Tackling practical issues in fraud control

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TACKLING PRACTICAL ISSUES IN FRAUD CONTROL: A PRACTICE-BASED STUDY

Abstract

Purpose: The aim of this study is to provide a warning sign for fraud studies in developing occupational fraud deterrent, and offer possible solution to deal with it.

Design/methodology/approach: This study was conducted in one of regencies in Indonesia. We interviewed nine top managers across local agencies and four senior local government internal auditors. The people involved have formal and informal networks with a regent who has been arrested by Indonesia's Corruption Eradication Commission, because of white-collar crime syndicates, when running governmental systems.

Findings: Whilst many approaches to fraud mitigation have been proposed, organisations in practice particularly in the public sector find it hard to implement successful methods to understand, detect and prevent fraud. In practice this occurs due to simplified assumption on or multiplicity of overlapping fraud concepts. There is also a lack of appreciation of impact of organisational dynamics which facilitates fraud. Behavioural and political issues within an organisation need to be addressed when proposing fraud prevention. The study emphasises that it is too naïve to offer internal control as one-size-fits-all fraud prevention. For practitioners, corrupt behaviour tends to be the most challenging part, compared to other fraud schemes such as asset misappropriation and financial statement fraud. In this paper, we urge organisation to adapt a more systematic approach, involving across governmental anti-corruption agencies and civil society actors. This may be facilitated through communication among those parties, including a sound whistleblowing system. Then, organisation also should consider preventive measures that go beyond from administrative or technical internal controls.

Originality/value: Our results may give new directions for designing fraud prevention.

Keywords: governmental sectors; fraud mitigation; internal control; whistleblowing system

Introduction

Fraud is costly for society and needs appropriate mitigation. A clear understanding of fraud and the behaviour of the fraudsters is required. White-collar fraud, especially within the public sector, is prevalent and has attracted considerable attention from academics (e.g. Engdahl and Larsson, 2016; Goossen et al. 2016; Locker and Godfrey, 2006), and professional organisations (AFCE, 2018; PwC, 2018). These studies often seek to explore the reasoning behind an individual's decision to commit workplace fraud. For example, Goossen

et al. (2016) investigate the relationship between human values and three types of white-collar crime: tax evasion, insurance fraud and bribery covering 14 European countries. Their study shows, individual values, such as self-advancement, seeking control, individual competence, status and prestige, challenge, excitement and independence, are positively related to white-collar crime. In contrast, they also find values associated with broad motivational goals of welfare, tolerance, social order and relational stability are negatively related to the occurrences of white-collar crimes. Craig and Piquero (2016) analyse white-collar offending (e.g. embezzlement) from personality traits of offenders. They conclude individuals who experience 'low self-control' are more likely to offend. As we can see, this literature depicts how a number of individual value types or personality traits support the likelihood of white-collar offending. Such work can help management to be more aware of what behaviour is acceptable or unacceptable. It is also worth noting that such work will allow us to point out psychological anomalies that may help management to conduct in-depth analysis and gain deeper understanding of the likelihood of fraud being committed. Whilst those scholars are in near consensus about psychological triggers to defraud, development of mitigations remains infeasible without a clear sense of theoretical approach to understand the fraud risk landscape (Anald et al. 2015). It means, it is not enough just to look at the original state of psychological triggers when dissecting fraudulent behaviours.

Power (2013) argues, a large proportion of fraud prevention and detection, remains to be seriously challenged. He indicated that it is difficult for anti-fraud professionals to design good behavioural systems which can protect organisations (Power, 2013). Constant vigilance is required (Davis and Pesch, 2013), leading Holtfreter et al. (2008) to be pessimistic and hence sceptical about success, indicating that the United States Department of Justice have given 'low priority' to white collar crime compared to violent crime and threats to national security, such as terrorist attacks. Surprisingly, to date the discussions about preventive measures for causes of fraud quite often do not touch on the complexity of situational and sociological constructs within and outside organisation (e.g. see, Rodgers et al. 2015). Rodgers et al (2015) are optimistic that ethics and internal controls - accounting and administrative controls - can be appropriate solutions. Equally this paper takes a positive view of taking action to achieving fraud prevention by extending the evidence base on which such measures are based.

Recognition of why fraudulent situations appear unmanageable or even unpreventable is a step forward in designing better system. This study addresses the need for further empirical work to reduce the different types of fraud (Anand et al. 2015), and the kinds of situations in which fraud is more or less likely to occur (Akkeren and Buckby ,2017). The critical debate

about occupational fraud prevention processes, goes beyond the challenges of determining the mode of operation of fraud and the opportunistic conditions are allowing fraud to occur.

The paper takes the following route: Initially, there will be an exploration of the concept of fraud and the dynamics of corrupt organisations. Then, the research design is discussed. This leads on to the analysis, discussion and conclusion which addresses why certain commercial concerns find it easier to control fraud and as such how a holistic approach can be taken to fraud prevention.

Conceptualisation of fraud

Tackling an issue needs a clear understanding of the conceptualisation of the subject. This is clear from reviews of the subject, see Soltani (2014) and Ang, et al. (2016). These authors tend to generalise the term fraud. Soltani's (2014) comparator study highlights how corporate frauds and management behaviours are interconnected. Soltani's aim is to provide a broad perspective of corporate issues, for example from fraud perspective in analysing the corporate failures. He used three American examples (Enron, WorldCom and HealthSouth) and three European corporations (Parmalat, Royal Ahold and Vivendi Universal). The study highlights differences between the two categories of companies in studying corporate failure triggers. He sought similarities in his analysis, arguing that the financial scandals arose from several incidences of instance 'corruption', 'fraud', 'management misconduct' and 'unethical behaviour' (Soltani, 2014, p. 264). It contributes to better understanding of why, under certain conditions, particular organisational become subject to these issues. Yet, it also raises the need to rethink the nature of fraud.

