

## AN EFFECTIVE ANTI-FRAUD PROGRAM: HOW DO WE KNOW? (THE CHALLENGE OF FINDING AN ANTI-FRAUD PROGRAM IN THE INDONESIAN PUBLIC SECTORS)

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### ABSTRACT

*As one of the most serious frauds in many public sector institutions, corruption has been viewed as the 'public enemy' for the last two decades in Indonesia. Many anti-fraud programs have been attempted to counter these corrupt activities. However, to what extent the programs are successful to bring the Indonesian public sectors to become 'a clean institution', has not been known yet. Therefore, by applying the OECD Integrity Management System as a framework and semi-structured interviews, this study provides an empirical study at a strategic public institution. This study also attempts to analyse some factors that have become challenges in many anti-fraud programs for public sector in many developing countries like Indonesia.*

*Keywords: Anti-fraud Program, Corruption, Public Sector Institutions, Indonesia*

### 1. INTRODUCTION

Currently, public sector institutions across the globe including in Indonesia face the serious threat of fraud. For instance, bribes are demanded when accessing basic services, such as health and education, and also in tendering processes (Hamdani et al., 2017; Mohamed et al., 2017; Transparency International, 2017, 2019). These problems cause a poor image for the country and a bad reputation for the government, and more importantly, it hinders economic growth and the achievement of prosperity (Dal Bó & Rossi, 2007; Dang, 2016; Graycar, 2020; Lambsdorff, 2003; Reinikka & Svensson, 2005; Rose-Ackerman & Palifka, 2016; Rothstein & Varraich, 2017).

In Indonesia, the fight against corruption has been a common hot topic and a main focus the reform agenda, at least in the last two decades. Especially, since the Soeharto regime fell in 1998 (Widjoko, 2017). Not surprisingly, many anti-fraud programs have been initiated to eradicate corruption

and build anti-fraud as a primary effort to protect many public sector institutions from these common illegal activities (Van Eeden Jones & Lasthuizen, 2018). It is important to identify whether these anti-fraud programs bring a positive impact or not, on those institutions. To some extent, the Corruption Perceptions Index (CPI) has shown improvement over the last couple of years with Indonesia rising in the global rankings, but it has not improved dramatically (Transparency International, 2020a).

At a glance, the CPI indicates anti-fraud and integrity programs in Indonesia seem not to work effectively yet (Pertiwi, 2016; Van Eeden Jones & Lasthuizen, 2018). In fact, many public sector officials and Member of Parliaments (MPs) are still involved in some cases of corruption, which are handled by *Komisi Pemberantasan Korupsi* (KPK, Corruption Eradication Commission) (KPK, 2019). They have been

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named as suspects in corruption cases handled by KPK, as described their annual reports in following Table 1.

As data shows both politicians and public sector officials have contributed to many corrupt incidents over the last ten years. Therefore, politicians seem not have a strong commitment to eradicate corruption due to a large number of the corruption cases that have happened so far (Aspasia, 2015; Muhtadi, 2019; Ufen, 2017).

In this case, this seems that public sector institutions, especially government agencies both in central and local governments and State-Owned Enterprises (SOEs), still struggle to overcome the issues of corruption. On the other hand, the government looks like it always attempts to revise previous programs related to corruption eradication. For instance, two years ago, the government just issued Presidential Regulation Number 54 Year 2018 concerning on National Strategy Prevention Corruption, as the amendment of Presidential Regulation Number 55 Year 2012, for the same issues of corruption. The reason for launching the new regulation is because the previous edition is perceived at not up to date for responding to the current

problem of corruption. Despite this, there is no clear and complete explanation for this specific argument (Pertwi, 2019).

Overall, the condition in Indonesia is consistent with what some scholars' claim, that there are still limited studies which are available in order to describe actual practices of anti-fraud programs, especially in developing countries (Huberts et al., 2014). More specifically, to what extent anti-fraud programs have given a major impact on minimising the problems of corruption in Indonesia. Therefore, this study aims to unpack and identify what the main challenges are for anti-fraud programs in Indonesian public sector institutions.

