

RECURRENT FINDINGS IN THE AUDIT OF GOODS AND SERVICES PROCUREMENT IN LOCAL GOVERNMENT

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Abstract: Corruption is a growing practice as it evolves. This paper uses qualitative method and tries to probe procurement fraud deeply to gain an understanding of this phenomena. This study aims to give different views regarding corruption in public procurement by qualitatively and deeply exploring recurrent findings to perform fraud in local government. Using an in-depth interview and open questionnaire with the local government's internal auditor, this paper presents some insight that recurrent findings are more likely a media for a fraudster to embezzle fund from public procurement. We found that embezzlement is usually done by using administrative errors and purchase splitting so the fraudster can use an e-catalog to buy directly from the seller that they know. Many factors enable the fraudster to gain the capability to perform this evil act. We also propose some strategy to mitigate fraud by exploiting recurrent findings, such as auditor's competency enhancement, enhancement of communication, assistance from the inspectorate, and strict sanctions. The findings and strategy proposed can be an alternative to improve governance in local government.

Keywords: Procurement, corruption, local government, recurrent findings.

Abstrak: Korupsi adalah praktik yang berubah seiring dengan perkembangannya. Artikel ini menggunakan metode kualitatif dan mencoba untuk menyelidiki penipuan pengadaan secara mendalam untuk mendapatkan pemahaman tentang fenomena ini. Penelitian ini bertujuan untuk memberikan pandangan yang berbeda mengenai korupsi dalam pengadaan publik dengan menggali secara kualitatif dan mendalam temuan berulang untuk melakukan kecurangan di pemerintah daerah. Menggunakan wawancara mendalam dan kuesioner terbuka dengan auditor internal pemerintah daerah, artikel ini menyajikan beberapa wawasan bahwa temuan berulang lebih cenderung menjadi media bagi perilaku *fraud* untuk menggelapkan dana dari pengadaan barang dan jasa publik. Kami menemukan bahwa penggelapan biasanya dilakukan dengan menggunakan kesalahan administrasi dan pemecahan pembelian sehingga pelaku *fraud* dapat menggunakan *e-catalog* untuk membeli langsung dari penjual yang mereka kenal. Banyak faktor yang memungkinkan pelaku *fraud* mendapatkan kemampuan untuk melakukan perbuatan jahat tersebut. Kami juga mengusulkan beberapa strategi untuk memitigasi *fraud* dengan memanfaatkan temuan yang berulang, seperti peningkatan kompetensi auditor, peningkatan komunikasi, pendampingan dari inspektorat, dan

sanksi yang tegas. Temuan dan strategi yang diajukan dapat menjadi salah satu alternatif perbaikan tata kelola pada pemerintahan daerah.

Kata Kunci: Pengadaan, korupsi, pemerintah daerah, temuan berulang.

INTRODUCTION

Corruption is still a systemic problem for Indonesia. Corruption Perception Index (CPI) data in 2019 shows that Indonesia is ranked 85 out of 180 countries and gets 40 (Transparency International, 2019). This figure is still relatively low and shows that corruption in Indonesia is still ingrained, especially in the public sector, because the CPI data focuses on the perception of corruption in Indonesia's public sector. The majority of corruption cases in Indonesia are exhibited to come from the procurement of public goods and services (Transparency International, 2013). Procurement of goods and public services is also the most vulnerable to corruption (Murray, 2014). Larmour (2006) and Westring (1997) also stated that the implications of corruption through public goods and service procurement projects have negative consequences that are often greater than corruption in other cases. This type of corruption will inflict in the effectiveness and efficiency of government operations decreasing because the procurement carried out impacts the low quality of goods and services and high expenditures that should not be due to markups.

An internal government auditor at one district government was chosen as an informant to reveal the corruption scheme in the procurement of goods and services. The point of view of a government internal auditor is needed because, according to Evans (1987), many corruption cases in public procurement are difficult to detect. During purchasing public goods and services, there is a boundary that is difficult to find between fraud and negligence. Attribution theory is used to explain phenomena related to how government internal auditors can uncover fraud in the procurement of public goods and services. Through interaction with the environment, the government internal auditor continuously experiences an attribution process that consists of understanding, organizing, and forming perspectives on how he succeeded in exposing fraudulent schemes in the procurement of goods and services (Snead *et al.*, 2014). Thus, internal auditors play a critical role in the fraud detection and mitigation process in local governments because they are the first filter and the party who provides advice to local governments before their financial statements are examined by the Audit Board of the Republic of Indonesia.

