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Abstract. *In a globalised scenario, the topic of an enormous increase of malfeasance in the local governments, posing catastrophic threats which come from vicious bureaucratic apparatus, becomes a global phenomenon. This current study uses case study material on the risk management control system specially the control environment in Indonesia local governments to extend existing theory by developing a contingency theory for the public sector. Within local government, contingency theory has emerged as a lens for exploring the links between public sector initiatives to improve risk mitigation and the structure of the control system. The case illustrates that the discretion of control environment – the encouragement of a local government's control environment – is considered as a springboard for fraud deterrence and might be the loopholes in the government control systems.*

Keywords: malfeasance, control environment, contingency theory.

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Introduction

Public entities that do not have appropriate precautions against dishonest individuals in a frightening array of increasingly sophisticated modus operandi will obviously face abundant risks affecting their success in different ways and to varying degrees. Fraud risk is one of malicious risks universally witnessed by all enterprises and government entities. Fraud involves all deceptive ways in which one individual obtains an advantage over another by false representations (Albrecht et al., 2016). There are many types of fraud, and many ways to characterize and catalogue it. However those frauds could be distilled into three primary categories as given by Association of Certified Fraud Examiners (ACFE) namely asset misappropriation, corruption, and financial statement fraud, and those exclusive financial syndicates are collectively known as "occupational fraud".

The ACFE (2016) defines occupational fraud as "the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets." The ACFE, the world's largest anti-fraud organization, regularly conducts comprehensive fraud studies, and one of its fascinating findings from the 2016 research demonstrates that public sector organizations became one of frequently

victims for fraudsters/wrongdoers. That research parallels with KPMG's study (2015) stating that one of the biggest organization victims in UK comes from public sector with massive median loss from £114.8 million in 2014 to £190 million in 2015.

Separately, United States Government Accountability Office (2015) reported that the governmental improper payments still remain increase significantly than previous year—the appraisal of improper payment, attributable to 124 programs in 22 entities during the fiscal year 2014, was \$124.7 billion, up from \$105.8 billion during 2013, with the overpayments accounted for approximately 90% and the underpayments accounted for the remaining 10%. Because of those malpractices, in a separate report, U.S. Government Accountability Office (U.S.GAO) (2015) mentioned that managers of federal programs to reduce fraudulent activities and return public trust in federal programs try to focus on risk-based approach and antifraud controls (proactive fraud risk management).

In some circumstances, because of the nature of fraud, internal auditors are often placed at the worst position to detect its occurrence when perpetrators are superiors and subordinates are afraid to come forward with their suspicions, as consequence, those professionals cannot effectively carry out their responsibilities (Taylor, 2011). Organizational frauds are more complex, involving many individuals, shell companies, and often cross jurisdictional borders. Gerard (2003) documented that most frauds committed against nonprofit institutions are carried out by the employees, officers, and directors of these organizations. One of the concrete specimens coming from local government scandals is an academic study undertaken by Huefner (2011), in which his study reveals that abundant internal control deficiencies found among New York State local governments constitute a key part of causes to perpetrate cash receipts and disbursements, and New York State, due to those inappropriate municipal expenditures occurred in 31 local governments, witnessed a turmoil of levying tax approximately over \$5,000,000.

Several professionals or experts at fraud examination and forensic accounting opined that the risks of fraudulent or corrupt conducts will be bigger when systems of internal control are overridden (Rezaee, 2005; Cendrowski et al., 2007; Ronald, 2010; Comes, 2010; Albrecht et al., 2011; Taylor, 2011). A World Bank study conducted by Baltaci and Yilmaz (2006) discovered that some countries such as Argentina, China, Bosnia, Columbia, Indonesia, India-Karnataka State, and Philippines experience corruption scandals, misuse of public funds, malpractice/ collusive practice in procurement and unlawful tax practice, due to lack of system of internal control in their local governments. Similarly, contemporary studies undertaken by Kuta (2008), Kwambo (2009), Adeyime (2012), and Musa (2012) also documented robust evidence that internal control system deficiencies do allow unethical and illegal acts to happen in Nigeria local governments.

Realistically speaking, a well-functioning internal control system might seek to provide all stakeholders with better outcomes since it transports preventive guidance to the officers (superiors and subordinates) in relation to mitigating and terminating fraud risks, establishing plans of effective strategic development, eliminating inherent blunders and discrepancies within system, and reinforcing integrity through multiple-checks. The internal control system framework, established by the committee of Sponsoring Organization (COSO) in 1992, which consists of control environment, information and communication, risk assessment, control procedures, and monitoring, has already met the criteria of the Securities and Exchange Commission/ SEC (Rezaee and Riley, 2010). The COSO integrated framework provides outstanding guidance for fraud deterrence

activities—it is intended to address asset associated with fraud, financial statement and financial reporting fraud, as well as external fraud/corruption (Cendrowski et al., 2007).

Badara and Saidin (2013), study the link between effective internal control systems adopted from COSO's model and internal audit effectiveness in Malaysia local governments. They outlined that system of internal control which comprises 5 elements partially and collectively is indispensable to the enhancement of Malaysia local governments' internal audit quality in order to diagnose and prevent fraudulent activities. They also found that the effectiveness of internal auditors to perform their main duty is contingent upon those elements of internal control system. Therefore, this research implies that the COSO's internal control framework adopted by Malaysia local governments might detect and prevent fraudulent activities, even though it is still intervened by internal audit roles. The consistent study was also produced by Laxman et al (2014) stating that five components of COSO's internal control—integrated framework are suitable to fight against fraud risks aligned to four majority fraud: fraudulent financial statement, asset misappropriation, corruption, and external fraud.