## 2. LITERATURE REVIEW AND HYPOTHESIS

### What is Fraud?

According to the Association of Certified Fraud Examiners (ACFE) fraud is categorised as "any crime for gain that uses deception as its principal modus operandus" (Association of Certified Fraud Examiners, 2020b). This statement clearly emphasises 'deception' is a main component of fraud. Moreover, ACFE also

Table 1. MPs and Public Officials Tried as Defendant in KPK Cases

<i>Office of defendants / Year</i>	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Member of parliament (regional and national)	27	5	16	8	4	19	23	20	103	10	235
Head of agency/ minister	2		1	4	9	3	2		1	2	24
Governor	1			2	2	3	1	1	2	1	13
Mayor/ district head and deputies	31	5	17	14	15	4	9	13	30	18	156
Civil Servant Echelon I-III	12	15	8	7	2	7	10	43	24	26	154
Judge	1	2	2	4	2		3	1		3	18
Corporate sector (chief executive officer)	8	10	16	24	15	18	28	28	56	59	262
Others	9	3	3	7	8	3	21	13	31	33	131
Total	91	40	63	70	57	57	97	119	247	152	993

Source: (KPK, 2019)

refers to Black's Law Dictionary that defines fraud as "a knowing misrepresentation of the truth or concealment of a material fact to induce another to act to his or her detriment" (Association of Certified Fraud Examiners, 2020a; Gamer, 2004). This definition infers in practice that the fraudsters conduct their action intentionally to get personal benefit as their ultimate goal.

Furthermore, there are at least three reasons why fraudsters commit fraud. Donald Cressey, a well-known criminologist, argues and summarises the reasons thorough his fraud triangle theory, namely: financial pressure, rationalization, and opportunity, as presented in this following figure 1.

Figure 1. **Fraud Triangle**



Source: (Association of Certified Fraud Examiners, 2020b)

Generally speaking, this triangle explains initially financial pressure is 'a trigger' for some people to conduct fraudulence activities, especially corruption. They are eager to earn money because of certain reasons, such as to become rich or simply for survival.

The next step is the fraudster attempts to find any rationalization to support their action for committing fraud, for instance: it is normal to get some money from vendors because the practice is common and everybody does the same thing. The last step is finding the right moment or the best opportunity for them to realize their intention. Overall, this triangle explains the factors that cause people to commit fraud (Association of Certified Fraud Examiners, 2020b). In theory, ACFE also classifies fraud into three major categories, namely: corruption, asset misappropriation, and

financial statement. These classifications are commonly presented as "the fraud tree" (Association of Certified Fraud Examiners, 2020a). However, in this study the author more focuses on fraud related to corruption.

### **Integrity Violation and Corruption**

Integrity violations and corruption are often perceived as being similar (Heywood et al., 2017). Huberts et al. (2006, p. 267) describe three views of corruption, ranging from a specific context to the broadest interpretation. Firstly, from a narrow perspective, corruption equals bribery, which is in line with the legal definition in most countries. Secondly, corruption can be seen as inappropriate behaviour of a public official within their regular duties for personal advantages (personal, family, private clique), pecuniary or status gain. This view is similar to Transparency International's (TI) definition of corruption which is the abuse of office for private gain (Pope, 2000). Thirdly, in the broadest context, "all types of violations of moral norms and values" are seen as (forms of) corruption (Huberts et al. (2006). The author argues that the latter view is not helpful for our understanding of the phenomenon and its causes, and in later work Lasthuizen et al. (2011) propose a typology of ten types of integrity violations, including corruption as bribery and corruption as a form of favouritism: nepotism, patronage, cronyism. The author also adopts this classification of corruption for this study.

In addition, Houque et al. (2019, p. 124) describes the scheme of corruption that commonly involves two entities. One entity is being an initiator and the other is a co-operator. The first scheme could be the initiator receives an economic benefit because the co-operator provides favour to the initiator. This favour could be related to "the power or control they hold over a third party's resources" (Houque et al., 2019, p. 124). In the next scheme, the initiator also gives a reward to the co-operator, for the proportion of benefit that they receive.

