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Submission date: 18-Feb-2022 03:03PM (UTC+0700)

Submission ID: 1765308554

File name: 8._Nanang_JFC_-_artikel_Q2.pdf (170.6K)

Word count: 9718

Character count: 54449

Is it suitable for your local governments?

A contingency theory-based analysis

A contingency theory-based analysis on the use of internal control in thwarting white-collar crime

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Abstract

Purpose – The purpose of this study is to extend existing theory by developing a contingency theory for the public sector and to provide a landscape for local government to deal with white-collar crime. In recent years, the theme of risk management and internal controls, which is popular in the industry and private sector, has been mirrored by public sector organisations. Of course, it is to improve fraud risk control systems. We have to accept that public sector organisations have a growing need to control the (fraud) risks in a rapidly changing economic environment. Within this situation an effective internal control is becoming strategically important in many organisations, as it is proving to be a cost-efficient way to manage these risks in everyday operations. Here, the authors conducted a case study on the risk management control system at an Indonesian local government.

Design/methodology/approach – This study uses mixed methods, integrating quantitative and qualitative data – in-depth interviews and questionnaires were required to address the social phenomenon being investigated.

Findings – This study found that the structure of the control system fits a generic model, in which control systems are fundamental factors to all departments. It shows that control systems can support managers to align employee capabilities, activities and performance with the organisation's goals and missions. In addition, the authors could identify, risk assessment and monitoring activities are effective measures of controlling organisation's activities, and potentially could diagnose potential (fraud) risks, deterring to the achievement of organisational aims. Ideally, those aspects should be performed on a continuous basis if organisations want to prevent the spread of numerous potential menaces. In other words, if an organisation fails to carry out risk assessment correctly, it will result in unidentified possibility of fraud risks. The more explicit the risk assessment, the more effective the detection of fraud.

Practical implications – It can be alternative to consider Committee of Sponsoring Organizations of the Treadway Commission's internal control as fraud mitigation in local government.

Originality/value – This study offers new directive discussion about internal controls as notion of fraud mitigation.

Keywords Internal controls, Contingency theory, Local government, Fraud risk

Paper type Research paper



Introduction

The existence of internal control, within local government, has overarching factor in achieving organisation's objectives and thwarting financial crime. Many professionals mentioned it is, in the daily conduct of business, defined as a useful point of reference when considering an organisation's risk management framework (Committee of Sponsoring Organizations of the Treadway Commission, 2013). Without any mitigation action, the tactics and *modus operandi* used to produce fraudulent profits can be much more complex. This is substantially evidenced by cases occurring in local governments around the world, for example, cases happening in UK. A local government auditor's report as stated in BBC (2013) News highlighted cases of suspected fraud; it shows the average loss from each fraud case in U K public sectors rose by 15 per cent. Then, in Wales, an investigation in Bermuda Government uncovered a series of bogus payments. An investigation report released by BBC (2018) News mentioned the ultimate cost of the fraud was estimated at £1.3m. In these cases, the suspects are accused of laundering proceeds of £1.7m (\$2.4m), which was to spend on a lavish lifestyle.

Separately, United States Government Accountability Office (2016) reported that the governmental improper payments remained increase significantly than previous year, from \$137bn in 2015 to \$144bn in 2016. Approximately \$44 and \$34bn of the government-wide improper payments happening in 2016 are caused by insufficient documentation and the inability to authenticate eligibility. These cases provide a framework for the discussion of the likelihood of errors and fraud which are caused by administrative tasks. Practically, this supports a regular study completed by Association of Certified Fraud Examiners (ACFE) (2018), documented that a lack of internal controls is cited as the primary factor for dishonest people to steal assets, engage in corrupt business practices and manipulate organisation's financial statements.

Although there is considerable research on fraud prevention, focused on governmental sectors (Smith, 2008; Doig and Macaulay, 2008), there is little attention on the efficacy of the updated internal control – integrated framework released by the Committee of Sponsoring Organizations of the Treadway Commission (2013). In fact, it has been widely used by private sectors listed in the USA and Japan as a control for managing the complexity and pace of changing business environment and potential (fraud) risks (COSO, 2013). To date a conceptual discussion on internal control as anti-fraud measures is required. As any organisation knows, advanced fraudsters are constantly finding new ways to perpetrate fraud. Importantly, this study is to answer a research call mentioning that there is no evidence or little evidence on the mechanism linking internal control and substantive procedures to reduce fraud or employee theft in organisation (Donelson *et al.*, 2017). Conceptually, this study uses the COSO revised internal control framework that still keeps the original's core components of internal control – control environment, risk assessment, control activities, information and communication and monitoring – and its three objectives of internal control – operations, reporting and compliance.

Numerous studies treat the COSO framework as feature of corporate governance (Martin *et al.*, 2014; Jokipii, 2010); most such studies emphasise the achievement of an entity's mission, strategies and related business objectives. Then, another study concentrates on the purely financial reporting (Altamuro and Beatty, 2010). Little research considers the relationship between the COSO framework and cases of fraudulence and dishonesty in government sectors. In some cases, there is a continued expectation from public sector organisations about preventative measures to address organised fraud (Doig and Macaulay, 2008). According to a regular study completed by Association of Certified Fraud Examiners (ACFE) (2018),

occupational fraud, broken down into three broad categories (asset misappropriation, corruption and financial statement fraud) becomes unsolvable problems. It is suggested by its regular studies, stating “rampant fraudulent acts” that have tremendous impacts on governmental organisations, with a median loss of \$ 118,000 (p. 3). We assume the theoretical stances for COSO internal control as occupational fraud prevention may create new debates. It is because prior studies, in the public sector context, did not show the interactions between internal control and fraudulent activities.

