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Walden University

College of Management and Technology

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Paul Dubrey Jr.

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Walden University
2020

Abstract

A Practitioner's Approach to Implementing Community Bank Internal Controls

by

Paul Dubrey Jr

MBA, Nichols College, 2004

BS, Assumption College, 1994

Doctoral Study Submitted in Partial Fulfillment

of the Requirements for the Degree of

Doctor of Business Administration

Walden University

June 2020

Abstract

Some community bank compliance professionals lack strategies to comply with the 2013 Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework statement, so they have been slow to adapt to the new COSO framework. However, they will be under increased regulatory pressure to do so.

Grounded in Cressey's fraud triangle theory, the purpose of this qualitative single case study was to explore strategies community bank compliance professionals use to comply with the revised COSO internal control framework. Four compliance professionals at a community bank in the Boston, Massachusetts area who have successfully implemented strategies for internal control oversight participated in semistructured interviews. Bank managers provided company internal control documents. Data were analyzed using Yin's 5 step process: compiling, disassembling, reassembling and arraying, interpreting, and concluding. Also, methodological triangulation ensured data reliability. Four primary themes emerged: monitoring controls, communication, separation of duties, and training. Bank managers who implement the 4 strategies found in this study are more likely to comply with the COSO internal control framework statement. The implications for positive include the potential for corporate governance to provide accountability for bank management and line employees, contributing to a stable community banking system. Bank compliance, in turn, helps build a more stable economy for communities in which the small banks operate, supporting small businesses, particularly those hurt by the 2020 coronavirus pandemic.

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Dedication

I dedicate this Doctoral Study to the two most important ladies in my life. My wife Brenda and my daughter Caroline. You both have made tremendous sacrifices during the years I have pursued my doctorate. This study, along with all my various pursuits, are dedicated to you both.

Acknowledgments

I would like to thank Dr. Kevin Davies PhD for his mentoring of me throughout this process. His dedication to helping Doctoral students is unmatched. Also, thank you to Dr. Roger Mayer DBA CPA who inspired me at my second residency. Finally, thank you to Dr. Diane Dusick PhD whose attention to detail made me a better writer.

Table of Contents

List of Tables	vi
Section 1: Foundation of the Study.....	6
Background of the Problem	6
Problem Statement	7
Purpose Statement.....	8
Nature of the Study	9
Research Question	10
Interview Questions	10
Conceptual Framework.....	11
Operational Definitions.....	12
Assumptions, Limitations, and Delimitations.....	13
Assumptions.....	13
Limitations	13
Delimitations.....	14

Significance of the Study	15
Contribution to Business Practice.....	15
Implications for Social Change.....	15
A Review of the Professional and Academic Literature.....	16
History of the Fraud Triangle	16
Sutherland’s Influence on Cressey.....	18
Fraud Triangle Elements First Defined.....	19
Components of The Fraud Triangle.....	20
Alternative Conceptual Frameworks	22
The Sarbanes Oxley Act of 2002 (SOX)	28
Managers Role in Fraud Mitigation.....	31
The Foreign Corrupt Practices Act	35
The COSO Framework	36
SOX Implementation Strategies	39
Transition	41

Section 2: The Project.....	43
Purpose Statement.....	43
Role of the Researcher	43
Participants.....	45
Research Method and Design	46
Research Method	46
Research Design.....	48
Population and Sampling	49
Ethical Research.....	50
Data Collection Instruments	52
Data Collection Technique	53
Data Organization Technique	55
Data Analysis	56
Reliability and Validity.....	57
Dependability	57

Creditability	58
Transferability.....	58
Confirmability.....	59
Data Saturation.....	59
Transition and Summary.....	60
Section 3: Application to Professional Practice and Implications for Change	61
Introduction.....	61
Presentation of the Findings.....	62
Theme 1: Monitoring Controls	63
Theme 2: Communication.....	67
Theme 3: Separation of Duties	70
Theme Four: Training.....	73
Applications to Professional Practice	75
Implications for Social Change.....	77
Recommendations for Action	77

Recommendations for Further Research.....	78
Reflections	80
Conclusion	81
References.....	82
Appendix A: Interview Protocol.....	103
Appendix B: Letter of Cooperation Example	104
Appendix C: Interview Questions.....	105

List of Tables

Table 1. Theme Frequency62

Section 1: Foundation of the Study

Banks with assets of \$1 billion to \$10 billion reported total compliance costs averaging 2.9% of their noninterest expenses. Banks with asset sizes from \$100 million to \$1 billion in assets reported average compliance costs of 5.1% of their noninterest expenses. Banks with less than \$100 million in assets reported costs averaging 8.7% of their noninterest expenses (Dahl, Meyer, & Neely, 2016). A 2014 joint study by the Federal Reserve and Conference of State Bank Supervisors concluded that community banks face substantial compliance costs to implement these new regulations (as cited in Cole, 2015). The Public Company Accounting Oversight Board (PCAOB) has not issued specific guidance on how community banks should implement the 2013 COSO standards.

Background of the Problem

Financial fraud is a continuing problem in U.S.-based businesses (Simha & Satyanarayan, 2016). According to the Association of Certified Fraud Examiners (Association of Certified Fraud Examiners [ACFE], 2016), annual fraud losses are approximately 5% of revenues for any given year, which translates to an excess of \$6.3 billion (ACFE, 2016). Kramer (2015) explained that it is not possible for management to eliminate occupational fraud from an organization. However, it is important for business owners and managers to understand possible strategies to minimize fraud risk (Kramer, 2015).

Business managers can also use fraud prevention strategies to possibly reduce financial losses resulting from a fraudulent act (Henry, 2016). Henry (2016) added that small business owners and managers need to make antifraud measures visible to employees and implement those measures into operational functions within the organization. If employees believe there is an increased risk of detection when they are dishonest in their activities, they could be less likely to carry out dishonest acts (Kramer, 2015; McMahon Pence, Bressler, & Bressler, 2016). Neguriță and Ionescu (2016) explained that fraudster employees attempt to exploit internal control weaknesses when planning deceptive acts.

Because of the nationwide impact of financial fraud in the United States, the U.S. Congress has passed many regulation requirements on both large and small businesses. The resulting fixed costs emerging from an increased regulatory burden could result in small community banks in the United States becoming unprofitable. A 2014 joint study by the Federal Reserve and Conference of State Bank Supervisors concluded that community banks face substantial compliance costs to implement these new regulations (as cited in Cole, 2015). Many of these regulatory oversight costs do not vary with the asset size of individual banks. Therefore, some community bank managers located in the United States lack strategies to implement new financial regulations. Community banks require financial fraud prevention and detection experts to develop implementation strategies for changing and increasing regulation. Community bank leaders are lacking

implementation strategies which could enable them to implement these new regulations more efficiently.

Problem Statement

Companies have been slow to adapt to the new COSO 2013 internal controls framework even though they are under increased regulatory pressure to do so (Li, Raman, Sun, & Wu, 2015). This revised framework resulted in widespread changes to internal audit departments and compliance areas, which company external auditors report on (Udeh, 2019). Banks with assets of \$1 billion to \$10 billion reported total compliance costs averaging 2.9% of their noninterest expenses. Banks with asset sizes from \$100 million to \$1 billion in assets reported average compliance costs of 5.1% of their noninterest expenses. Banks with less than \$100 million in assets reported costs averaging 8.7% of their noninterest expenses (Dahl et al., 2016). The general business problem is the PCAOB has not issued specific guidance on how community banks should implement the 2013 COSO standards. The specific business problem was some community bank compliance professionals lack strategies to comply with the revised COSO internal control framework statement.

Purpose Statement

The purpose of this qualitative single case study was to explore strategies community bank compliance professionals use to comply with the revised COSO internal control framework. I interviewed a sample of four compliance professionals at a

community bank in the Boston, Massachusetts area who have successfully implemented strategies for internal control oversight. The participants shared experiences that may help compliance officers of other community banks develop better internal control assessment programs. Compliance officers at other community banks may use the results of this study to implement the revised COSO internal control standards at their institution. As a result, the compliance officers may affect positive social change as they become empowered to discharge their corporate social responsibilities.

Nature of the Study

The research method for this study was qualitative. The qualitative approach was useful to understand and evaluate the management and accounting processes. In addition, the results of a qualitative study can be used to address the concerns of practitioners and policymakers (Parker, 2012). The purpose of this study was to explore the experiences of community bank compliance professionals in implementing the 2013 COSO internal control frameworks. The use of the quantitative design would not have been useful. Quantitative research is used to create and test predictive numerical models and numerically measure a result (Parker, 2012). The purpose of this study was to explore strategy implementation rather than test a numerical model. The mixed methods approach was also not applicable, as it involves using both a qualitative and quantitative method. In addition, the mixed method approach would be unnecessarily complex and take longer to complete.

The design of this study was a single case study to explore how a community bank has met the challenge of implementing the COSO 2013 revised internal control framework. The single case study design can be appropriate to answer a *how to*, qualitative, contemporary research question (Yin, 2018). Case study was an appropriate approach because I studied how and why a community bank was successful in implementing COSO 2013. I did not use either the ethnography or the phenomenological approaches. Ethnography research requires data collection of a cultural group to observe participants' daily lives and so would not be suitable for this study (Yin, 2018). The phenomenological approach did not apply to this study because I did not collect data regarding the lived experiences of participants about a phenomenon (Moustakas, 1994). The use of the single case study approach was appropriate as the availability of compliance professionals to participate in an in-depth research study was limited. Yin (2018) stated that a case with limited prior research accessibility could benefit from the single case study approach.

Research Question

What strategies do community bank compliance officers use to comply with the 2013 COSO internal control framework?

Interview Questions

The following are the interview questions that I used for this study. The purpose of these open-ended questions was to determine the answer to the above research question.

1. What do you perceive as the main differences between the previous COSO framework and the 2013 revision?
2. What challenges are you experiencing in implementing this revised framework?
3. What strategies have you used to address the main differences between the previous COSO framework and the 2013 revision?
4. What communications have you directed to your operational managers on implementing the new framework?
5. What internal control deficiencies or material weaknesses have you found since adopting the 2013 standards?
6. What challenges, as a professional in this field, do you encounter when attempting to prevent and detect internal control deficiencies and material weaknesses?
7. Is there anything else you would like to add that you feel is important or interesting in order to understand this issue?

Conceptual Framework

The conceptual framework for this study was the fraud triangle theory. In 1953, an American criminologist, Cressey, developed the fraud triangle theory to illustrate the

components that cause an individual to commit fraud (Cressey, 1953). The fraud triangle theory is the most widely accepted of all the fraud theories (Kramer, 2015). Cressey defined three elements that need to be present for an employee to commit fraud. These elements include (a) an unshareable financial need, (b) rationalization, and (c) perceived opportunity (Cressey, 1953).

The three elements of the fraud triangle are important in detecting and preventing fraud in small businesses. The fraud triangle theory was the best fit for my particular research question because my research topic concerned how community bank managers can implement a set of internal control standards in their organization. The purpose of those internal control standards is to prevent and detect financial frauds. The fraud triangle is a seminal fraud research theory. This theory, established by Cressy in 1953, provides practitioners with three elements, which can be found in most financial frauds. I examined my research question through the fraud triangle lens of why frauds are committed. In this study, I focused on the opportunity element of the fraud triangle. Businesses can mitigate the opportunity factor by implementing a sufficient system of internal controls and ensuring that employees are aware of many of the controls in place (Kramer, 2015). COSO is the most frequently used internal control framework (Lawson, Muriel, & Sanders, 2017). An organization can increase the chance of detecting fraud by implementing an effective system of internal controls (Rodgers, Söderbom, & Guiral, 2015). To construct this conceptual framework for my study, I synthesized the work of

other scholars who have studied strategies needed by small businesses and community banks to detect and prevent employee fraud.

Operational Definitions

External auditors: External auditors are a group of individuals whom owners hire to express an opinion on the fair presentation of the financial statements (Albring, Elder, & Xu, 2016).

Fraud: Fraud is the intentional perversion of the truth for inducing another person or other entity in reliance upon it to part with something of value or to surrender a legal right (FBI, 2019).