Many previous studies have focused on uncovering the factors or determinants that drive a person to commit corruption (fraud) (Zulaikha&Hadiprajitno, 2016; Abdullahi&Mansor, 2018; Andon *et al.*, 2015; Avortri&Agbanyo, 2020; Awanget *al.*, 2019; Kalovya, 2020; Koomsonet *al.*, 2020; Rustiariniet *al.*, 2019; Said *et al.*, 2018; Triantoroet *al.*, 2019) but cannot explain how fraud occurs. This study attempts to reduce the research gap and provide new insights related to fraud by observing how fraud or specific corruption in the procurement of goods and services occurs. Current study employs qualitative

method to explore the phenomena in question. This research uses deep-interview to collect the data and research result from Nunu, Sondakh and Pontoh (2017) study to support the result of current research.

The research findings show that recurrent findings in administrative errors often serve as a medium to confuse fraud and negligence to reduce auditors' scrutiny. In addition, there are several other schemes used in fraud or corruption in the procurement of goods and services, such as; (1) administrative errors, (2) solving procurement values, and (3) using partners as providers of goods and services, (4) budget changes, and (5) administrative engineering. In addition, recurrent findings also continuously occur due to several factors, both from the auditors' side and the auditee side. This research contributes in several ways. First, although fraud schemes continue to develop over time, through this study, there are several fraud schemes that can be uncovered. These two studies indicate that something that auditors may often perceive as negligent could be a fraud. Third, this study provides additional enrichment in the literature related to factors causing recurrent findings in the Regional Work Unit (RWU). Finally, researchers provide several strategies to reduce this type of fraud that the government can use to improve or develop a better system or rules to improve internal control, which in turn will reduce fraud in public procurement and tighten rules related to recurrent findings so as not to be ignored by RWU.

The remainder of this paper is organized as follows. In the second part, the theory of attribution is used to explain the phenomenon related to the discovery of public procurement fraud by government internal auditors. The third part describes the research method, followed by the fourth section, which explains the research findings. The final section contains an explanation of the conclusions of this study.

THEORETICAL REVIEW

Attribution Theory

Attribution theory is a theory that studies and explains how a person determines the causes and reasons behind the behaviour or good deeds of others themselves (Luthans, 1998). Riyunti *et al.* (2019) define attribution theory as a theory that explains the understanding of a person's behaviour towards the events around him by knowing the reasons for taking action on the events they experience. A person's behaviour can be influenced by personal/internal attributes or situational/external attributes, or a combination of both (Hudayati, 2002). From the description above, it can conclude that a person's action is an interaction of attributes, such as personal and situational attributes that determine some outcomes.

Snead *et al.* (2014) explained that attribution occurs when individuals and the environment sustainably interact. This process will produce an essential perspective on an outcome obtained through understanding, organizing and shaping. Government internal auditors, through their tenure, the number of cases being audited and their intuition, can create perspectives in detecting and finding fraud in

the procurement of public goods and services. The audit findings in the form of a fraud scheme become an antecedent for other perspectives in the future.

Fraud in the Procurement of Goods and Services

Tuanakotta (2010: 448) reveals that fraud in procuring goods and services is divided into three stages, namely fraud in the stages before the tender, bidding and implementation of the procurement process from the start, have shown vulnerability to fraud. Alfian (2015) states that collusion in the procurement of goods/services can be classified into 3 (three) types, namely:

1. Horizontal Collusion

The collusion occurs between partners in the procurement of goods and services. Collusion is carried out by creating pseudo competition between tender participants, and this collusion does not involve government officials.

2. Vertical Collusion

The collusion that occurs between one or more partners and the committee for the procurement of goods and services.