Additionally, the point of departure for this article is internal control in local government, such as traditional corporate internal control, which intended to reduce the asymmetry of information between principal and agent. Together with well-functioning audits, such controls are important instruments for increasing transparency (Smith *et al.*, 2000). But there is surprisingly little research related to mitigating incentives and opportunities for management to engage in financial statement fraud (Hogan *et al.*, 2008). Hogan *et al.* (2008) performed a systematic review on the academic research findings, associating with the characteristics of firms committing financial statement fraud. They also mentioned that it will be a growing global problem for all public and private sector organisations, if academic researches do not make a significant and novel contribution to the field.

Along with the above active research ideas, this study examines the efficacy of COSO internal control in the governmental organisations when they want to reduce opportunities to commit fraud. It is hoped it contributes to the development of anti-fraud measures using internal control and provides different views of an effective approach to mitigating fraud risks. To answer these interesting areas of research, this study consider theoretical approach provided in the contingency theory. We use a contingency theory because it is beneficial for us to explore the optimal course of action in response to the internal external situations. Importantly it helps to understand external and internal constraints with there is a lack of an established theoretical framework (De Clercq *et al.*, 2014; Simpson *et al.*, 2012) with an emphasis on contextually grounded approaches (Donaldson, 2001). This exploratory study therefore also makes a contribution to extend existing theory by developing a contingency theory for the public sectors.

Theory and related prior studies

Contingency theory, or the contingency approach, is one of the management theories that provides basic understanding of the situation of the organisation, and have many implications on organisational performance in various ways. Luo and Donaldson (2013) argue that the basic assertion of contingency theory is that the environment in which an organisation operates determines the best way for it to organise. The emphasis of contingency theory, positioned within management, is on identifying situational variables that deter the achievement of organisational goals. Importantly, this is to ensure efficiency (Burns and Stalker, 1961). Zott and Amit (2008) examine the fit between a firm’s product market strategy and the business model. They collected data on a sample of firms that had gone public in Europe or in the USA between April 1996 and May 2000. From their study, they found, a wide range of contingency factors, such as aspects of the environment (turbulence), organisation structure have significant effects on the determination of market value. Through such a study they conclude that the notion of “good fit” between a focal firm’s business-level product market strategy and the design themes of its business model cannot be separated by a closer examination of dynamics and causality of contingency factors. That line of reasoning suggests that organisations seek to improve their performance by improving fit and clear strategic alignment with

business environments that lead to a good overall managerial outcome (Mcadam *et al.*, 2019).

To ensure the efficiency and effectiveness of activities, Jokipii (2010) mentions that the routine assessment of the effectiveness of internal control by the management is an essential factor affecting the stability of the environment in designing a high-performing organisation. Jokipii examines contingency characteristics and the actual performance of an internal control structure within the organisational environment. Specifically, he examines contingency characteristics that should be taken into account when focusing on the internal control in an organisation. The results, derived from a web-based survey of 741 Finnish firms, indicate that the interactive nature of the elements within the organisation is central to the stable environment and routine activities. It is hoped, firms when designing and implementing their internal control have to consider the characteristics of the environment. Jokipii opines, although there is no guarantee that an organisation can find the optimal results to increase corporate governance, internal control integrated with the nature of the environment to which the organisation operates, appears to be a potentially powerful tool for dealing with environmental uncertainty and to achieve control effectiveness (Jokipii, 2010, p. 115).

When we discuss environmental uncertainty, it is commonly associated with events that may produce positive or negative effects on the accomplishment of organisational objectives. However, based on the traditional view of risk, it usually contains negative connotations and becomes problematic in any organisation. Misfits between an organisation's structure and its contingencies, without being doubt, have been well explored, and it results in performance loss (Fisher, 1998) or even unethical acts. In practical terms, some scholars outline that environmental uncertainty is positively associated with organisation sustainability (Duncan, 1972) and the role of board on auditor risk assessments and program planning decisions (Cohen *et al.*, 2007). In this point, organisational theorists emphasise that organisations must adapt to their environment if they want to remain viable (Donaldson, 2001). In this aspect of the contingency literature, organisational design is influenced by organisational context. In this process, it is also important to note, technology has been recognised as a crucially important variable for both organisational effectiveness and mediating construct of the fit between the organisation and its environment, and among organisation parts (Jelinek, 1977). In relation to fraud prevention and detection, the role of technology is helpful for identifying wrongful and criminal deception that are becoming harder to understand, follow, expose and prevent.

Fisher (1998) examines the link between contingency theory and management control systems (MCSs). The focus of his study is a control on the manager level (i.e. profit centre, division and strategic business unit managers). He argues that a better match between the control system and the contextual contingency variable is hypothesised to result in increased organisational (individual) performance. The dominant paradigm of organisational structural theories is a claim stating that there is no best way to organise and lead an organisation, or to make decisions. On the control over a situation, however, managements must balance internal needs and adapt to environmental circumstances. Fisher (1998) from his analysis says the design and use of control systems is contingent upon the context of the organisational settings in which these controls operate. Whether they positively or negatively influence on the design and the use of control systems, in many organisations including internal auditors spend a great deal of time and efforts evaluating the concept of internal control and contingency factors (Jokipii, 2010).