Internal auditors: Internal auditors are a group of individuals who are employees of the business or company who are responsible for reviewing the internal controls, financial statements, and accounting records for the business or company (Abbott, Daugherty, Parker, & Peters, 2016).

Internal control: Internal control is a process performed by a company's board of directors, management, and other employees that is designed to provide reasonable assurance regarding the achievement of objectives in (a) effectiveness and efficiency of operations, (b) reliability of financial reporting, and (c) compliance with applicable laws and regulations (COSO, 1992).

Sarbanes-Oxley Act of 2002 (SOX): The SOX legislation is a legal response to the accounting scandals of the late 1990s and the early 2000s (Liu & Ren, 2017).

White-collar crime: A white-collar crime is committed by a person of respectability and high social status in the course of his occupation (Sutherland, 1983).

Assumptions, Limitations, and Delimitations

Assumptions

An assumption is a statement believed to be true but cannot be verified (Nkwake & Morrow, 2016). A primary assumption I made was the purposive sampling method was appropriate to ensure that all participants have knowledge about the research problem. My second assumption was that the participants who shared their experience with me are doing so openly and honestly throughout the interview process. Third, I assumed that participants had sufficient time to provide detailed answers to the interview questions. Fourth, I assumed that the sample was appropriate to address the research problem. Fifth, I assumed that the conceptual framework theory was appropriate to the research problem. Finally, I assumed that the semistructured interview format allowed participants to provide rich, textural data and minimize researcher bias.

Limitations

Limitations of a study are weaknesses that influence the results of the study, which are not under the control of the researcher (Marshall & Rossman, 2016). There

were several potential limitations of this study. First, in interviewing participants as part of my case study, I was bound by the participants selected in my sample population. I do not consider elements of the population beyond what I have purposively selected. Second, the two data collection methods used in this case study were semistructured interviews and document analysis from the bank's internal control matrixes. I did not consider other methods such as observation. Third, the results of the study were limited by the honesty and thoroughness of the participants' responses. Fourth, the participants' availability to respond to interview questions in sufficient detail may limit the results of the study. Fifth, a lapse of the participants' memory was a potential weakness. Sixth, my ability to recruit a sufficient number of participants to allow for data saturation may limit the results of the study. A final limitation of the study was the transferability of the findings of this study to other community banks who seek information on how to implement the revised COSO framework. The experiences of participants interviewed in this study may not be the same experiences at other banks (Marshall & Rossman, 2016).

Delimitations

Delimitations are the parameters of the research; they define the scope of a case study (Yin, 2018). The bounds of this study were delimited to compliance professionals at a community bank within 70 miles of Boston, Massachusetts. The purpose of these delimitations was the convenience of access to qualified research participants. Next, my doctoral study took place during a specific time period to conduct participant interviews

and report my results. The research question was also a delimitation-because other related research questions do exist, which I did not consider in this particular study. Rather, I focused on strategies compliance professionals use to comply with the revised COSO internal control framework. I did not examine individual internal controls that were implemented. The job title(s) of the research participants was another delimitation in that the title does not reflect the participants' actual job responsibilities at the bank. Another delimitation was that 7 years of experience is sufficient for participants to contribute meaningful experiences and adequately answer the research question during interviews. Finally, my interview participants were purposively selected and located at a community bank in the Boston, Massachusetts area. I did not consider multiple banks, community banks in other cities, or other types of entities.

Significance of the Study

Contribution to Business Practice

The significance of this study includes reasons why it is helpful to business leaders. The purpose of this single case study was to provide community bank compliance officers with practical solutions to enhance their ability to perform the management self-assessment requirements of internal control testing. According to Sarens, Christopher, and Zaman (2013), there are a limited number of studies about the impact of internal audits on corporate governance. Because one of the internal control

standards requires compliance professionals to report on the managers' tone at the top of the organization, this study contributed to the field of corporate governance.

Implications for Social Change

The results of this single case study may contribute to social change by providing a framework for organizational leaders to improve their corporate governance function. The social benefits to a stable community banking system include a more stable economy for communities in which the small banks operate (Backup & Brown, 2014). According to Morris and Regehr (2014), a strong system of community banks is important for their local economies.

A Review of the Professional and Academic Literature

The purpose of this literature review was to identify relevant and significant literature about strategies community bank compliance professionals use to comply with the revised COSO internal control framework. Regulation of the banking sector has long been a topic of study. The general business problem was the PCAOB has not issued specific guidance on how community banks should implement the 2013 COSO standards. The specific business problem was compliance professionals lack strategies to comply with the revised COSO internal control framework. I created this literature review to support my research of the problem statement.

This doctoral study includes material from 118 different sources with 85% of these sources being peer-reviewed and 89% published in 2014 or after. Searched databases included ProQuest Central, AIB/Inform, and Business Source Complete. I performed a literary search with keywords including but not limited to *fraud triangle theory*, *community bank regulation*, *SOX*, and *compliance*. The review of professional and academic literature section contains four main sections: History of The Fraud Triangle, Components of The Fraud Triangle, Alternative Conceptual Frameworks, and Management's Role.

History of the Fraud Triangle

The conceptual framework for this study was the fraud triangle theory. The reason for using the fraud triangle is that community bank compliance managers and owners can use the theory to understand the key fraud factors. The purpose of this study was to identify strategies community bank compliance professionals use to comply with the revised COSO internal control framework.

Researchers can use the fraud triangle theory to understand why employees commit fraud and how to detect and prevent fraudulent activities in an organization (Free, 2015; Marshall & Cali, 2015). The fraud triangle provides compliance professionals with an investigative template to start their investigations (Morales, Gendron, & Guénin-Paracini, 2014). In 2002, the Auditing Standards Board of the American Institute of

Certified Public Accountants used the fraud triangle as a critical element of SAS 99: Consideration of Fraud (Albrecht, 2014).

In 1953, Cressey developed the fraud triangle theory to illustrate the components that cause an individual to commit fraud. Cressey developed the fraud triangle based on the interview of approximately 250 inmates in various prisons in the United States who had been in trusted positions and had violated that trust (as cited in Kramer, 2015). Cressey noticed that the inmates serving time for white-collar crimes possessed common characteristics. Cressey defined three elements that need to be present for an employee to commit fraud. These elements include (a) nonsharable financial problems, (b) perceived opportunity, and (c) rationalization (as cited in Free, 2015). Cressey hypothesized following an observation that for a person to carry out fraudulent activities, each of the three elements, perceived opportunity, perceived pressure, and rationalization, must be present.

Many business owners use the fraud triangle as a framework to evaluate the three fraud risk factors when conducting a risk assessment (Mohd-Sanusi, Khalid, & Mahir, 2015). Business owners and managers who understand the opportunity component of the fraud triangle are quick to modify and strengthen internal controls (Kramer, 2015). It is important for small business owners and managers to ensure strong internal control when using the fraud triangle as an instrument to detect and prevent fraud schemes (Kramer, 2015). With the use of the fraud triangle to minimize fraud occurrence, business owners

and managers can ensure strong control environment and monitoring controls are in place to reduce the perception of the opportunity for fraud (Kramer, 2015).

Sutherland's Influence on Cressey

The work of Cressey on the fraud triangle is based on the work performed by Sutherland (Albrecht, 2014). In 1942, Sutherland developed the differential association theory of why people commit crimes (Sutherland & Cressey, 1978). In his view, there is a link between criminal behavior and a person's association with a criminal environment. Sutherland believed that individuals become criminals because of their exposure to past criminal influences in their lives (Albrecht, 2014).

The foundation of Sutherland's argument is that criminals learn their behavior from experience with other persons who demonstrate this behavior through their own actions. Albrecht (2014) concluded that Sutherland indirectly introduced the three elements of the fraud triangle. Albrecht wrote that Sutherland first developed the concepts of rationalization and opportunity when he concluded that criminal behavior can occur when perceived rewards for criminal behavior exceed the rewards for lawful behavior or perceived opportunity.

Fraud Triangle Elements First Defined

According to Albrecht (2014), Cressey is the individual who should receive the most credit for developing the fraud triangle, as Cressey was a student of Sutherland.

Cressey believed that trusted persons become violators when they conceive of themselves as having a financial problem that is non-sharable and are aware that by violation of the position of financial trust, they can rectify what they are lacking (Albrecht, 2014). This leads us to the element of rationalization. Cressey (1953) concluded that for embezzlement to occur there must be (a) a nonsharable problem, (b) an opportunity for trust violation, and (c) a set of rationalizations that define the behavior as appropriate in each situation. Cressey wrote that all three elements must be present.

Cressey focused his research on embezzlement. Embezzlement consists of stealing money from an employer therefore breaking a position of trust (Craig, Cardwell, & Piquero, 2017). In 1951, the elements of the fraud triangle, as applied to white collar crime, were first published in the business literature (Albrecht, 2014).

In 1979, Klynveld, Peat, Marwick, and Goerdeler (KPMG) sponsored the first significant fraud study conducted for the business field (Albrecht, 2014). An accounting researcher, along with researchers from criminology, interviewed many convicted fraud perpetrators (Albrecht, 2014). The authors also conducted a comprehensive, interdisciplinary literature review. In total, the authors identified 82 fraud-related variables (Albrecht, 2014). KPMG categorized these variables into three primary categories. Each category representing the factors that influence the decision to commit or not commit fraud. Albrecht (2014) came to a similar conclusion as Cressey. Albrecht believed that it was the combination of three forces that produces a fraudulent act;

situational pressures, opportunities to commit fraud, and personal character. Finally, Albrecht concluded that individuals create opportunities to commit fraud in addition to those that a company creates through careless internal controls. The KPMG work aligns with the purpose of this study, which was to identify strategies community bank compliance professionals use to comply with the revised COSO internal control framework.

Components of The Fraud Triangle

The purpose of this study was to identify strategies community bank compliance professionals use to comply with the revised COSO internal control framework. If community bank managers understand fraud triangle theory, it could help them to design and implement internal controls to prevent and detect financial fraud.

Nonshareable financial pressures exist when an individual encounters a financial obligation that they are not able to meet (Neguriță & Ionescu, 2016). Hidden financial obligations are some of the primary motives of unethical behavior (Neguriță & Ionescu, 2016). Nonshareable problems can occur because of shame brought about by poor judgment and loss of social status leading to fraudulent activities (Dellaportas, 2014).

The perceived pressure element of the fraud triangle could be financial or nonfinancial (Lokanan, 2015; Schuchter & Levi, 2015). Schuchter and Levi believed that people's motivation to commit fraud changes with time and what was an incentive could

suddenly become pressure to act dishonestly. For fear of social stigma, some individuals may choose not to share their financial problems to get the necessary help (Bishop, DeZoort, & Hermanson, 2017). The element of financial pressure does not need to be actual. Individuals can also perceive a financial pressure (Lokanan, 2015). The greater the perceived pressure of an individual, the more likely they are to justify the reason for fraudulent activities (Soltani, 2014; Stone, 2015).

Opportunity is the possibility to commit and conceal fraud (Shinde, Willems, Sallehu, & Merkle, 2015). It is difficult for individuals to commit fraud in the absence of an opportunity (Lokanan, 2015). There is an increased opportunity for employees to misappropriate assets when they have access to businesses resources with limited supervision (Mui & Mailley, 2015). Roden, Cox, and Kim (2016) noted that addressing the opportunity component of the fraud triangle is the easiest and most effective approach to combat fraud within an organization.

The rationalization element involves fraudsters coming up with what they perceive is a reason for their fraudulent action before engaging in the actual behavior (Free, 2015; Lokanan, 2015). Individuals carry out dishonest acts and rationalize the consistency with their beliefs and values (Roden et al., 2016). Similarly, some employees rationalize unethical behavior as an entitlement to business funds (Hess & Cottrell, 2016). Individuals sometimes justify their fraudulent activities with a lack of recognition for on the job performance (Hess & Cottrell, 2016). Finally, some employees experience job

dissatisfaction or feel they are under compensated (Negurita & Ionescu, 2016). Managers can address the rationalization component of the fraud triangle through employee training and fraud awareness (Lokanan, 2015; Rodgers et al., 2015). Clatworthy (2014) concluded that managers should observe their employee's integrity, which could reduce the likelihood of financial loss and enhance the reputation of the entity. The maintaining of a sound system of internal control and overall entity governance can result in reduced fraud opportunities within an organization (Mui & Mailley, 2015; Ruankaew, 2016; Zalata & Roberts, 2016).

