

Can Internal Mechanisms Control Detect Corruption Through Fraudulent Behaviour?

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Article info

Abstract

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This paper aims to find the link between integrated GRC (governance, risk management, and compliance) and internal audit, which is included in internal mechanisms control for detecting corruption and regulatory compliance in its success. This study uses the Partial Least Square method for primary data analysis on 48 public and private companies and hypothesis testing, supplemented by interviews with respondents. This study indicates the significant influence of the integrated GRC on corruption detection and necessary mediation with internal audit, in addition to the importance of regulatory compliance and the need for the regulatory drive for the successful implementation of internal mechanisms control. The limited application of GRC for model alignment, strategic integration, and standardization of GRC terminology shows the depth of context to identify the application of GRC in organizations in their success in detecting corruption. Organizations can assess root causes or weaknesses in existing systems/strategies/ regulations in detecting corruption to eradicate corruption. It is still rare for integrated GRC research to mediate the relationship between internal audit and corruption detection and its relation to regulatory compliance.

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1. Introduction

Indonesia is a country that states that corruption is an extraordinary crime; this has been stated in the laws and regulations in the State of Indonesia since 2002. However, the reality is that Indonesia has still failed to eradicate corruption (Pipit Anggraeni, 2019). Corruption cases continue to exist in both public and private sector companies. It can be seen from the Corruption Perceptions Index (CPI) in 2022, Indonesia has fallen to a score of 34 (Transparency International, 2023).

This corruption broadly impacts various fields of life, threatens social, economic, and political development, and undermines the nation's morality and democratic values. Actions that, if left unchecked, will become entrenched and, in the end, become obstacles to creating a just and prosperous society. The world is currently experiencing an extraordinary threat to global peace due to corruption. Many countries still need to fight corruption. Based on the CPI this year, the world is experiencing stagnation in handling corruption (Transparency International, 2023). What will happen to the era of our next generation if this needs

to be handled as soon as possible? Of course, this requires firmness and seriousness from the leaders of countries in the world through regulations and consistency in implementing these regulations.

When discussing regulations related to eradicating corruption, two things can be done to eradicate corruption: one is to require regulation on the effectiveness of its implementation. First: prevention with efforts to fulfill the effectiveness of systems and strategies for eradicating corruption that can be pursued within the organization's internal. Second: deterrence by consistently implementing government laws so that there is a deterrent effect for potential corruptors. This study examines from a prevention point of view by fraud management, namely corruption detection. Regarding prevention and detection, Kaur et al. (2023), in their writing, said that there are many tools and technologies for preventing fraud in organizations. However, more research is still needed on fraud prevention and detection procedures.

Organizations worldwide recognize that GRC is a tool, an organizational capability, or a strategy to face challenges and become one of the aspects of promoting a clean business economy (Velez, 2021). Therefore, compliance with rules, regulations, and laws is needed (Ahmad Tarmizi *et al.*, 2023; Liang *et al.*, 2022), and one is willing to follow predetermined boundaries and mandatory and determined self Regulations. It takes a regulatory drive that "forces" corporations to comply with the governance practices required in the applicable laws and regulations. That will increase efforts to eradicate corruption; this is evident from the research by Siahaan *et al.* (2023b). As for Indonesia, the implementation of GRC faces various challenges, namely the dynamics and complexity of regulations, organizational governance, and the increasing demands for digitalizing governance and risk management. Therefore, a reinventing government paradigm is needed to face GRC challenges (Puspa, 2022).

Considering the importance of implementing GRC within an organization, especially in helping to maintain the health of the organization itself, it is necessary to deepen the development of integrated GRC implementation within the organization, especially in organizational operations. Nevertheless, the question for us is, have all companies in the public and private sectors implemented integrated GRC? and if we further deepen, who is responsible for ensuring the success of integrated GRC implementation in the organization? So that it can analyze the occurrence of cor-

ruption to support the detection process so that further will be carried out to prevent corruption. Institute of Internal Auditors (2020) states the duties and responsibilities of internal audit, namely to provide independent guarantees for implementing activities by all work units and financial reports, besides implementing the internal control system and controlled risk management. That is to find possible problems or indications of deviations from the rules and regulations that apply within the organization. Internal audits is thorough monitoring related to the evaluation function; it is also responsible for all management for the assignment of effective and efficient control mechanisms (Kielbaso, 2012).

