

Investigating Employees' Views on Fraud Awareness and Anti-Fraud Strategy

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Abstract— *The purpose of this study is to analyze the implementation of an anti-fraud strategy and to find out the level of fraud awareness of employees in PT XYZ, one of the self-regulatory organization in Indonesia. The focus of this study is the implementation of fraud prevention, detection, and response strategies in PT XYZ, and analyzing employees' perceptions on the motivating factors of fraud and implementation of anti-fraud strategy in the company as part of fraud awareness. Findings show that PT XYZ has been implementing the anti-fraud strategy effectively because of the implementation of organizational value and culture in every aspect, as well as the implementation of internal control and good corporate governance practices. In addition, the implementation of anti-fraud strategy in PT XYZ is executed as an effort to implement good corporate governance. These findings suggested that the company has been operating as predicted by the stewardship theory for fraud awareness. However, the method of fraud training in PT XYZ is more focused on the implementation of good corporate governance instead of on explicitly delivering the definition of fraud and ways to control it. Moreover, a method of socialization of organizational value, code of conduct, corporate governance, and regulations have been shifted from conventional socialization methods to digital access through Human Capital Information System by the employees themselves.*

Keywords—*fraud, prevention, detection, response, fraud awareness*

I. INTRODUCTION

Various cases of fraud have occurred in Indonesia within various types of organizations, including public sector, private sector, and state-owned enterprises. In the private sector, some of the notable fraud cases were financial report misstatements involving Kimia Farma in 2001 and tax evasion involving Asian Agri in 2006. In the public sector, some of the notable fraud cases were both corruption in the procurement process, such as the procurement of holy books in 2012 by the Ministry of Religion Affairs and the procurement of health equipment involving the former governor of Banten in 2014. In the state-owned enterprises, one of the notable fraud cases was the financial report misstatement involving Adhi Karya in 2004. These cases show that fraud can happen in any organization at any time.

The existence of fraud will result in negative impacts to that organization. Financial loss is the biggest impact because of the unnecessary expenses involved. In addition, fraud will

worsen the organization's reputation in the public eye and its existence is a sign of bad corporate governance practice.

Complete eradication of fraud is not easy, but fraud can be overcome by the procedure of fraud control. According to ACFE [1], fraud awareness can be achieved by performing a fraud risk assessment, fraud training, and fraud communication, fraud control procedures. The anti-fraud strategy is also necessary to control fraud by deterring, detecting, and responding to fraud.

This study explores the level of fraud awareness in employees and the analysis of an anti-fraud strategy in a self-regulating organization (SRO). SRO is an institution that is given the power to control its members through regulations it has implemented (bapmi.org). One of its prominent functions is assisting the government to create several regulations and filling the gap from within some government policies. PT XYZ is one of the notable SRO's in Indonesia and its regulatory function displays a good example for other organizations, especially in the aspect of the implementation of good corporate governance and fraud control.

II. UNDERLYING THEORY AND LITERATURE REVIEW

The science of management has several different types of theories. According to Davis et. al. [2] and Albrecht et. al. [3], the differentiator in each theory can be seen from how the individual plays roles within the organization, individual motivation in performing an action, comparison between individuals, individual commitment to organization, risk, objectives, and organizational culture.

In the study of Albrecht et. al. [3], practice in an organization can fully follow a theory or combine it by applying a system for its organizational structure and other systems for its incentive process, as well as the tendency of principal attitudes within the organization. To find out the tendency for fraud in an organizational environment, Albrecht et al. al. [3] created a matrix that links between organizational structure and incentive system that incorporates the principal attitudes within the organization.

A. Agency Theory

The agency theory was introduced by Jensen and Meckling in 1976, and explains the relationship between principals, these can be shareholders and agents known as the management [3, 4]. In this theory, the principals will provide the decision-making responsibility to agents [4] so that the

latter will become the driving force for fulfilling the principals' objectives. However, as stated in the concept of the economic model, each individual will perform an action driven by personal interests and defenses; hence, in organizational management activities, each principal and agent has its own goals and interests [3]. Therefore, the individuals involved will tend to do the things that would benefit themselves.

The problems and solutions contained in agency theory comprise the following [3].

1. Principals and agents tend to have their own goals and interests. Organizational management, therefore, needs to be given an incentive if it succeeds in meeting the objectives set by the principal.