Alternative Conceptual Frameworks

Lokanan (2015) studied the application of the fraud triangle as a method of reducing fraud. Lokanan argued that the fraud triangle is an inadequate instrument for prevention and detection. Lokanan concluded that the complex inherent nature of fraud hinders the ability of a theory to explain its occurrence. McMahon et al. (2016) added to the work of Lokanan by concluding that an organization cannot use the fraud triangle in identifying all incidence of occupational fraud within an organization. Free (2015) explains that managers must evaluate their employees' ethical behaviors and their inherent morality to reduce the occurrence of fraud. Soltani (2014) believed that the fraud triangle model is not helpful in the prevention of occupational fraud. Andon, Free, and Scard (2015) argued that not all the elements in the fraud triangle need to be present for fraud to occur. Andon et al. (2015) added that for a fraudster who is waiting to use a

perceived opportunity to commit fraud considers the fraud triangle element, pressure, as a subordinate to the internal control weakness. The purpose of this study is to identify strategies community bank compliance professionals use to comply with the revised COSO internal control framework.

Critics of the fraud triangle like Epstein and Ramamoorti (2016) argued that the fraud triangle does not address certain personalities including narcissists and Machiavellians. Epstein and Ramamoorti (2016) explained that individuals without conscience do not seek to justify their fraudulent acts. This idea of lack of conscience leads to the conclusion by Epstein and Ramamoorti that rationalization does not need to be present to facilitate a fraudulent act. In contrast, Schuchter and Levi (2015) found there are individuals who commit fraud without any motivation and rationalization.

The evolution of fraud theory was developed in 2011 by Dorminey, Fleming, Kranacher, and Riley (2012) following the guidance provided by the PCAOB. The members of the PCAOB asked accounting scholar practitioners to develop a framework to aid business leaders and audit professionals to prevent, deter, and detect financial fraud from occurring in businesses (Dorminey et al., 2012).

The evolution of fraud theory is a metamodel, which begins with the fraud triangle by Cressey (1953). The authors then take the fraud triangle and build upon it by adding the theory of white-collar crime, and the money, ideology, coercion, and

entitlement theories (MICE). The evolution of fraud theory results in a more synthesized metamodel that scholar practitioners can use to study why fraudulent acts occur, how to prevent them from occurring, and possible detection methods. However, the evolution of fraud theory is a practitioners' guide to how fraud theory has developed. It is not an original theory but rather a combination of preexisting original fraud theories.

Berle and Means (1932) concluded that the separation of the managers of an organization from the owners would lead to great consternation. The results of their research heavily influenced the authors of the Securities Act of 1932 (Holdernes, 2009). Shareholders in corporations put their trust for the operations of the business in the hands of managers. In the case of a material weakness in internal controls a violation of that trust occurs. The purpose of this study was to identify strategies community bank compliance professionals use to comply with the revised COSO internal control framework.

Jensen and Meckling (1976) expanded on the work of Berle and Means. They defined an agency relationship as a contract under which one party (the principal) engages another party (the agent) to perform some service on its behalf, which requires delegating some decision-making authority to the agent. If both parties to the relationship are utility maximizers, the agent may not always act in the best interests of the principal. Therefore, the principal agent relationship may be at the center of the financial fraudster business owner relationship (Jensen & Meckling, 1976).

In the relationship between business owner and manager, the business owner expects the employee to act in a responsible manner as it applies to operational decisions such as cash receipts, disbursements, and contractual arrangements. The design and implementation of accounting internal controls is the responsibility of either the audit committee (two-tier system) or the board of directors (one-tier system). The purpose of this study was to identify strategies community bank compliance professionals use to comply with the revised COSO internal control framework. In the case of improperly implementing the revised COSO internal control framework, the principle agent relationship has broken down.

Agency theory is a very prevalent management theory, and some of the theory applies to fraudulent practices. However, the theory only is applicable to the relationship between employee and firm ownership. The fraud triangle theory is more useful to researchers and managers as the theory seeks to frame an answer to why fraud occurs in organizations. If managers can understand the why aspect, they have a better chance to address preventing and detection methods.

In 2004, Wolfe and Hermanson presented the fraud diamond theory which expanded upon the fraud triangle. Wolfe and Hermanson (2004) believed that expanding fraud triangle could improve fraud detection and prevention. Wolfe and Hermanson identified four observable traits related to an individuals' capability to commit fraud: (a) authoritative position: (b) capacity to understand and exploit weak internal control

systems; (c) ego and confidence that managers will not detect fraudulent behavior; and (d) capability to effectively deal with stress to manage the fraud over an extended period.

The fraud diamond consists of an additional element to fraud triangle theory called capability (McMahon et al., 2016). Without the appropriate skills and ability, an individual is unlikely to engage in fraudulent activities. Opportunity is the pathway to fraudulent activities (Wolfe & Hermanson, 2004). With a perceived opportunity, an individual needs the capability to recognize a control weakness to commit fraud (Omar, Nawawi, & Puteh Salin, 2016). The purpose of this study was to identify strategies community bank compliance professionals use to comply with the revised COSO internal control framework.

Ruankaew (2016) built upon the work of Wolfe and Hermanson and concluded that some employees with unshakeable financial needs, opportunity, and rationalization would not carry out fraudulent activities because they lack capacity. Ruankaew (2016) added that an individual with the skills and ability to commit fraud would identify weak internal controls and could use those weaknesses for their personal gain.

An employee's position within an organization could also contribute to their fraudulent capacity (Button, Blackburn, Lewis, & Shepherd, 2015; McMahon et al., 2016). An individual under pressure, with an understanding of internal control weakness,

and the capability to commit fraud could use their position within an organization to collude with other to commit a fraudulent act (Schuchter & Levi, 2015).

Most fraudulent employees are intelligent and creative individuals with the capacity to understand and exploit weak internal control systems (Ruankaew, 2016; Schuchter & Levi, 2015). An individual with the capability to commit fraud has a strong ego and confidence that their fraudulent behavior will not be detected or if detected, they can easily free themselves (McMahon et al., 2016; Ruankaew, 2016; Wolfe & Hermanson, 2004). Committing and concealing fraud can be stressful. An individual with the right skills and ability to commit fraud must have the capability to effectively deal with stress associated with the fraud over a period of time (Omar et al., 2016).

Albrecht, Howe, and Romney (1984) developed the fraud scale, which substituted personal integrity in place of rationalization in the fraud triangle. Albrecht et al. (1984) used information collected from questionnaires distributed to 212 internal auditors who experienced fraudulent acts in their organizations. Free (2015) noted that the fraud scale focuses on the pressure and perceived opportunity components of the fraud triangle as well as the moral standards of individuals. The personal integrity element has a relationship with an individual's ethical behavior (Mohd-Sanusi et al., 2015). Albrecht et al. (1984) believed that a person's decision-making process could have a relationship with their personal integrity.

Von Bertalanffy introduced systems theory in 1949 to understand the implications of an individual existing as part of a larger system (von Bertalanffy, 1950). Schneider, Wickert, and Marti (2017) described systems theory as an understanding of how the entire system behaves rather than just the individual components. Businesses cannot operate without employees; thus, the employees of the organization are part of a larger system: The system of the organization. Organizations allow an individual to enter the established community as an employee (Moldogaziev & Resh, 2016). When the individual accepts a position with the organization, the individual agrees to comply with the policies and procedures existing within the organization and enter the system of rules and regulations already in place (Valentinov, Hielscher, & Pies, 2016). The purpose of this study was to identify strategies community bank compliance professionals use to comply with the revised COSO internal control framework.

When employees are hired by an organization, the organization's leaders expect them to abide by the internal controls and ethical standards of that organization (Besio & Pronzini, 2014). When employees make decisions, the decisions not only affect them and their work, but also the entity as a whole (Li, Burch, & Lee, 2016). When an employee commits financial statement fraud, the employee might think of the fraud as harmless. However, a fraudulent act has ramifications for the organization as well as their stakeholders (Willison & Warkentin, 2013).

The Sarbanes Oxley Act of 2002 (SOX)

The Sarbanes-Oxley Act of 2002 (SOX) was designed to reduce the number of misrepresentations found in financial statements. SOX requires managers within publicly held companies to examine their internal controls over financial reporting (Brown, Elayan, Li, Mohammad, Pacharn, & Liu, 2016). No system of internal control is perfect and mistakes can occur. The nature and intent of the error is a factor when considering if fraud has occurred (Kramer, 2015).

The relationship between auditors and entity managers became more important after the implementation of SOX, specifically Section 404 (Mukhina, 2015). The law required publicly held company managers to assist the independent auditors in their own evaluation of internal controls (Mukhina, 2015). The purpose of this study was to identify strategies community bank compliance professionals use to comply with the revised COSO internal control framework.

Section 404 requires external auditors maintain independence with respect to the entity under audit (Mukhina, 2015). In examining the role of internal auditors, risk evaluation and management strategy called meta-model emerged as a measurement tool, (Yutao & Yan, 2017). Managers can implement a meta-model to enhance their risk assessment. The meta-model strategy includes an alternative risk assessment methodology outside the traditional use of internal controls, (Yutao & Yan, 2017). The

American Association of Certified Public Accountants (AICPA) and the PCAOB recommend this tactic (Yutao & Yan, 2017).

Joosten, Van Dijke, Van Hiel, and De Cremer (2014) studied the relationship between ineffective, internal control systems and their relationship to financial reporting losses. They concluded that a correlation exists between weak and ineffective control systems and poor entity financial performance. Joosten et al. (2014) supported this argument of effective internal controls to enhance the risk assessment function.

The SOX requires firms to file their Internal Control Effectiveness Reports. The purpose of Internal Control Effectiveness Reports is to provide financial statement users with confidence in the design and operating effectiveness of entity financial reporting. The Security and Exchange Commission (SEC) is the agency within the federal government that ensures investors in publicly held companies receive timely and accurate financial information to make informed investment and credit decisions. Because of the timing of the legislative process, there can be significant delays for auditor regulations of non-accelerated filers (Stone, 2015). For example, The Dodd Frank Act of 2010 provided for an exemption for non-accelerated filers from obtaining an auditor attestation (Stone, 2015).

Several factors influence business managers to comply with the provision of the SOX section 404 (Beets, Lewis, & Brower, 2016). The provision of SOX 404 requires

business managers and leaders to assist auditors in the collection and reporting of their internal control effectiveness. Beets et al. (2016) examined financial statements issued by registrants that have prior internal control weaknesses. Analysis of the issue of compliance identified some of the motives behind the willingness and unwillingness to report, as well as some consequences for failure to report. Consequences for a non-report include stiff penalties and punishments such as fines. The rationale behind the willingness to report can be to remove complexities to borrowing or attracting funding for expansion to meet another financial requirement (Beets et al., 2016). Another rationale for reporting material internal control weakness was that failures would put auditors in a precarious position. Such situations can constitute a violation of SOX 404, requiring auditors to report businesses internal control effectiveness. Additional reasons why companies fail to comply with the provisions of the SOX 404 was that managers think that the law complicates the business ability to attract funds (Beets et al., 2016).

Privately held businesses do not fall under the regulations of SOX (Anastasia, 2015). This gap in regulation could make small businesses more vulnerable to financial frauds (Ding & Wu, 2016). One solution to this issue is for the smaller entity to hire a qualified professionally qualified and trained accountant (Halabi & Carroll, 2015). Managers will not detect fraud when certain checks and balances are not in place (Hess & Cottrell, 2016).

Managers Role in Fraud Mitigation

Kramer (2015) explained that it is not possible for managers to eliminate occupational fraud from an organization. However, it is important for business owners and managers to understand possible strategies to minimize fraud risk (Kramer, 2015). The purpose of this study is to identify strategies community bank compliance professionals use to comply with the revised COSO internal control framework.