To address the changing business environment and the increased shareholder interest, the COSO's internal control framework (control environment, risk assessment, control activities, information and communication and monitoring) can enhance the likelihood of achieving the entity's objectives, and adapt to changes in the business and operating environments (Janvrin *et al.*, 2012). Frigotto *et al.* (2013) investigate the dynamic evolution of the MCSs – strategy relationship in the light of an empirical analysis. To address their concerns, they adopt a case-study approach using both primary and secondary source data, collected at the various levels of the organisational structure, such as archival records, interviews and direct observations of activities, data entry and control procedures in the MCS. Their study provides different angles of analysing “fit and misfit” variables when discussing the behaviours of organisation. Here they admit that the concept of fit and misfits is central to contingency theory. But instead of supporting fit as a positive status of organisations or claiming for the redressing of misfit, their analysis shows that the essence of contingency theory is grounded in day-to-day organisational action. Then management controls and other activities management put in place to direct employee behaviours as a package of systems were strengthened or lowered by a vertical and a horizontal conception of contingency dynamics.

Indonesia government internal control system

The need for, and the specifics of, internal control systems may vary in organisational contexts. The statement presented in the internal control framework [Committee of Sponsoring Organisations of the Treadway Commission (COSO), 1994] is analogous to contingency theory; each organisation has to find the most suitable control system by taking into account contingency characteristics (Chapman, 1997; Chenhall, 2003; Fisher, 1995; Luft and Shields, 2003). A growing body of literature has illustrated the emergence of risk management and control frameworks in the public sector (Woods, 2009, for further review). In Indonesia, for example, the development of a risk management agenda has been fostered by central government guidance. Here Indonesia realised that a comprehensive strategy for fraud governance is essential. They are conscious of the fact that not all fraud and abuse perpetrated by management in Indonesia governmental bodies is discovered. This situation creates demands that ultimately lead to changes in regulation, pertaining accountability. For the purpose of reducing fraud and misconduct Indonesia issued Government Regulation Number 60 year 2008 (Government Internal Control System). This Government Regulation is a part of the reform in finance field aiming at enhancing public accountability and safeguarding tangible and intangible assets. This regulation also provides valuable insights into how organisations may deter fraudulent behaviour.

Additionally, the Indonesian Government Regulation concerning internal control system was adapted from The Committee of Sponsoring Organizations of the Treadway Commission (2013). It was relied on COSO's framework, with its five components of internal control (control environment, control activities, risk assessment, information and communication and monitoring), as well as the three categories of internal control objectives (operations, reporting and compliance). It is intended to be useful to managers in performing their jobs and to assist organisations in developing and maintaining good patterns of behaviour. Within the regulation, managements are concerned with the scope of an organisation's activities, the matching of organisational activities to its environment and resource capabilities, the long-term direction of the organisation and the allocation of major resources within the organisation.

This is one of the underlying reasons that this study performed in Indonesia governmental sectors. As previously mentioned that this study is expected to contribute to

the voids of empirical evidence on the use of COSO's internal control in public sector, particularly government as preventive measures.

Research design

This study was relied on individuals' assumption and experience, who are actively working in Indonesian Supreme Audit Institution (BPK) and State Development Audit Agency (BPKP). We chose those institutions because of their roles as mandated by Constitution of the Republic of Indonesia. The BPK's main role, based on Indonesia Acts, number 15 written in 2006, is to supervise and assess the state and local government finance, including their financial statements issued annually, and they behave national external auditors. Otherwise, the roles of BPKP, as regulated by Presidential Decree, number 192/2014, are to perform audit, review, evaluation and monitoring internally of the financial planning and implementation of assets utilisation belonged to state and local governments. To increase the survey response rate, potential respondents was contacted first by telephone to see whether they are willing to participate in this study.

To addresses our research questions, we used mixed methods, integrating quantitative and qualitative data. An in-depth interviewing technique was required to conduct this study, because it, as mentioned by Collis and Hussey (2003) provides a systematic way of observing the real-life events or any natural phenomenon. Collis and Hussey also say it is a powerful approach to understanding the complexities of the individuals' reasoning when interacting with the social phenomena. Here, we used periodic personal interviews, for ensuring "cross-case comparability", with semi-structured questions. All questions were mostly developed during interview sessions. It was to follow the participants' reasoning about a certain topic being explored. Additionally, the goal of such acts in the current study was to understand the variations in each participant's experience of evidence-based practice.

Then for quantitative data, we spread questionnaires to the targeted respondents. With regard to indicators to measure every construct, as stated in the questionnaires, the researcher used a multiple-indicator measure of a concept. Those indicators are driven from a wide variety of sources and methods as previously adopted by relevant prior studies. Importantly, before the questionnaires were spread to the real targeted respondents, we carried out a pilot study by sending them to MSc Forensic Students and MSc Accounting and Finance students who have already taken "forensic accounting module" in the Sheffield Hallam University, UK and several Indonesia lecturers who are currently studying accounting in UK They were asked to assess, correct and propose refinements of the original draft of the questionnaires aimed to ensuring that instruments used in this study have already been appropriate to achieve the objectives of this study. So, corrections are made in the final drafts submitted to participants.