Association of Certified Fraud Examiners (ACFE) uses a term 'occupational fraud' for the terminology of fraud. They break down it into three broad classification, such as corruption, asset misappropriation, and fraudulent statements. Etymologically, referring to the *Cambridge English Dictionary* (CED), 'fraud' means the crime of getting money by deceiving people. This does not limit the nature of corruption and other specific offences. Arguably, it is true, Soltani's four categories explaining financial scandals are acts or courses of deception, committed by a person(s) against the values of organisation, but they must be considered as a classification of fraud. In other words, the positions of corruption and other specific offences as mentioned by Soltani's study are not similar to the positions of fraud. This argument is also supported by common law jurisdictions that fraud (deceit) is articulated as a tort, in connection with pure economic damage, made by person or entity (Murphy, 2016). The emphasis of this definition is on a broader meaning of the disposition of being 'deceitful' or 'a dishonest trick or stratagem'. So, based on this reasoning, we note

that there is overlapping understanding of fraud concept. We have similar understanding was ACFE that fraud is an umbrella covering any financial crime for gain that uses deception as its principal method.

The distinction drawn is to ensure clarity when dealing with the subject. It does not mean that a specific organisation needs a precise understanding of fraud to avoid a catastrophe. It does indicate that clarity is necessary to avoid generalisation in terms of believing all frauds have the same antecedents and consequences, since frauds themselves tend to have unique characteristics. Treating as similar is likely to lead to flawed safeguards. Cressey (1953) 'triangle of fraud' the foremost model for examining fraud, emerging from the criminology and sociology. According to the original study, it is stated that those who committed fraudulent activities or white-collar crime are sternly tested by a financial problem referred to as non-shareable problems (Cressey, 1953). Many authors, see Akkeren and Buckby (2017), Dellaportas (2013) and Kranacher, et al. (2011), note that the theory underpins early warning of fraud symptoms. Interestingly enough, Cressey theorised that all three necessary pre-conditions, pressure, opportunity and rationalisation *must* exist together for the trust to be violate. If any one of the components in a given situation is absent, fraud would be "highly unlikely" to occur.

The focus on the individual of Cressey's original work has had an effect on the development of fraud and auditing literature. It does, though, not tackle the situations were fraud occurs in a social context and through social bonds, see Free and Murphy (2015). 'Opportunity', the second leg of fraud triangle, considers organisational weaknesses (Cressey 1953; Wolfe and Hermanson, 2004: Farber, 2005; Bussmann and Werle, 2006; Kranacher et al., 2011; Dorminey, et al., 2012; Dellaportas, 2013). Hence the weaker the organisational defences the more likely an individual is to commit fraud. As illustrated in the fraud triangle, the translation of opportunities is that the harder the opportunity structure, the less should be a person's intention to commit crime. Yet, this does not take account of the cases, in white collar crime, when there is a combination of perpetrators (individuals and organisations) or when individuals can come together to create new opportunities for fraud. A broader model for fraud is required, taking account of the changing nature of organisation power and the strengths of collusive networks. Without such generalisations even well organised fraud prevention is likely to fail and this may bring surprises for organisations, see ACFE's (2018) ongoing research.

Dynamics of Corrupt versus Non-corrupt Organisations

Organisations both internally and externally may be subject to corrupt activity due their inherent structures. These structures may be the managerial, the cultural and/or behavioural within the organisation, or arising from the society they inhabit. There may develop particular (malicious) pressures, between corrupt and non-corrupt organisations either internally or externally. As such there may be an effect on a non-corrupt organisation's fraud deterrence capability. Research findings on the relationship between lobbying and corruption (Campos and Giovannoni, 2006), confirm that fraudulent conduct may arise from effect of the lobbying. Typically this would involve bribery (Campos and Giovannoni, 2006). Such lobbying is often act as an instrument of influence to relax the rules or gain privileges, many firms particularly in developing countries may be willing to acquiesce to bribery or lobby bureaucrat to deal with a regulatory constraint (Harstad and Svensson, 2011). The number of people involved in such a situation is unknown, but several people may implicated. It is not an individual act, but may be endemic as the influence spreads through the organisation, see Anand et al. (2015) conceptualisation. It can be described within a power framework, those with the power dictating to other individuals their actions. As such it may be difficult for the employees in such a context to resist given the great pressure to defraud (Anand et al, 2015, p. 753). Hence in developing fraud prevention there is a need to delve into the organisational factors/influences that give rise to the potential fraud, see Anand et al. (2015).

Furthermore, the interaction between the organisation's culture and the employees' behaviour with respect to fraud needs exploration when considering fraudulent behaviour. Social identity theory provides conceptual focus for the social psychology of intergroup relation processes, and the self-conception as consequences of group memberships. The centrality of social identity theory is that a person's sense of who they are in part is based on the group to which s/he belongs (Tajfel, 1982, Tajfel and Turner, 2004). Tajfel (1982, p. 255) defines social identity as "part of the individuals' self-concept which derives from their knowledge of their membership of a social group (or groups) together with the value and emotional significance of that membership". This theory has broad implication for social behaviours within organisation. For example, Pearce, (2013) studies ethical values of intergroup relationships related to business issues, built on the theory of social identity. He indicates that the ethical position of a business represents the group's values which then form the basis on which individual employee's judgements and actions. He concludes that social identity theory can explain the need for creating a sense of shared values among employees by emphasising the ethical and legal aspects from the senior manager. Such issues have received a little attention in the fraud literature.

