

## **Transactional Accountability Watch: A Fraud Detection Tool to Eradicate Corrupt Practices in Public-Private-Partnership in Indonesia**

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### **ABSTRACT**

This research assesses fraud detection systems using governance risk compliance (GRC) framework looking at two surveillance areas: national and independent. The target was public-private-partnership (PPP) agreements. Thirty samples for each national and independent examiner were collected to be analysed using neuroresearch. Using the GRC framework as basic elements of assessment, the results showed first, “a likelihood to engage in corrupt behaviour if policies are lenient” (significant at  $\alpha < 0.05$ ), Second, “a likelihood to engage in corrupt acts if policies are lenient in the aspect of compliance and governance, along with “obvious symptoms of policies’ partiality which have been used in companies’ misbehaviour exists” in the aspect of risk. Third, it is possible for a company to commit infringements to smooth out the PPP process and the likelihood of public officers as policy makers in facilitating and accommodating PPP agreements.

*Keywords:* Compliance, Corrupt Acts, detection, governance, Public Private Partnership (PPP), risk

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### **INTRODUCTION**

Combating corruption is currently at the top of the list of the sustainable development goals of the World Bank Group (WBG). Therefore, the Development Committee was set up on 22 April 2017 in Washington, D.C., by both the World Bank and the International Monetary Fund (IMF) to address problems in world economic development, especially in developing countries because the financial market there is a dynamic (Triady, Kurniasari, Utami,

& Sofyan, 2016). Two points are vital to achieve sustainable economic development: infrastructure prioritisation by the private sector and (2) flexibility in working across the public and private sectors or between both.

Emphasising these factors would be a fruitless effort if there is an absence of sophisticated management evaluation and rigorous internal control (Adewale, 2014; Moeller, 2007). These initiatives are important for sustainable economic activity but are threatened by corruption. In this context, Olken and Pande (2012) clearly stated that corruption is an obstacle to foreign direct investment from developed countries to developing countries. The problem of corruption is mainly a “corporate governmental” problem that can be solved through independent surveillance towards both public and private personnel (Nurlis, 2016). In recent times, many governmental contracts have been found to be a product of ‘corrupt agreements’ with third parties (private companies).

Several frameworks in a form of IT instruments have been developed in response to this situation. Indonesia Corruption Watch (ICW) is an instrument to detect and prevent corruption involving government bodies. Another framework is Corruption Early Prevention (CEP) that has its sources of information from three different parties (governmental, independent and social response) and aims at minimising corruption among public officers (Widhoyoko, Ariyanto, Indrianti, Muqsith, & Alamsyah, 2017). Therefore, the

uniqueness of Transactional Accountability Watch (TAW) is its ability to detect corrupt acts by either public or private parties using (1) a framework that encompasses good governance practices and (2) parameters that have been significantly proven through research and in accordance with common internal control practices. Hence, a specific system is necessary to detect corruption in public-private-partnership (PPP) agreements in Indonesia.

## LITERATURE REVIEW

### Corruption Detection Tool Based on GRC Framework

Corruption is broadly defined as misuse of power and trust (Akbar & Vujić, 2014). The subject of corruption detection and deterrence has been in the limelight since the formation of Sarbanes Oxley in response to the extraordinary financial losses due to freefall of shares of public companies in US and across the globe (Jain, Pankaj, & Rezaee, 2006). Many scholars noted those scandals as public companies’ breaching certain standards and statutes (Groenendijk, 1997). Others admitted that all previous accounting scandals involved dishonest personnel involved in related-party transactions and financial document alterations (Perols & Lougee, 2011).

In developing countries, corruption eradication is mainly focused on enhancing the law to combat it rather than management transformation. For instance, Rendon and Rendon (2016) in tackling corruption in the US Department of Defense recommended developing contracting processes and

internal controls as approaches to deterring and detecting procurement fraud (Rendon & Rendon, 2016). Shanikat, Al-Farh and Dorgham (2014) concluded that effective fraud prevention mechanisms should be done by involving all managerial elements including auditors and anti-fraud specialists (Shanikat et al., 2014).

The value of good governance is centred on its surveillance system grounded in two main arguments. First, Kaswell and Johnson (2013) exposed one of the deficiencies of the development of the NYSE (New York Stock Exchange) governance model as the inconsistencies of policy amendments across the periods that require exact parameters to assess the transactional accountability (Kaswell & Johnson, 2013). Second, the efficiency and effectiveness of auditors is imperilled by either incentive or agency problems that cause market instability due to investor and creditor incredulity (Coffee, 2001). Based on these arguments, a detection tool must be developed to handle these issues.

The detection tool is built on good corporate governance, risk management and compliance (GRC) that reflect the overall business process including top-level management value (Papazafeiropoulou & Spanaki, 2016). There are at least three arguments showing how all components of GRC model are significantly improving sustainable economic development:

#### *Governance*

The company's good reputation depends on the degree of investors' trust

in terms of the company's transparency. Its accountability depends on the company's treatment related to third-party transactions (Brennan & Solomon, 2008; Magdalena & Dananjaya, 2015).