In Indonesia context, to enhance Indonesia/local government's financing efficiency, transparency and accountability, president of Indonesia issued Presidential Decree No. 31/1983 which is recently amended to be Presidential Decree No. 192/2014. It precisely regulates the role of Indonesia Internal Auditor (*Badan Pengawasan Keuangan dan Pembangunan/ BPKP*) to supervise, review, and audit Indonesia/local government's financing internally (BPKP, 2016). One of products officially endorsed and disseminated by BPKP to minimize and prevent illegal/ fraudulent conducts in the Indonesia/local government (s) is internal control system which is well broadly known by Indonesian as *Sistem Pengendalian Internal Pemerintah/SPIP*. It overwhelms five components such as control environment, information and communication, risk assessment, control procedures, and monitoring (Indonesia government regulation, 2008).

Indonesia currently consists of 34 provinces, 415 local governments and 93 municipalities (Kemendagri, 2014). Surprisingly, weaknesses in internal control and audit, collusive practice in public procurement, inefficient cash management and other demanding issues still remain persistent concerns to the Indonesia government's decentralization program (Baltaci and Yilmaz, 2006). A World Bank report released by Khan and Sondhi (2005) portrayed that only *five percent* of budgetary exchanges of subnational governments are audited by the provincial and regional audit institutions and only *fifty percent* local governments are checked by external audit body. Therefore, in the absence of, or non-adherence to, a contemporary system of internal control, along with lack of a comprehensive audit between internal and external as a safeguard for inspection of effectiveness and efficiency of that system, local governments are very vulnerable to be defrauded by perpetrator, and appropriate precautions for impoverishing unlawful acts become a major snag in enhancing Indonesia local accountability.

According to the previous paragraphs, especially because Indonesia local governments witnessed proliferating offenses, this study exclusively tends to focus on a comprehensive investigation of the role of control environment mechanisms as a mean of avoiding the notions of criminality, and the bureaucratic management techniques that can influence the implementation of such controls. The researcher believes that this study will tangibly facilitate diagnosis of weaknesses and strengths of organizational control mechanisms focusing on obstacles to implementation as well as on the scope for exploiting

control attributes as a platform for fraud deterrence. This study, therefore, is expected to provide a number of benefits to the government of Indonesia that suffered long term damage to its tangible assets due to unscrupulous administrative apparatus.

Literature review

Contingency theory

The theory of contingency contends that the scheme and usage of internal control system is contingent upon the context of the institutional situation in which these controls operate (Fisher, 1998). The contingency approach to accounting mechanism have already emerged out of earlier study in the scope of organization theory (Lawrence and Lorsch, 1967; Woodward, 1965; Burns and Stalker, 1961), even though the early studies predominantly focus on the effects of uncertainty on organizational structure (Drazin and Van, 1985; Reid and Smith, 2000; Chenhall, 2003). However, in contemporary studies (Valanciene and Gimzauskiene, 2009; Woods, 2009; Ussahawanitchakit and Intakhan (2011).; Annukka, 2010; Abushaiba and Zainuddin, 2012; Badara and Saidin, 2013) pointed out that this theory has been employed in auditing contexts, management accounting and internal control system, although, the utilization of that theory may effects differently on the contingent subject, depended on the fields that are proposed (Drazin and Van, 1985; Chenhall, 2003).

Ideally, an internal control system can tighten an organization's monitoring and reporting processes, as well as ensuring compliance with the existing regulations and laws (Annukka, 2010). The need for, and the specifics of, internal control system may vary in institutional context. This statement presented in internal control model (COSO, 1992) is analogous to contingency theory that argues that every organization has to enact a choice regarding the most appropriate internal control system by considering contingency characteristics (Luft and Shields, 2003; Chenhall, 2003; Chapman, 1997). Additionally, Contingency theory allows researchers to introduce factors to predict unexpected phenomenon (Umanath, 2003), and it is suitable for hypothesizing a provisional association of two or extra self-determining variables with a dependent outcome (Drazin and Van, 1985; Fry and Smith, 1987). The contingency theory provides elucidations for variety of internal control systems which is resulting well-built internal control design in diagnosing misfits and altering them into fits (Nanfeng and Donaldson, 2013).

This study will fully concentrate on the link between the control environment and fraudulent behaviours mitigation in the Indonesia local governments. The adopted theoretical model between variables is based on the COSO's (1992) framework, because it is, according to Abiola and Oyewole (2013), integrated concepts which is designed to provide an underpinning of fraud detection. That relationship parallels with contingency theory stating that successfully tailoring a system of internal control to suit organization's characteristics will result in a high-performing organization (Fisher, 1995; Nanfeng and Donaldson, 2013), and its management mechanism is a key control sub-system which has been the topic of contingency theory study (Collier, 2004). Therefore, as proposed by Fisher, (1998), a desired outcome envisaged by organization is that of non-financial objective, explicitly the effectiveness of internal control system. According to the discussion above, thus, action of contingency theory plays a critical role in strengthening better understanding of internal control system in the organization.

Control environment

There are several studies that have documented the link between control environment and fraud reduction in local government. Those studies in general found the absence of control environment contributes to the likelihood of fraudulent conducts. For example, Yurniwati and Rizaldi (2015); Amado and Niangua (2009), argued that the role of control environment is to provide the foundation for the continuity of internal control within the organization and it is principally to reduce fraud occurrence. Ziegenfuss (2001), who studied the role of control environment in reducing local government fraud, also found that the strength of a local government's ethical environment is negatively related to its incidence of fraud. He also added that a local government's ethical environment usually cannot be changed quickly or easily; rather a concerted effort led by upper management over several years is often required before results are realized. The author of this study, nonetheless, contends that this matter may not essentially be a fatal deficiency of fighting against corrupted behaviours if the top echelons of bureaucrats can be navigated a positive atmosphere by imposing a set of legal and economic mechanisms (truly desire to prevent fraud) and willingness to work in good faith.