Carpenter and Reimers (2005) and Cohen et al (2010) employing theory of planned behaviour (TPB), have been well received when examining individual intention in the context of fraudulent behaviour. Such works represent a simple fraud model, as originally proposed by Ajzen (1991). We feel the model TPB, which initially are subject to a conducive situation[1], will be inappropriate predictor of fraudulent behaviour. The predictive utility of the TPB is empirically determined by conscious self-regulatory processes (Ajzen, 1991). In term of fraudulent behaviours, however, a system of conscious personal management is highly likely to be biased by self-serving motives, for instance through rationalisation or moral disagreement (*see*, Cressey, 1953; Lee et al. 2019). In line with this reasoning, Ashforth and Anand (2003) propose conceptual model regarding how corruption becomes normalised and embedded phenomenon in the organisation. They argue there are three domains – institutionalisation, rationalisation, and socialisation – which are mutually reinforcing each other to support the normalisation of corruption.

The emphasis of those psychological pathways is on individual's moral reasoning, whether a given action (fraud) is acceptable or not. As explained by Bandura's (1991) social cognitive theory, an attractive aspect of antecedents that arises the probabilities of performing behaviours is individual's thought, pertaining how s/he responds and processes the social world. It is strongly influential in determining how s/he will interpret messages addressed to him/her and how s/he will react to them. In addition, we identify presumably those aforementioned prior fraud studies have a little attention on collective beliefs and behaviours within organisation, their results empirically at some points conflict each other in terms of looking at the way individual thinks and feels about the social issues. These focuses have often been overlooked in developing fraud model. It is true, of course, that despite such flawed reasoning behind those fraud studies' conceptions, they are still good to enlighten us about how morally upright individuals can routinely engage in fraudulent behaviours. Uniquely it is without psychologically experiencing conflict.

Therefore, based on the above reasoning, exploring the nexus of collective beliefs and behaviours, and the role of (moral) cognitive processes largely remains unanswered. Then it also needs differential reasoning when proposing fraud deterrent between corrupt and non-corrupt organisations. It is due to significant differentiations in terms of rhythms of social psychologies within organisations that support people to co-offend.

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[1] TPB was developed from a situation in which there are no serious social and legal consequences, nestled in an individual after performing a certain act.

Research Design

This study was conducted in one of corrupt regencies in Indonesia. We believe that our results may give new directions for designing fraud prevention. Importantly this study can enrich a study completed by Bussmann and Niemeczek (2019), exploring crime (or corruption) prevention. They conclude compliance through company culture and values, creating and sustaining a strong ethical culture is the key to support people making good ethical decisions and behaving ethically. The starting point for this is the articulation of a set of values reflecting the successful transfer of a tone from the top and the ethical leadership of the immediate superior (p. 809). In the journey to fraud prevention, such initiatives seem normative. The temptation to engage in unethical practices can become very strong, especially in corrupt organisation, in which it deliberately defeats any systems of internal control.

The situations in corrupt organisations and non-corrupt organisations, as discussed previously, are definitely different. Political interests, either micro or macro political interests, in corrupt organisations brings behavioural change within an organisation. For instance, Brandt and Svendsen (2013) explore why does bureaucratic corruption occur in the EU? They argue, the dynamics of bureaucratic corruption in the EU are caused by a well linked individuals between an organisation structure and external power. In effect, organisations were well-operated by distributing authority and setting a stage for the exercise of power. To date, most fraud theoretical or conceptual studies on fraud prevention may lack consideration on corrupt organisation dynamics. In other words, we can argue, there has been little theoretical advancement or model that can comprehensively explain the dynamics of fraud prevention within corrupt organisation. Given this, the current study explores such under-researched topics.

To achieve our goals, we interviewed nine top managers across local agencies and four senior local government internal auditors. Specifically, it was conducted in one of local governments in East Java Province, Indonesia. There was a balance of males (number) and females (number). About 7 participants were male and 6 are female. Since this study is only focused on management levels, most of participants were above 30 years old, and only 2 participants were under 30 years old. With regard to work experience in management position, 6 people have experience around 7 to 10 years, 4 people have experience around 4 to 6 years, 2 people have experience around 2 to 3 years, and only 1 people has experience under 2 years.

The people involved have formal and informal networks with a regent who has been arrested by Indonesia's Corruption Eradication Commission, because of white-collar crime

syndicates, when running governmental systems. We picked them as informants since they have direct experience about specific concern where they have to alter the terms of a transaction with private interests in which they operated on behalf of the government. As such, they were primary actors in misinforming the government about the cost and quality of public goods provision, on behalf of their corrupt regent. Here, we used a semi-structured interview – a method of research used most often in the social sciences (Irvine et al. 2013) – with face-to-face communication. The advantage of this method is that the interviewer is in control of the process of obtaining information from the interviewee (Partington, 2001) with focused, conversational, two-way communication. The majority of questions are created during the interview, allowing to explore the variations in each participant's experience of evidence-based practice. During interview processes, we encouraged the flexibility without influencing the participants' conceptions or experiences of the topic being explored.

Furthermore, in dealing with social desirability bias, we used personal networks of a member of the research team. We had close friends who work in the Regional People's Representative Council and local bureaucracies. Before he met the potential informants, his friends introduced him to the targeted informants via phone, and informed about the purposes of the project that it was only to enrich fraud prevention literature. We did it to avoid unwillingness to provide accurate or honest answers. Acknowledging this, we also informed that a set of data would be altered in a way that can no longer be recognised directly or indirectly either by the researchers or any other party. It is hoped, preserving anonymity and confidentiality are likely to affect the respondent's decision to answer truthfully (Ong and Weiss, 2000). Importantly we said that this interview was voluntary and they could withdraw at any stage without having to furnish a reason for leaving.