Internal audit must work hard to use their abilities and professional ethics to catch early signs of deviations, whether committed by employees, superiors, or inadequate internal organizational systems, to find indications of deviations in the organization. Internal audits can analyze why employees or companies commit corruption by referring to behavior caused by pressure, opportunity, rationalization, ability, ego, and collusion (Vousinas, 2019). For now, internal audit plays a critical role in increasing the implementation of the GRC and aims to improve corruption detection. This research was conducted on all types of companies (random) to see whether regulations in all sectors have been implemented. Why does it have to be in all sectors? Because corruption that occurs does not rule out the possibility of collusion (one of the factors causing corruption, as found by Vousinas (2019) between internal and external parties of the organization, this occurs in all corporate sectors.

This paper aims to find out the link between integrated GRC (governance, risk management, and compliance) and internal audit, which is included in internal control mechanisms for detecting corruption and regulatory compliance in its success.

2. Hypothesis Development

Corporations that carry out responsible business should have an element of compliance as good corporate citizens. As for all elements of corporate business needs and processes, compliance with applicable laws and regulations is inseparable, which aligns with efforts to meet stakeholder compliance demands. Compliance theory from etzioni in 1969 (Dodge, 2016) explains the harmony of compliance relationships between superiors (regula-

tors) and subordinates (rule implementers) and the dynamics of compliance within the organization.

This theory underlies the interrelationship of the three variables in this study. Organizations are required to consistently carry out practices under the principles and governance systems in an integrated manner with risk management and compliance management systems (integrated grc). Meanwhile, an internal audit ensures that all aspects of the organizational structure are on the right track to achieving company goals by providing an objective and disciplined approach to evaluate and improve the effectiveness of the GRC. Besides the critical purpose of internal audit monitoring and consistency in compliance with the implementation of this integrated GRC, as a strategic tool for detecting corruption or other deviations due to non-compliance with established laws and regulations.

GRC Integrated is a system for achieving principled performance, as Mitchell (2007) described, helping organizations achieve goals while simultaneously overcoming business uncertainties and acting with integrity. A system of people, processes, and technology enables organizations to understand and prioritize stakeholders' expectations while setting business goals that follow values and risks (OCEG, 2007). An *internal audit* provides value-added internal control performance to create process improvements and organizational operations according to quality implementation (IIA, 2016). Parties that can become the "eyes and ears of managers" who can access and provide guarantees for the effectiveness of the organization's internal control system, thereby increasing the demand for internal quality audits for good decision-making focusing on risk management and organizational governance (Sawyer, 1973; Walker *et al.*, 2003, Tuanakotta, 2019; and Harasheh & Provasi, 2023);

The first hypothesis was developed based on the findings of Zammit *et al.* (2021), who said that improving the internal audit function can make the implementation of integrated GRC successful and impact the organization's overall performance. One of the elements of GRC, namely governance, especially accountability, is significantly influenced by an increase in internal audits (Bananuka *et al.*, 2018). Furthermore, Siahaan *et al.* (2023a) found that a lack of contribution from internal audits can affect the successful implementation of integrated GRC within an organization.

H₁: Internal audit is positively and significantly associated with GRC

Corruption detection is a part of fraud management that anyone, including employees, can do.

The most straightforward action is to be aware of possible red flags in their working environment (Dairi, 2021; CFI, 2015; Topaz, 2016). All individuals can start by understanding why fraud or especially corruption occurs. Vousinas (2019) explains that stimulus, capability, opportunity, rationalization, ego, and collusion are causes of fraud/corruption. The auditor is a function that is expected to help detect irregularities that have occurred. Therefore, it is necessary to have the ability to quickly know, find, identify, and disclose all forms of irregularities and possible causes of fraud (Carpenter *et al.*, 2002; Larum *et al.*, 2021; Umar *et al.*, 2022; and Kureljusic & Karger, 2023).

The second hypothesis begins with ACFE's presentation (ACFE, 2020) that the initial detection of occupational fraud is 15% carried out by internal audit. These conditions show the role of internal auditors in supervising the company's daily activities, but the reality is that optimal achievement has yet to be achieved. Even though the role of internal audit is very important in detecting the possibility of fraud and preventing fraud in any economic entity (Coram *et al.*, 2008; Kabuye *et al.*, 2017; Petraşcu & Tieanu, 2014).