#### *Risk*

It was found that significant knowledge and skills possessed by auditors affect the ability of auditors to prevent and detect occupational frauds (Kiel, 2005).

#### *Compliance*

It was found that symptoms of poor corporate value are shown by the violation of internal control policies, standard operational procedures, and law and statutes (Nkama & Onoh, 2016). This requires internal audit to depict all information for the purpose of accurate decision support systems (Rusmin, Scully, & Tower, 2013; Prawitt, Smith, & Wood, 2009).

Therefore, the framework is designed to accommodate both national and independent perspectives based on GRC elements' specific outputs.

### **Theoretical Framework for TAW Assessment**

The TAW theoretical framework is designed based on: (1) Indonesian statutes, (2) GRC components consisting of political and procedural orientation and (3) formation of assessment indicators based on specific outputs of GRC components.

Stage 1. Categorisation according to Surveillance Body

The categorisation is based on two

Table 1  
GRC components (Bedard & Johnstone, 2004)

GRC Elements	Specific Output	Independent Perspective	National Perspective
Governance	Good governance	Management control system	Credibility of company
Risk	Control upon fraud	Stakeholders' confidence	Probability of corruption
Compliance	Suitability of policies	Company's common practices	Accountability of policies

Indonesian statutes: (1) *Undang-Undang no.40 tahun 2007* requires every private enterprise to be audited by

credible and independent external audit and (2) *Undang-Undang no.14 tahun 2004* requires all governmental bodies to be audited by the higher financial inspectorate

Stage 2. Formation of Each Orientation towards GRC Components

The orientation of each group of parameters is in accordance with its organisational nature. First, national surveillance overview is assumed to have a political orientation for its assessment towards PPP transactions. Thompson (1980) described that public officials held moral responsibility to propose a

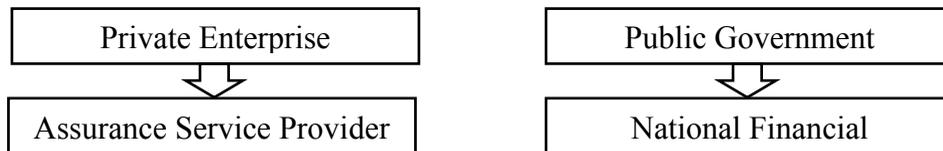


Figure 1. The alignment of PPP parties with its authorities

good policy. However, the presence of certain personnel in a lower position may influence the higher policy makers when that politician controls resources. Such influence is also called “legal corruption” that causes political distortion (Kaufmann & Vicente, 2011; Thompson, 1980). Furthermore, risk management emphasises an assumption that the policies made by the public officers can smooth out the corruption scheme between personnel from both parties for the purpose of personal benefit (Dorminey, Scott Fleming, Kranacher & Riley, 2012; Olken & Pande, 2012).

In the second model of assessment, independent surveillance embraces assurance by service providers of the private company’s transparency and accountability value as an investment object for potential investors. At this stage, the parameter simply points out the governance aspect of overall GRC components to be the first priority. For example, the aspect of board transparency regarding the practices of good governance practices has been an investors’ consideration for long-term investment (Tsay, 2010). To many potential investors, it refers to numerous bankruptcy cases during

1987-1997 in the US that were triggered by both unethical or ineffective boards of directors at the top (Beasley, Carcello, & Hermanson, 1999).

Another point is that the existence of sophisticated control environments shall bridge the information gap between departments and systems due to the safeguarded information flow chain that protects the enterprise from information leakage (Hayne & Free, 2014; Kolk, 2010). Meanwhile, fraud risk assessment is inevitably a compulsion for private enterprises for broader stakeholder protection from unnecessary losses (Popoola, Ahmad, & Samsudin, 2014), misappropriation of assets and misuse of trust (Alexander, 2005;

Jayaraman & Milbourn, 2012) and from the piracy of enterprise data (Lookman & Nurcan, 2015). Furthermore, the third aspect (compliance) is supporting information that has been assessed mainly in the previous model by different authorities.

Public accountability is politically defined as the involvement of the policy stakeholders in forming unbiased and impartial policies. Accordingly, there are many stakeholders who need to embrace policies, such as opinion from experts and practitioners regarding social impact, law enforcement and economic stability (Sanderson et al., 2014), the political parties as the policies' certifier and the private company as the executor of PPP (Gilbert

Table 2  
*Priority setting for both surveillance parameters*

Components	National Surveillance	Priority	Independent Surveillance	Priority
Governance	Private parties	1	Private parties	3
Risk	Private and public parties	2	Private and public parties	2
Compliance	Public parties	3	Public parties	1

Stage 3. Formation of the Unit of Assessment for Each Component

& Allen, 2014) and independent scholars. In structuring the policies, preliminary observation must be conducted by the policy makers to direct the process in alignment with other policies, law, standards and even common social value (Schaff & Schaff, 2016). Furthermore, monitoring the likelihood of corruption is the result of fraud control according to national perspective.