2. Principal oversight, in this case, should be avoided, so and the board of directors should oversee agency management to avoid any acts of opportunity.

In the findings of Albrecht et. al. [3], if an organization entirely enforces concepts in the agency theory, the likelihood of fraud tends to be high because of the high pressure and rationalization factors. Pressure can be sourced from the required desire to achieve the goals and the influence of the surrounding environment. This is in accordance with the portrayal of individuals who tend to do things to maximize their personal gains and can maintain a rationale behind their actions. However, the opportunity for management to do so tends to be low because the principal function in this theory is that the management controller is the limit for management to commit fraud.

B. Stewardship Theory

If the agency theory illustrates that an individual's decision is driven by personal interests and goals, the stewardship theory illustrates that the agents will meet the needs of the principals above their personal interests because they are aware of their function as a servant of the organization [3]. Therefore, the agents are likely to fulfill all responsibilities and duties well because the incentives they receive come from personal satisfaction after successfully completing the task. According to Davis et. al. [2] in Albrecht et. al. [3], the stewardship theory promotes high trust such that the board of directors plays a role in the process of management development and encourages it to perform its tasks well.

In the findings of Albrecht et. al. [3], if an organization entirely upholds the concept of stewardship theory, the likelihood of fraud tends to be low because of the low pressure and rationalization for fraud. Organizational functions aim to develop management so that the pressure and rationalization that arise to conduct fraud are not as high as the organization that embraces agency theory. However, the function of the board of directors in the concept of stewardship theory is not as a management controller so the opportunity to conduct fraud in the real organizational environment tends to be high.

III. REASONS FOR FRAUD

Fraud exists because of by several triggers: motives, opportunities, and rationalization, according to Cressey's finding in 1950 which is known as The Fraud Triangle [5]. According to Wolfe and Hermanson [6], the fourth

component that also triggers fraud is a perpetrator's capability to do it. Therefore, their findings are now well known as the fraud diamond, with the fourth element that compliments The Fraud Triangle.

One of the most prominent causes of fraud is a weak internal control system. This was found in surveys conducted by ACFE in 2013 [7] and KPMG in 2014. According to Bonny *et. al.* [8], the existence of fraud is caused by the weak internal control and supervision systems. According to Gupta and Gupta [9], the prominent reasons of corporate fraud are weak regulations and policy regarding fraud control, the unclear regulation regarding segregation of duties, the weak performance of the internal audit and the weak internal control systems. Siregar and Tenoyo [10] also found that the prominent reasons for fraud are weak internal control systems and the low organizational value of ethics. Other factors that cause fraud according to Rezaee [11] are the economic condition, ownership pressure, and the inadequate corporate governance system.

Other causes of fraud are dissatisfaction among employees and inadequate background checking in the selection process of the new employee(s).

IV. FRAUD AWARENESS AND ANTI-FRAUD STRATEGY

Anti-fraud strategy consists of four steps: prevention, detection, and a response that consists of an investigation and the appropriate corrective actions [12].

A. Fraud Awareness

Fraud awareness is part of fraud control that tries to understand the nature and causes of fraud [13]. It is important because it will assist management and employees to minimize fraud by building an awareness that preventing fraud is important [14].

There are various indicators that indicate that fraud is happening within the organization, and they are well known as a *behavioral red flag*. Some of the behavioral red flags are neglected internal control systems and the existence of transactions without adequate evidence [13]. Situational factors and personal factors can be behavioral red flags also. These may be dissatisfaction of the organization, addiction to gambling, alcohol addiction, drug addiction, living beyond their means, etc. [13].

Fraud awareness can be taught by training for the general definition of fraud and its categories, how fraud affects the organization, ways to control and fight fraud and punishment for the perpetrators.

B. Fraud Prevention

Fraud cannot be erased but can be minimized to a certain level through series of actions to control it. According to Clark [15] on Tunley *et. al.* [16], the framework of fraud prevention consists of:

1. Increasing effort, such as background checks on the new employee selection process.
2. Increasing risk through a whistleblowing system.
3. Decreasing rewards by giving punishment and sanctions to the perpetrators.

4. Decreasing provocation by an employee counseling program.
5. Removing excuses by creating clear regulations.
6. Building an ethics program evaluate past events.