An appropriate preventive measure through developing an effective control environment, in today's sophisticated crimes, may play an important role in combating and terminating material frauds by fostering a culture of honesty and ethical behavior throughout departments, and it might be considered as the main cornerstone of detecting and preventing frauds within organization. This aspect comprises the actions, attitudes and awareness of employees towards what are going on in the organization and those actions should be started from directors and senior managers of the organization. Mann (2013), suggested that the organization's senior managers, at least once a year, should conduct an assessment of risks that should be supplemented by well-rounded discussions about evaluation of organization's operations covering concerned potential topics namely how financial reporting could be misstated, how staffs could steal tangible assets, and how overall control environment could influence on establishing supportive work environment.

Furthermore, organization's leaders should be able to encourage their employees' awareness to identify unusual things as many as possible that are potentially vulnerabilities to be attacked by perpetrators, and should evaluate them on continuous basis, and determine what types of appropriate actions/ controls are in place that can reduce those threats whether they come from organizational insider or outsider. Ziegenfuss (2001) and the recommendations of the Treadway Commission (1992), validate that intentional wrongdoings was detected most frequently by (1) internal audit review, (2) employee notification, (3) specific investigation by management – internal controls – accidental discovery. Similarly, Henry (2016), points out that to be effective, training that promotes fraud prevention should be tailored to the role and duties of the individual employee.

Mandatory, continuous training for employees who progress within an organization can be implemented based on individual job responsibilities and within a department's specific function. This can equip employees with the skills to detect fraud, and also educate employees about what to do when fraud is suspected. Taylor (2011) mentions that simultaneous independent review from high authority might highlight the areas in which internal controls are not designed adequately or are not being followed. Basically, the major objective of such an assessment in this section is to enhance the effectiveness of internal

control environment within organization and mitigate the opportunity for fraudulent activities.

Committee of Sponsoring Organizations of the Treadway Commission, COSO, in its 1992 report, considered control environment as the most important of the five components. According to COSO (1992), "the control environment sets the tone of an organization influencing the consciousness of its people. It is the foundation for all other components of internal control providing discipline and structure." COSO (2013) promulgates principles of control environment in the Updated Framework and Related Attributes as follow:

1. The organization demonstrates a commitment to integrity and ethical values.
2. The board of directors demonstrates independence of management and exercises oversight for the development and performance of internal control.
3. Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.
4. The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
5. The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

Government internal control system: Indonesian context

The Indonesia government regulation, number 60 of 2008, regulating government internal control system is considered as the fundamental feature for Indonesia to enhance its central and local governments' accountability and transparency, and to safeguard its tangible and intangible assets (Prasetyaningsih et al., (2014); Suyono and Hariyanto, (2012)). Prasetyaningsih et al., (2014), mentioned that regulation adopted from The Committee of Sponsoring Organizations of the Treadway Commissions (COSO) with several justified adjustments based on needs and characteristics of Indonesia government. The regulation of Indonesia government number 60 of 2008 defines governmental system of internal control as:

"An integrated process of activities and actions which is executed by, on continuous basis, the managements and employees in relation to provide reasonable assurance on accomplishing and achieving organizational objectives efficiently and effectively, to present reliable financial statement, to safeguard state assets, and to comply with laws and regulation."

Indonesia internal control also consists of five major components. Indonesia internal control, in accounting matter, is a form of accounting control associated with verification and retention of transaction records and it is obviously influenced by the effectiveness of local leader roles in running his or her governmental system (Yurniwati and Rizaldi, 2015; Afiah and Azwari (2015). Another regulation, number 500/k/2010, supporting and evaluating the implementation of government internal control states that governmental entities should periodically perform risk assessments and separate ongoing monitoring towards potential areas that are easily to be defrauded by fraud perpetrator, and provide a believable and comparable analysis of the organization's financial situation.

In research there has been interest in learning process from and success aspects for performance audit and evaluation in government regimes, accentuating the importance of the compatibility of the standards imposed by regulatory and enforcement powers of government and the implementation of those ones. For example, Berry et al., (2005),

discover that in the public services, the successful material intentional misrepresentation and inadvertence of transactions, events, and other material information from which financial reporting are prepared, are interconnected with the social psychological and motivational aspects of internal control. In Indonesia government regimes are predominantly set on autonomy and autonomous, personally responsible conduct. As in so many things (the complexity of financial planning and control in Indonesia local government systems) which might drag into inefficient and effective or even wrongdoing, the roles of authorized internal and external organizations, associated with managing complex organization, should be appropriately integrated. It is because the role of good governance participants, including internal and external auditors, has positive relationship with fraudulent acts (Butcher and Clarke, 2012; Laughlin and Andringa, 2007).

Nonetheless, Muskanan (2014) who studies the implementation of Indonesia Government Internal Control System in Kupang District and North Central Timor, reveals the control environments classified as the worst aspect triggering to the worst implementation of internal control system. He argues that those situations are mainly driven by a lack of commitment of top officials to strengthen regulation mandated. Afiah and Azwari (2015) and Baltaci, and Yilmaz, (2006), also highlights the financial reporting and the implementation of local government still inefficient in terms of both time and budget. These studies could be argued congruent with Mardiasmo's (2010) consideration about Indonesia local government performance, saying that there are many issues nestled in local governments. Nevertheless, according to some of the system's advocates, as illustrated by Silva (2013), the turbulence of the malicious changes from the top echelons of bureaucrats can be navigated by imposing a set of legal and economic mechanisms and willingness to work in good faith.

Methodology

The researcher, in the present study, to address the research objectives and research questions adopts mixed methods research. This research strategy is a useful umbrella for producing a better understanding of social phenomena and for a range of issues concerned with practice (Onwuegbuzie, 2002). The definition of mixed methods, as suggested by Johnson et al., (2007), is "a kind of study in which a scholar or team of scholars blends quantitative and qualitative methodologies to manufacture the most informative and useful research findings". In this point, it is very important to reemphasize that the adoption of mixed methods strategy is not only driven by the researcher's philosophical assumptions and the gaps in the existing researches and literatures as deliberated before, but also influenced by the practical problems in the field of occupational fraud happening in Indonesia local governments.