In total, there are 170 participants analysed in this study. Regarding the participant demographics, about 53 per cent of the respondents were male and 47 per cent were female. Because this study is only focused on management levels, most of respondents were above 30 years old, and only 2 per cent were under 30 years old. The highest are from top-level management (53 per cent) followed by lower-level management (24 per cent) and 23 per cent for middle-level management. With regard to work experience in management position, 43 per cent of the respondents have experience of three to four years, 27 per cent have experience around 2 to 3 years, 12 per cent have experience of four to five years and under 10 per cent of the respondents have experience under two years and above five years.

Results and discussions

Risk management within Indonesia local governments: the basic framework

The aim of this section is to present practice evidence, as well as to evaluate whether the risk control framework and risk management system at Indonesia local governments confirm the effectiveness of reducing fraud risks.

We identified, control within local governments, based on some of participants, has been nurtured and become a central concept in the link between organisational objectives and the risk management system. Three of our respondents (#3, #6, #2) generally said that because ²⁷ local authority service predominantly is managed within a political context [...] organisational members to determine the pattern of spending and the priorities within the budget are always influenced by malicious political interests [...] to control such interests or any moral hazard we need a rich set of approaches for managing risks. Then, our interviewee (#3) added that it is common to see if managements of the risk are under the hands of a few actors who do not have sufficient knowledge or skill to fully apprehend and deal with the risk. In effect, development of fraud risk management framework and corporate anti-fraud do not effectively operate (#6). As such, for public risk governance, it is a key dilemma, especially how to develop an appropriate form of governance (and accountability) that deals with both the specificity and the generality of the malevolent risks (#3, #5). Day-to-day responsibility for risk management department, which is the internal audit function, should make sure that all internal control are professionally carried out, and are responsible for the revision and updating of the core risk management documents (#1).

Furthermore, we implicitly found the bureaucracy as an irresistible force of high rationality that would directly commandeer all forms of control systems. We identified many bureaucrats commonly engage in unethical behaviours that are intended to serve the interests of their organisation. This type of behaviour has been referred to as unethical pro-organisational behaviour (Umphress *et al.*, 2010). Within an organisation, because of the effects of unethical behaviour from the leader and the team, behaviour that aims to benefiting an organisation is normal (#4, #7). In response to such phenomenon, in general, our interviewees (#3, #1, #7, #5) said [...] bureaucratic relationships should be placed in positive perspectives, making individuals with organisation less negotiated and more structured in performing their duties as bureaucrats. A primary consideration is that internal control in light of the many changes should be positive complement to stop any fraud risk (#5), and control threats to an organisation's assets (#2). Accordingly, it is true to say, these quotes emphasise the use of professional formalised risk management as an integral and ongoing part of their general management process.

These results can advance a framework articulated by Feldman and Pentland (2003) which is useful in explaining what the effective recipes for fraud prevention are. Feldman and Pentland (2003) present conceptual work for the traditional understanding of organisational routines. They conclude, understanding the dynamics of organisational routines and how these relate to stability, flexibility and change in organisations can be a surface-level description of the organisational characteristics. As such they propose, those characteristics may allow organisation to be sorted by quality and those must be in present for something to be called an organisational routine. In this case, they illustrate, the organisation is likened to an individual, and the people in the organisation become its arms and legs. To our knowledge, this metaphor is a central feature, suggesting interrelationships of organisational elements or activities. Every form of organisational functions must be related because of each function is geared towards the creation and completion ³⁰ of organisation objectives. To do so, one of interviewee (#6) urged that managers should have

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a responsibility to oversee employee behaviour to ensure that the organisation is always progressing in a linear manner.

In contrast, although theory suggests a positive relationship between leader monitoring and subordinate behaviours, our interviewees' judgments seems to be equivocal concerning those relationships. One of our informants (#8) mentioned that managers who engage in too close personal surveillance and direction of subordinates may directly decrease organisational citizenship behaviour. In addition, another interviewee (#7) claimed that managerial behaviours that limit their lower echelons' freedom, for instance, observing them at work, could affect psychological conditions. If it does occur, it can effect on the form of job attitudes, levels of effort that can make organisation uncontrollable and unmanageable (#8). In separate interview, one informant (#3) said that we in practice sometime find output or results often financially oriented and uniquely it is influenced by the political spheres with intention for illegitimate private gain. Given such quotes, the adoption of generic risk management frameworks in Indonesian the public sector might face difficulties to address the complexity, incongruity, context-dependency and politicised nature of real organisations.

In a simple context, while performing work for a government, it needs to maintain a cohesive conglomeration of interrelated and interdependent specific function and responsibilities for the organisation as a whole, including with its environments. Therefore, from the above reasoning, it is reasonable to opine that a natural outcome of thinking about anti-fraud programs and controls, including the identification of fraud risks and implementation of anti-fraud measures is captured in and influenced by organisations function and context.