3. Combination of Horizontal and Vertical Collusion

The collusion between the committee for the procurement of goods and services and/or the commitment maker official with partners. One form of collusion is a fictitious auction or an auction process that has never been carried out. Still, all administrative requirements and formalities are fulfilled as if an auction had been carried out. This combination collusion usually involves suppliers, sole agents, distributors, and manufacturers.

Based on the characteristics of fraud in procuring goods in the government, it can generally be seen through the inconsistencies in the results of the implementation with the plan and the reality that should have occurred. The fraud that occurs, in the end, harms society. The negative impact referred to is in the form of not maximum services received by the community. One scheme that is widely used in fraudulent procurement of goods and services is recurrent findings.

Recurrent Findings

Recurrent findings are defined by Cahill (2012) as (1) findings found in previous independent audits where corrective action has not been completed/not completed as planned, and (2) findings that are generally and in substance similar to findings identified in previous independent audits. In essence, recurrent findings refer to previous audit findings rediscovered after an auditor conducts an audit in the next period. These findings have been found and requested to be followed up by the auditors to the auditee. However, in subsequent audits, these findings have been re-identified by the auditors.

This shows that the RWU, as the auditee, did not make the corrections that should have been done and had been suggested by the auditors. Selfishly, the RWU head or employees experience repeated findings that indicate the low commitment of the leadership and in following up on audit findings that the auditor has identified. RWU employees, in this case, do not regulate the authority to follow up on audit findings or even ignore these findings and are conducive to assessing their own satisfaction. If this continues, this will have implications for the community, who are the main stakeholders of public services.

RESEARCH METHOD

This research is qualitative because it delves deeply into phenomena and describes these phenomena as findings. To explore this phenomenon, this research requires information as a resource that explains a phenomenon. Qualitative methods are used to find and investigate problems and phenomena in society (Yin, 2011). This research uses a qualitative exploratory approach with a case study method. The case study approach explains that the researcher establishes a direct relationship with the object of research by looking at activities and the process, followed by in-depth analysis (Creswell, 2014).

The data sources used in the study are primary and secondary. The object of this research is the inspectorate auditor or government internal auditor. The informants in this study consisted of 2 people who are government internal auditors who have work experience in the audit field for more than 5 years and have had work experience as a civil servant for more than 10 years. They have a certain qualification that meet researchers' needs to explain fraud procurement phenomenon. The interview with open questionnaire is used as a medium to gather information from informants regarding corruption in public goods and services procurement. This research also supports the statement from informants by using the result from Nunuet *al.* (2017) study as secondary data source. For research, the identity of the informants in this study is disguised. Table 1 describes the informants in this study.

Table 1. Research Informants

| No. | Informant | Occupation |
|------------|------------------|-----------------------------|
| 1 | Madam III | Government Internal Auditor |
| 2 | Mister IBI | Government Internal Auditor |

According to Creswell (2014), there are four procedures in data collection, namely observation, interviews, documents, and audio and visual materials. Researchers used four procedures for data collection, which were used to draw

conclusions related to fraud problems in procurement due to monopoly power and lack of commitment of officials involved in procurement, namely qualitative observations, qualitative interviews, qualitative documents, qualitative audio, and visual materials. All of them are compiled and then analyzed and interpreted the data.

Data analysis and interpretation were carried out after the data had been obtained from interview with informants and supporting data from Nunuet *al.* (2017) study. The stages in data analysis can be described as follows: (1) grouping and preparing the data to be analyzed, such as interview transcripts, supporting documents, (2) reading the analyzed data to obtain important information and information from the data obtained, (3) starting coding data, (4) describe in general according to the category or theme of the analysis (5) create a qualitative narrative to deeply understand the information that has been analyzed, (6) interpret the results of the analysis and findings, draw conclusions on the research.

RESULT AND DISCUSSION

Recurring Audit Findings in Fraud Procurement

Through interviews with informants, the researchers get five points or, in this case, the scheme in the procurement of public goods and services. In the corruption of the procurement of public goods and services, there are several other schemes that the auditors may have discovered, but only these five were successfully explored. The five schemes are (1) administrative errors, (2) splitting procurement values, (3) using partners as providers of goods and services, (4) budget changes, and (5) administrative engineering. These five schemes are further explained in the sections below.