Our data analysis is grounded in an idiographic focus, aiming to provide detailed examinations of personal lived experience (Eatough and Smith, 2017). We initially outlined patterns of meaning across a dataset that provide an answer to the research question being addressed. The categories to which each concept is mapped and are then themed. Aspects of such interpretative works gave us implicit and explicit ideas within the data. Our approach can be subsumed under what Maanen et al. (1982) call "formal sociology", focusing upon the daily life of participants from the inside, as well as identifying the story that each theme tells. To go beyond what others have done, we contrasted the social stigma about organisational controls, noting that it is the key guardians to safeguard organisation's assets, with the experiences and the reality of participants in corrupt organisations. It is to gain a richer, deeper understanding of fraud deterrent, and to build a complex, holistic picture in dynamics of organisational controls.

Results and Analysis

We discussed two major topics with the interviewees, challenges faced by authorities when designing a set of internal control systems in the local government, and improvement in the efficacy of internal control in order to prevent occupational fraud, especially corruption. For the first topic the intended was to provide understanding of the greatest challenges in adapting and implementing the COSO internal control framework for local governments. This is very important to discuss here because the governmental and not-for-profit arenas are not immune from major fraud (Stalebrink and Sacco, 2007), and importantly the COSO Board commission expanded framework of internal control for all kinds of organisations, from small businesses to community-based social enterprises to government agencies (COSO, 2017). So, it is expected to offer comprehensive guidance/warning to improve organisational performance and oversight and to reduce the extent of fraud in organisations. Then for the second topic is to offer plausible initiatives for local governments/organisations regarding how to make occupational fraud manageable.

The Challenges of designing internal controls

Inadequate references to interpret substantial values

Tackling occupational fraud locally is a well identified topic which local authorities face as a significant challenge. Complexity and the sophistication of modus operandi that evolves in fraud faced by the local government requires effective design of internal controls, yet the academic literature has not adequately addressed the issues. The following quotes show such issues.

> *"We have already made improvements on our internal control. I did not know why such acts (fraudulent behaviours) are still rampant. We were often invited by academia to attend workshops [. . .] it was hoped, we could get new perspectives. In fact, the discussion is still too monotone [. . .]" (Interviewee 1).*

Other interviewees added;

> *"[. . .] we need works discussing it (how to fix internal control deficiencies). I realised, we need numerous suggestions for maximising overall organisational control in dynamic and volatile environments" (Interviewee 4).*

> *"To interpreted academic works is not easy. They used complicated jargons [. . .]. And they are based on corporate cases which are totally different from governmental cases. For example they said, we need to fit the organisational control to the environment by structuring the organisation, not centralised approach but more organic when in highly dynamic and uncertain conditions. I thought such points did not prevail in governmental contexts" (Interviewee 6).*

It is because;

> *"[. . .] Many our local government with thousands of bureaucrats in multiple offices have a harder time protecting themselves from internal fraud and malicious external influences" (Interviewee 12).*

The above quotes show "expectations gap" between public's expectations and research community on fraud prevention studies. Some parts of arguments above were in line with studies completed by Bell and Wright, (1995). They in general state due to the technical jargon and quantitative analysis used in the majority of the top auditing/accounting journals, few practitioners are able to fully understand the research published in academic journals.

Need of expansion for COSO matrices, local government perspectives

During the interview process, the set of internal control challenges were discussed related to fraudulent prevention. Interestingly when we touched such topics, in the absence of a comprehensive and conceptually sound framework, some of interviewee mentioned that they have difficulties in relating to the COSO matrices espousal of organisational values. Two interviewees (5 and 12) mentioned that the more complex the issue, the less likely that organisation can overcome challenges related to the design and operation of internal controls. These complexities in operations are a widely recognised as threads to the internal processes, in which organisation felt dilemma in maintaining a strong system of internal controls. As conceptualised by Coram et al. (2008), the degree to which an organisation lacks factual information regarding the internal and external operating environment potentially can produce negative significant effect on prevention of fraud.

Then, it is also important, at this point, to note that crime prevention is not just based on the internal agency of actors, but also on their shared norms and values. One of interviewees think that the extent diversity in concepts and terminology for fraud risk identification process can serve as the primary input to fraud risk responses, as they interact with complex operations. See his comment below, saying that

> *"[. . .] if we seriously want to prevent fraud, all parts of organisation, not only the top echelons of bureaucrats, must work together. Starting from creating ethical work climate to concretely applying their benevolent intention to combat fraud" (Interviewee 5).*

In today's business environment, it is not clear how COSO internal control principle translate to the control process level within governmental organisation. Substantially, the domain of organisational control between governmental and non-governmental organisations is likely to be different. The next quotes below provide practical concerns associated with the COSO matrix and its relation to fraud activities in local government.

> *"The COSO matrices are internally focused, and the context is not established in terms of both external and internal factors and influences [. . .] Some points of focus may not be suitable or relevant to all entities, especially in the local government. So we cannot identify fraudulent or inappropriate activities"* (Interviewee 3).

Then another interviewee added that COSO control 'may' help minimising the occurrence of errors but it cannot provide absolute assurance that fraud will not occur in the future *(Interviewee 13)*. There is a greater emphasis on and expectation of redirecting principles of internal control into fraud deterrence, designed to reduce internal and external fraud.