Contingent variables influencing risk management practice within Indonesia local governments

Contingency theory was primarily developed within a private domain, which is contextually very different from the sphere of public sector. As we know, public services are not sold in the open market for a profit. Within local government, contingency theory has emerged as a lens for exploring the links between public sector initiatives to improve risk mitigation and the structure of the control system. In relation to risk management, two interviewees (#2, #6) of mine generally mentioned that one fundamental way in which the two sectors (private and public sectors) differ is in terms of how to explain interrelationships that show how, or why, a certain phenomenon occurs. Of course, organisational pressures tend to be different, in the public sector the pressure are much more bigger that private sector (#8).

On the basis of the empirical findings, we also found that organisational culture in place have considerable effects on the design and implementation of a set of control systems. Cultural pragmatists generally view organisational culture as a key to the productivity and profitability that contribute to the organisational characteristics. When we consider the complex organisational culture, however, the deficiencies in the conceptualisation of control systems as fraud deterrence become clear. Many parts of control systems are constantly changing, both themselves and their relationships to each other. In turn, such problematic situations arising from illicit internal and external forces, that make misfits of control designs, may cause work units, for instance, fail to capture the complexities of the control prescriptions and would be likely over time to erode the fit. As such it is plausible to assume that none of the method of organisational controls in ambiguous managerial situations is aligned with the stated values. The following quote shows such concerns.

[...] this is not new again. Mostly our local government leaders received donations from conglomerates [...] This is the source of the inability of local governments to regulate their own regions. Actually, all the donations *must* go through the state so that they can be evaluated,

allocated and can be audited for their use [...] but in reality many government leaders are trading policies to accept donations [...] The local government has been infiltrated. So the local government leader must obey those people. All of these case is contrary to the principles of good governance and a transparent financing system [...] (Interviewee #2).

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The local government world is **34** sively complex, and the management on the **strategic process** is a non-trivial task. The types of problems which local government **20** to address are "wicked" problems in which it is difficult to be solved (#6); such problems are continually **20** nging (#2); and, intervention irrevocably changes the problem at hand (#2, #3, #7, #8). Messyness and fuzzyness are factors of everyday life in most organizations (#1, #2, #6). This means that when organisational culture misfits, organisations are faced with decisions on whether to build or redefine broader elements of control and information networks. It is hoped to minimise the problems created by informal influence within organisation. On this basis, we identified, high echelons as managers, they have always to look for straightforwardness and simplicity of structure (#1, #8, #7).

To be more successful in avoiding burnouts, then, a set of standards coalesced with the increased need for surveillance is also known as one of the fundamental constructivist approaches for dealing with uncertainties and misfits within organisational culture, and directing individual beliefs to align w**43** the cultural assumptions of the organisation as a whole (#3, #9, #4). This is because corporate law-breaking is a product of the cultural norms operating in a corporation **19** linard, 1983), allowing to orchestrate unexpected organisational changes. In practice, when things go wrong in organisations, managers tend to look to the culture as both the source of problems and the basis for solutions (Sinclair, 1993). Here, the function of management at all level must take responsibility for not only modelling the values, but also for en**10** ing desired behaviours in alignment with the core values of system of internal controls. Clinard (1983) argues from his study of retired middle managers in Fortune 500 companies that corporate crime was predominantly driven by top managers' behaviours who pushed their subordinates so hard that make illegal practices tacitly necessary to survive. This is meant to reflect the idea that a set of perceptions about the control systems' characteristic and attributes is influenced by the individual in response to stimuli from the environment.

At the most basic level, the risk management system is directly contingent upon the influence of information and communication technology. It is because such technology is integral to the risk control process offering a means of managing and analysing potential risks [...] and the need for staff involvement in the monitoring of risks is mandatory (#5). By considering it, this enables staff within the directorates to use the intranet for real time update of risk in routine and non-routine information-processing system (#1). Thus in effect, it ensures that up to date wide malicious risks are continuously available to both internal audit and senior bureaucratic staffs (#1, #5). In the broadest sense, a primary focus for understanding the matching concept of a set of new technological and informational infrastructures is placed at the flexible patterns of relationship in cross-functional teams that collaborate across all channels. The adoption of the technologies is to convey information in which it is expected to assess the potential risk of material misstatement o**33** udulent behaviour. This however must be coexist with executive echelons' roles that determine what level of performance is acceptable, transfer expectations to the relevant workforces, track whether performance meets expectations and then specify any wanted changes (corrective actions) (#1).

Statistical analysis of responses

The **Table I** shows results associated with auditors' perceptions related to the role of control environment in managing fraud risks (fraud prevention). These results suggest that

Attributes	SD	Mean (rank)	α	<i>t</i> -value	Sig.
Set tone at the top	1.023	4.52 (1)	0.873	5.04	0.000**
Establish standards of conduct	1.132	3.75 (3)	0.883	5.89	0.028**
Evaluate adherence to standards of conduct	1.154	3.04 (6)	0.790	4.30	0.007**
Address deviations in a timely manner	1.732	2.85 (7)	0.877	5.18	0.012**
Apply relevant expertise	1.380	2.76 (9)	0.934	3.61	0.206
Perform internal control independently	1.143	4.14 (2)	0.894	2.89	0.000**
Perform appropriate authorities	1.128	3.67 (4)	0.972	5.48	0.010**
Develop individuals	1.132	2.06 (11)	0.968	0.04	0.399
Establish reporting lines	1.420	3.19 (5)	0.828	1.72	0.008**
Establish policies and procedures	1.076	3.75 (3)	0.897	5.39	0.000**
Consider excessive pressures	1.135	2.79 (8)	0.812	0.98	0.000**
Establish performance measures	1.144	2.22 (10)	0.896	0.66	0.512