The most fundamental step in preventing fraud according to Sabău *et. al.* [7] is the implementation of ethical values and integrity in organization. To ensure that these are well implemented, the organization needs to internalize and socialize organizational values and policies to their employees [7]. Management should be an example for their subordinates so that the subordinates look up to their managers when it comes to the compliance system [7].

The internal control system is also an important step to prevent fraud [10]. It can be conducted by developing and implementing procedures of control, authorization, protection of assets, protection of data, etc. [5].

Other steps that can help the organization to prevent fraud are background checking during the recruitment process, internal and external audit, and a whistleblowing system [10].

C. Fraud Detection

Fraud detection is conducted to identify the existence of fraud in an organization. According to KPMG [12], fraud detection can be conducted by:

1. Communication regarding fraud and misappropriation. The reason for a whistleblowing system is to assist the employee to report fraud.
2. Auditing and supervisory actions.

Sometimes fraud is detected by complaints by other employees or third parties and can be found accidentally [17].

D. Fraud Response

Fraud has proven to be happening in many organizations and these organizations will conduct a recovery to recover loss because of fraud. According to KPMG (2006) [12], steps of fraud response are:

1. The investigation, which is an action to gather information regarding fraud by the time it has happened. The difference between auditing and investigation is the occurrence of fraud. Auditing can be conducted while whether fraud is happening or not. However, the investigation is only conducted only when fraud is happening.

According to Richards *et. al.* [18], it consists of the steps below.

- a. Loss estimation,
 - b. Gathering information—gathering needed documents and interview,
 - c. Forensic testing on computer system,
 - d. Data analysis.
2. Corrective action is a series of actions to decrease the negative impact because of fraud and can be conducted by:

- a. Advanced investigation.
- b. Prosecution of the perpetrators.
- c. Insurance.
- d. Evaluation of the current internal control system.

V. RESEARCH METHOD

The research was conducted by conducting interviews with a representative of PT XYZ to determine if the anti-fraud strategy conducted within the institution and a questionnaire survey of 75 representatives of PT XYZ employees. Only 75 were sampled because this was the limit decided by PT XYZ.

The descriptive survey was conducted to find employees perceptions regarding the reasons for fraud and efforts to control fraud in PT XYZ as parts of the fraud awareness topic. The result of research findings were also tested through a two-way analysis of variance method to find the variance of response from each group involved in the research. The detail of samples are stated in the table below.

The sampling method conducted in this research is random sampling by considering the respondents willingness to participate in the research.

In order to find the variance of response from each group involved in the research, the two-way analysis of variance (ANOVA) method is conducted, as samples in the research are divided into several subcategories in each category.

VI. HYPOTHESIS

TABLE 1. SAMPLE DISTRIBUTION

<i>Gender</i>	<i>Frequency</i>
Male	48
Female	27
	<u>75</u>
<i>Age</i>	<i>Frequency</i>
25–30	46
31–40	19
41–50	7
>50	3
	<u>75</u>
<i>Years of tenure</i>	<i>Frequency</i>
≤5	42
6–10	22
>10	11
	<u>75</u>
<i>Degree level</i>	<i>Frequency</i>
Associate (D-3)	1
Bachelor (S-1)	40
Master (S-2)	34
Doctoral (S-3)	0
	<u>75</u>
<i>Positional level</i>	<i>Frequency</i>
Division Manager	7
Unit Manager	16
Staff	50
Division Secretary	2
	<u>75</u>

Significance level (α) in this research is 0.05 as the benchmark to find the variance of responses regarding the reasons for fraud and efforts to control fraud in PT XYZ according to the difference of subcategories. The hypothesis is stated below.

H_0 , $\alpha > 0.05$: the variance of perception between groups of employee does not exist.

H_1 , $\alpha \leq 0.05$: the variance of perception between groups of employees exists.