> *"Types of fraud keep upgrading and adjusting to new tendencies. [. . .] COSO control systems tend to be technical [. . .]. To identify the ongoing fraud at an early stage [. . .] is often an underappreciated because the objective of COSO framework is much focused on the achievement of organisation's goals"* (Interviewee 8).

> *"We all face the burgeoning fraud acts. We deal with it, but not always, and sometimes not very well [. . .] Nowadays, employee fraud can go far beyond the standard procedures"* (Interviewee 2).

Similar argument was also accentuated by another interviewee who works at accounting and accountability department, saying that,

> *"[. . .] At this stage, internal control structure and procedures are much more attributed to a wide range of administrative problems, for instance, ranging from lack of documentation for transactions, income smoothing, and transaction-specific issues"* (Interviewee 7).

In situations when two or more individuals conspired to commit an occupational fraud especially corruption cases, internal control structure may often fail to prevent or stop them in the future.

> *"I am not sure that the COSO framework provides reasonable assurances that collusive frauds can be stopped. Those are in fact defeating the internal controls or rendering them ineffective"* (Interviewee 5).

These quotes highlight some of the issues with COSO's framework in public sector in terms of developing internal control systems as fraud deterrent. Generally, these quotes show COSO's framework needs to be broadened because it is highly unlikely to prevent corruption cases.

Suggestions for alternative fraud deterrence

Are there alternative fraud deterrence methods for white-collar crime, especially corrupt behaviours? Following the observation about COSO, there is a need to focus on the public sector and relevant approaches for such, see Cendrowski et al (2010). As mentioned by

Cendrowski et al (2007), COSO's primary objective is to provide acceptable assurance regarding the achievement of company's objectives in these categories; (1) Effectiveness and efficiency of operations, (2) Reliability of financial reporting, (3) Compliance with applicable laws and regulations (p. 121). In this position, we acknowledge its grand design for enhancing organisation's accountability and transparency.

It is affirmed, based on our previous sections, that a revised set of internal control introduced by COSO is only highly likely to prevent the administrative or technical occupational fraud, for example Asset Misappropriation and Financial Statement Fraud. These results are supported with LaSalle (2007)'s and Cendrowski, et al. (2007) arguments stating that the COSO framework as the essential construct for transparency, could prevent risk of asset misappropriation or the theft or misuse of an organisation's assets. Beasley et al. (2010) who analyse the occurrences of fraudulent financial reporting investigated by the U.S. Securities and Exchange Commission (SEC) between January 1998 and December 2007, provide a comprehensive understanding of COSO framework components and principles. The COSO model is designed to improve organisational performance and governance and to reduce the extent of fraudulent financial reporting. The concerns already raised may in the paper are not addressed by COSO.

However, it may become an issue when we look at that situation from a perspective of corrupt organisational culture (Campbell and Goritz, 2014) or unethical pro-organisational behaviour (Umphress et al. 2010). The COSO model may less likely to function properly in such contexts. In such context, it is too naïve to say that government employees in order to minimise or deter illicit behaviours just perform their duties and responsibilities with integrity at the core of their service.

There is a strong international consensus that unethical or corrupt behaviour in the name of the organisation can control the functions of organisational control (OECD, 2015). Since in corrupt organisations many employees facilitate or support each other to achieve a certain goal, we doubt that preventive and detective fraud control processes and procedures can deter the prevalence of this type of unethical behaviour. As shown prior section, we could not identify effects on the relationship between a set of internal control and corruption cases. As such, it seems highly likely that prevention will succeed in dealing with corruption. This result is in line with OECD (2015)'s report stating that corrupt behaviour cannot be tackled with repressive actions alone and a great variety of measures is needed to eradicate conditions that lead to its occurrence. Given this, we have explored alternative measures to complement the efficacy of the COSO framework when it is faced with corrupt behaviour.

In the following discussion alternative measures are presented to tackle corruptions in culturally corrupt or unethical public sector organisation. Often the underlying cause is that people who have power within the organisation perpetrated the corrupt or unethical behaviour. The suggestions presented here can enhance immune systems from any wrongdoings, and provide basis for formulating measures to how susceptibility to corruption and other conspiratorial acts can be mitigated.

(Unexplored) important points when designing deterrent to corrupt behaviour

When discussing internal controls to end corruptive behaviours and improve accountability and efficiency, some interviewees said that they are all about preventative measures, rather than on detection. These people view collusion and concealed corruption as an aspect of the exercise of power within a complex social and political structure. The corrupt behaviour is rarely disclosed, but those within the system often reveal real anxieties over control systems leading to the system to be overly corrupt.

> *"[. . .] Corruption in our country never finishes. We have try to do my job in the best ways, [. . .] but our recommendations to prevent it seem useless."*
> *(Interviewee 12).*

> *"No one can make sure that it (corruption) can be stopped. Corruption is like a ghost, it is too smooth to be stopped by technical controls [. . .] political networks make it becomes more sophisticated [. . .] and the governance and control systems are not sufficiently developed [. . .]" (Interviewee 4).*

Confronting corruptive behaviour suffers from two issues strategies not running as intended or they are faced with too complex challenges. Tough policies by (local) governments can establish or strengthen the tackling of corruption when there is already a culture supportive of preventing corruption. When there is organisational corruption within the power structure then prevention policies become impotent against corruption. One of interviewees mentioned that I am just doing my job to obey my boss and we all must be in line with him (*Interviewee* 9). As such if the boss is corrupt then there will be an imperative to follow the boss as a bureaucratic consequence of the organisational structure.

Whilst the suggestions provided during interviews are still to be explored in practice, they do indicate a simplification in complexity inherent in the current internal control system. They also accommodate communication about issues with internal control among diverse groups of related stakeholders. The following quotes indicate some concerns.