H₂: Internal audit improves corruption detect

The third hypothesis regarding integrated GRC implementation can increase the ability to detect corruption; as Barrett (2007) says, when risk management increases, it becomes an essential basis for improving good governance, which automatically increases GRC and overall performance; maximum efficient use of resources; minimize the occurrence of fraud; waste; also the possibility of making the wrong decision. Besides that, compliance with laws and regulations in corporate governance is an effective anti-corruption tool for disclosing bribery and illegal behavior, thereby controlling ongoing corruption (International Finance Corporation, 2009).

H₃: GRC improves corruption detect

The fourth hypothesis in this study is that integrated GRC controls change actions that lead to deviations and high risk (González, 2016; Siahaan *et al.*, 2023a). This possibility occurs when agents carry out responsibility for the results of tasks delegated by the principal (Ross, 1973), such as when neglecting or using company resources for self-benefit (Wiseman *et al.*, 2012). There is great hope for the internal audit function in successfully implementing integrated GRC in every line of the company, with great awareness of the factors that en-

courage corruption and acts of non-compliance with unity as a form of corruption detection.

H₄: GRC mediates the relationship between internal audit and corruption

3. Data and Methods

This research adopted a quantitative method using a questionnaire to collect data from respondents, namely company employees, both public and private sector companies, totalling 48 respondents. There is a unique analysis unit for internal audit or quality assurance. Using Google Form facilities, questionnaires were distributed via Forum Group Discussion (FGD), LinkedIn, and WhatsApp. The questionnaire refers to indicators regarding the internal audit, integrated grc, and corruption detection developed by siahaan *et al.* (2023a).

Internal audit (IA) variables consist of two dimensions: Attribute standards and Performance standards. The indicators formed in the ten questionnaires are independence and objectivity, Proficiency, Due professional care, Annual audit planning, Significant areas audited, audit scope, auditor's response, Risk-based audits, auditor's findings follow-up, and other activities implementation.

Integrated GRC variables consist of three dimensions: Process, Manpower, and Tools. The indicators formed in the 15 questionnaires: Information dissemination; Implementation of communication; Company's changing conditions understanding; Innovation activity; Completeness of structure, governance, and organizational commitment; Clarity of responsibilities; Management of risk management; Defining the internal control system; Have experience and competence; Continuous knowledge enhancement; performance appraisal system; Reward system; Decision-making process's information system; Technology functions and information systems for processes; The monitoring system of effectiveness works.

Variable corruption detection (cd) comprises six dimensions: pressure, capability, collusion, opportunity, rationalization, and arrogance. The indicators formed in the 23 questionnaires: pressure (financial; work; external; bad habits); position; coercion; stress; intelligence; agreement; actors of illegal things; gratification; compliance with rules; discipline failure; lack of information; audit track record lack; cheating is normal; cheating is common for everyone; cheating is only small; self-confidence; attitude pressing; management style autocratic; feel owned company; fear of losing chair.

Fifty-seven questionnaires were received, but only 48 respondents could be used for analysis, or as much as 84% response rate. That is following the recommendation of sekaran (2003) that the minimum number of respondents who answered the questionnaire can be considered a complete sample is 75%. Questionnaires were distributed using the google form, using a purposive sampling technique to determine the sample – samples from companies that are easily reachable for information dissemination during group discussion forum activities.

The data obtained from the questionnaire were analyzed using Partial Least Squares regression or variance-based Structural Equation Models PLS-SEM version 3.0. The three stages carried out are the outer model, which is continued to the inner model stage. The next step is to test the hypothesis through bootstrapping to see the direct and indirect effects (mediation effect). In addition to this analysis, confirmation was also carried out on several respondents regarding the completed questionnaires to obtain precise clarity on the three variables studied in their implementation within the organization's internals. That is stated in the interpretation in the discussion section.

4. Result

The results of the data analysis begin by explaining the detailed presentation of the respondents can be seen in table 1. After that, the validity and reliability tests. The validity testing is divided into two parts, namely convergent validity and discriminant validity. Validity testing based on outer loading meets the assessment criteria for whether the outer model (measurement model) meets the requirements for convergent validity for reflective constructs.