Business managers can also use fraud prevention strategies to possibly reduce financial losses resulting from a fraudulent act (Henry, 2016). Henry (2016) added that small business owners and managers need to make antifraud measures visible to employees and implement those measures into operational functions within the organization. If employees believe they are more likely to be caught when they are dishonest in their activities, they could be less likely to carry out dishonest acts (Kramer, 2015; McMahon et al., 2016). Neguriță and Ionescu (2016) explained that fraudster employees attempt to exploit internal control weaknesses when planning deceptive acts.

In 1985, the U.S. federal government formed the COSO committee to study the accounting scandals of the early 1980s (Frazer, 2016). The goals of the COSO project were to determine the reasons for the many accounting frauds. However, their results lead to the more important formation of internal control guidelines for business (Frazer, 2016). The guidelines emerging from the COSO project can be useful for entities of varying sizes. The purpose of this study was to identify strategies community bank

compliance professionals use to comply with the revised COSO internal control framework.

Albring, Elder, and Xu (2016) explained that the purpose and design of internal controls for public companies is due to the new requirement for independent auditors to express an opinion on the effectiveness of the company's internal controls over financial reporting. The updated purpose of the internal control framework was for managers to issue a report accepting responsibility for establishing and maintaining adequate internal control over financial reporting (ICFR) and assert whether ICFR was effective as of the end of the fiscal year (Albring et al., 2016). Internal controls are effective when managers and auditors conclude that there are no material weaknesses in the controls over financial reporting (Svanberg & Öhman, 2016).

Chen, Chan, Dong, and Zhang (2017) studied how organizational managers perceive the strength of internal control in their respective organizations led to an examination of COSO. Specific areas examined included control environment, risk management, and monitoring components of the Committee of Sponsoring Organizations (COSO) internal control integrated framework. The examination involved a survey of 500 chief audit executives and non-audit executives. The COSO elements of internal control perceived as weak or less effective, help to determine the operational effectiveness at any given condition. Chen et al. identified what happened to operations because of deficiencies in any of the elements. Secondly, Chen et al. explored variations

in perceived control strength at an individual control elements level, in public retail companies. The result of the examination shows that some public companies control systems are consistent and comply with regulations. Banks and financial services companies tend to maximize internal control resources better than non-bank (Kabue & Aduda, 2017).

Business managers tend to underestimate and improperly classify the severity of defects they do find. The internal control system's role provides managers with an operational efficiency measurement tool (Brebels, De Cremer, & Van Dijke, 2014). Brebels et al. recognized the broad use of internal controls systems by small and large retail companies in crime detection and prevention, protection of organizational assets, and compliance issues. Their results confirm the idea that an efficient internal control system supports shareholders, stakeholders, and financier's perceptions (Brebels et al., 2014). The study, conducted in Bangladesh, resulted from several company's deficiencies in annual reports; Elements that were missing include proper functioning internal control systems and deficiencies in sustainable business practices. Arguments in support of full disclosure require that entity financial statements comply with Generally Acceptable Accounting Principle (GAAP), according to Brebels et al. (2014). The financial statement represents the company's financial positions. When results of operation indicate that internal controls applications are not functioning as designed, reports must show such situation (Brebels et al., 2014). Some company managers tend to ignore the functions of

internal control in promoting organizational and managers' effectiveness. The results of the study emphasize the importance of internal control disclosure in company reports for the benefit financial statement users in making decisions (Brebels et al., 2014).

Carol (2015) conducted a study of how corporate governance structure could influence internal control disclosure in both large and small retail companies. The purpose of the study was to establish that corporate governance structures influence internal controls. The study involved the examination of 1309 Chinese listed non-financial companies. The researcher's conclusion was that three major factors influence internal control disclosures positively (Carol, 2015). These factors include manager actions, truthfulness in reporting, and proper timing. Adherence to these factors was crucial for maintaining effective and efficient internal control system. The authors also addressed the need to address some factors that can lead to fraud. Some of those factors are (a) failure to institute good internal control, and lack of related information disclosure, and (b) lack of truthfulness and reliability of financial information. Other factors include failure to bring effective change in internal control, and to the development, and implementation a strong internal control monitoring system.

Business owners and managers should enforce fraud prevention measures at various levels within the organization to safeguard company resources (McMahon et al., 2016). Mukhina (2015) emphasized the importance of internal control to the growth and success of businesses. Neguriță and Ionescu (2016) suggested that inadequate internal

controls over company assets could increase the likelihood of asset misappropriation within an organization. Campbell, Butler, and Raiborn (2014) agreed that a proper system of internal controls can assist managers with their stewardship responsibilities in fraud prevention.

The Foreign Corrupt Practices Act

The Foreign Corrupt Practices Act of 1977 was the business world's first introduction to the concept of internal controls (Weismann, Buscaglia, & Peterson, 2014). Kermis and Kermis (2014) concluded that bribery negatively effects investment, economic growth, trade, and democratic government functions. The United States Foreign Corrupt Practices Act (FCPA) became law in 1977 following the disclosure of several multinational businesses paying bribes to foreign officials (United States Department of Justice [DOJ], 2019). The United States Congress passed the FCPA to make the global business landscape more even amongst its many players.

The FCPA imposes strict guidelines on U. S. based companies, to prevent and detect the payment of bribes of foreign officials to facilitate commerce (Dean, Buck, & Dean, 2014; Kermis & Kermis, 2014). Dean et al. concluded that when entities comply with the FCPA, they can experience enhanced operational performance and improve their image amongst other members of their industry.

The lesser well-known provision of the FCPA is the accounting section. This section contains two parts. Part one requires companies to properly record and summarize transactions in sufficient detail, which reflect the results of operations and the purchase or sale of assets (DOJ, 2014). Part two requires companies to maintain a system of internal controls to ensure the safeguard of company assets (DOJ, 2014). It is the second clause that the United States Department of Justice Officials used most often to prosecute illegal payment fraud offenders (DOJ, 2014).

In 1979, the SEC took the concept of internal controls a step further and proposed a rule to govern the reporting of internal controls (Weismann et al., 2014). The rule required managers to state whether the business's system of internal controls and the internal controls of the business's subsidiaries provided reasonable assurance of attaining the Foreign Corrupt Practices Act's objectives on transactions and safeguarding of assets (Weismann et al., 2014). The purpose of this study was to identify strategies community bank compliance professionals use to comply with the revised COSO internal control framework.

The COSO Framework

The authors of COSO defined internal control as a process designed by the board of directors, managers, and other personnel to provide reasonable assurance concerning the effectiveness and efficiency of operations, the reliability of reporting, and compliance with applicable laws and regulations (COSO, 2013; Hari, 2016). COSO is an independent

private sector initiative devoted to assisting organizations to develop effective internal control, deter fraud, and improve the performance of organizations (Kimbell, 2017).

COSO consists of five private sponsoring organizations: (a) The American Institute of Certified Public Accountants (AICPA); (b) The Institute of Internal Auditors (IIA); (c) The American Accounting Association (AAA); (d) The Institute of Management Accountants (IMA); and (e) Financial Executives International.

In 1992, COSO published an integrated framework for entities to evaluate the system of internal controls. This framework consisted of five interrelated components (Kimbell, 2017). The five components include control environment, risk assessment, control activities, information and communication systems, and monitoring (COSO, 2013; Mukhina, 2015).

The control environment element is the managers' tone at the top of the organization with respect to the importance of internal control (Schmidt, 2014). The tone at the top establishes a significant influence on business ethical practices (Patelli & Pedrini, 2015). According to COSO (2013), the control environment consists of seven elements; (a) the organizational structure of the entity, (b) the assignment of authority and responsibility to employees, (c) the level of integrity and ethical values of company managers, (d) human resource policies and procedures, (e) the entities financial reporting competencies, (f) management's philosophy and operating style, and (g) the oversight role of the board of directors. Rubino, Vitolla, and Garzoni (2017) along with

Dimitrijevic (2015) stressed the importance of the control environment in preventing employee fraud.

In assessing risk, managers should investigate the effectiveness of internal controls to evaluate if managers are using the entity's resources effectively (Croitoru, 2014). Conducting fraud risk assessment increases managers' awareness of internal control weaknesses and potential fraud opportunities (Dorsey, 2015). Managers should consider how an individual's opportunity, rationalization, and perceived pressure to commit fraud relates to the company's fraud policies when assessing fraud risk (Mohd-Sanusi et al., 2015; Murphy & Free, 2016).

De Simone, Ege, and Stomberg (2015) explained that the information and communication component of COSO is important in both in the process of turning data into information and in communicating that information throughout the organization. Weng, Chi, and Chen (2015) concluded that organizations with internal control weaknesses had less information precision. Business owners can use open communication and regular meetings to strengthen internal controls (Frazer, 2016; Rae, Sands, & Subramaniam, 2017).

Managers must monitor the effectiveness of the entity's system of internal control on a regular basis to ensure that all five elements are functioning properly (Murphy & Free, 2016). Urbanik (2016) also agreed that managers should ensure the deployment,

modification, and replacement of control activities at all stages of the organization to reduce risk and meet operation objectives. Entity managers must regularly evaluate both the design of their internal controls as well as their operating effectiveness (Murphy & Free, 2016).

Managers should also consider if their existing controls are functioning properly (DeZoort & Harrison, 2016). In the 2019 business environment, the compliance with laws and regulations is, and should be, at the forefront of managers' minds. This compliance mindset leads to managers being afraid to eliminate an individual or set of previously established controls. Some of these controls do not make sense or are processes that do not apply to current operations. The monitoring function could also reduce the costs associated with the testing of unnecessary controls.

A properly functioning internal control procedure can help limit or even extinguish the opportunity for fraud to take place in the business (DeZoort & Harrison, 2016). Employees can commit fraud against the business when all three elements of the fraud triangle come together (Omar et al., 2016). When an entity properly designs and implements a proper system of internal controls it can provide less of an opportunity for employees to commit fraud (Hess & Cottrell, 2016). The internal control design for a small business must be different of a large public company (DeZoort & Harrison, 2016). The challenge is for small business managers to learn how to adjust large entity internal controls to suit their same needs for prevention and detection. The inadequate control

system can lead to an erroneous business decision that affects negatively on operations (Stone, 2015).

Auditing and review activities are essential business functions (Yang & Koo, 2014). Yang and Koo (2014) examined the relationship between specific Information Technology Weakness (ITW) and non-specific Information Technology Weakness, (ITW). Yang and Koo concluded that a significant relationship exists on between the financial misstatements and internal control effectiveness. Kathryn (2014) conducted a study on the importance of audit activities whether those activities contributed to successful business practices. The study includes a description on how internal auditors work with managers encouraging best business practices, and how these best business practices align with SOX.

SOX Implementation Strategies

Banks that fall under SOX can incur increased audit fees to comply with the new regulation. Therefore, the need to implement the new internal controls efficiently can reduce net income. Ettredge, Sherwood, and Sun (2018) examined audit fee changes accompanying implementation of SOX internal control audits for clients in three SEC-designated client size categories: large accelerated filers (LAFs), small accelerated filers (SAFs), and non-accelerated filers (NAFs). SAFs experience an additional increase of 23.2% compared to LAFs.

Bentley-Goode, Newton, and Thompson (2017) examined whether a company's business strategy is an underlying determinant of the strength of its internal control over financial reporting (ICFR) and auditors' internal control reporting quality. Bentley-Goode et al. (2017) came to the conclusion that start-up companies were more prone to weaker internal controls than more established companies. Consistent with their theory, the authors found that these upstart firms are more likely to report and less likely to remediate material weaknesses. Their conclusion supports the theory that effective SOX implementation can improve audit quality (Bentley-Goode et al., 2017).

Although COSO lacks an enforcement mechanism to require companies to switch to the 2013 Framework, SOX Section 404 requires that companies evaluate their internal controls over financial reporting using a suitable framework (Lawson, et al., 2017). Because COSO considers the 1992 Framework superseded by the 2013 Framework as of December 15, 2014, SEC filers must change to the 2013 Framework to comply with the SOX standard (Udeh, 2019). In addition, Lawson et al. (2017) concluded that the reporting objective in the 2013 Framework also must be applied to internal and non-financial reporting. Finally, the authors concluded that the result of an efficient implementation could provide greater efficiencies beyond financial reporting (Lawson et al., 2017).