Quantitative data collection and data analysis

The technique employed by researcher to collect the needed data from potential respondents is questionnaires. Cameron and Price (2009) point out that a researcher or team of researchers to obtain a large number of people with lots of data is encouraged to distribute questionnaires. The researcher knows that questionnaires technique are typically not particularly appropriate for exploratory or other studies which demand outsized number of open-ended questions, thus, he conducts in-depth interview. The main purpose

of employing questionnaires in this work is to assess and explain the relationships between the proposed variables, in specific cause-and-effect interactions.

One of the most substantial considerations for many investigators is whether to question in an open and closed format (Bryman and Bell, 2011). In this study, however, the researcher employs questions with a 5-point Likert Scale, short answer questions, and open-ended questions. With regards to indicators to measure every question as stated in the questionnaires, whether it is appropriate to stand for the proposed concepts, the researcher employs a multiple-indicator measure of a concept. Those indicators are driven from a wide variety of sources and methods as previously adopted by relevant and similar researches. The scale consists of the five following statements as administered by Ziegenfuss (2001).

1. Managers in my governmental entity often engage in behaviours that I consider to be unethical.
2. In order to succeed in my governmental entity it is often necessary to compromise one's ethics.
3. Top Managers in my governmental entity has let it be known in no uncertain terms that unethical behaviours will not be tolerated.
4. If Managers in my governmental entity is discovered to have engaged in unethical behaviours that results primarily in personal gain (rather than for the entity's gain) he or she will be promptly reprimanded.
5. If Managers in my governmental entity is discovered to have engaged in unethical behaviours that results in the entity's gain (rather than personal gain), he or she will be promptly reprimanded.

The questionnaires distributed to the targeted respondents provide the response categories with more flexibility in the rating task and the ability to more precisely that indicate his/her knowledge and attitude. Even spaces for more information are provided if the responses are ordered according to a particular descriptive or evaluative dimension from the respondents. One of the most important and dominant features in this questionnaires is the usage of the Likert-style rating. Likert scale, according to Zikmund et al. (2013), is "a measure of attitudes designed to allow respondents to rate how strongly they agree or disagree with carefully constructed statements, ranging from very positive to very negative attitudes toward some object". Accordingly, the targeted respondents of this study are required to choose one of five options which is representing their knowledge or attitudes toward constructed statements.

Furthermore, the collected quantitative data, in this study, will be separated into two distinct clusters: categorical and numerical data. The former mainly associates with data that value cannot be specified mathematically nevertheless will be either grouped into circles of categories based on individualities which classify or designate the variable to place in rank order (Bryman, 2004). While, the latter refers to data whose assessments counted or dignified mathematically as quantities (Johnson and Onwuegbuzie, 2004). Those data will be analyzed by the latest version of SPSS, Version 21, which enables the researcher to notch and analyze very quickly.

Qualitative data collection and data analysis

This study employed in-depth interview as the primary approach to gather the needed data and information and it is supplemented with the official documents, namely audit report

and annual report, disseminated publicly by Indonesian Supreme Audit Institution (BPK) and State Development Audit Agency (BPKP). Hennink et al., (2011), notes that the in-depth method of data collection is important as it strengthens the purpose of obtaining a comprehensive insight into the research matters from the viewpoint of the participants. Therefore, it is very appropriate for this study if considering that statement because the researcher wants to gain detailed information, regarding occupational fraud reduction through internal control system, from practitioners' perspectives. Hennink et al., (2011), highlight that there are two types of interview approach, such as unstructured and semi-structured interview. However, the researcher used semi-structured questions, as it more suitable for ensuring "cross-case comparability" than unstructured one (Bryman, 2004).

Furthermore, procedure of qualitative data analysis, as declared before, interview-based case study was used as the primary method of research in this qualitative study, and the technique of grounded theory data analysis was employed to process the case data. Miles et al., (2014), define grounded theory as method for engendering theory from the information systematically gathered from social study. Parker and Roffey (1997), point out that the method of grounded theory may be one of the possible best choices for case study. Therefore, this technique was adopted to analyze interview transcriptions, records and notes. All the practical information was manually evaluated and analyzed because of one consideration, as highlighted by Suddaby (2006), that grounded theory is "an interpretive process and qualitative software programs are not suitable for the interpretation of data in which they can just be used in coding and organizing data". The interview information, according to the prior works of Bryman, (2004) and Beattie et al. (2004), was analyzed through some steps such as open coding, axial coding, selective coding, familiarization and reflection.

Sample selection

The technique for selecting samples, this study uses purposive sampling. This study has been conducted in the national institutions such as, Indonesian Supreme Audit Institution (BPK) and State Development Audit Agency (BPKP). The primary manufactured justification for this decision is due to their roles as mandated by Constitution of the Republic of Indonesia (*Undang-Undang Dasar Negara Republic Indonesia*). The BPK's main role, based on Indonesia Acts, number 15 written in 2006, is to supervise and assess the state and local government finance, including their financial statements issued annually, and they behave national external auditors. Otherwise, the roles of BPKP, as regulated by Presidential Decree, number 192/2014, are to perform audit, review, evaluation, and monitoring internally of the financial planning and implementation of assets utilization belonged to state and local governments. Additionally, those are concerned with performance measurement, not just in financial terms but also in operational terms. It is closely connected to the formulation and deployment of strategy and internal control system, and also very practical extents of operational management and process management. Therefore, the questionnaires distributed to those targeted respondents – BPK's and BPKP's auditors.

Furthermore, to discover the '*right individuals*' to be interviewed, in qualitative researches, is viewed as one of the most critical matters, as they must be experienced and knowledgeable in the particular concerns to answer proposed research questions (Rubin and Rubin, 2005). This study had conducted an interview with several people, who are

actively working in Indonesian Supreme Audit Institution (BPK) and State Development Audit Agency (BPKP). The researcher selected seven interviewees through purposive sampling. One participant comes from head of local government accountability, working in BPKP, another one works as a government investigator for local government, working in BPKP, and the rest of participants are distinguished national internal and external auditors.