VII. FINDINGS

TABLE 2. EMPLOYEES RESPONSE REGARDING REASONS OF FRAUD ACCORDING TO GENDER

Response	Gender	Mean	Sig
Employees dissatisfaction on PT XYZ	Male	2.016	0.287
	Female	1.710	
Internal control system is inadequate and ignored by management and employees	Male	2.241	0.935
	Female	2.348	
Culture in PT XYZ is not well implemented by employees	Male	2.116	0.110
	Female	1.667	
There are several SOPs which are not well implemented and causing the chance of collusion among employees	Male	2.258	0.386
	Female	2.039	
Control of procurement process is still inadequate and causing the chance of collusion between employee and any third parties (vendors)	Male	2.355	0.307
	Female	1.986	
Inadequate process of new employee selection	Male	2.086	0.122
	Female	1.734	
Inadequate process of new vendor selection	Male	2.150	0.564
	Female	2.029	
Weakness in physical security system	Male	2.062	0.461
	Female	1.860	
Weakness in TI security system	Male	2.132	0.289
	Female	1.816	
Weakness in security system for corporate information/ data	Male	2.105	0.121
	Female	1.609	
Management's knowledge about fraud is still inadequate	Male	2.162	0.190
	Female	1.816	
Supervision by management is still inadequate	Male	2.178	0.526
	Female	2.053	
Reasons for fraud in PT XYZ	Male	25.860	0.206
	Female	7	

There were 75 responses obtained from 75 questionnaires and the result is shown below.

According to the table above, all of the significance levels are all >0.05 . This means that there is no variance of

perception among employees regarding reasons for fraud in PT XYZ.

According to the table above, all the significance levels are all >0.05 . This means that there is no variance of perceptions among employees regarding efforts to control fraud in PT XYZ. However, several items are moderately significant. They are the socialization program regarding the code of conduct and a whistleblowing system in PT XYZ. Moderately significant items show that there is a level of variance, but not as significant as items that reach the level of significance of 0.05 or below.

TABLE 3. EMPLOYEES RESPONSES REGARDING EFFORTS TO CONTROL FRAUD IN PT XYZ ACCORDING TO GENDER

Response	Gender	Mean	Sig
PT XYZ has policies regarding limitation of authority	Male	3.276	0.666
	Female	3.155	
PT XYZ conducts socialization program regarding limitation of authority policies	Male	3.163	0.847
	Female	3.014	
PT XYZ has a code of conduct to minimalize fraud	Male	3.344	0.250
	Female	3.184	
PT XYZ conducts socialization program regarding code of conduct	Male	3.259	0.087
	Female	3.014	
PT XYZ has policies regarding gratification from the third party	Male	3.352	0.194
	Female	2.990	
PT XYZ has whistleblowing system that enables employees to report any kind of fraud and wrongdoing act anonymously	Male	3.267	0.096
	Female	3.604	
PT XYZ has clear sanctions for fraud perpetrators	Male	3.457	0.393
	Female	3.604	
Efforts to control fraud in PT XYZ	Male	23.117	0.779
	Female	22.565	

TABLE 4. EMPLOYEES RESPONSE REGARDING REASONS OF FRAUD ACCORDING TO AGE GROUP

Response	Age	Mean	Sig
Employees dissatisfaction on PT XYZ	25-30	2.152	0.254
	31-40	1.444	
	41-50	2.000	
	>50	2.000	
Internal control system is inadequate and ignored by management and employees	25-30	2.239	0.143
	31-40	1.889	
	41-50	2.875	
	>50	2.000	
Culture in PT XYZ is not well implemented by employees	25-30	2.065	0.283
	31-40	1.417	
	41-50	2.250	
	>50	2.000	
There are several SOPs that are not well implemented and causing the chance of collusion among employees	25-30	1.935	0.169
	31-40	1.972	
	41-50	2.667	
	>50	2.000	
Control on procurement process is still inadequate and causing the chance of collusion between employee and third party (vendor)	25-30	2.022	0.575
	31-40	2.000	
	41-50	2.500	
	>50	2.333	
Inadequate process of new employee selection	25-30	1.913	0.051
	31-40	1.444	
	41-50	2.417	
	>50	2.000	
Inadequate process of new vendor selection	25-30	2.065	.887
	31-40	2.028	
	41-50	2.250	
	>50	2.000	
Weakness in physical security system	25-30	1.913	0.943
	31-40	1.917	
	41-50	2.083	
	>50	2.000	
Weakness in TI security system	25-30	2.043	0.949
	31-40	1.861	
	41-50	2.083	
	>50	2.000	
Weakness in security system for corporate information/ data	25-30	1.957	0.420
	31-40	1.417	
	41-50	2.250	
	>50	2.000	
Management's knowledge about fraud is still inadequate	25-30	1.978	0.020
	31-40	1.361	
	41-50	2.708	
	>50	2.000	
Supervision by management is still inadequate	25-30	1.978	0.218
	31-40	1.917	
	41-50	2.542	
	>50	2.000	
Reasons for fraud in PT XYZ	25-30	24.261	.265
	31-40	20.667	
	41-50	28.625	
	>50	24.333	