The findings of Lawson et al. (2017) aligned with a study conducted by PricewaterhouseCoopers (PwC) in 2014. PwC (2014) provides professional guidance to

firms in the implementation of the new standard. Their conclusion is to ensure compliance with the 2013 Framework under SOX Section 404 requirements, firms must document how existing controls map into the 17 principles, address any potential design gaps if existing controls are not adequate, and test the operating effectiveness of new controls (PwC, 2014). By implementing these additional 17 principles, the expectation of internal control compliance specialists is that greater time and specialization will be spent on the SOX Section 404 compliance process for both the entity and the external auditor (Lawson et al., 2017). The implementation process could assist reporting entities (or their auditors) identify previously unknown internal control deficiencies and possibly develop efficiencies during the audit process (Lawson et al., 2017). Finally, the results of Lawson et al. conclude that although implementing the revised internal control framework is expected to increase external auditors' time commitment, there is no correlation to a resulting increase in audit fees passed onto clients.

Transition

In Section 1, I provided a background and overview of the context of the problem. The general business problem is the PCAOB has not issued specific guidance on how community banks should implement the 2013 COSO standards. The specific business problem was compliance professionals lack strategies to comply with the revised COSO internal control framework. Section 1 includes a review of the theoretical framework

which guided this research study. The conceptual framework for this study was fraud triangle theory. I defined assumptions, limitations, and delimitations in Section 1.

The results of this single case study contribute to social change by providing a framework for organizational leaders to improve their corporate governance function. The social benefits to a stable community banking system include a more stable economy for communities in which the small banks operate (Backup & Brown, 2014). According to Morris and Regehr (2014), a strong system of community banks is important for their local economies. Finally, I compiled a critical analysis and synthesis of literature about potential themes and phenomena identified in my problem statement.

Section 2 begins with a review of the problem statement and purpose statement. I described the role of the researcher and the data collection process. The eligibility criteria for participants, as well as strategies for gaining access to them, was explained. I also expanded on the Nature of the Study from section one by identifying the use of qualitative research over other research methods. Lastly, I expanded on the decision to use a single case-study over other research designs.

Measures that I considered to assure the ethical protection of the participants are outlined in Section 2. The data collection process of semistructured interviews was discussed. I described the systems used for keeping track of data and identify the appropriate data analysis process for this single case study. Reliability and validity

criteria, which includes credibility, transferability, dependability, and confirmability are reviewed. I also described the methods for member checking and triangulation.

Section 2: The Project

In this study, I used open-ended questions, along with directed follow-up questions, to explore research participant views on the successful implementation of the COSO 2013 internal control standards. In this section, I explain the structure of my study. Section 2 includes (a) the purpose statement, (b) the role of the researcher, (c) participants, (d) research method, (e) research design, (f) population and sampling, (g) ethical research, (h) data collection, instruments, techniques, organization, and analysis, and (i) reliability and validity.

Purpose Statement

The purpose of this qualitative single case study was to explore strategies compliance professionals use to comply with the revised COSO internal control framework. I interviewed a sample of four compliance professionals at a community bank in the Boston, Massachusetts area who have successfully implemented strategies for internal control oversight. The participants shared experiences that may help compliance officers of other community banks develop better internal control assessment programs. Compliance officers at other community banks may use the results of this study to implement the revised COSO internal control standards at their institution. As a result, the compliance officers may affect positive social change as they become empowered to discharge their corporate social responsibilities.

Role of the Researcher

My role in this qualitative single case study was to collect data through face to face interviews with research participants at a community bank in Massachusetts. In addition, I collected data through secondary sources of company documents. Examples of secondary source documents include reports created by internal and external auditors, internal control questionnaires completed by bank compliance personnel, which are used by internal and external audit professionals in their evaluations of the entity's internal controls and internal control matrixes, which are used by bank managers to document every internal control at their bank. I performed this data collection process to analyze the themes found in each source document and participant responses looking for any trends. In case study research, the researcher is the primary data collection instrument. Ketokivi and Choi (2014) explained that the combination of situational stability and developing a sense of generality in case research can be an effective strategy. According to Fletcher, De Massis, and Nordqvist (2016), the role of the qualitative researcher is to collect the data from the field, through interviews, and then use this material to build new insights and knowledge.

I have several years of audit experience as a certified public accountant (CPA) in the practice of public accounting. In addition, I have multiple years of investigative experience as a certified fraud examiner (CFE). The industry I am most familiar with is

financial services. None of the research participants were my coworkers. In addition, the bank I chose to study is not a client of mine now or in the past.

To ensure that I gained perspectives from participants and reduce researcher bias, I used an interview protocol (see Appendix A), which contained a comprehensive list of open-ended interview questions. An interview protocol provides a valuable toolkit for researchers to stay focused during interviews (Lampropoulou & Myers, 2013). The interview protocol for this study ensured that I consistently followed the same steps with each research participant.

A second strategy I used to limit the effects of my perspectives upon the data collected was bracketing. According to Levitt, Motulsky, Wertz, Morrow, and Ponterotto, (2017), the use of bracketing allows researchers to separate their own experiences, which may interfere with or inappropriately guide the interview process. Finally, I used a reflective journal to assist me in recognizing any of my personal assumptions, biases and how they might influence me during the data collection process.

I followed the three ethical principles of research involving human subjects as described in *The Belmont Report* (National Commission for the Protection of Human Subjects of Biomedical and Behavioral Research, 1979). The three elements are: respect for persons, beneficence, and justice. *The Belmont Report* established an ethical framework for researchers to avoid harm and maximize beneficence, autonomy, and

justice for all participants. I did not involve the use of any protected groups as my research participants.

Participants

The purpose of this qualitative single case study was to explore strategies compliance professionals use to comply with the revised COSO internal control framework. As such, I used purposeful sampling as it was the best fit for selecting which members of the bank to interview. Robinson (2014) suggested establishing a set of specific identifying characteristics to select participants for a qualitative study. I interviewed the chief financial officer, the compliance officer, an individual contributor on the compliance team, and a mortgage loan officer. The chief financial officer is ultimately responsible for the day-to-day financial operations of the bank as well as overseeing regulatory compliance. A compliance officer manages the compliance team in their audit of bank compliance programs (Foster & Shastri, 2013). A member of the compliance team is responsible for testing compliance controls over a specific function within the bank. Interviewing an individual contributor on the team provides a line level perspective. Mortgage lenders originate mortgage loans by implementing bank policies, while following compliance requirements.

I gained access to the participants through the Association of Certified Fraud Examiners (ACFE) Boston Chapter, of which I am a member. Several Massachusetts based community banks send their compliance professions to attend courses offered

through this association. According to Lohle and Terrell (2014), open communication and assurances of security and confidentiality also lead to a trusting participant relationship. I fostered a sense of trust within the context of the interview through open communication and the assurance of participants' confidentiality through the use of pseudonyms and the participant consent form. Assuring the participants' confidentiality and anonymity can assist in establishing trust (Lohle & Terrell, 2014).

Research Method and Design

Research Method

The selection of a research method is important to ensure the validity and reliability of findings in research (Abro, Khurshid, & Aamir, 2015). Three available methods of research are (a) qualitative, (b) quantitative, and (c) mixed methods. I chose a qualitative research method for my study because it aligned with the purpose of my study. In addition, the qualitative method enables the researcher to obtain an understanding of the lived experiences of the research participants (Cronin, 2014). The use of a qualitative research method can help researchers better understand how complex contextual factors may influence a chosen phenomenon of interest (Southam-Gerow & Dorsey, 2014).

A quantitative method was not appropriate for my study. Researchers use quantitative methods to answer questions about how much or how many (McCusker & Gunaydin, 2015). A quantitative research method was not ideal for answering why and

how questions (Yin, 2018). Some researchers use a quantitative approach, because their research is focused on theory testing, while qualitative research is used with theory building (Dasgupta, 2015). The use of a quantitative method involves numerical representations and are typically obtained through the use of closed-ended questionnaires and rating scales, which provide research participants with limited response options (Southam-Gerow Dorsey, 2014). The quantitative method is not appropriate to answer my research question of, what strategies do compliance officers use to comply with the 2013 COSO internal control framework?

The use of a mixed methods approach requires the researcher to use some combination of qualitative and quantitative approaches (Southam-Gerow & Dorsey, 2014). The mixed methods approach would require more time to complete my study. If I chose a mixed method, I must have conducted a qualitative study simultaneously with a quantitative study. A quantitative method is not appropriate to study the research question I chose to pursue. Therefore, the mixed method approach was also not applicable.

Research Design

Researchers should choose a research design that aligns the research question to the research conclusions through the process of data collection and data analysis (Baskarada, 2014). Some of the available designs for qualitative researchers are (a) case study, (b) ethnography, (c) phenomenological, (d) participatory, and (e) narrative (Yin,

2018). I chose a single case study to explore strategies that community bank managers in Massachusetts use to implement new internal control regulations. I used the single case study design to explore more deeply the controls and strategies used by one bank. Yin (2018) stated that case study research can be used to engage in the in-depth study of a chosen research problem in a realistic setting. As a result, the use of the case study design is common for business studies. Researchers should continue recruiting participant responses until they achieve data saturation (Robinson, 2014). I ensured data saturation by continuing to interview research participants until no new themes or information emerged.

Ethnographic approaches are used to explore complex social processes with the intent to offer in-depth understandings of the variabilities, uncertainties, and ambiguities of everyday life (Reynolds, 2015). My study did not involve analyzing culture. According to Hampshire (2014), ethnographic methods are used by researchers to explore the emotional and behavioral aspects of the participants through building a narrative together. Building a narrative was not the purpose of my research study and it was not necessary to answer my research question.

Researchers use the phenomenological designs to understand the lived experiences of individuals by exploring the meaning of a phenomenon (Chan & Walker, 2015). I did not choose a phenomenological design, because I conducted an in-depth analysis of how a community bank implements an internal control standard and did not

explore the lived experiences of the participants with a new phenomenon. The COSO 2013 framework is not a new phenomenon and thus the phenomenological approach would not be appropriate.

Researchers use the narrative design to generate knowledge by helping to shape a collective identity among groups or may tell about the way a strategy unfolded as a plot. A narrative approach can provide a sense of connectiveness and meaning to the changing nature of events and is normally open to interpretation and reconfiguration (Hamilton, Cruz, & Jack, 2017). The narrative approach was not applicable to my study because I did not explore participant's life stories of a single event or a series of events. I have chosen the single case study design for this study because it aligned with the purpose of my study, which was to explore strategies used by compliance professionals at a community bank in Massachusetts to implement the revised COSO internal control standards. By using the single case study design, I was able to perform an in-depth study of my chosen research problem in a realistic setting.

Population and Sampling

A qualitative researcher should choose a sample size by considering what is ideal and practical (Robinson, 2014). To obtain varying perspectives, I used purposeful sampling to select at least four participants from the community bank I chose for this single case study. Purposeful sampling is a nonprobability sampling method that allows the collection of data that represents the important features of the case (Sevimli & Delice,

2014). By selecting four participants, I had sufficient breath within the compliance function while considering the timeframe to complete the project. Researchers should continue recruiting participant responses until they achieve data saturation (Robinson, 2014). I ensured data saturation by continuing to interview research participants until no new themes or information emerged.

Before conducting the participant interviews, I sent a Letter of Cooperation to an authorized person at the community bank (see Appendix B). This helped to make the interview participant confident that they can participate in the interview process. In addition, I allowed participants to provide their interview locations in places where they felt most comfortable and are free of distractions. This allowed an environment, which was conducive to collecting data as well as encouraged conversation. Finally, I followed the interview protocol in Appendix A.