This study chose those interviewees based on several considerations. First, fraud risks refer to a future event that may or not may happen and they may disturb any part of community, in which governments are expected to respond. Sometimes, it is problematic to establish who is responsible for fraud risks in Indonesian local governments, whether it should be shared and how it should be shared. Governments of Indonesia occasionally act as principal and as agent at other times. A large physique of studies on trust in government bodies, crossing various subjects, affirms that the inclination to trust is thoroughly related to the inclination to take risk (for example, within sociology, see Cook and Cooper, 2003; within philosophy see Luhmann, 1979; within economics see Ben-Ner and Putterman, 2001), and the prospect for disloyalty influencing the directorates' decisions beyond mere responsibilities will be higher (Bohnet and Zeckhauser, 2004). In relation to fraud risks in Indonesian local governments, therefore, BPKP remains one of the core constituents, because it designs and promulgates strategy and internal control system, which is supported by integrated practical works from BPK as independent external auditors.

Second, Rubin and Rubin, (2005) opine that it is quite challenging to figure out in advance how many participants that can be interviewed, but the best decision for researcher to address this matter is select individuals placing in the strategic position. The chairman of local government accountability, senior auditors, and senior investigators for local governments are viewed to be those who have wide range of knowledge about policies, internal control system, and organization's Standard Operating Procedure (SOP), as well as being involved with various aspects of local government's assets utilization managements. In addition, they have a responsibility and authority in line with their competence to oversee the fraud risks. Therefore, it is expected that they may have better capability to comprehend the research problem than junior auditors and employees.

Findings

Demographic profile of respondents

Demographic characteristics of our respondents are presented in Table 1. It displays the background of education, professional certificate, and short courses/ training in this sample. It also contains summary statistics regarding participant gender, age, work experience, and education level. For example, the average age of the auditors included in the sample was between 26 until 40 years. Meanwhile, the average experience of the respondents was between 6 until 10 years. All respondents had either graduated from undergraduate or graduate programs, and most of them have an accounting and management backgrounds. As specified by Table 1, the sample is quite heterogeneous. Multiple types of demographic profile of respondents are represented within the sample. Therefore, these characteristics indicate that our respondents, on average, are mature and also have enough experience and competence in their field.

Table 1. Demographic characteristics

Characteristics		n= 113	Percentage (%)
Gender	Male	74	65.49
	Female	39	34.51
Age	< 25	23	20.35
	26-30	46	40.72
	31-40	35	30.97
	41-50	7	6.19
	>50	2	1.77
Work experience	1-5	16	14.16
	6-10	43	38.06
	11-15	21	18.58
	16-20	17	15.04
	>20	16	14.16
Educational level	Undergraduate	92	81.42
	Postgraduate	21	18.58
Professional certificate	CIA	23	20.35
	CFE	9	7.96
	CPA	11	9.74
	CA	19	16.82
	Others/ or N/A	51	45.13
Background of education	Accounting	31	27.43
	Management	36	31.86
	Economy	16	14.16
	Law	10	8.85
	Others/ or N/A	20	17.70
Short courses/ Training	Auditing	26	23.01
	Taxation	13	11.50
	Integrated study	11	9.74
	Others/ or N/A	63	55.75

Source: Authors' own research.

Perceptions of fraud

According to Table 2, most of respondents (Internal and External Auditors) considered themselves knowledgeable about the ways of fraud operated. They assumed that the understanding of the fraudster's modus operandi can be recognised as the first stage to discover fraud alerts, in which the mean value for this concern are 4.89 for BPKP's auditors responses and 4.93 for BPKP's counterparts. Thus, it indicates that a better understanding of the causes of fraudulent acts will help members to recognise the signs that give rise to the potentiality for intentional wrongdoings. Then, most of respondents also noted that white-collar offenders are sensitive to the risk of formal sanctions and consequences, due to the costs and stigmatisation associated with sanctions that denigrate their occupational and social success. It evidenced by the mean values for that concern as reflected in Q1 are 4.69

for BPKP's auditors responses and 4.87 for BPKP's counterparts, with internal consistency 0.952.

Furthermore, table 2 also suggests that the probabilities of discovering frauds in the clerical cracks, according to BPKP's auditors, are relatively lower (3.96) than their counterparts (4.33). BPK's auditors opine that it represents evidence of bureaucrats' tasks that may provide a pitfall of unrestrained activities often coalesced with conceptualized offenses from unscrupulous administrative apparatus. This finding parallels with Maulidi (2017) who studies procurement fraud in public sectors. He found that "examiners in the fraud cases should critically and carefully take into account altered files and documents especially scribbled-over or whited-out ones attempted to modify information or design them unreadable". The pursuit of effectiveness of organizational controls in conjunction with a major endemic feature of organizational strengths, according to both auditors, also can serve as means of unobtrusively solving misfits that trigger to an increase of disgruntle apparatus. It is substantially illustrated by the mean value of Q3, and Q5, in which BPKP's auditors scored 4.48 for the former and 4.73 for the latter. Meanwhile, BPK's auditors obtained 4.23 and 4.58. The relative numbers of those veins do not indicate a substantial difference. Even though the mean values of BPKP's auditors are higher than BPK's auditors.

