that occur on the reluctance of hospital management of BLUD Kanjuruhan to conduct general audit engagements with the independent auditor (audit firms). The facts showed that (1) Management considers that the audit reports obtained from the audit management (in the form of an independent auditor's opinion, finding an independent auditor) is likely due to luck factor (External Locus of Control). (2) The majority of the management did not consider it necessary and does not agree if the financial statement announced to the public is fully published. According to them, accountability reports were only for the regional government and parliament as representation of stakeholders. (3) external audit by Public Accountant was less necessary, because the Supreme Audit Agency (BPK) were routinely conduct audits, while internal checks by the inspectorate was not necessary for the reasons of their competence and because the audit has been carried out by the Supreme Audit Agency (BPK). (4) Management entity did not fully understand the concept and implementation of good governance, so that management considered not to do a general audit engagement. Under these conditions, there was a potential vulnerability in the financial accountability BLUDs Kanjuruhan hospital for management and stakeholders did not have intention to be able to do early prevention of fraud. The findings of this study provide information that the general audit engagement was able to minimize the potential for fraud, and able to improve the governance of the entity on an ongoing basis. Opinion acquired entities from the general results of the audit conducted by an independent auditor in accordance with the standard ISA (International Standards on Auditing) can provide early information on the possibility of potential fraud. These findings are also denying the findings of research conducted by Azwar Anwar (2013) that the Unqualified opinion is not a guarantee free of corruption because corruption can be shrouded in an orderly and systematic process. Because based on the auditing standards which were applied to this juncture, the potential for fraud along with the modus operandi should be disclosed in the independent auditor's opinion. With these conditions, when there is a red flag of fraud in the entity, the auditor will not be able to provide an opinion on the financial statements that unqualified in his audit. In other words, Unqualified opinion that given the independent auditor of the entity reflect the clean and free condition from material misstatement and free from the potential for fraud.

Advanced research in the future needs to add another exogenous variables that affect the audit engagement, as well as expand the coverage area of research in several areas that have public services agency regional general hospital. In order to generalize the research conclusions can be made more adequately. Respondents are also needed to be expanded with the involvement of medical personnel as a specialist in the study sample.

## 7. ACKNOWLEDGEMENT

My sincere gratitude goes to for Prof. Wilopo, Prof. Suparlan, Dr. Indrawati, Dr. Tamadoy, in UPN Veteran Surabaya; Also Prof. Sri Mulyani, Prof. Azhar Susanto, Prof. Ilya Avianti and Dr. Poppy Sofia as lecturers and tutors in the Doctoral Program in Accounting from Padjadjaran University of Bandung, the guidance and the completion of this journal.

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