Ethical Research

Before I performed data collection, Walden University's Institutional Review Board (IRB) evaluated my proposal to ensure I meet all ethical protection requirements. Researchers must comply with the rules of research for human subjects as identified in *The Belmont Report* (U.S. Department of Health and Human Services, 1979). These standards include mitigating risk, fair treatment, and informed consent (see Appendix D). I obtained permission from an authorized person at the bank to complete the interviews and view necessary internal documents. For the consent portion of the ethical research

process, I demonstrated the principle of respect for persons by obtaining the informed consent from any individual that was considering participating in this study. If potential participants agreed to the consent form terms regarding their participation in the doctoral study, I asked them to sign the consent form and send it to me via a scanned attachment. I was identified as the researcher in the informed consent form. Additionally, the informed consent outlined the purpose of the research, the population and procedures, time commitment, data organization and analysis, risks and benefits of participating, voluntary nature of the study, privacy, contacts for any questions, and statement of consent (Stellefson, Paige, Alber, Barry, & James, 2015). Study participants were not provided any monetary or nonmonetary incentive to contribute to my research. The study participants' involvement in the study was strictly voluntary.

To ensure confidentiality and privacy, I used pseudonyms for each of the participants and the bank. I labeled the bank B1 and the participants as P1, P2, and P3. By performing these steps, I acknowledged the ability of the participant to make independent decisions (Stellefson et al., 2015). In addition, I informed the participants that I will store all interview transcripts and recordings in a secure location (a password protected thumb drive, which is stored in a locked cabinet) and then destroy them in five years at a secured data disposal site. Finally, I informed the participants of their ability to choose to withdraw from the study verbally or in writing without penalty at any time during the process.

Data Collection Instruments

In this study, I was the primary data collection instrument. Ketokivi and Choi (2014) explained that the researcher is the primary data collection instrument when using the case study method. Fletcher et al. (2016) also concluded that acknowledging the centrality of the researcher in qualitative research aids in creditability of the research. The data collection process was semistructured interviews of community bank employees who have compliance responsibilities. Data included participants' data collected through interviews and company internal control documents, which were provided by the bank managers and stored on a password protected flash drive. According to Yin (2018), researchers who use the case study method can use various data collection methods.

To help ensure that I gained perspectives from participants and reduced researcher bias, I used an interview protocol (see Appendix A), which contained a comprehensive list of open-ended interview questions. In addition, before conducting the participant interviews, I sent a Letter of Cooperation to an authorized person at the community bank (see Appendix B). This helped to make the interview participant confident that they could participate in the interview process. Next, I used a predetermined set of open ended interview question (Appendix C) to provide structure to the interview process. Finally, I used member checking to enhance the reliability and validity of the participant interview responses. Morse (2015) explained that member checking involves providing a summary interpretation of the interview back to the research participant to see if their interpretation

of what was said in the interview is correct. Member checking provides more assurance in the interpretation of the interview results than transcript review. The use of member checking can reduce the possibility of misattribution by the researcher during data collection (Morse, 2015).

Data Collection Technique

The primary data collection technique used in this study was the interview. Fletcher et al. (2016) concluded that if the purpose of a particular study is to collect data that accounts for or reports the way people experience and interpret their life and work situations, then interviews should be used. The purpose of my qualitative single case study was to explore strategies compliance professionals used to comply with the revised COSO internal control framework. I interviewed a sample of four compliance professionals at a community bank in the Boston, Massachusetts area who had successfully implemented strategies for internal control oversight. One advantage of the interview data collection technique is the open ended nature of the questions (Kahlke, 2014). The participants shared experiences that may help compliance officers of other community banks develop better internal control assessment programs. According to Sutton and Austin (2015), one disadvantage of the interview technique is participants may provide false or unclear information in their responses. The use of member checking is helpful to corroborate the participant's response to the questions (Sutton & Austin, 2015). I used a field test in this study. I selected two experts to review the clarity

of my interview questions. The two experts I selected were not part of my interview population.

One tool I used to collect the interview data were an interview protocol (see Appendix A). The first step in the interview protocol was to introduce myself to all participants and provide them with a copy of the Informed Consent form, which they previously signed. This assisted me in developing a trusting relationship with the participant by helping to set their mind at ease that the bank was aware of their participation in the study. Next, I requested their permission verbally to record the interview. From there I began the interview with Question 1 and proceeded through to the last question. Having the interview questions written down prior to the interview (see Appendix C) ensured that I kept the interview on topic. Finally, I explained the member-checking process, with the research participant, and thanked them for participating in my study.

To assist in ensuring that interview data were collected accurately, I used member checking. Member checking is a process that allows participants the opportunity to correct errors or challenge interpretations (Birt, Scott, Cavers, Campbell, & Walter, (2016). Member checks also allow the participant to provide additional or clarifying information (Birt et al., 2016). I provided the participants with a summary interpretation of the interview to save the participants time in performing their checks. Therefore, the interviewees did not have to read the transcript in its entirety. Researchers can perform

member checking before interview analysis. This could ensure the researcher is not drawing inappropriate conclusions from the interview.

The secondary data collection technique I used in this study was the collection of company internal control documents. The company internal control documents consisted of Excel files, which contained internal control matrices. These Excel files were provided by the bank managers and are stored on a password protected flash drive. I stored the flash drive in a locked fire proof safe. The flash drive will be destroyed by me after 5 years.

Data Organization Technique

I organized the study data using an electronic data filing system. By using this technique, I had an easier time with data retrieval and analysis. The following support documents filed electronically included (a) consent forms, (b) invitations for cooperation, (c) permission letters, (d) interview protocol, (e) interview questions, (f) interviews transcripts and analysis, and (g) copies of all cited articles. I created interview labels for each theme that came about from the data using NVivo (Dasgupta, 2015). I labeled each participant interview by the capital letter P and a number such as P1. All notes from the participant interviews also followed the P1 format. The internal control matrixes I obtained from the bank managers were labeled according to the appropriate financial reporting cycle. For example, cash collections transaction cycle or the credit and collections cycle.

Kennan and Markauskaite (2015) explained the importance of safeguarding interview documents and electronic data. I stored all written and printed data in a locked file cabinet for 5 years. Additionally, all electronic data contains password protection on an external drive, and stored in a locked cabinet for 5 years. Kennan and Markauskaite also studied the importance of password protection on research devices such as laptop computer. The results of their research concluded that researchers need more training on the importance of this area. Finally, after the fifth year, I will remove the collected data from the storage device and delete the data permanently to protect participants' confidentiality.

Data Analysis

Yin (2018) described the five-step process of data analysis. The five steps are (a) compiling, (b) disassembling, (c) reassembling and arraying, (d) interpreting, and (e) concluding. Yin (2018) also explained the four types of triangulation as (a) data triangulation, (b) investigator triangulation, (c) theoretical triangulation, and (d) methodological triangulation. Morse (2015) explained that if the researcher uses two data sources, the researcher can compare the two sources to see if the same results are obtained with each analysis. The argument for triangulation being that if the same conclusions are reached using the two different sources then the results are deemed reliable. This is called methodological triangulation. The two data sources I used were

participant interviews at the bank I selected and company documents such as internal bank memos and summaries of meeting minutes obtained from the same bank.

Fusch and Ness (2015) explained that investigator triangulation uses the conclusions reached from multiple researchers in a study; theory triangulation involves the researcher using multiple theoretical strategies in their approach to the subject matter under study; and methodological triangulation involves using multiple data collection methods. Fusch and Ness also suggested that there is a relationship between methodological triangulation and the necessity for data saturation. In my research, I concluded that data saturation had occurred when no new information was obtained during participant interviews (Yin, 2018). After reaching the saturation point it was then possible to begin the analysis of the interview data. This saturated interview data were analyzed against the results of the second data collection method, which was the review of the company internal bank memos and summaries of meeting minutes.

Yin (2018) explained that researchers should use software programs to code and group substantial quantities of narrative text, gathered from interviews or written documents. After completing my interviews, I used Excel to enter my interview transcriptions. By using Excel, I was able to perform theme analysis and present my findings in applicable summary formats such as tables, charts, and graphs. In addition, I used Excel to store my findings from the review of company internal control documents. Using Excel to document both the interviews and the document review results, allowed

for greater efficiency in methodological triangulation. Finally, using Excel as my database assisted me in finding key themes in both the interviews and the internal control documents, which I also related to the findings in my literature review.

Reliability and Validity

The trustworthiness of research includes dependability, credibility, transferability, confirmability, and data saturation (Yin, 2018). In the following subsections I address each of these concerns and how each of these five areas were covered in my study.

Dependability

Dependability refers to the reliance upon a defensible and defensible design, in which findings remain stable over time (Anney, 2014). To ensure dependability, a researcher must work with the interview participants in evaluating the interpretation of the data received through data collection (Anney, 2014). To assist in ensuring that interview data had been collected accurately, member checking was used. Member checking allows participants the opportunity to correct errors or challenge interpretations (Birt et al., 2016). I included summary interpretations of the interview transcripts so that interviewees did not have to read the entire transcripts word for word. This saved valuable time for the interviewees. Member checks also allowed the participant to provide additional or clarifying information (Birt et al., 2016).

Creditability

Researchers establish credibility by ensuring whether the research findings represent plausible information obtained from participant data and are not misinterpreted (Birt et al., 2016). To address creditability, I used member checking to ensure I was not misinterpreting the results of my interview data. In addition, the use of methodological triangulation helped ensure data creditability as it involves using multiple data collection methods (Fusch & Ness, 2015). Morse (2015) suggested that for data triangulation to yield reliability, the analysis of the different sources of data must provide similar results. In my study I used interviews and review of company internal bank memos and summaries of meeting minutes as the two data collection methods.

Transferability

Transferability pertains to how the results of the study appropriately transfer to other contexts; the concept of transferability is similar to the purpose of generalizability of quantitative study results (Morse, 2015). The use of thick descriptions and purposive sampling can help ensure future researchers could replicate this study (Morse, 2015). After recording participant interviews, I prepared detailed transcripts of the participant responses to the questions I outlined in Appendix C. Next, I prepared transcript summaries, which were sent to the research participants for member checking. These summaries allowed the interviewees the ability to save time in reviewing what was discussed during the interview. In addition, I used purposive sampling as it was the best

fit for selecting which members of the bank to interview, which aligned with my research question. As explained in Morse (2015), purposive sampling assists the researcher in selecting participants who are particularly knowledgeable of the research topic.

Confirmability

Confirmability is concerned with other researchers being able to corroborate the research findings because the research conclusions are grounded in an accurate interpretation of the data (Morse, 2015). To assist in establishing confirmability, I kept a reflexive journal, which includes reporting events that happened in the field, along with my personal reflections in relation to my study. According to Levitt et al. (2017), reflexive journaling or memorializing can help researchers identify their assumptions and how those assumptions might influence the data, even when researchers do not believe that they can completely eliminate the effects of those assumptions. The reflective journal was used in addition to data triangulation, which was described above.

Data Saturation

Guzys, Dickson-Swift, Kenny and Threlkeld (2015) explained that data saturation occurs when no new categories, new coding, or new information emerges from data collection. Robinson (2014) concluded that researchers should continue recruiting participants responses until they achieve data saturation. I continued to interview participants at the bank until I no longer experienced any new information.

Transition and Summary

This qualitative single case study could provide compliance officers with strategies to comply with the 2013 COSO internal control framework. Section 2 includes the following elements; the restatement of the purpose statement, the role of the researcher, participants, research method, and the research design. Other parts of the section are population and sampling, ethical research, data collection instruments, group and organization techniques. Data analysis, reliability, and viability are contents of the section. The final part of the section includes design and methodology choices to address the research question. Section 3 includes results of the study and application of the research to professional practice. In addition, Section 3 includes the implications for social change, recommendations for action, recommendation for further study, reflections, and the study conclusion.

Section 3: Application to Professional Practice and Implications for Change

Introduction

In Section 3, I provide a thorough description of the findings of the research study on strategies community bank compliance officers use to comply with the 2013 COSO internal control framework. In this section, I discuss (a) the presentation of the findings, (b) application to professional practice, (c) implications for social change, (d) recommendations for action, (e) recommendations for further research, (f) reflections, and (g) a conclusion. The purpose of this qualitative single case study was to explore strategies community bank compliance professionals use to comply with the revised COSO internal control framework.

I chose the single case study design to explore how one community bank met the challenge of implementing the COSO 2013 revised internal control framework. The single case study design can be appropriate to answer a how to, qualitative, contemporary research question (Yin, 2018). The case study design was appropriate because I studied how community bank compliance officers were successful in implementing COSO 2013.