> *"[. . .] corruptive behaviours from high authorities bring negative effects on the implementation of internal controls. They can redirect it as they want. I think the system of control must be much more paying attention to it" (Interviewee 7).*

Another interviewee added that

> "[. . .] the internal control mechanisms within governmental agencies failed to a large degree. Let's assume, the head of local government (in district and/or province) was good person and he had no intention to take bribes. But if he had to face with orders from the top or his political party that made him as the head of local government, he had no choice to refuse it" (Interviewee 13).

Within such complexities, some of interviewees recommended preventive measures must go beyond from administrative or technical internal controls. The interviews urged adoption of more systematic approach, involving other governmental anti-corruption agencies and civil society actors. Any progress on these fronts would take a considerable time, and would require serious determination from a wide array of actors and institutions, both locally and nationally. Such initiatives will only be credible, durable and eventually successful if they gather sufficient support amongst the population as a whole to tackle malevolent interests and practices in the governmental agendas (Blake and Morris, 2009, p. 15).

> "[. . .] it was often conspired by high-ranking public officials. [. . .] I advised all employees and civil societies report any malpractice, unlawful or unethical behaviour to authorised external anti-corruption agency. But it is unacceptable for any individual who make a false or malicious report or allegation" (Interviewee 2).

> "[. . .] it is imperative to encourage and enable civil society to participate. Without independent outsider's monitoring, controls become less effective to operate" (Interviewee 6).

Another interviewee also encouraged active participation from civil society in preventing and combating corruption.

> "Beside other players' participation [. . .] public awareness about the existence or suspicious signs of corruption are also valuable aspect. There is no omnipotent player who can eradicate corruption. [. . .] ironically, the existence of audit national agencies is often treated as part of the group" (Interviewee 9).

In a well-designed approaches to prevention of occupational fraud, two of the interviewees mentioned, an effective whistleblowing system has an important role in alerting authorities of financial crime.

> "If someone found certain red flags, s/he should raise it. With notes, internal control procedures ensure that it is both safe and acceptable for employees to raise concerns about fraud?" (Interviewee 3).

And

> "[. . .] an external, independent and secure process for reporting and managing alleged workplace misconduct can possible solution [. . .] when it (corruption) was committed by higher authority" (Interviewee 5).

Effective whistleblowing systems encourage employees and others to report serious concerns about issues related to fraud, see Kaplan et al (2012) and Johansson and Carey (2016). A hotline, whether it is using anonymous and non-anonymous reporting channels, can be a powerful tool in helping to expose illegal or unethical behaviour. It involves reporting misconduct to parties who may be able to take action (Near and Miceli 1985). Although whistleblowing systems are considered an important control for detection of fraudulent financial reporting, in practice there has been relatively little attention on protection of the whistle-blower.

> *"[. .] there is no big issue with anonymous or non- anonymous channels [. . .] the thing when we raise fraud issue or symptoms, our governments, especially law officers who are dealing with it must keep our personal identities..." (Interviewee 10).*

> *"[. . .] I think our government (Indonesia) do not have a law regulating about a protection of whistle-blower [. . .] so they have to concern about it for being better..." (Interviewee 1).*

These results are similar to several academic studies that have already proved that a fraud hotline is the most effective way to prevent and detect fraud in early stage (e.g. King, 1999; Rachagan and Kuppusamy, 2013). By providing a confidential hotline service, whistle-blowers will report potential wrongdoing, ethical issue, and other concerns with high level of confidence. According to Loe et al., (2000) study a confidential hotline service can minimise harassment, discrimination and retaliation from suspected wrongdoer. Therefore, to increase employees and business's colleagues makes report of suspicions of malfeasance, organisation should establish a whistleblowing policy especially governing whistle-blower's identity protections, and then place an advertisement in the staff break room with a hotline number that employees and organisation's clients can confidentially report suspicious fraudulent conducts in the workplace.

On the other hand, another informant said that:

> *"[. . .] 'tone from the top' is good in one time, but dangerous in another time [. . .] we sometimes or even quiet often got order to manipulate some document [. . .] the patterns of 'tone from the top' in bureaucracy is dynamic..." (Interviewee 7).*

The 'tone from the top' is also an important ingredient to ensure good governance (Horton, 2002), setting the overall cultural within a firm (Cohen et al., 2002). However, within a bureaucracy or even corporation it can be a powerful weapon to make fraudulent acts rampant. Top managements, whether they are bribed or ordered by people who are higher in the governmental hierarchy, will use their authority to make fraudulent acts run smoothly. This is because everything within a bureaucracy is under control people on the top, and subordinates do not have power to make complaints.

The emphasis here is on the adoption of collaborative fraud prevention. This would require integrated initiatives across the public sectors with government and their organisations taking a strong stand against corruptive behaviours, with measures to detect corruption as soon as it happens and respond effectively to the incidences of corruption when they occur. These findings are in line with the results of previous studies, see Ocampo, (2000). These must be supported by a sound reporting structure within the organisation which encompasses whistleblowing.

Discussion

In the field of fraud studies interest centres on why people engage in fraudulent activities, rather than interventions to prevent it. Few have offered interventions that can deter the widespread fraudulent behaviours in local government. In practice, growing concerns of illegal activity or serious misconduct is not only experienced by private sectors but also public sectors (see ACFE, 2018, for review). As a result, a burden of proof is placed on governmental organisations to show they have adequate procedures in place to prevent fraud, for example money laundering, bribery or any other new economic crime.