After that, the validity and reliability tests. The validity testing is divided into two parts, namely convergent validity and discriminant validity. Validity testing based on outer loading meets the assessment criteria for whether the outer model (measurement model) meets the requirements for convergent validity for reflective constructs, namely that the loading must be above 0.7 fulfilled (Hair *et al.*, 2019). As for the 23 Corruption Detect (CD) instruments, 15 GRC and 10 Internal Audit (IA) instruments have met the requirements.

As for testing the validity based on the average variance extracted (AVE) shown in Table 2, it is known that all AVE values are > 0.5, which means that they have fulfilled the validity require-

ments based on AVE. The next test is related to reliability. That looks at the two reliability testing criteria based on the composite reliability (CR) and Cronbach's alpha (CA) values. The test results in Table 2 prove that the two criteria have fulfilled the reliability requirements, namely the CR value > 0.7; CA > 0.7.

Table 1. Demographic Profile of the Respondents

Category	Scale	n= 48(100%)
The employee of company types	Public sector	29(60,4%)
	Private sector	19(39,6%)
Position held by the respondent	Assistant manager	26(54,2%)
	Manager	22(45,8%)
Age of the respondent	18-30 years	3(6,2%)
	31-40 years	9(18,8%)
	Above 40 years	36(75%)
Gender	Male	36(75%)
	Female	12(25%)
Education	Diploma	7(14,6%)
	Bachelor's degree	22(45,8%)
Tenure	Master's degree	19(39,6%)
	1-5 years	13(27,1%)
	6-10 years	8(16,7%)
	10-15 years	7(14,6%)
	Above 15 years	20(41,6%)

Source(s): Primary data

The requirements for testing discriminant validity are shown in Table 3, with the Fornell-Larcker Criterion. The AVE square root value of a latent variable, compared with the correlation value between the latent variable and other latent variables, is concluded that it meets the requirements of discriminant validity.

Table 5. Significance effects and mediation test

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
IA -> GRC	0.498	0.482	0.158	3.156	0.002
IA -> CD	0.354	0.350	0.166	2.133	0.033
GRC -> CD	0.395	0.402	0.162	2.439	0.015
IA -> GRC -> CD	0.286	0.294	0.125	2.291	0.022

5. Discussion

This study aims to find the successful implementation of GRC integrated with the existence of an adequate internal audit function, being an effective strategic tool for detecting corruption, as well as the role of internal audit, which is expected to be able to detect corruption in all corporate sectors. Based on the analysis results that in the public

The next stage is the inner model (structural model) shown in Table 4, where the R-Square value of corruption detection is 0.420, which means that internal audit and GRC can influence corruption detection by 42%. In comparison, the R-Square value of GRC is 0.248, which means that internal audit can influence GRC by 24.8%. Overall, each stage has fulfilled the Goodness of Fit (GoF) to continue at the final stage, namely testing the research hypothesis.

Table 3. Discriminant Validity

	CD	GRC	IA
CD	$\sqrt{AVE_{CD}} = 0,881$		
GRC	-0.571	$\sqrt{AVE_{GRC}} = 0,916$	
IA	-0.550	0.498	$\sqrt{AVE_{IAQ}} = 0,917$

Table 4. Coefficient of Determination (R-Square)

	R Square
CD	0.420
GRC	0.248

Next, hypothesis testing is based on the results in Table 5, which assess the level of significance or probability of direct and indirect effects using the bootstrapping process. This study uses a resample of 500, and it is known that the t-statistic values for the four hypotheses are >1.64 (one-tailed) and significance <0.05. Therefore, internal audits have a significant favorable influence on GRC and increase corruption detection. The GRC is proven to increase corruption detection and significantly mediates the relationship between internal audit and corruption detection.

and private sectors, the internal audit function in 48 companies plays a role in influencing the success of integrated GRC implementation and increasing the detection of corruption. The GRC is integrated as a new strategy in controlling irregularities that will lead to corruption and can also mediate internal audits in detecting corruption. That is in line with the research of Zammit *et al.* (2021), where through the internal audit function, the development of

GRC implementation becomes effective, and the implementation of excellent and high-standard integrated GRC practices in the organization's daily operations. Organizations want success in all GRC systems, such as meeting business goals, enhancing leadership and organizational culture, preparing and protecting the organization, increasing stakeholder trust, preventing, detecting, reducing problems, motivating, inspiring desired behavior, increasing responsiveness and efficiency, and optimizing value, economic and social. Organizations need the total contribution of the internal audit function for its success. Meanwhile, Petraşcu and Tieanu (2014) say that auditors are not enemies of a company; they are function assistance offered to company leaders to be able to manage their activities better, express an assessment of all decisions taken, ensure company activities usually function and efficiently; and aims to create added value.