As the primary data collection instrument, my role in this qualitative single case study was to collect data through semistructured, face-to-face interviews with research participants at a community bank. I used Yin's (2018) 5-step process to analyze data and determine themes found in each source document and participant responses looking for any trends. To ensure that interview data were reliable and valid, I used methodological

triangulation and member checking. Member checking can be used to give participants the opportunity to correct errors or challenge interpretations (Birt et al., 2016). This technique saved valuable time for the interviewees.

Presentation of the Findings

The overarching research question for this study was the following: What strategies do community bank compliance officers use to comply with the 2013 COSO internal control framework? Upon completion of data analysis and coding, four themes emerged, which are summarized in Table 1. These themes were monitoring controls, communication, separation of duties, and training. I coded the participants in my study as P1, P2, P3, and P4. I identified emergent themes through an analysis of the information shared by each participant during their interview. These emergent themes appeared to be relevant in further analyzing the strategies community bank compliance officers use to comply with the 2013 COSO internal control framework.

Table 1

Theme Frequency

Participant	Increased monitoring	Communication	Separation of duties	Training
P1	13	8	16	16
P2	15	2	50	30

P3	3	3	29	9
P4	4	3	13	16

Theme 1: Monitoring Controls

Management has the responsibility to design, implement, and maintain an adequate system of internal controls (Grambling, & Schneider, 2018). The purpose of my study was to explore strategies community bank compliance professionals used to comply with the revised COSO internal control framework. The first theme, which emerged from the participant interviews, was the addition of several more monitoring controls at the bank. According to all four participants, the bank does not currently have a full-time internal audit department.

P4 stated that,

The costs of hiring a team of full-time audit professionals for full time employment would be much greater than any perceived benefit. The bank just cannot afford that. So, we use an outside consulting firm to execute most of our management testing of internal controls. But we have to review their work.

P2 also spoke on the importance of monitoring the work of the bank's hiring of outside consultant to perform management's test work by saying,

Not having a full-time Internal Audit Department doesn't mean that the bank doesn't have the responsibility to review the test work in detail. We still have to monitor what the consultants we hire are doing. Bank management has deemed it a high priority to oversee the work performed by the consulting firm.

P1 explained that there are many more monitoring controls now that must be tested that cover oversight during the process of granting a mortgage.

The volume of internal controls over the process continues to increase each year. That means that I have to do a lot of reviewing of test work that the consultants did around the mortgage process. I have to make sure they documented all the steps we actually do every day at the bank.

I observed the internal control matrix that covers controls over the granting of mortgages. The number of controls P1 is responsible for reviewing that center on the mortgage reporting process has increased from prior to COSO 2013 to after its implementation.

P2 provided valuable insight into the implementation of additional monitoring controls at the bank in that participant's department, which involves the bank risk assessment process. P2 stated that,

The additional monitoring controls also cover the bank's risk assessment process. In the past, the bank performed the risk assessment quarterly.

Since 2017, bank management is reporting this information monthly to the board of trustees. A bank examiner suggested this additional monitoring a few years ago.

To assist in triangulating my research, I observed the bank's internal control matrix, which covers the risk assessment process. I noted that before COSO 2013, the asset and liability committee met quarterly. After the adoption of the new regulation, the new risk committee, which replaced the asset and liability committee, must meet monthly.

The bank's monitoring of the risk assessment process now involves more individual stress tests. According to P2,

The number of stress tests we have to monitor has gone from 4 to 8.

That's a lot of analysis work we have to do and then compare our analysis to what the consultants came up with. Then we have to review the consultants work to see that they did it right. Then we can present it to the Board of Trustees.

P3 was also involved in the monitoring function in the bank. More specifically, this participant is monitoring the test work performed at the transaction level. According to P3, "the bank has put a lot more controls at the teller level. That means I need to review how the consultants tested the transactions over teller operations, which is part of my job."

I observed the bank's internal control matrix, which covers teller operations to assist in triangulating my research. The number of controls over teller operations have increased from before the adoption of COSO 2013 to after its implementation. Therefore, because of the increase in the number of controls, the internal audit consultants must perform more test work.

The results of my research are consistent with fraud triangle theory. Cressey (1953), who authored the fraud triangle theory, explained in the second leg of the triangle the importance of eliminating the opportunity element for a fraud to take place. The establishment of a properly functioning system of internal controls addresses the opportunity element. The monitoring performed by the bank compliance professionals provides the required oversight needed to implement COSO 2013 effectively, to which is the standard internal control systems are compared.

KPMG (one of the Big 4 accounting firms) in 1979, sponsored the first significant fraud study conducted for the business field (Albrecht, 2014). An accounting researcher, along with researchers from criminology, interviewed many convicted fraud perpetrators (Albrecht, 2014). Albrecht also conducted a comprehensive, interdisciplinary literature review. In total, the authors identified 82 fraud-related variables (Albrecht, 2014). KPMG categorized these variables into three primary categories. Each category represents the factors that influence the decision to commit fraud. Albrecht (2014) concluded that it was the combination of three forces that produces a fraudulent act;

situational pressures, opportunities to commit fraud, and personal character. Finally, Albrecht concluded that individuals create opportunities to commit fraud in addition to those that a company creates through careless internal controls.

The results of my study add to the existing professional literature on the importance of a properly functioning system of internal controls. Managers must monitor the effectiveness of the entity's system of internal control on a regular basis to ensure that all five elements are functioning properly (Murphy & Free, 2016). Urbanik (2016) also agreed that managers should ensure the deployment, modification, and replacement of control activities at all stages of the organization to reduce risk and meet operation objectives. Entity managers must regularly evaluate both the design of their internal controls as well as their operating effectiveness (Murphy & Free, 2016). The findings from my study as they relate to previously conducted research extend the literature review, as participants introduced information on how this community bank relies on monitoring controls over the work performed by outside consulting firms. My study also extends the work performed by Schnatterly, Gangloff, and Tuschke (2018) who examined monitoring controls through the conceptual framework of the fraud triangle. This theme also relates to the purpose of the fraud triangle as compliance with the COSO internal control framework assists in preventing the opportunity for a fraud to occur.

Theme 2: Communication

The second theme found from the participant interviews was the importance of communication. The purpose of my study was to examine strategies used by this small community bank to implement the COSO 2013 internal control framework. The COSO internal control framework relates to the opportunity element of Cressey's fraud triangle theory, which reduces the opportunity for fraud to occur.

The population of my study consisted of four participants who perform compliance functions at different levels of bank management. For some participants, these communications were to the employees they directly supervise. In other instances, the communication was from bank executives to the entire bank.

De Simone, Ege, and Stomberg (2015) explained that the information and communication component of COSO is important in both the process of turning data into information and in communicating that information throughout the organization. Weng, Chi, and Chen (2015) concluded that organizations with internal control weaknesses had less information precision and lacked open communication. Business owners can use open communication and regular meetings to strengthen internal controls (Frazer, 2016; Rae, Sands, & Subramaniam, 2017).

P1 spoke about the importance of communications between supervisors and individual contributors when that participant said,

I feel it's really important that I review the latest trade publications that are offered to people in my role and then communicate what I learn to the team. That way we can stay up to speed with any new regulations. I typically use email format. The bank also sends out emails on new internal controls so that we can stay updated.

P2 emphasized how the audit committee has increased their communications with bank upper management. According to P2,

My department consists of employees who have been with the bank for over 20 years. The team has experienced many regulatory changes throughout their time at the bank. We need to share our experience with implementing new standards with the other departments at the bank.

P3 was also involved with the compliance communication process. This participant is in contact daily with the various branch managers. P3 noted that,

I use formal and informal communication tools. The formal communication tools are scheduled face-to-face meetings covering internal control compliance requirements and also emails. The informal tool I use the most is the follow up phone calls with branch managers. The branch managers are on the front lines especially to make sure the tellers comply with control changes.

P4 spoke about the many examples of written communications from the compliance team to every employee at the bank. The participant provided meeting agendas and related summaries, which covered compliance matters and assisted in triangulating my research. These meetings involved employees at the board of trustees, executive, and branch management levels as evidenced by the names of the people who attended each meeting. I compared the participant names to an organizational chart and the bank's website. P4 explained that,

Most of my communications are through emails with the people who report to me. I also communicate new control matters at staff meetings, which are always followed with a documented summary. Whoever was leading the meeting then sends the summary to appropriate parties via email.

Relating what the interview participants said back to the literature review, De Simone, Ege, and Stomberg, (2015) explained that the information and communication component of COSO is important in both the process of turning data into information and in communicating that information throughout the organization. Weng, Chi, and Chen (2015) concluded that organizations with internal control weaknesses had less information precision. Business owners can use open communication and regular meetings to strengthen internal controls (Frazer, 2016; Rae, Sands, & Subramaniam, 2017). Therefore, the findings from my study expand the extant literature on the use of

communication as a strategy used by a small community bank in implementing new internal control regulations.

In addition, I examined the findings of my study through the fraud triangle conceptual framework. Fraud triangle theory was used to develop the COSO standards. The results of my research provide possible strategies to assist small community bank compliance professionals implement the COSO regulations, thereby reducing the opportunity of fraud. The opportunity for frauds to be committed is an element of the fraud triangle theory. The results of my research are consistent with the fraud triangle theory.

Theme 3: Separation of Duties

The bank I selected did not report any material weaknesses during the last financial reporting period. However, the team that audits the bank has raised some concerns about separation of duties in past years under examination. I obtained copies of meeting agendas, which included topics concerning the separation of duties.

Noncompliance with internal controls often leads to reported material weaknesses. U.S. regulators repeatedly raise concerns that managers fail to detect and communicate material inadequacies to stakeholders in a timely manner (Bentley-Goode, Newton, & Thompson, 2017). Material weaknesses can adversely affect a company's financial position. In fact, entity wide controls weaknesses result in a higher risk of reporting fraud (Donelson, Ege, & McInnis, 2017).

All four of the participants I interviewed spoke about the challenge of implementing a perfect separation of duties. The concern each of them had focused on the small size of the bank. Chu and Jans (2019) studied the importance of separation of duties in banks of various sizes. They noted that although separation of duties is a required control in most firms, it is possible that some of the firms could accept exceptions for smaller entities due to their lack of staff.

P1 noted that,

Separation of duties comes up during most of our audits. This is because we are a small bank. When there are increases in the number of controls required by the regulators, the monitoring of those controls falls on the same employees at our small bank.

P2 also spoke on the frustrations of auditors requiring a perfect separation of duties without hiring more people,

I think in a small bank there is always going to be a potential internal control weakness surrounding separation of duties. To overcome this, I think all the account reconciliations we perform process helps. It's a good compensating control we have. I think experience is a compensating control too over a less than perfect separation of each duty.

P3 also spoke about the issue of separation of duties in a small bank.

I noticed that in recent years there has been a third level of review over wire transfer logs. The third level of review did not happen in the past. The problem is the bank isn't hiring more employees. I wonder why the regulations apply the same to banks of different sizes.

I observed the most recent company internal control matrix for the controls around wire transfer logs, which assisted me in triangulating my research. According to the internal control matrix, wire transfer logs should contain 3 signatures. I also observed an internal control matrix from a period before the new regulation and noted the absence of the 3 signatures requirement.

P4 also provided feedback on the issue of segregation of duties. P4 explained that,

I feel many regulators ignore the small size of the bank. Sometimes I think that the auditors are just looking to check the box in their audit program. If the bank has to increase hiring, it would affect the profitability of us and other small community banks. If small community banks have to close, due to regulatory issues and the need to hire more compliance people, how does that protect the public that the bank serves?

Many business owners use the fraud triangle as a framework to evaluate the three fraud risk factors when conducting a risk assessment (Mohd-Sanusi, Khalid, & Mahir,

2015). Business owners and managers who understand the opportunity component of the fraud triangle are quick to modify and strengthen internal controls, which are compared to the COSO framework (Kramer, 2015).