According to the result above, overall there is no variance regarding reasons of fraud in PT XYZ. However, there is a variance of perception among a group of the sample according to age group for "Management's knowledge about fraud is still inadequate." Besides that, for item "Inadequate process on new employee selection" is moderately significant, which means that there is an insignificant variance of perception among employees.

According to the results above, there is no variance among employees regarding efforts to control fraud in PT XYZ because of all items have level of significance >0.05

VIII. ANALYSIS

A. Anti-Fraud Strategy in PT XYZ

According to an interview with the representative of Risk Management Division and Human Capital Operation of PT XYZ, anti-fraud strategy in PT XYZ is according to the effort to conduct good corporate governance practices through transparency, accountability, responsibility, independence, and fairness. This anti-fraud strategy is implicitly stated in the Code of Corporate Governance, ISO 9001, ISO 27001, Risk Management Policy, and Internal Audit Policy.

According to PT XYZ's Code of Risk Management, for creating a conducive working environment, PT XYZ sets zero tolerance levels for every activity that is considered as fraud, therefore, deterrence steps are necessary to minimize the chance of fraudulent activities.

Fraud prevention in PT XYZ consists of the implementation of organizational values, internal control systems, the practice of good corporate governance, background checking of new employee selections and socialization and training regarding code of conduct and Code of Ethics for employees. PT XYZ also has a whistleblowing system that enables witnesses of fraud to report fraudulent activities within PT XYZ anonymously.

TABLE 5. EMPLOYEES RESPONSES REGARDING WAYS TO CONTROL FRAUD IN PT XYZ

Response	Age	Mean	Sig
PT XYZ has policies regarding limitation of authority	25-30	3.130	0.878
	31-40	3.194	
	41-50	3.292	
	>50	3.333	
PT XYZ conducts socialization program regarding limitation of authority policies	25-30	3.000	0.830
	31-40	3.056	
	41-50	3.125	
	>50	3.333	
PT XYZ has a code of conduct to minimalize fraud	25-30	3.283	0.997
	31-40	3.222	
	41-50	3.292	
	>50	3.333	
PT XYZ conducts socialization program regarding code of conduct	25-30	3.109	0.985
	31-40	3.139	
	41-50	3.125	
	>50	3.333	
PT XYZ has policies regarding gratification from the third party	25-30	3.370	0.321
	31-40	3.194	
	41-50	2.958	
	>50	3.333	
PT XYZ has whistleblowing system that enables employees to report any kind of fraud and wrongdoing act anonymously	25-30	3.370	0.850
	31-40	3.611	
	41-50	3.292	
	>50	3.333	
PT XYZ has clear sanctions for fraud perpetrators	25-30	3.348	0.600
	31-40	3.722	
	41-50	3.417	
	>50	3.667	
Efforts to control fraud in PT XYZ	25-30	22.609	0.964
	31-40	23.139	
	41-50	22.500	
	>50	23.667	

Fraud detection in PT XYZ consists of auditing by the external and internal auditors and penetration testing of the IT system.

Fraud investigation at PT XYZ consists of collecting and analysis of evidence. If the alleged person is proven to be involved in fraudulent activities, he/she will be punished according to regulations within PT XYZ.

Finally, the steps of the anti-fraud strategy are examined. There are corrective actions that include legal action, the calculation of loss estimation, recovery, and evaluation of current policies that have to be remedied in case of future fraud.

In order to conduct a successful anti-fraud program PT XYZ has taken several actions that consist of:

1. Socialization of organizational value.
2. Socialization regarding policies of good corporate governance, ISO 9001, and ISO 27001 as part of the fraud training.
3. Monitoring regarding the implementation of good corporate governance, ISO 9001, and ISO 27001.
4. Auditing activities to assess the implementation of good corporate governance, ISO 9001, and ISO 27001.