Table 2. *Internal and external auditors' perceptions of their role in preventing and detecting fraud in local government*

Items	BPKP		BPK		t-value	α	Sig.
	Mean	SD	Mean	SD			
(Q1) In my opinion, we should actively search for illegal acts and give sanctions on offenders.	4.69	0.872	4.87	1.090	4.305	0.952	0.000**
(Q2) Modus operandi as a professional stepping stone to uncover and deter fraud.	4.89	0.954	4.93	0.961	5.395	0.905	0.000**
(Q3) The absence of, or non-adherence to organizational controls have been viewed as opportunistic triggers to the incidents of fraud risks.	4.48	1.063	4.23	1.103	4.189	0.821	0.000**
(Q4) The domain of occupational fraud is likely to reverberate to the clerical cracks.	3.96	0.895	4.33	1.330	0.189	0.862	0.851
(Q5) In local government-wide, intentional wrongdoings are caused by mercilessly exploiting bureaucratic feeble points.	4.73	1.106	4.58	0.792	8.158	0.970	0.000**
(Q6) The entrenched cultures and bureaucratic inertia are inevitably considered as perennial obstacles.	4.31	1.385	4.70	1.201	3.351	0.935	0.051*
(Q7) The colloquial notion of scientific scepticism may inextricably be linked to controlling the range of uncertainties in bureaucratic archetype.	4.63	1.484	3.75	1.340	6.025	0.938	0.010**

This item has been reversed. All questions in this table were scaled positively. * Significant at the 10% level. ** Significant at the 5% level. SD = Standard Deviation, α = Cronbach's alpha.

Fraud deterrence methods

In summary, the purpose here is tangibly to provide the precaution recipes for comprehensive reforms – an essential ingredient for effective approaches to control

disgruntle apparatus that may bring a formidable challenge to the top echelons of bureaucrats. In Table 3, most of respondents (80 per cent) viewed that 'tone at the top', as an axiomatic reconstruction of logical formalization for percolating a feature of trust betrayal, synergistically be juxtaposed with identification of the potential for fraud in assessing risks (74%). It signifies that the directives of authorities to verify the correct performance of bureaucratic procedures will be better if they are juxtaposed with legitimate coercive power to assess the potency of fraud-risk triggers and disequilibrium conditions that may force the existence of power to alter unrecorded transactions. However, a much different picture emerges if a commitment to integrity and ethical values is not seriously taken into account. Here, the mean value of that precaution measure is 4.76 and response rate of 45 %, which indicates that the incidence of dysfunctional behaviours triggering to financial criminology is affected by the way and commitment to evaluate subordinate performance.

Furthermore, as reported in Table 3, understanding of how the (fraud) risks should be managed discloses the highest mean value of 4.93, even though, several respondents acknowledged it as prevalence that have low contribution to help bridge the precaution and the reduction of fraud within bureaucracies. Even though this sounds not too critical, it, in the peripheral parts of the bureaucratic archetype, have quite drastic and long-lasting consequences to flourish the potential frauds which are rooted in the individual's frail morality, as evidenced by Sig. value of 0.001, if this measure is overridden. Regarding this concern, it is also necessary to assess the opportunity to commit the fraud with reference to weak or absent adequate internal controls and the rationalisation techniques used to justify the fraud (see AICPA, 1997; Cressey 1953; Albrecht et al 2016).

Unsurprisingly, the mean value of identification of the likelihood of fraud is categorized high (4.78) with the response rate of 73 %. This implicitly signifies that most of respondents contended that the notion of the accountability paradigm of progressive malevolent public administration put heavy emphasis on this basic preventive doctrine. As a task-oriented behaviour, monitoring towards wicked acts allows superiors to obtain information about the performance of subordinates. As a result, this leads to a positive influence on subordinate performance and managerial effectiveness. In addition, according to statistical views ($\alpha = .984$; Sig = 0.000), hierarchically high-level assessment of potential fraud risks, under a comprehensive variety of forms of organizational control that have prospered in the manifest organizational activities as a means of avoiding the pitfalls of bureaucracy, should be matured into the primary strategy available to superiors to control work effectively in the modern organization.

This is because Maulidi (2017) illustrated that in local government practice, the involvement of the central government in the managements of economy cannot be denied. As a consequence, this, without doubt, would create opportunities for the successful exercise of constitutional powers to build a rampant set of restrictive practices, in which it may lead to the gradual weakening of authority. Political interests, either micro politics or macro politics, have already appeared in a supreme authority of the principal (Berry et al., 2005). These phenomena, based on fraud triangle theory as pioneered by Cressey (1953), are catalogued as one of opportunistic conditions to perpetrate intentional wrongdoings. Therefore, to counter the impact of these organized fraud crimes, the organization models should design an elaborate structure of procedural rules in assessing bureaucratic (fraud) risks aversion coming from a complex mix of high-trust or even low-trust networks.

In general, the intended management precaution measures, as depicted in Table 3, have met the criteria of consistency of internal information or the measure of item homogeneity. The widely applied index, in testing and appraisal's item analysis for the concept of reliability, is Cronbach's Alpha. Based on Table 3, the values of Cronbach's Alpha for all intended measures, according to criteria given by Hair et al., (2010) and Johnson and Wichern (2007), are excellent figures as they approach to 1.00 indicating high consistency. Therefore, the measurement models of this study, which specify the measurement scale and the structure of measurement, and represent a realization of the theoretical notions, implicitly have high-standardized internal consistency.

Table 3. *Distribution of management measures in response to malicious wrongdoings*

Types of Management Action	% of Responses	Mean	SD	t-value	α	Sig.
Commitment to integrity and ethical values	45	4.76	1.110	4.514	0.910	0.000**
Tone at the top	80	4.72	1.351	3.201	0.744	0.000**
Understanding of how the (fraud) risks should be managed	38	4.93	1.503	8.001	0.931	0.001**
Identification of the potential for fraud in assessing risks	73	4.78	1.131	5.150	0.885	0.000**
Assessment of changes in the internal and external environment	27	4.68	1.230	3.804	0.986	0.000**
Identification of oversight for the development and performance of internal control	22	4.24	1.221	4.913	0.658	0.000**
Board of directors operates independently the organization	25	4.38	1.791	2.819	0.885	0.062
Evaluation of adherence to standards of conduct	10	4.43	1.702	4.791	0.793	0.030**

Source: Authors' own research. This item has been reversed. All questions in this table were scaled positively. * Significant at the 10% level. ** Significant at the 5% level. SD = Standard Deviation, α = Cronbach's alpha.