1. Administration Error

Administration errors here usually occur when the purchasing department forgets to put a stamp on the receipt. In addition, administration errors also occur when documents are incomplete, such as administrative completeness in the procurement of goods and services. This means that there are several aspects related to administrative completeness that has not been fulfilled. Administration errors here become repeated findings related to the procurement of public goods and services. This finding was asked to be followed up by the auditor, but the auditee did not heed the advice of the auditor. Another recurring finding is the absence of a BAP or Minutes of Handover from superiors to respective fields. As a result, there is the possibility of problems in distributing public goods and services with the potential for corruption.

2. Splitting of Procurement Value

The purchasing department can also break down the purchases or procurement values of significant value. There are several systems in the Procurement Service Unit or unit in charge of handling the procurement of goods and services. Two of the many systems are E-Procurement and E-Catalog. For large purchases or projects over 2 billion, the purchasing department usually has to do it via E-Procurement, a more rigid system and has little corruption.

Meanwhile, small purchases can be made using the E-Catalog. This e-Catalog is a system that allows buyers to make direct appointments, and the potential for corruption is tremendous. To outsmart purchases or large projects, the purchasing department usually breaks up purchases so that the value is less than 2 billion and enables them to make purchases through the E-Catalog. This is done with the aim that the procurement of goods and services can be carried out by appointment or self-management so that there is an even distribution of the vendors who get the project.

3. Use of Partners

The use of partners is a continuation of the procurement value splitting because, with the purchase split, the purchasing department can make direct appointments. In this direct appointment, the purchasing department requests the help of partners or self-owned companies to become providers of public goods and services. This transactional incident is full of acts of connection because of "collusion" between buyers and partners. Apart from that, only the same vendors get the project.

4. Budget Changes

Changes in annual budgets are also one of the audit findings repeatedly found at an auditee (RWU). The change in the budget is a finding because it is an indication that every year the planning at the auditee or RWU is not going well. If this only happens once or twice over a period of 5-10 years, this will not be a recurring finding for the auditor. However, almost all audits made changes to their budgets, which were determined at the beginning of every year. This practice was carried out in September because of the stipulation that RWU could make budget changes if needed this month. Therefore, there is an opportunity to change the budget in September if there are deemed important activities but have not yet been included in the budget. In fact, this budget change is a medium for RWUs to help absorb the budget at the end of the year.

5. Administration Engineering

Engineering evidence of administration is one of the schemes carried out by auditors or, in this case, RWU to commit fraud during the process of procuring goods and services. This is often a recurring finding at the auditee, and it appears that the auditee has no intention of following up on these findings. This is evident from finding the same findings every time an audit is conducted. Auditors, in this case, are more likely to improve this administrative engineering process so that the auditors do not discover it during the audit process. There are types of administrative engineering that the auditee can carry out.

In general, 5 types of administrative engineering are commonly carried out in RWUs, namely (1) fictitious activities, (2) merging activities, (3) reducing quantity and quality, (4) fictional documents, and (5) fictitious but original invoices. Fictional activities are carried out by making accountability reports for activities that do not actually exist. Combining activities is carried out by combining several activities that are actually different. Then to report each activity that is put together, an accountability report is made. This scheme is aimed at making efficiency in RWU and saving funds. The auditee can also reduce the quantity and quality of what he has ordered. The implication is that the purchase amount does not match what is stated in the invoice, or the purchase or procurement does not match the specifications.

Fictional documents are often used for activities that are not carried out or implemented, but these activities are not based on the activities that actually occur. Evidence such as photos is often taken from other similar activities to give the impression that the activity actually took place. The final scheme in administrative engineering is a fictitious invoice. The fictitious invoice is the original invoice requested from the shop or service/goods provider, but the invoice is empty to be filled in at will by the auditee. So the invoice is genuine, but the contents in the invoice are fictitious. The implication is that the purchase value does not match reality. This scheme is carried out in collaboration with a third party, in which the auditee will provide a fee for the giving of this blank invoice. The purpose of this fictitious invoice is the same as the previous schemes, namely saving funds.