B. Analysis of Two-Way ANOVA

According to the preceding two-way ANOVA test, most of the samples showed no variance of perceptions regarding reasons of fraud and efforts to control fraud in PT XYZ. Some of the reasons behind it are:

1. PT XYZ has set several standards for its employees that will be selected through the selection process, including background checking during the recruitment process.
2. PT XYZ conducts internalization of organizational value, code of ethics, policies of good corporate governance, organizational regulation, and management system ISO 9001 and ISO 27001 for its new employees. The socialization of these policies is also conducted for the current employees through the Human Capital Information System.
3. PT XYZ has internal control over its operational activities.
4. PT XYZ has clear sanctions in place for fraud perpetrators.

However, there are several items that have shown moderate variance among employee's perceptions. The first is regarding socialization of the code of conduct according to gender. The reason behind this is that employees tend to believe that the socialization program has to be taught by a trainer, while their organization has provided independent access regarding organizational value, code of ethics policies of good corporate governance, organizational regulation, and management system through the Human Capital Information System. The second is regarding the whistleblowing system according to gender. Even though PT XYZ has its own

whistleblowing system, apparently, according to the interview, employees tend to choose informal communication regarding misconduct over the whistleblowing system. The whistleblowing system is also caused by several factors: personal factors, situational factors, and cultural factors [19]. Indonesia is an Eastern country, and Eastern culture does not really stand up for people who dare to speak up.

The other factor that causes a variance of perception regarding management's level of knowledge about fraud is according to age group and that knowledge is such a perceptible matter that it can be known personally. Because the highest number of samples belong to the 25–30-year-old employees the organization has implemented good fraud control activities. They believe that their Head of Divisions or Head of Units already has enough knowledge regarding fraud. According to Sabäu *et. al.* [7], management has an important role to act in an exemplary manner for employees when it comes to implementation of organizational value, code of ethics, policies of good corporate governance and organizational regulation. Having presented all the findings, it can be said that the fraud awareness aspect in PT XYZ can be more closely explained by the stewardship theory as the system on prevention and detection of fraud has been created, maintained and now operates effectively to minimize the fraud from occurring.

IX. CONCLUSION

PT XYZ has an adequate system to control fraud because of the implementation of organizational values, code of ethics policies of good corporate governance, organizational regulations and management system, ISO 9001, and ISO 27001. Internal control systems in PT XYZ have been implemented also. These things affect employee's perception regarding fraud by taking a positive response to fraud control.

Development in technology apparently affects the method of socialization that shifts from conventional methods to digital-based socialization. However, employees tend to acknowledge the terms of the socialization program by the use of paper handouts and being trained by a trainer. The digital-based socialization may cause "shock" among some employees. Whistleblowing systems at PT XYZ are still triggered by an Eastern culture which causes employees to prefer informal communication over the whistleblowing system.

X. RECOMMENDATIONS

Practical recommendations for PT XYZ are:

1. PT XYZ may keep on doing conventional socialization regarding organizational values, code of ethics, policies of good corporate governance, organizational regulation, and management system ISO 9001 and ISO 27001. During the socialization, the representative of PT XYZ may introduce the use of the Human Capital Information System to access the socialization handout.
2. Fraud training in PT XYZ has been conducted by emphasizing good Corporate Governance practice and the implementation of both ISO

9001 and ISO 27001. New fraud training can be conducted by explicitly showing the definition of fraud, the reasons behind it, impacts of fraud and ways to control it.

XI. RESEARCH LIMITATIONS AND OPPORTUNITIES FOR FURTHER RESEARCH

This research still has some limitations in its sampling method, number of samples and sample distribution. Random sampling was chosen by considering the employees willingness to participate in the research and this method caused certain groups to have a greater number of samples compared to the some others. 75 persons were chosen participate in the research because of restriction of PT XYZ.

New research can be carried out by having >75 persons to participate. Samples and sample distribution can be well distributed for avoiding certain groups who have a high number of the sample others. Similar research was conducted in private sector organizations in Indonesia. New research may be conducted in public sector organizations, state-owned enterprises, nonprofit organizations and small-medium enterprises.

To further test the stewardship theory or agency theory in the fraud context, it is advised that future research can investigate the fraud factors depicted in the fraud diamond framework more deeply. It would be more advantageous if future researchers can access the number of frauds and type of frauds actually occurring in a company, something that this study cannot accomplish because of a limited access to participants from the company being studied.

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