Table I.
Degree of control environment in managing fraud risks

Sources: Authors' own research. All questions in this table were scaled positively. *Significant at the 10% level; **Significant at the 5% level. SD = standard deviation. α = Cronbach's alpha

respondents generally acknowledge that the tone at the top has a trickle-down effect on all bureaucrats with the highest mean value of 4.52 and SD of 1.023 in this assertion. In contrast, they acknowledge that a commitment to attract, develop and retain competent individuals in alignment with objectives does not have significant effect on the effectiveness of fraud risk management. This result may confirm a qualitative data suggesting that bureaucrats' commitment to address specific fraud risks appears unpromising. It is mainly because of illicit lobbying from the top or external parties.

Because fraud perpetrators have adequate skills or abilities to see and explore opportunities, and strong motives to commit fraud, Table II suggests that the analysis of sophistication of the concealment strategy is scored by our respondents as knowledgeable about the ways of preventing fraud, in which the mean value for this concern is 4.76 with SD 1.035. Then, most of respondents also noted that, to identify the risks of fraud faced by an organisation, the assessment process evaluating the likelihood of fraud caused by internal and external triggers should be relied on the timely and transparent relevant information.

Attributes	SD	Mean (rank)	α	<i>t</i> -value	Sig.
Analyses concealment sophistication	1.035	4.76 (1)	0.937	5.04	0.000**
Analyse internal and external factors	1.127	4.57 (2)	0.904	5.09	0.000**
Assess attitudes and rationalisations	1.235	4.25 (4)	0.797	4.30	0.002**
Assess changes in leadership	1.134	2.85 (9)	0.974	5.43	0.012**
Estimate significance of risks identified	1.210	4.46 (3)	0.972	3.65	0.000**
Assess opportunities	1.122	4.14 (5)	0.746	4.69	0.000**
Assess incentive and pressures	1.138	4.14 (5)	0.942	3.43	0.012**
Assess changes in the external environment	1.110	3.36 (6)	0.965	5.16	0.109
Determine how to respond to risks	1.230	3.19 (7)	0.783	2.72	0.000**
Consider toleration for risk	1.055	3.05 (8)	0.874	4.41	0.320
Consider required level of materiality	1.111	2.79 (10)	0.920	5.93	0.001**
Assess changes in the bureaucratic model	1.134	2.32 (11)	0.895	2.62	0.207

Table II.
Degree of risk assessment in deterring fraud risks

Sources: Authors' own research. All questions in this table were scaled positively. *Significant at the 10% level; **significant at the 5% level. SD = standard deviation. α = Cronbach's alpha

Such assessment and response to the potential risks are also believed to support and direct decision-making and provide a record of the bureaucratic activities. This is substantially evidenced by respondents' responses with the mean value of 4.57 and SD 1.127. This signifies that the routine activity in the absence of a strong or capable guardian against crime can support a specific fraud scenario in the organisation. Such an assessment can be used at various levels of an organisation, such as, at the bureaucratic-wide level or at the bureaucratic business process level. Regardless of level, the assessment methodology must classify the fraud schemes, for example considering assessment of opportunities to defraud (mean value of 4.14 and SD 1.122), changes in the external environment (mean value of 3.36 and SD 1.110). Importantly, the successful application of those mitigation measures to such objectives depends on the developments of a broader view of content than has been adopted.

There is no doubt to argue that bureaucrats who are extremely ambitious and obsessed with power and control are more likely to engage in risky behaviour. Then it ultimately could lead to fraudulent acts. Maulidi (2019a) exploring financial crime in Indonesia local governments argue, illegality in Indonesia is concerned with reaction of the inner soul, enraptured by mesmerised stimulus. This reaction then seeks to adjust and sketch the illegal conducts into particular way to look around on things legal (Al-Saggaf *et al.*, 2015). Stimulus here may flash to the behavioural intention and transmit to the action, in which the love of money, not because they are confronting financial issues, is merely accentuated into their intention. The use of the word "stimulus" does not refer, in the course of discussion, to the assumptions as mentioned in the original work of Donald Cressey (1953). He argued that individual commits illegal conducts because of personal crisis or problems which are unable to share their concerns with fellow workers or friends because of the disgrace. Then this is broadly common known as "a non-shareable problem". And what happen in Indonesia is different in a standpoint of intention, direction and emphasis (Maulidi, 2019a, 2019b for further review).