Factors Causing Recurrent Findings

From the interview results, it is known that several factors trigger recurrent findings in an audit conducted by the inspectorate at the RWUs that become the auditee. Weaknesses in the internal control system, weaknesses in the control environment, weaknesses in risk assessment, weaknesses in control activities, weaknesses in information and communication, weaknesses in internal control monitoring, other causes outside the internal control system, external causes that

cause obstacles to smooth running of activities. However, the biggest factor is weakness in control activities. All of these factors come from internal control.

Apart from internal control, there are other main factors in the form of factors derived from Nunuet *al.* (2017):

- a. Lack of audit coordination and communication → coordination and communication between the Inspectorate auditors, the auditee and other related parties are critical in mitigating recurrent findings. In fact, this coordination and communication did not work effectively. The audit engagement between the auditor and the auditee is evidence of the ineffectiveness of this communication. Especially in the implementation of audits, auditors and auditee do not establish good communication. Communication will take place when the audit has been completed. Good communication between the auditor and the auditee will trigger a smooth audit process while looking for and analyzing the required audit evidence. Meanwhile, the auditee usually tends to be passive when coordination is done. Coordination during the examination is rigid, and there is no good follow-up after the examination has been carried out. This tends to indicate that the auditee has made a mistake and wants to cover up the mistake or be afraid of the presence of the auditors from the Inspectorate. In fact, the main focus of this auditor is to provide assistance and guidance so that when the Financial Audit Board of the Republic of Indonesia audit is conducted, there are no material misstatements or even indications of fraud.
- b. Lack of post-audit communication → lack of communication and coordination in the previous section will directly imply low communication after the audit is carried out. As it is known, the auditors of the Inspectorate have changed their mindset from being supervisors to now becoming companions. The main task of the auditors of the Inspectorate is to assist and guide the RWUs, which is the audit, to follow up on findings so that these findings will not reappear. Because from the start there has been a communication gap between the auditors and the auditee, the post-audit communication has become ineffective, even though the main task of an Inspectorate auditor arises after the audit is carried out, namely by providing suggestions and input and assisting the auditee to follow up on audit findings. So that the post-audit mentoring and guidance process cannot run well, and the findings will repeat themselves in subsequent audits.
- c. Lack of auditor competence in elaborating findings → in conducting an audit, sometimes there are auditor personnel who are less competent, especially to elaborate audit findings. As a result, the cause of the finding was not able to fix the root of the problem that occurred, and the recommendation did not eliminate the cause and was difficult to implement because the audit stage was not carried out properly. The implication is that the auditee will find it difficult to follow up

- on audit findings and take corrective steps to prevent these findings from reappearing in subsequent audits.
- d. Lack of integrity and ethical values of the apparatus → a good attitude does not support the values of integrity held by the apparatus. Of course, an anti-corruption attitude will be embedded in him in doing his job to be no negligence or deliberate action that contradicts the applicable provisions. The research results show that the lack of integrity and ethical values of the officials can lead to the risk of recurring deviations. In general, an apparatus that has committed irregularities will behave unethically and do not have a sense of responsibility for their work. The same irregularities will occur again in the future as long as the apparatus is not aware of their mistakes and unwilling to develop themselves in a better direction. Therefore, upholding an apparatus's integrity and ethical values is needed to create a clean government, free from misstatement and fraud. Per Wiranta's (2015) statement, it will be challenging to prevent abuse of authority, corruption, and the like without ethical and integrity standards.
 - e. Lack of leader commitment → clean governance can only be achieved if there is a commitment from the RWU leadership and financial managers who have a positive attitude and can anticipate errors/irregularities detrimental to regional finances. Then, the same mistakes will not occur again in the future. This means that one of the things that cause irregularities or recurring findings is the absence of commitment from the RWU leadership in realizing organizational goals. However, this isn't easy to achieve because most RWU leaders do not commit to making continuous improvements to the organizations they lead. This is because the improvements in the RWU that are led do not benefit the leadership individually. In addition, organizational improvement and the follow-up of audit findings are considered time-consuming and unbeneficial activities.
 - f. Regulatory changes → each RWU must always be aware of the issuance and update of the latest regulations changes to carry out its duties and responsibilities. If the RWU, especially those implementing activities or financial managers, do not clearly understand the intent of the regulation, it will result in the risk of errors/deviations. However, sometimes the RWU does not update their knowledge regarding the latest regulations because they are considered troublesome due to the number of regulatory changes. Finally, RWU employees who are in charge of compiling financial reports do not understand the latest rules, which cause their reports to be false, and from there, recurrent findings emerge. This also often happens because the Inspectorate does not disseminate information regarding the new regulation.
 - g. Frequent changes of leader → the high frequency associated with leaders changes is a factor in recurrent findings at an RWU/auditee. New leaders usually have