Suppose we go deeper where the internal audit will first detect irregularities to take preventive and corrective actions further. As for the detection activities, an internal audit certainly does not work alone; it needs support from the company's internal parties; as we know, there are three defenses within the internal organization. Internal audit is the third defense, in addition to the first and second defense, in implementing the company's operations and risk owners (IIA, 2020). The company will be able to withstand business uncertainty, one of the expectations of integrated GRC success, by maximizing these three lines of defense. Management, as a second line, the owner of the risk that occurs in the organization, should have a high level of performance, value the compliance system, and strengthen procedures and policies as an effective measure to prevent crime (Mohammadi *et al.*, 2020). Therefore, it is essential to determine the effectiveness of the circumstances and characteristics of internal audit. Besides that, regulations that are right on target greatly influence the meaning of the crime itself so as not to shift the crime even more because of the social culture that supports it (Menon, 2023).

Organizations are expected to be able to improve their ways of detecting corruption, thereby giving rise to employee perceptions that they think they are not committing corruption because it will be detected. This research proves that one of these methods is the effective and efficient implementation of GRC, and the presence of an internal audit supports the implementation of this method, in addition to internal audit competence, of course, in detecting corruption. This capability must be up-

graded continuously to meet organizational expectations in fighting this extraordinary crime (corruption). Upgrading the internal audit's ability to detect this is facilitated by understanding the things that cause corruption (stimulus, opportunity, rationalization, ability, ego, collusion) and why employees do not comply with regulations that result in a risk that the company will achieve its goals. Communication skills, curiosity, emotional intelligence, critical thinking skills, and a psychological approach from internal audit must be honed to understand the causes of this corruption. The expected result of this detection is to immediately make improvements to corruption that has occurred and prevent corruption that will occur. All of these successes can be achieved with compliance in all areas, levels and conditions of implementation, including GRC implementation, internal auditors and management. That is by the theory of compliance theory from Etzioni in 1969.

6. Conclusion and Suggestion

Conclusion

The results of interviews with several respondents concluded that there was a lack of control from superiors, low internal audit contributions, a lack of understanding of corruption in company activities, limited awareness of the existence of regulations, organizational culture, and awareness of losses suffered by companies due to corruption is the responsibility of all employees, which of course will have an impact to themselves. This condition occurs due to inconsistent regulations for organizations and the weakness of the law as a deterrent effect for potential corruptors. The hope is that there will be regulations for companies that require the implementation of an effective integrated GRC, must have successful internal audits, and must carry out corruption detection. Organizations must be consistent and comply with these regulations to anticipate possible risks due to non-compliance.

Practical implications

The practice of integrated GRC should be maximized for detecting corruption, but there are limited regulations on the mandatory practice of the GRC. Therefore, companies can see and analyze the root causes of why the detection still needs to be improved, the internal audit function is still just, and the GRC needs to be carried out effectively and efficiently. Management can carry out periodic reviews and strive for regulations (regulatory-driven)

that compel them to carry out these internal functions.

Suggestion

This study uses the concept of integrated GRC from an implementation point of view, has not implemented model alignment and strategic integration and towards standardization of GRC terminology, which shows the depth of context so that it can identify the implementation of GRC in organizations in its success in detecting fraud. The low adjusted R square results give open opportunities to add other factors to internal mechanisms control, such as management control.

Integrated GRC as part of the internal mechanisms control intersects with the internal control elements within the company; future research can review the interrelationships of the company's internal control in integrated GRC practices, is an additional part of the GRC so that the GRCC is or has been included in the GRC unit, as well as how the impact implementation of the detection or prevention of fraudulent activities such as money laundering.

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