In this case, we can infer there is a mutual symbiosis among them for engaging this current transaction. Therefore, in its nature corruption involves more than one entity. It is different from in that fraud that can be direct theft without the involvement of a co-operating entity (Houque et al., 2019, p. 124).

### **The Importance of Integrity Management and OECD Integrity Management Framework as the Approach**

The importance of managing integrity in an organisation has been discussed since the early 1990s, especially after many integrity violation scandals came to light in both private and public sectors worldwide between the 1980s and 1990s (Paine, 1994). Scholars then put forward various arguments to identify the importance of integrity management in an organisation. For instance, Behnke and Maesschalck (2006); Heywood et al. (2017) emphasise that integrity management is a specific formal framework which can guide ethical behaviour of public sector officials in order to comply with legal norms.

Similarly, Scott and Gong (2015, p. 386) argue that integrity management relates to “rationale, processes, instruments, and effects of maintaining high integrity standards in governmental organisations”. Moreover, the OECD (2009) also identifies integrity management as activities to strengthen ethics and integrity in order to protect an organisation from corruption and other integrity violations. In practice, OECD offers a concept that is known as OECD Integrity Management Framework (IMF). This study applies this framework as used in the benchmark.

As indicated earlier, many public sector institutions in Indonesia have launched anti-fraud programs to protect their institutions from any potential fraud. However, Huberts et al. (2014) indicate these kinds of programs still tend to be partial and not a comprehensive approach. As a result, the outcomes of the programmes have not been optimal yet.

Therefore, it is a must that any organisation could implement a holistic approach or model for their anti-fraud programs. Considering a holistic approach, this study attempts to find a solid framework that could be an analysis based on evaluating anti-fraud programs at Indonesian public sector institutions.

In this case, the OECD (2009) introduced the concept of an IMF containing instruments, processes, and structures which are perceived as the influential framework for their member countries (OECD, 2009). In fact, the majority of OECD countries are indicated as less corrupt countries in the world (Transparency International, 2020a). In addition, many scholars and practitioners perceive that OECD IMS is an acceptable concept for building integrity in public sectors (Macaulay, 2018; Tremblay et al., 2017).

However, Tremblay et al. (2017, p. 223) argue that “the actual validity” of this framework “has never been challenged”. Therefore, this study perceives the OECD IMF as a suitable model that can be a basis to evaluate the soundness of an anti-fraud program. In practice, OECD (2009) reminds that the implementation of integrity management or programs also should consider the local context of a country, for instance: politics, social, culture, and even economics. Moreover, the framework shown in the following table:

### **Ethical Leadership**

Another important concept in this study is known as Ethical Leadership. Treviño et al. (2000), introduce the concept of a reputation for ethical leadership. They identify two pillars that constitute ethical leadership: the moral person and the moral manager, as shown in Table 3.

The moral person deals with the leader as an individual. The first pillar emphasises that an ethical person should have “certain traits, engaging in certain kinds of behaviours, and making decisions based upon ethical principles” (Treviño



Table 2. OECD Integrity Management System: Three Pillars and Two Layers

	Instruments	Processes	Structures
<b>Core measures</b>	Codes, rules, guidance, integrity training and advice, disclosure of conflict of interest, and other instruments	Overall continuous integrity development process, constant development processes for individual instruments, one-off projects to introduce or change instruments, other relevant process.	Integrity actor, management
<b>Complementary measures</b>	Integrity as criterion in personnel selection and promotion, integrity aspects of procurement procedures and contract management, including integrity in the quality assessment tool, and other instruments for complementing the core layer.	Processes in personnel management, procurement and contract management, financial management, information management, and other systems	Personnel management, contract management, financial management, and information system management.

Source: OECD (2009, p. 22)

et al., 2000, p. 130). Some traits relate to ethical leadership, for instance, honesty, trustworthiness, and integrity.

In addition, leaders should have high ethical standards and care for other people (Brown & Treviño, 2006). Lastly, leaders always have to make decisions. In doing so, their decisions should be based on values, rules, objectivity, and concern for the public interest.