In Table III, it covers alternative actions established through policies and procedures. It is intended to ensure that management's directives to mitigate fraud risks in conjunction with the achievement of objectives are carried out. By carrying out those precaution measures, the likelihood of fraud risks at least can be suppressed. Respondents' perception of control activities, as presented in Table III, should be performed at all levels of the entity, at various stages within bureaucratic processes and over the technology environment. The mean value of this attribute is 4.685 with SD 1.051. They may be preventive or detective in

Attributes	SD	Mean (rank)	α	t-value	Sig.
Analyses bureaucratic processes	0.035	4.76 (1)	0.951	5.24	0.000**
Perform in a timely manner	0.157	4.57 (2)	0.934	4.09	0.000**
Use technology in business processes	0.255	4.25 (4)	0.794	4.30	0.002**
Perform using competent personnel	0.134	2.85 (9)	0.864	5.63	0.012**
Security management process	0.230	4.46 (3)	0.962	3.65	0.000**
Address segregation of duties	0.162	4.14 (5)	0.766	5.69	0.000**
Take corrective action	0.128	4.14 (5)	0.842	3.43	0.012**
Maintain process control activities	0.115	3.36 (6)	0.975	5.16	0.000**
Use technology infrastructure control	0.130	3.19 (7)	0.853	4.72	0.000**
Create policies for managements directives	0.055	3.05 (8)	0.974	4.43	0.000**
Evaluate a mix of control activity types	0.151	2.79 (10)	0.940	5.93	0.001**

Table III.
Degree of control activities in deterring fraud risks

Sources: Authors' own research. All questions in this table were scaled positively. *Significant at the 10% level; **significant at the 5% level. SD = standard deviation. α = Cronbach's alpha

nature and may encompass a range of manual and automated activities such as authorisations and approvals, verifications, reconciliations and bureaucratic performance reviews. Unsurprisingly, the mean value of segregation of duties typically is still categorised high (4.635) with SD 1.013. This implicitly signifies that most of respondents contended that the notion of the accountability paradigm of malevolent public administration put heavy emphasis on this basic preventive doctrine.

Control activities are the most visible element of internal control and arguably the most important in early preventing and detecting wrong actions from happening. In this vein, control activities should be performed in a timely manner, and any necessary corrective actions should be taken. Employees performing control activities should be competent and have sufficient authority. This is because Hogg and Vaughan (2011) say that in a concrete sense an interaction process within a group (organisation) allows a person to share and be shared information to complete a specific task. Such activities throughout a social system are legally voluntary. However, it might also produce negative consequences for bureaucracy. A study carried out by Neu *et al.* (2015) stated that this kind of action has been shown in the role of organisation leader who has similar characteristics to the deviate; it takes an effort to establish a sense of continuity for harmful acts. In certain situation, individual's decision to commit illicit behaviours is shaped through an active social interaction process (Zafarullah and Siddiquee, 2001), and dependency on others in social group who have different specialised skills to fill many of corrupt duties. It brings in what are initially detached people and lead them to behave like the others involved in such fraudulent acts. So it is common to see that individuals in a bureaucracy may sometimes feel less personal responsibility for their own (benevolent) bureaucratic acts. It is because of their loyalty dedicated to the leader's illicit interests. In response to this situation, management should periodically review control activities to determine their continued relevance and should refresh the existing controls when necessary.

Globally speaking a bureaucracy phenomenon in Indonesia is to be understood as a complex social system governed by the underlying principles of impersonality and centralisation. This is not necessarily over-dramatized or over-simplified cases occurring in Indonesia, but the notion of lobbying repercussions is a lot more pronounced and idyllic in the realm of unscrupulous echelons of bureaucrats. As a result, bureaucracy no longer runs effectively and efficiently. Bureaucracy in the end only became the servant of the ruler and the individual who justified any means. This is not to say that the whole bureaucracy of Indonesia is platitudinous. But this is the fact. To be sure, Aspinall and Klinken (2011) wrote a book articulating this viewpoint and it proven the aforementioned claims. They found that there is unspoken irony within bureaucracy of Indonesia, in which forms of illegality, as the colloquial notion, became institutionalised. They then illustrated that public officials from certain departments swarmed to be entangled with blatant forms of unethical conducts.

To this extent, the information and communication component of internal control might fix the latent functions of bureaucracy. In Table IV, our respondents underlined that relevant information from internal and external sources which could have relevance to the organisation should be communicated in a timely manner to the appropriate level and in a format that will facilitate easy analysis of the data. For this assertion, it has the mean value of 4.86 with SD 1.142. Furthermore, our respondents claimed that all processes within an organisation should be captured in official policy and procedure manually. Such informative initiatives should be distributed to all staff so that they are aware of their responsibilities and how their responsibilities affect those of others within the organisation. These actions believed by our respondents are the first

Attributes	SD	Mean (rank)	α	<i>t</i> -value	Sig.
Communicate information with all staffs	1.142	4.86 (1)	0.873	4.04	0.000**
Consider costs and benefits	1.142	3.51 (10)	0.883	4.89	0.018**
Identify information requirements	1.124	3.84 (5)	0.790	4.30	0.007**
Communicate deviations in timely manner	1.032	4.53 (4)	0.877	5.18	0.010**
Maintain quality throughout processing	1.180	3.76 (6)	0.934	4.01	0.000**
Communicate required information	1.241	3.64 (8)	0.894	4.89	0.000**
Capture internal and external source of data	1.051	4.67 (2)	0.972	5.48	0.010**
Communicate with the board of directors	1.132	3.16 (11)	0.968	5.54	0.346
Provide separate communication lines	1.120	3.08 (12)	0.828	4.72	0.016**
Share relevant and timely information	1.124	3.53 (9)	0.897	5.39	0.001**
Process relevant data into information	1.150	3.72 (7)	0.812	4.48	0.000**
Enables Inbound Communications	1.144	4.64 (3)	0.896	4.36	0.001**

Sources: Authors' own research. All questions in this table were scaled positively. *Significant at the 10% level; **significant at the 5% level. SD = standard deviation. α = Cronbach's alpha

Table IV.
Degree of information and communication in managing fraud risks

substantive step in dealing with areas of high fraud risk, with the mean value of this attribute is 4.67 with SD 1.051. In the best position, it assists to foster a secure and reliable financial sector, acting as the “eyes and ears” of the audit committee leading to improved stabilisation in the security of daily payment system.