minimal knowledge regarding the conditions in the RWU they lead. This is made worse if the leader does not try to look for problems in his institution, especially related to audit findings. In addition, the new leaders usually do not have a good strategy to follow up on the findings to be repeated in the next audit period.

- h. The absence of strict sanctions → the final factor that causes recurrent audit findings is the absence of strict sanctions for RWUs that do not follow up on their audit findings. Consequently, the RWU does not have enough motivation to follow up on audit findings. Thus, there is an omission that causes the previous audit findings to be rediscovered in subsequent audits.

Recurrent Findings Mitigation Strategy

There are several ways to mitigate the recurrent findings that often occur in RWUs. Some of these ways or strategies include:

1. Auditor's competency enhancement

Due to changing state financial regulations, auditors are always required to update their information and knowledge. Increasing the competence of auditors can be done by conducting regular training to update the skills possessed by the Inspectorate auditors so that rapid changes in information technology do not leave them behind. In addition, they can participate in the Inspectorate auditors' training held inside or outside the work unit.

2. Enhancement of communication

Gaps of misunderstanding usually hamper communication between the auditors and the auditee. For example, the auditee thinks that the auditor is trying to find findings that can corner RWU when the purpose of the auditor is to find the findings so that these findings can be followed up. So that if there is an audit by the Financial Audit Board of the Republic of Indonesia, the RWU is ready. This communication can be improved by establishing a special forum regularly to discuss follow-up findings.

3. Assistance from the inspectorate

The auditors can assist in the financial report preparation process, intended as a preventive action. The aim is to minimize errors early on. During the drafting process, the auditors of the Inspectorate can correct mistakes made by the auditee so that there is a transfer of knowledge and the auditee's financial reports can be of good quality, which is minimal or even have no findings.

4. Issuing strict sanctions

Apart from the strategy above, RWU or auditee also need to be motivated by laws or sanctions if, for example, the audit findings are not followed up. This will

spur the RWU to inevitably follow up on the audit findings so that these findings do not repeat themselves in subsequent audit periods.

Conclusion

Corruption in the procurement of goods and services still occurs in the government. The losses suffered by the government due to this corruption are massive. The findings of this study indicate that although the procurement process has been systematized in a computerized manner, there are still loopholes for corruption. Some of the loopholes or schemes are administrative errors, splitting the purchasing value, and using a partner. RWU usually carries out fraud procurement by utilizing recurrent audit findings. The recurring audit finding schemes that often occur in RWU are (1) administrative errors, (2) splitting procurement values, and (3) using partners as providers of goods and services, (4) budget changes, and (5) administrative engineering.

The research findings also show that several factors cause recurrent audit findings, namely:

1. Lack of coordination and audit communications.
2. Lack of post-audit communication between auditors and auditee.
3. Lack of auditor competency in elaborating audit findings.
4. Lack of integrity and ethical values of the apparatus.
5. Lack of commitment from RWU leaders.
6. Frequent changes in regulations.
7. Frequent changes of RWU leaders, and
8. The absence of strict sanctions.

The government can carry out several strategies to suppress and mitigate the intensity of recurring audit findings that occur in RWUs, such as (1) increasing the competency of auditors, (2) increasing communication between auditors and auditee, (3) assisting from auditors in preparing financial reports, and (4) the existence of strict sanctions for RWU if they do not follow up on audit findings. However, through the results that have been presented in this study, there are several implications, namely (1) auditors still have to hone their ability to be able to find new schemes in the corruption of goods and services procurement to block the occurrence of such corruption in the future, (2) the government is expected to be able to create a new system or regulation that is felt to be more powerful in mitigating corruption in the procurement of public goods and services.

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