Table 3. The Two Pillars of Ethical Leadership

Moral Person	Moral Manager
Traits	Role Modelling
Integrity	Through Visible
Honesty	Action
Trustworthiness	
Behaviours	
Do the Right Thing	Reward and
Concern for People	Discipline
Being Open	
Personal Morality	
Decision-Making	
Hold to Value	Communicating
Objective/Fair	about Ethics and
Concern for society	Values
Follow Ethical Decision	
Rules	

Source: Treviño et al. (2000, p. 131)

Treviño et al. (2000, p. 134) identify components of the moral manager which can increase ethics and value within an organisation: role modelling through action, rewards and discipline, and communicating about ethics and values. In addition, Brown et al. (2005, p. 119) highlight employees' understanding of "what behaviour is expected, rewarded, and punished via role modelling". In other words, employees hope leaders will lead by example so they can simply copy what the leader does.

### The Challenge of Culture

Finally, this study highlights the culture as the last relevant concept that needs to be considered as the one of the most challenging factors for implementing anti-fraud programmes. A number of earlier studies also identify that there is cultural bias in approaching the problems of corruption in developing countries including Indonesia (Chadda, 2004; Dao, 2017; Khalid, 2016; Pertiwi, 2016; Sissener, 2001). These studies found that the perception of corrupt activities because of 'the abuse of power for private gain' as mostly international communities'

perceive corruption, cannot be taken as a single understanding and conclusive finding (Dao, 2017; Khalid, 2016; Pertiwi, 2016). Especially for communal societies, that are the majority in many developing countries, their communal traditions are the dominant practiced in daily life. These traditions are relatively different from the practices in developed countries that dominantly have western culture.

Generally, Indonesian culture is more communal than Western culture (Hofstede Insights, 2019). That is, one should treat others as if they are members of his/her family. The cultural belief and behaviour are generally concerned with 'family principles' (*kekeluargaan*). In practice, in contrast with western societies at large, collegiate relationships in Indonesia's public sector bureaucracies are sometimes made into a 'family-type' relationship between employees, which essentially means close and harmonious relationships (Hermawan, 2015, p. 128). Therefore, many public leaders also tend to apply the principles of *kekeluargaan* to their organisation in an effort to establish harmonious relationships with superiors and subordinates. These practices could also be perceived as 'corruption' from the western perspective but not for eastern cultures (Chadda, 2004). For instance, if an official gives 'a certain priority' to some people when they access public services. This official treats them like his/her own family because they are from the same district. Therefore, they do not need to follow formal procedures.

Furthermore, in the context of Indonesia, Pertiwi (2016, p. 65) also found people tend to view corruption because of three factors, namely "(1) to get things done; (2) to secure sources of livelihood; and (3) to maintain social relation/obligations". To some extent, these perceptions are different from TI's definition of corruption that is the abuse of power as the main cause of corruption (Transparency International, 2020b). These previous examples indicate the existence of cultural bias in the problems

of corruption, if only using a western lens. Therefore, this study sees that there is a significant influence of Indonesian cultural aspects on the implementation of anti-fraud programmes in many public sector institutions.

### 3. METHODS

The setting of this study was conducted at a well-known public sector institution in Indonesia. Especially, this institution is concerned to protect their organisation from any fraud because of the importance of maintaining their public image and trust. In practice, this study followed a qualitative approach through two general stages. Firstly, documents analysis related to all anti-fraud programs. Secondly, the author took semi-structured interviews, which covered 42 participants that were 37 person internal organisations and five person external organisations. These participants represent leaders, policy makers, key persons and operational employees who are dealing with the public were mostly fraud tend to happen.

Especially external interviewees, they are five experts that are from NGOs, civil society organisations and one academic leader to reflect on Indonesian public sector integrity and identify that the main challenges in combating corruption and build organisational integrity. Their voices are important to give stakeholders' perspective in order to maintain that the result of the interview is balanced. All interviews then were coded and analysed by assisting NVivo software.

In terms of analysing data, I used a thematic analysis approach that is "a method for systematically identifying, organizing, and offering insight into patterns of meaning (themes) across a data set". Technically, this approach focuses on meaning, which allows "a researcher to see and make sense of collective or share meaning and experience" (Braun & Clarke, 2012, p. 57). By doing this, I analysed and explored the participants' perspectives on responding to the particular topic.