Kramer (2015) explains that it is important for small business owners and managers to ensure strong internal control when using the fraud triangle as an instrument to detect and prevent fraud schemes (Kramer, 2015). With the use of the fraud triangle to minimize fraud occurrence, business owners and managers can ensure strong control environment and monitoring controls are in place to reduce the perception of the opportunity for fraud (Kramer, 2015).

My study extends the current body of literature concerning the issue of a properly functioning separation of duties for a small community bank. In addition, the findings of my study were examined through the fraud triangle conceptual framework. The fraud triangle theory was used to develop the COSO standards. Community banks that are successful at implementing the COSO standards will reduce the opportunity element of the fraud triangle.

Theme Four: Training

The fourth theme was the importance of training. Managers can address the rationalization component of the fraud triangle through employee training and fraud awareness (Lokanan, 2015; Rodgers et al., 2015). Each of the four participants said that

training was the number one reason a bank of such small size can effectively comply with all the new internal control regulations. Abbott, et. al (2019) stated that internal control compliance remains under the responsibility of management. This includes the important stage of control self-assessment, which typically starts with management attending workshops provided by outside experts.

P1 said “the reason why we are able to stay in compliance with any new regulation is because we all go to trainings at the bank.” P2 expanded upon the training theme saying,

The bank provides internal training opportunities at different time during the year. Some are all staff trainings and others are for specific managers. For example, we have trainings on FDIC reporting for Call Reports. We also have trainings on Regulation O for insider loans.

I observed agendas from bank training sessions, which assisted me in triangulating my research. I observed that at some training sessions, only members of the executive team attended. Other training sessions include line level employees. I also observed in the bank’s internal control matrix, that internal bank trainings occur monthly covering the mortgage granting process. P1 noted in the interview that “I have to go to internal bank trainings on mortgages every month.”

P3 also spoke on the importance of training sessions for bank employees. P3 said “I always attend the bank wide trainings. I also try to do some ABA (American Banking Association) classes as well.”

P4 provided the most information on internal control training at the bank. This participant explained that training was the most important factor in the bank’s successful implementation of new regulations.

I attend several training sessions per year from the American Banking Association (ABA). These training sessions provide two main benefits. First, I learn about the next round of regulation changes coming into the industry. What’s even more important for me is other compliance officers from other banks of similar size are present at these trainings. We can share ideas on the new rules. It also happens at FDIC workshops.

I observed in the bank’s internal control matrix, under the control environment section, that management provides bank wide and department specific trainings on updated compliance matters. I also observed in the control matrix that the bank provides financial support for ABA trainings. Rubino, Vitolla, and Garzoni (2017) along with Dimitrijevic (2015) stressed the importance of the control environment in complying with the COSO standards.

The findings from my study confirm the basis for my conceptual framework, review of the professional and academic literature, and overall research question. The responses from the semistructured interviews of compliance professions at this small community bank allowed me to identify four themes as potential strategies for compliance managers at other small community banks. These themes could assist compliance managers at small community banks to comply with the latest internal control regulations. The conceptual framework of my study was the fraud triangle theory developed by Cressey. The fraud triangle theory was used to develop the COSO internal control framework as properly functioning system of internal controls assists in preventing the opportunity of frauds from occurring.

Applications to Professional Practice

The findings from this study are relevant to improved business practices at small community banks. The themes from my research provide small community bank compliance professionals with strategies used by a small community bank that successfully complies with the revised COSO standards. The reasons why the small community bank I chose was successful in implementing the new regulation was because of increasing their monitoring function, communicating changing regulations through all levels of the bank, addressing examiner concerns over segregation of duties, and supporting training initiatives. Compliance professionals at other small community

banks could learn from the strategies used by the bank in this case study to efficiently address internal control concerns in their bank.

There is little academic research covering internal control compliance with small institutions. The results of this study revealed successful strategies compliance managers use to implement internal control regulations, which are ever increasing. Researchers who seek qualitative studies in the field of implementing internal control compliance strategies can use the research findings to extend the literature. The findings from this study further supported the need for bank compliance while addressing some of the challenge's small community banks face in internal control compliance.

Although COSO lacks an enforcement mechanism to require companies to switch to the 2013 Framework, SOX Section 404 requires that companies evaluate their internal controls over financial reporting using a suitable framework (Lawson, Muriel, & Sanders, 2017). Because COSO considers the 1992 Framework superseded by the 2013 Framework as of December 15, 2014, banks must change to the 2013 Framework to comply with the SOX standard (Lawson et al., 2017). In addition, Lawson et al., 2017 concludes that the reporting objective in the 2013 Framework applies to internal and non-financial reporting. Finally, the authors conclude that the result of an efficient implementation could provide greater efficiencies beyond financial reporting (Lawson et al., 2017).

Implications for Social Change

Researchers may utilize the results of this study in a manner that could benefit and affect social change. Society can benefit from this study as COSO 2013 provides a framework for strong corporate governance. Strong corporate governance provides accountability to bank management and line employees. Banks that possess a high degree of corporate governance promote strong ethical values. The social benefits to a stable community banking system include a more stable economy for communities in which the small banks operate (Backup & Brown, 2014). According to Morris and Regehr (2014), a strong system of community banks is important for their local economies.

In April of 2020, the United States Congress passed the largest economic stimulus package history. This economic stimulus package provides for financial assistance to small businesses during the Coronavirus pandemic using taxpayer funds. The financial assistance comes in the form of loans to small businesses granted through banks. Business owners must use the loan proceeds to keep employees on payroll; they do not require repayment. The results of my research could assist small community banks in implementing internal controls over the implementation of this new loan program. The new internal controls could assist in preventing the misuse of taxpayer funds.

Recommendations for Action

The findings of this research included a basis for managers to take action that protects business activities that builds up and strengthens their businesses. I encourage community bank managers to view internal control as an important part of their business strategy. Managers should not allow costs to be the reason a business does not have effective internal control systems.

Managers must monitor and regularly evaluate internal control systems to maintain operational efficiency (Yan, 2015). Banks must institute a proper separation of duties regardless of their size. The results of my research provide strategies for small bank managers to overcome this challenge. Additional action items that could assist small banks could include communicating the results of this study through literature publications, conferences, internal control workshops, professional seminars, and American Banking Association training events.

Recommendations for Further Research

The purpose of this qualitative single case study was to explore strategies community bank compliance professionals use to comply with the revised COSO internal control framework. I interviewed a sample of four compliance professionals at a community bank in the Boston, Massachusetts area who have successfully implemented

strategies for internal control oversight. The participants shared experiences that may help compliance officers of other community banks develop better internal control assessment programs. The limitations of this study consisted of the research method/design, the number of participants, and geographical location. I chose a single qualitative case study design to answer the identified research question, which centers on strategies used to comply with the COSO standards. I did not examine specific internal controls. A future study could be designed to examine specific internal controls over specific financial transaction cycles.

Bank compliance costs continue to rise. Banks with assets of \$1 billion to \$10 billion reported total compliance costs averaging 2.9% of their noninterest expenses. Banks with asset sizes from \$100 million to \$1 billion in assets reported average compliance costs of 5.1% of their noninterest expenses. Banks with less than \$100 million in assets reported costs averaging 8.7% of their noninterest expenses (Dahl et al., 2016). Future research for this field should include a more expansive scope.

First, I propose a future multiple case study. In this potential multiple case study, I would use the same research question with multiple banks. In addition, I would use the same interview questions. This would expand the scope of the research and could aid in transferability.

Second, a replication of the study with the inclusion of a larger bank consisting of multiple locations and participants is a plausible step. A larger bank would expand the

collection of data with an emphasis on the identified compliance strategies. In this study, I focused on a single, small community bank. Conducting a similar review of a larger bank with more locations could yield the same strategies or offer a different set of strategies by compliance professionals. In addition, by expanding the number of research participants, the study could yield a more expanded set of themes.

Third, a replication of this study could include using a different conceptual framework. The conceptual framework for this study was the fraud triangle theory. In 1953, an American criminologist, Cressey, developed fraud triangle theory to illustrate the components that cause an individual to commit fraud (Cressey, 1953). An alternative conceptual framework could be the fraud diamond theory. In 2004, Wolfe and Hermanson presented fraud diamond theory, which expanded upon the fraud triangle. Wolfe and Hermanson (2004) believed that expanding fraud triangle could improve fraud detection and prevention. Wolfe and Hermanson identified four observable traits related to an individuals' capability to commit fraud: (a) authoritative position, (b) capacity to understand and exploit weak internal control systems, (c) ego and confidence that managers will not detect fraudulent behavior, and (d) capability to effectively deal with stress to manage the fraud over an extended period. This new conceptual framework could yield additional themes along with a different set of strategies for compliance managers to implement at their financial institutions.

Finally, the literature review from my study could assist with developing a quantitative study. A quantitative researcher could use the large amount of data provided by The Association of Certified Fraud Examiners (ACFE) Report to the Nations, which is a survey of compliance professionals worldwide. A replication of this same survey could be designed specifically for small community banks.

Reflections

Throughout the process of completing this study, I learned the true meaning of rigor and experienced personal, professional, and academic growth. During data collection, I learned about the different strategies small community bank compliance professionals use to implement new internal control regulations. To remain unbiased, I used an interview protocol to ensure that my focus was on the participants and the information they provided. I found the information the participants were willing to share very intriguing. The individuals who agreed to voluntarily participate were enthusiastic and passionate about sharing their experiences and knowledge. Results from this study could provide other community bank compliance professionals with insight on how to comply with the 2013 COSO internal control framework.

Conclusion

The purpose of this qualitative single case study was to explore strategies community bank compliance professionals use to comply with the revised COSO internal control framework. Companies have been slow to adapt to the new COSO 2013 internal

controls framework even though they are under increased regulatory pressure to do so (Li, Raman, Sun, & Wu, 2015). This revised framework resulted in widespread changes to internal audit departments and compliance areas, which company external auditors report on (Udeh, 2019). Some community bank compliance professionals lack strategies to comply with the revised COSO internal control framework statement. Compliance officers at other community banks may use the results of this study to implement the revised COSO internal control standards at their institution. As a result, the compliance officers may affect positive social change as they become empowered to discharge their corporate social responsibilities.

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Appendix A: Interview Protocol

- I. Introduce myself to all participants.
- II. Provide participant a copy of consent form, which they had previously electronically signed, asking if there are any follow up questions.
- III. Request permission verbally to record the interview.
- IV. Turn on the recording device.
- V. Code each participant with a pseudonym for impersonal identification.
- VI. Note the date and time of the interview.
- VII. Begin the interview with question #1; follow through to the last question.
- VIII. Follow up with additional questions.
- IX. Discuss the member-checking process with the research participant and obtain permission for member checking.
- X. Thank the participant for their part in the study.
- XI. Confirm participant contact information and ensure participant has my contact information.
- XII. End the interview recording.

XIII. End protocol

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Appendix B: Letter of Cooperation Example

[Bank Contact Information]

[Date]

Dear Paul,

Based on my review of your research proposal, I give permission for you to conduct your Doctoral Study interviews on our premises or through teleconferences with our employees. As part of this study, I authorize you to conduct audio recorded interviews and engage in follow-up discussions with our employees related to their interview responses. However, each individuals' participation in the study will be voluntary and at their own discretion.

We understand that our organization's responsibilities include providing a conference room to conduct the interviews (if needed) and authorize employees to participate in the study on a date and time that is convenient to our organization. We reserve the right to withdraw from the study at any time if our circumstances change.

I confirm that I am authorized to approve research in this setting. I understand that the data collected will remain confidential and not provided to anyone outside of the research team without our prior written authorization and the permission of the Walden University IRB.

Sincerely,

[Bank Authorized Signature]

Appendix C: Interview Questions

1. What do you perceive as the main differences between the previous COSO framework and the 2013 revision?
2. What challenges are you experiencing in implementing this revised framework?
3. What steps have you taken to overcome those challenges?
4. What communications have you directed to your operational managers on implementing the new framework?
5. What internal control deficiencies or material weaknesses have you found since adopting the 2013 standards?
6. What challenges, as a professional in this field, do you encounter when attempting to prevent and detect internal control deficiencies and material weaknesses?
7. Is there anything else you would like to add that you feel is important or interesting in order to understand this issue?