Without doubt to argue, the prescriptions for control environment as essential internal control in many literatures, as suggested in the literature review, are considered as something generic and fail to accommodate the fundamental premises of grand design and the fight against occupational fraud in government regimes. Nonetheless, this study according to the constructed theoretical framework attempts to tackle the incidence of interest groups and the behaviours of bureaucrats, in an intention adjusted ways, to misstate material organizational information. Therefore, in the further paragraphs, this paper will discuss the collected interview data which is supported by empirical findings.

Occupational fraud, as presented in the previous sections, is a truly ubiquitous and egalitarian scene specifically in Indonesia local governments and generally around the world. It, in way of widespread consternation, plays no heed to the target's race, social status and as well as class, and it does not depend on time of days, without respecting for moral values and social rules. This study, as depicted in Table 3, believes that control environment is the underlying approach to enhance accountability and transparency, in peripheral organization atmosphere, as well as examination of wrongdoings and indiscretions in allocation and disbursement of public fund at collegial local government levels.

With respect to forming relationship, the confirmatory evidence concerning the role of control environment that is linked with occupational fraud reduction highlights three clusters of substantial signals that directly mediate the acuity of control environment and the daunting range of practical and conceptual financial or non-financial impairments (fraud). Those are scores as expressed by response scales given by respondents as illustrated in figure above. The overarching aim of those scores is to emphasize that almost all respondents agree that the adequate quality of local government entities' control environment can be able to tackle both disruptive and sedimented processes that may lead to the enhanced likelihood of scapegoating and fraud risks in bureaucratic archetype. It is similar to a study manufactured by Ziegenfuss, (2001) pointing out that the strength of control environment owned by local governments is negatively associated with incidence of fraud.

Conversely, this finding fight against Andreeva et al., (2014) stating that governments no longer have trust in public domain and too naïve in democratic days and political institutions to manage accountability risks. The respondents of this study, however, believe that the greatest impetus of strategy formulation for identifying and configuring the potential fraud risks are likely to be best approach to impoverish aggressive irresponsible. It is closely related to contingency theory, as coined by Lawrence and Lorsch (1967), that structural configuration of abnormal environment uncertainties which is complemented by integrated managerial cognition are parsimonious mechanisms as a corrective force. Therefore, this implicitly can be argued that even though norm-infringing forms of egregious fraud are visibly quite difficult to justify, the individuals who are intentionally disavowing their commitment will be less likely to happen. Additionally, if the organizational controls that are contingent upon control environment attributes are independently determining the causes of fraud that be rooted in bureaucratic bodies, fraudulent acts can be minimized.

Furthermore, this study also found that atrocious organizational values is identified as the most often directly linked component to prompting wrongdoings. The interviewed participants explicitly argued that "opportunity can produce the thief; lack of control as well as absence of transparency obviously opens an attractive feasibility for fraud" (interviewee 1, 2016), and "[...] it is basically a classical motivational trigger [...]" (interviewee 4, 2016). These expressions signify that organizational feeble points will be exploited mercilessly. Subsequently, in case of an intention conduct, further respondent mentioned that "professional environment is the fundamental point to press the abuse of power and trust or even the dark figure of un observed misconducts" (interviewee 2, 2016). These findings are consistent with the recommendations of Treadway Commission (1987), AICPA (1997), and COSO (1992), concerning the importance of internal control and principally control environment in reducing fraud. Thus, it can be taken a straightforward line that a statement stating, as illustrated by Henry (2010), "entities which immortalize the incidence of corrupted behaviors or preserve the mindset of '*It can't happen here*' will put themselves in uncomfortable situations (increasing fraud-related costs)" is practically true.

Risk management forms in local government, according to organizational theorists, are identified as the key contingent contextual variables on the headings of control environment (Otley, 1980; Waterhouse and Tiessen, 1978) and their influences should be integrated with the enforcement of legitimated influence of central government regulations over the control systems (Woods, 2009). Based on the theoretical proposition, empirical

findings and exploratory research, control environment can serve as the contingency variable across a wider range of directorate organizations to promote the accountability and transparency. In the interview with a senior member of Indonesian fraud investigators in the field of local government, the interviewee emphasizes that “we when conducting fraud investigations and before going further to other aspects, the first thing that is always to be our crucial assessment is the culture of control environment owned by organization” (Interviewee 4, 2016). [...] It is due to the effectiveness and efficiency of investigation process [...] (Interviewee 2, 2016).

If we look at the respondents’ answer on commitment to integrity and ethical values and tone at the top which are in agreement scale, as expressed by response rate, obtaining 45% and 80%. It indicates that the vast majority of respondents presumably opined that they can help to diminish the intentional motive for unlawful activities and neutralize or prevent the reasoning of committing dishonest acts. The government apparatus, at this point, are independently required surveillance efforts to address plausible misconducts rooted in the individual’s frail morality, and to disclose the existing illegitimate network between bureaucratic authorities and private interests. These descriptive statistics are strengthened by referred findings from the interviewee who contends that “[...] tone at the top plays overarching role in fighting against an ingenious squad of knowledgeable fraudsters (interviewee 2, 2016). In spite of it, Taylor (1992) and Schuchter and Levi (2015) also mention that the hierarchical position of one’s occupation is likely to be more value in identifying signals of upperworld offence if management’s leadership and commitment towards integrity, honesty, and ethical behavior are seriously built.

Therefore, this directly or indirectly may solve statements outlining that vast majority of individuals committing white-collar crime, in criminology dimension, are due to assumptions of compliance or noncompliance with laws, which are viewed as *just* fear of punishment (Kranacher et al, 2011). It also deals with trust betrayal (Cressey, 1953; Bohnet and Zeckhauser, 2004), and physiological pathways to wrongdoing nestled in rationalization/ attitude (Fistinger, 1957), because, in a normative point of view, if organizations do not override its control environment, containing of the bureaucratic organization should be commitment to ethical and integrity values, and management and leadership roles do not overlap which confuse many officials, fraudulent activities or factors persuading individuals to perpetrate fraud can be prevented.