#### 4. RESULT AND DISCUSSION

Based on the empirical study through interviews the participants, the author found at least two dominant external contexts and one internal aspect that have a serious impact on the successful and serious challenges of current anti-fraud programs. The external contexts are culture and politics, and on the other hand for the internal aspect is related to the ethical leadership. The first external context that becomes a challenge is the cultural aspect. Especially, the challenge is related to how to harmonise the organisational rule, such as a code of ethics with the cultural aspect of the society.

Hospitality and respect for others is a common tradition for most people in Indonesia. This practice includes to be good hosts, if guests visit our homes, people tend to serve their guests in a welcoming manner, such as providing food and drink. This tradition also includes when dealing with public officials. People normally treat them with this common hospitality. However, this tradition becomes a potential conflict with the officials, especially if their code of ethics state clearly to prohibit for an official to receive 'anything' including food and drink. This experience as declared by one of the management:

*"[We also] have no problem with eastern culture, except for trivial matters like eating or drinking. This thing is still happening, and it is still tolerated, even though the Code of Ethics does not state this condition in detail."*

This management comment represents other participants' idea that sometimes they should be aware with the local culture. Even though, to some extent the organisational rule, such as a code of ethics prohibits them. In fact, they feel it is not simple when they want to apply the principle in real life.

To some extent, this problem usually stems from the dominance of the western view of ethics, integrity and corruption that lead to a single myopic understanding of these concepts (De Graaf et al., 2010; Heres et al., 2017; Huberts & Lasthuizen,

2020; Mungiu-Pippidi, 2006; Sissener, 2001). For example, Chadda (2004, p. 122) as quoted in (Huberts & Lasthuizen, 2020, p. 48) criticises this western dominant view of corruption that mostly derive from Weber's ideal type of bureaucracy. In the western tradition, it seems there is no significant problem to behave impartiality that they do not really face any problem with the practice of hospitality in society. Therefore, there is a different tradition between the western and eastern which leads to what is known as 'cultural bias' in implementing anti-fraud programs in Indonesia.

This phenomenon is consistent with what had been found by Pertiwi (2016), who identifies the dominant concept from developed countries in approaching the problem of corruption in Indonesia. As a result, most programs have 'a potential conflict' between the local culture and real practice. For instance, the practice of giving 'gifts', 'tips' and providing 'meals' for some public officials. However, according to the current context of anti-corruption programs, these kind of practices are categorised as 'a gratification' (Pertiwi, 2016, 2019). In most cases, the implementation of anti-fraud programs through some instruments of integrity, such as a code of ethics or an integrity zone becomes difficult to internalise within the institutions. It is quite often that the officials are under pressure to face the local practice that have been traditional for a long time.

The second external context is related to less support from political power and commitment to eradicate the problem of serious corrupt. Mostly public sector institutions in Indonesia face high political influence. This influence is derived from that many politicians who become a top-leader or they decide who the leader in public institutions are (Arief, 2020; Bramastha, 2019; Madril, 2013). In addition, at the national level, the current government is perceived as having a low commitment to issues related to corruption. The latest proof for this claim is based on

the public and analysts' opinion for the revision of KPK law that received many protests from the public (Muhtadi, 2019).

Therefore, politics seems to not really care about eradicating corruption. Despite this, the latest findings of promoting anti-fraud programs in Indonesian public institutions require political backup (Van Eeden Jones & Lasthuizen, 2018). This political factor becomes the second crucial factor that makes anti-corruption programs to not achieve the intended result.

To describe significant political influence in anti-fraud programs, a director of a NGO that operates against anti-corruption says:

*"In Indonesia, ... Most issues related how to maintain good governance, we create specific institutions... Unfortunately, with that large system, we have not been able to utilize it maximally. In my opinion, it is because of two points, firstly, politics and secondly, the legal issue."*

This comment gave us the strong message that politics is still the serious obstacle in implementing anti-fraud programs (Syarif & Faisal, 2019). As indicated earlier in introduction, the political problem is consistent with a strong indication that many politicians are involved in corrupt cases in Indonesia (KPK, 2019). Therefore, it is difficult to get political commitment from the politicians as long as they are also part of the problem.