The Government Finance Officers Association (GFOA) (2015) recommends that state and local governments should adopt the COSO's Internal Control—Integrated Framework as the conceptual basis for designing, implementing, operating, and evaluating internal control. They argue that it is to provide reasonable assurance that they are achieving their effectiveness, efficiency, and safeguarding of assets. Yet, when governments want to apply the tools and concepts of strategic management and internal control in local government, they have to understand the distinct nature of the private and public sectors activities. Aspects of COSO's internal control can be implemented in local government domains, but allowance has to be made for aspects of governmental sector's complexities.

In the design and implementation of internal control that emerges from is the schism between research outcomes and practice expectations. Such the apparent disconnects between practice and research has led to the substantial issues of 'translation' for the COSO 2013 update to the internal control — integrated framework in public or governmental organisations. Within corrupt local governments, fraud prevention studies are of little or no value to the practice of fraud prevention. The central problem of practitioners is that there is no known empirical guidance to use as a reference for creating and designing effective internal control in local governments. Anald et al. (2015) discussed unethical behaviour within organisations, noting that practitioners are interested in fraud-prevention mechanisms that are efficient not just effective.

This study has highlighted a change in direction in dealing with fraud. It has discussed the issue of organisational corruption and the need to tackle this by collaborative initiatives. The focus has previously on three major categories such as corruption, asset misappropriation and fraudulent financial statement fraud. Here we have to admit that every single fraud has its own characteristics with different antecedences that make it occurs. As such, we cannot oversimplify such acts when formulating intervention to deter their widespread in organisation. A current study completed by Hauser (2018) proposes regular anti-corruption training as one of the most effective ways to prevent corruption. He found, employees after obtaining anti-corruption training, regardless of their position, are highly unlikely to engage in corrupt practices than those who have not obtained such training. Additionally, he documented that such trainings have significant relationship with the likelihood of rejecting moral justifications of corruption.

Under the current situations, the occurrences of fraudulent behaviours, especially corruption which are considered as organised crime may no longer be associated with organisational weaknesses. A dynamic network in Pinto, et al.'s (2008) study, drawing on a number of disciplinary perspectives on examining corrupt behaviours, has enlightened us about why the acts of fraud or misconducts remain undetected. Pinto, et al discussed the way in which corruption at the individual level can spread to the point where it becomes an organisational behavioural phenomenon. When they discussed organization of corrupt individuals (OCI), the OCI behaviour is identified as a form of unethical conduct in which the antecedents of the OCI phenomenon could be influenced by elements of ethical culture, such as "leadership, reward systems, perceived fairness or reciprocity" and a phenomenon of social interaction (p. 688-689). Then they also stated that OCI behaviours through perception of others' corrupt actions can provoke other individuals' tendencies to be corrupt. As consequence, the rate of corrupt organisation (CO) will be high or more organisationally widespread (p. 693). In line with this reasoning, Murphy and Dacin, (2011) and Brown & Mitchell (2010) argued that 'obedience to authority' or 'loyalty to one's in-group' is considerable factor that places individuals in destructive behaviour.

More recently Lee et al. (2019) exploring unethical pro-organisational behaviour in different cultural contexts (China and the UK), found that employees with high levels of personality trait problems tend to engage in unethical behaviour with the intention of helping the organisation. Then their results also suggest that a strong group norm (social pressure) in the workplace can be the strongest drive than individual-level motives to influence the willingness of individuals to engage in unethical pro-organisational behaviour (p. 124). In keeping with the literature, it is reasonable to argue that preventive measures for example a rule-based approach involving administrative procedures (Scott, 2013), COSO's internal

control (Cendrowski et al. 2006), anti-corruption or fraud training (Hauser, 2018; Sampson, 2010), and ethical interventions aimed at increasing the influence of honest employees (Davis and Pesch, 2013), may not significantly effective to prevent, detect, and eliminate non-technical fraud or corruption. Additionally, the study by Campbell and Goritz (2014) explored organisational culture in corrupt organisations employing Social Identity Theory as a basis of their analysis. They found, values and norms of the organisational culture tend to be counterproductive. In effect, within corrupt environment, organisational culture is determined by the individual's sense of who they are based on their group membership, and so supports active corrupt behaviour and brings about ethical blindness (p. 307).

To deal with these voids, the current study encourages organisations and/or local governments to maintain a cohesive conglomeration of interrelated and interdependent specific control functions, which is supported by the adaption of a collaborative fraud initiatives. The emphasis of collaboration here is on understanding anything to do with designing, managing, participating in or facilitating collaboration to prevent any dishonest activity that causes actual or potential monetary losses to organisations. Within the research that focuses on collaborative governance, the complexity of inter-organisational collaboration in reaction to prior governance failures has been explored, see Ansell and Gash (2007), for review.

Ansell and Gash (2007) argue, collaborative governance has emerged as a response to the accountability failures of managerialism. These observations may reduce the likelihood of finding the hypothesised positive relationship between a higher incidence of sets of organisation antecedents (fraud and board composition, leadership, organisational culture), see Zahra, et al. (2005). The value of collaborative approach to public management is to improve the overall practice and effectiveness of public administration. It does not only build trust between stakeholders but also encounter barriers in achieving governance within organisation (Ansell and Gash, 2007). This governing arrangement takes us to a more engaged and cooperative approach to governance, in a way that posits causal relationships among the related parties. In this sense, this study offers the structure of integrative framework that requires broader processes by facilitating collaboration between the public, private and community sectors.