In addition, this section also give an emphasis on generating and using relevant and qualified information to support the functioning of internal control. Here, organisation should be able to identify the required information for assuring an organisation’s objectives free from fraud risk factors. This is a particularly critical point if the nature of an organisation’s activities involves very complex transactions. Importantly, information systems should capture internal and external sources of data to assess the adequacy and proper operation of internal controls in the particular area, process and transform accurate data into valuable information. These initiatives in producing organisational information must be conducted in timely, protected, verifiable and retained manner. At least every year, all information flows should be reviewed for relevancy by authorised organisational units in supporting the internal control components.

Thought this simple survey, we also identified that the nature, quantity and precision of the information communicated should be commensurate with the achievement of organisation objectives. This can be achieved through periodic communication. Such communication can include a process for two ways of communication between management and the board of directors, so that both have necessary information to integrate anti-fraud initiatives into their risk management programs. Interestingly, most of our respondents claimed that separate communication channels, such as whistle-blower hotlines should be taken into account in designing control activities. These channels can serve as fail-safe mechanisms (springboard) for organisation to minimise fraud risk. We think anonymous or confidential communication can be effective to exposes secretive information or activity that is deemed illegal, unethical when normal channels are inoperative or ineffective. Of course, this is not as simple as it looks. Therefore, organisation when looking at the method of communication should consider the timing, protection programs and nature of the communication, as well as regulatory and fiduciary requirements and expectations. This is because of an adverse action after raising a concern about a possible violation within organisation.

The notion of risk measurement in complex organisational settings has been questioned. Brazel *et al.* (2009), examines non-financial measures (NFM) to assess the reasonableness of financial performance and, thereby, help detect financial statement fraud. Their study provides

empirical evidence suggesting that comparisons between financial measures and NFMs effectively used to assess high fraud risk. In assessing fraud risk, they identified the likelihood of fraud can be effectively detected by nonfinancial information. These findings have implications for auditors and organisation interested in broadening their methods to detect fraud. In practice, however, it is well documented by ACFE's regular studies that fraud still goes undetected, for example, because internal auditors fail to understand the organisational environments in which they operate (Erickson *et al.*, 2000). Here, the current study supplies empirical evidence to strengthen those results. This study shows that monitoring through ongoing evaluations, separate evaluations or some combination of the two to assess whether each of the five components of internal control is well functioning is good and effective acts that help organisation to reduce fraud risks. This is strongly evidenced by respondents' judgement as presented in Table V, in which this attribute has the mean value of 4.78 with SD 1.012. However, this assertion should be supported by the functioning of the continuous control baseline identification, where it is highly scored by respondents with the mean value of 4.75 and SD 0.173. Our respondents believed that the use of these practices is more widespread and advance in providing further information on detection, causes, processing of the fraud risks. The focus of this precaution would be good if processes of identification or assessment evaluated against criteria established by standard-setting bodies, or management and the board of directors. Because a material fraud, error or breach of law affecting the true and fair view may occur at the day-to-day operations when the organisation's internal control systems become less effective, the quality of corporate governance deteriorates and internal audit functions weaken. In doing such acts, it might lead auditors to reduce more time in collecting fraud cues. Adding the element of organisation capability to the fraud prevention and detection as shown in prior fraud studies, we identified any internal deficiencies which are properly and routinely communicated to management and the board of directors provide some insights of value to organisation, and become an essential part of fraud risk management. It is affirmatively showed by mean score of 4.63 with SD 0.152.

Based on the above reasoning, it is reasonable to argue that monitoring activities have crucial role in managing fraud risks. Its position is as important as the role of control environments. This result may confirm that monitoring is the first substantive step in dealing with the organisational deficiencies allowing individuals to explore them as opportunities to defraud. This also helps organisation to prevent unique and specific fraud risks and provides early signs if current controls operate improperly. We cannot deny it that improper monitoring of potential problems is one of the primary factors that make frauds may go undetected. This may be explained by Toshiba's accounting scandal, which took place because of inappropriate monitoring – weak corporate governance and a poorly functioning system of internal controls.

Attributes	SD	Mean (rank)	α	<i>t</i> -value	Sig.
Establish baseline understanding	0.173	4.75 (2)	0.957	4.74	0.010**
A mix of ongoing and separate evaluations	1.012	4.78 (1)	0.982	4.85	0.000**
Adjust scope and frequency	1.024	3.24 (5)	0.895	4.50	0.000**
Consider rate of change	1.032	2.63 (6)	0.978	5.18	0.014**
Communicate deficiencies to management	0.143	3.33 (4)	0.974	5.21	0.000**
Report deficiencies to senior	0.152	4.63 (3)	0.964	5.83	0.000**

Table V.
Degree of monitoring activities in managing fraud risks

Sources: Authors' own research. All questions in this table were scaled positively. *Significant at the 10% level; **significant at the 5% level. SD = standard deviation. α = Cronbach's alpha

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