Finally, the last challenge of implementing anti-fraud programs comes from lack of ethical leadership within the Indonesian public sector institutions. To some extent, political influence also contributes to this problem. Because the process of selecting a leader in these institutions is not free from political influence. Therefore, political interest is relatively more dominant in electing a leader rather than actual capacity, including strong ethical leadership. The clear example for this case is the selection process of board of directors (BOD) and board of commissioners (BOC) in State of Enterprises (SOEs). Even though, the ministry of SOEs has the authority to select

the BOD and BOC. But, his/her decision is under pressure of 'political interference'. Unfortunately, this political interference also cannot guarantee SOEs get a good leader. Even, some CEOs became suspects for several corrupt scandals handling by KPK a few years ago (CNBC Indonesia, 2019).

Therefore, this problem becomes a serious challenge in implementing anti-fraud programs. Ideally, a leader is crucial to fostering anti-fraud programs in an organisation including public institutions (Heres, 2014; Lasthuizen, 2008). Because, he/she becomes a central figure that can be inspired for the members of organisation. Especially, as indicated before, public institutions need a leader who has strong ethical leadership, as described in the previous section.

In addition, the author, together with other scholars, found that it is difficult in Indonesia to find a leader who has ethical leadership characteristics. Even for someone who is perceived as "a clean leader", she/he will often have had an ethical problem in their past (Van Eeden Jones et al., 2020). Therefore, some anti-fraud programs seem not to have anyone who can become a champion for the organisation. In these situations the programs will become stagnant and largely ceremonial, without strong commitment from the employees. The following comment from a middle manager describes the importance of leadership:

*"Lead by example. That is number one. We need support from the tone of the top. If the tone of the top hesitates, we will hesitate. If the tone of the top has a conflict, we will have a conflict too."*

This statement demonstrates the importance of ethical leadership in an organisation. Regardless of how many anti-fraud programs and agendas are launched, if a leader does not take the position to lead the programs and demonstrates their strong ethical leadership, the integrity programs cannot bring a significant impact on an organisation.



In addition, based on the document analysis, the author found that Indonesian public institutions already have most instruments recommended by OECD IMF. However, there is one instrument that is not common in many Indonesian public institutions, namely the policy of managing the potential conflict of interest. This finding is consistent with what has been highlighted by the Jakarta Post in their editorial. The Jakarta Post identifies massive conflict of interest in public sector institutions. They note that many politicians who become members of parliament are businessmen (The Jakarta Post, 2019). In practice, it can be difficult to see how they differentiate between the public interest and private interest. Finally, this situation raises the problem of integrity that is related to fraud. This phenomena is also consistent with what has been found by KPK as presented in introduction.

## 5. CONCLUSION

Responding to the stigma of being as one of the most corrupt countries in the world, according to the CPI (Transparency International, 2020a), public sector institutions in Indonesia have attempted anti-corruption programs to protect their organisations. However, based on the indication of CPI, the score has increased but not dramatically. Therefore, this indicator bring a serious question whether many anti-fraud programs have a significant impact to decrease the level of corruption in Indonesian public sectors?. Therefore, this study identifies at least three significant findings that can explain how anti-fraud programs seem ineffective in Indonesia. The three factors are culture, politics and ethical leadership. As a country who has strong traditional customs, Indonesia should consider how the anti-fraud programs could be implemented in harmony with the local culture such as a code of ethics. Secondly, this study underlines the political problems also contribute to the challenge of implementing anti-fraud programs. Especially, many

politicians are involved in corrupt cases. Therefore, their commitment to supporting the program is not really strong enough. In fact, this program requires strong political support as a pre-requisite so it can operate optimally. However, the current political situation cannot give them a guarantee. Finally, many public sector organisations face a struggle to find a leader who has strong ethical leadership. This problem causes the anti-fraud programs seem to not have what has been known as 'a champion'. As a result, the follower or members of an organisation do not have a good figure to give them a strong motivation that the organisation is serious about the anti-fraud programs, because they perceive, seriousness should be shown by a leader. Overall, these three factors have contributed to anti-fraud programs that are not effective in Indonesia public sector institutions.

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