With respect to Ansell and Gash's (2007) argument about collaborative governance, this is also important to argue that the guiding concept of maintaining and achieving governance cannot be neatly separated with 'a commitment' to minimise adversarial politics within and outside organisation. Drawing attention to the fraud studies, the phenomenon of corrupt organisations is identical to political elite deviance, or collective corruption (Jancsics, 2019; Fazekas and Tóth, 2016), which is notably more complex than non-political fraud. Jancsics's

(2019) findings offer a striking note of caution about intensified efforts to extort such acts. At a certain level, collective corruption potentially creates constraints, and influence the dynamics and performance of organisation controls. Emerging from this context, to achieve effective corporate governance, organisation must design a proper and reliable approach of identifying and correcting any unlawful or unethical conduct that occurs within their organisations. Here we agree with Gans-Morse et al.'s (2018) argument as illustrated in their study that collaborative initiatives should be likely to be tied together with a strong commitment to combat the threat of illicit behaviours.

While these findings provide support for the notion about collaborative governance to prevent the spread of malevolent acts in organisations, we also identified, whistleblowing system is seen as better tool to encourage an employee to disclose illegal and unethical activity. Regardless to whom to blow the whistle; whether it is internal or external recipient, there are considerable attentions in which a majority of prior studies concern about the legal protection of whistle-blowers (e.g. Callahan and Collins, 1992; Dworkin and Baucus, 1998). It effects the espoused values, beliefs, and practices of organisation members to decide to blow the whistle.

The question then is how organisations can generate a work environment that encourage the disclosure of any wrongdoing. According to Mesmer-Magnus and Viswesvaran (2005), a potential whistle-blower who reports wrongdoing often faces severe repercussions, or is likely to face the harshest retaliation. In another situation, there is a range of pressures that persuade employees to keep silent (Alexander, 2005). On the literature, Nayir and Herzig (2012), put great optimisms on anonymous whistleblowing channels to protect people who reveal wrongdoing, with Turkey as context of the study. Their finding confirms that people are generally reluctant to report their observations about their workplace deviance, but if they have intentions to blow the whistle, they require the high level of anonymity. To our knowledge, the influence of anonymous reporting channel would be valuable to be explored in the future. It is due to the increased complexity of investigating anonymous allegations, or due to lower credibility assessment. This require us to be aware of vexatious and malicious whistle-blowers who have the potential to cause damage.

We cannot make more speculation in addressing whistle-blowers issues. Yet. we reasonably believe that legal intervention could be successful, if laws were more realistically designed to protect the behaviour of whistle-blowers. This is consistent with a study completed by Miceli et al (2009), suggesting a unified approach to whistleblower protection. Miceli et al's (2009) study provides us understanding of whistleblowing system based on evidence-based practice. They suggest, the reluctance of whistle-blowers to report to law enforcement authorities is likely due to the lack of effective legal protections. Fear of suffering retaliation can bring an

important impact on encouraging employees who observe wrongdoing to blow the whistle. As such, Miceli et al. argue that policy-makers must provide stronger support to whistle-blowers, making whistleblowing more acceptable and positive in the public eye. In addition, organisation has to treat whistle-blowers as dedicated individuals to obtain a valuable safety net, as anticipation when other forms of regulation fail. Last but not least, organisation should make it clear to employees that the raising of fraud (wrongdoing as well as illegal acts or omissions) at work is one of ways to be more loyal to organisation, and will not result in retaliation against the whistle-blowers. As regards employees can speak out if they find wrongful acts in organisation.

Conclusion

The aim of this study is to provide a warning sign for fraud studies in developing occupational fraud deterrent. This study highlights that it is very important to understand the concept of fraud and distinguish dynamics of corrupt and non-corrupt organisations. In the literature, the generalisation of these concerns obscures these aspects. The unique characteristics are often key to understanding corrupt behaviour within the organisational framework. Practitioners find an "expectations gap" between investigations of the reasons why fraud occurs and the internal controls required to prevent fraud. It highlights some of the challenges faced by practitioners and standard setters, when implementing COSO internal controls, especially when dealing with the public sector. It would be fruitful for researchers to explore the further the nature of fraud schemes and dynamics of corrupt (governmental) organisation.

Preventing corruption is not an easy task. Internal controls may not always be sufficient to prevent it. Some people within the study advocated additional controls such as whistleblowing systems. This leads to more collaborative ideas of fraud prevention which may be capable of preventing corrupt and illegal behaviour which often goes undetected. This is parallel to regular ACFE studies, suggesting the existence of effective speak-up channels, a hotline, is a proven tool for anti-fraud work (ACFE, 2018). Collaborative action was highlighted by Andreeva et al (2014) with the concept of 'knowledgeable supervision' to tackle public risk. In fraud prevention, it would mean involving anti-corruption agencies across government and civil society actors.

Limitations and suggestion for further study

This study has explore a corrupt organisation and interviewed a limited number of informants. Initial difficulty arose in gaining access to individuals and this was resolved by obtaining formal approval of the research from The National Unity and Political Entity (Bakesbangpol). Although not ideal it did allow valuable insights into the nature of fraud within a governmental department providing contextualised understanding of some aspect of fraud mitigation, especially corrupt behaviour.

This study advocates whistleblowing system as part of the possible solutions to deal with occupational fraud. Yet, we do not have sufficient evident to show which one is better between anonymous and non-anonymous channel, and internal or external recipients, to encourage individual to exposes secretive information or activity that is deemed illegal or unethical. Although whistleblowing system has received considerable attention in the ethics literature, there is a need for theoretical discussion or model that is specific to encourage more whistle-blowers to speak up about malpractices in organisation (Alleyne et al. 2013). Hence to improve its role to the wider public, further study is urged to takes into account what should be done by organisations relating to those aforementioned factors.

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