Discussion

Conclusions and implications

In this paper we present an alternative conception of a successful identification of nefarious deeds - the efficacy of fraud prevention mechanisms. The case study presented above confirms the existing literature (Donaldson, 1995a, 2001), which argue the contingency theory of organizational structure presently provides a major framework for the study of organizational design focusing on the pragmatic aspects of a problem or phenomena. Within local government, contingency theory has emerged as a lens for exploring the links between public sector initiatives to improve risk mitigation and the structure of the control system. The underlying assumption of the heart of structural contingency theory adopted in this study is that concepts and their interrelationships that show how, or why, a phenomenon occurs and how they create the opportunity for information sharing and mutual learning that causes high performance. More specifically, structural contingency

theory within this study sees organizations as adapting to their changing environments – organizations change from one fit to another over time as responses to mercilessly exploiting bureaucratic feeble points.

Contingency theory arises in response to the control environment which constitutes a part of the interconnected components of internal control system, and it is an essential factor in creating an operative fraud-prevention atmosphere in the workplace. It is, as illustrated by COSO, (1992) regarded as the underpinning factor for other mechanisms of internal control system. This study implies that many of the portfolio models of strategy formulation and implementation in response to the notion of dynamic environmental disequilibrium which creates fraud triggers. However, optimal control design which applies in all settings and organizations is one best way to deter or minimize combinations of causal factors leading to illegal activity. This study is congruent with Ziegenfuss, (2001) who finds that local government entities with strong ethical environment and managers who are aggressively to investigate red flags would be expected to have a lower incidence of fraud than others that have weaker ethical environment and managers who do not follow-up red flags.

The top echelons of bureaucrats, as the front line responsible for the organization/environment alignment, are instrumental in reading the environment characteristics defectively designed implants and translating those readings into strategic and operational precautions. This perspective, according to the classics of leading contingency theory, views strategy as an enacted process (Anderson and Paine, 1975; Mintzberg, 1978; Mintzberg and Waters, 1982; Smircich and Stubbart, 1985; Venkatraman and Camillus (1984) and organizations as interpretive systems in which top managements develop a thread of coherence about their environmental assessments (Chaffee, 1985; Daft and Weick, 1984). By taking into account those concerns, the need to reduce environmental uncertainties which will degenerate into a pitfall of unrestrained activities can be understood by considering three major themes: the pursuit of effectiveness, the establishment of purpose, and the struggle for efficiency. In addition, fundamental to such a model of strategic measures is anchored in the model of strategy making that relies on enactment, interpretation, and retrospective sense making (Weick, 1987; Starbuck, 1983).

In this model, a contingency model manufactured by this study also suggests wrongdoing results from efforts to address performance problems in the entities. Pressure or need is the primary explanation for organizational illegality, as the model maintains that performance problems trigger decisions and actions that lead to illegality. Top managers are assumed to be rational actors who engage in problem solving, leading to decisions to behave legally or illegally with the consequences and results that their decisions and actions will have. For example, fraud in Indonesia bureaucracies seems a nested game model of the dynamics of party competition, in which incumbent social-democratic governments influence the notion of bureaucratic control mechanisms. Incumbent governments and public top bureaucrats or professionals, with poor macroeconomic performance, cooperatively range corrupt tender processes (OECD, 2007 and 2012), and shape and mediate the nature of the reform programs to commit misallocation or mismanagement of public resources (Baltaci and Yilmaz, 2006).

If the prescriptions for control environment are not reckoned to be a beneficial shorthand term to reinforce commitment to bureaucratic norms and integrity, all intensifying pressures for exploiting bureaucratic deficiencies will be greater. This is the

case even though the mechanistic fit to the stable environment produces the same high performance as the organic fit to the unstable environment. By moving towards the fit, the organization is decreasing misfit, and thereby increasing its performance relative to what it would be if it were to make no structural change (Donaldson, 2001). In line with Peters and Waterman's (1982) concept, "management by wandering around" suggests that managers' keeping in touch with employees enhances communication between them and may create conditions that motivate the entities to achieve desirable or predetermined outcomes. Thus, despite the central importance of this issue in organizations, attention to a ring-fencing set of bureaucratic activities should be much more delicate, pervade deterministic elucidation of organizational changes, and conveniently convey the contemporary changes to apparatus.

Limitations and future research

The current study has some limitations that offer an agenda for future research. Because this study explores sensitive data and information, the researcher found difficulties not only in getting access to targeted participants, but also in obtaining in-depth and detailed information, as they were very cautious. Subsequently, particular interviewee was not recorded because of his anxiety about confidentiality, thus, that situation was relied on taking notes. Even though it might cope with this matter, such as writing down whether the authors remembered immediately after every interview process, few arguments were still missing in such conditions. And it might impact on the consistency of the qualitative findings.

This study is an exploratory work which examines and analyzes the role of control environment system to fight against fraud in Indonesia local governments. This emphasizes the light on how the mixture of qualitative and quantitative methods can better investigate the complex societal phenomena. However this study has some limitations as discussed at above. For further work, therefore, especially method of quantitative data collection should outline the elucidation of fraud term *at least* the definition of it in the distributed questionnaires. In addition, findings of the quantitative and qualitative work heavily rely on national internal and external auditor perspectives, an avenue for future study, here, is to follow up these findings on inspectorates as a regency internal auditor or even until the top echelons of bureaucrats in local governments. By doing this, the level of confidence in the robustness of the results will be better. It is because the future researcher (s) can map, track and compare the differences and similarities between those institutions (local and national auditors) and then draw comparative conclusions to achieve more generalizable findings.

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