Two main fraud schemes detection are included: (1) bid rigging (through budget analysis and goods inspection) (Dastidar & Mukherjee, 2014) and (2) conflict of interest (through background check techniques and notes of disclosure examination) (Yang & Tan, 2012). Finally, board ethics is always a standard parameter for the business behaviour related to a company's

governance (Tsay, 2010), which is reflected by the company’s internal control policies assessed by external auditors (Sasmoko et al., 2017).

In the context of companies’ corporate governance, internal control is based on three basic perspectives: (1) control environment emphasising transparency of

the board of directors (e.g. independent board and accountable disclosures for executive compensation) (Beasley et al., 1999); (2) risk assessment application through control activity (Tsay, 2010); and (3) communication procedures (e.g. whistle-blower protection policies) (Bastin & Townsend, 1996) and periodical internal

Table 3  
*Unit of assessment for national surveillance parameters*

Priority 1 – Compliance	Priority 2 – Risk	Priority 3 - Governance
Quota of professional associations and experts.	Likelihood of committing bid rigging.	Opinion regarding to board ethics.
Quota of interested and independent parties involved.	Likelihood of committing conflict of interest.	Opinion regarding to financial transparency and reporting.
Compatibility of policies made by the government.		

audit as a common monitoring function (Badara & Saidin, 2013). Furthermore, true representation of financial conditions provided by stock brokers are usually more trustworthy to convince investors and creditors (Hansen & Trego, 2015) due to fair value and full disclosure principles as the key aspects of companies’ financial risk indicators (Repousis, 2013). Finally, the scope of independent assessment emphasises merely the compliance of the company to the policies (Robertson-Snape, 1999). This can be further expanded to cover laws, statutes and other government regulations such as ensuring contracts and agreements are done in accordance with local government policies (Financial Accounting Standard Boards, 2014).

**MATERIALS AND METHODS**

This study used neuroresearch by combining qualitative and quantitative methods. For exploratory (qualitative) method, compiled data as a result of questionnaires gathered from surveys were used to find the trends and differences in each aspect on each surveillance. Furthermore, for explanatory and confirmatory (quantitative method), this research used descriptive analysis and homogeneity testing to measure trends for each GRC component towards each surveillance.

The questionnaires were designed based on the elements of each surveillance’s parameters that contains more than one question. Furthermore, the questionnaires were measured using ordinal scale consisting

Table 4  
Unit of assessment for independent surveillance parameter

Priority 1 – Governance	Priority 2 – Risk	Priority 3 – Compliance
Board transparency and accountability	Financial reporting quality	Companies policies according to standards
Fraud risk	Responses from potential stakeholders	Company’s reporting according to local agreement
Operational risk		

of: (1) highly corrupted, (2) probably corrupted and (3) asymptotically corrupted.

The samples of this research were 30 samples from an independent surveillance group consisting of the company’s auditors (i.e. internal auditors, external auditors, and anti-fraud specialists) who possess knowledge to the event related to fraudulent PPP transactions, along with 30 samples from national financial inspectorial bodies (i.e. a group of auditors from *Komisi Pemberantasan Korupsi (KPK)* and *Badan Pemeriksa Keuangan (BPK)*) who possess

relevant information related to fraudulent PPP transactions.

**RESULTS AND DISCUSSIONS**

**First stage (exploratory research)**

The priority setting for national surveillance parameters is Governance – Risk – Compliance

The priority setting for independence surveillance parameters is Compliance – Risk – Governance

**Second stage (explanatory & confirmatory research)**

*Overall Trends*

		Statistic	Std. Error	
Surveillance	Mean	12.4000	.27740	
	95% Confidence Interval for Mean	Lower Bound	11.8449	
		Upper Bound	12.9551	
	5% Trimmed Mean	12.3333		
	Median	12.0000		
	Variance	4.617		
	Std. Deviation	2.14871		
	Minimum	8.00		
	Maximum	19.00		
	Range	11.00		
	Interquartile Range	2.00		
	Skewness	.561	.309	
	Kurtosis	.573	.608	

Figure 2. Descriptive statistics of surveillance

Table 5  
Results of overall trends

Interval	Meaning	Conclusion
8 – 11	Highly possible	The table shows that the value of $\mu$ is in the range between 11.8449 and 12.9551. This figure indicates that <b>there are possibilities of fraud and violations</b> shown by $\alpha < 0.05$ .
12 – 15	Possible	
16 - 19	Almost impossible	

### Three GRC Component Trends

Aspect of Governance

		Statistic	Std. Error	
Governance	Mean	4.7500	.25669	
	95% Confidence Interval for Mean	Lower Bound	4.2364	
		Upper Bound	5.2636	
	5% Trimmed Mean	4.6667		
	Median	4.0000		
	Variance	3.953		
	Std. Deviation	1.98831		
	Minimum	2.00		
	Maximum	9.00		
	Range	7.00		
	Interquartile Range	3.00		
	Skewness	.627	.309	
	Kurtosis	-.453	.608	

Figure 3. Descriptive statistics of governance

Table 6  
Results of governance aspect

Interval	Meaning	Conclusion
2 – 4	Highly possible	The table shows that the value of $\mu$ is in the range between 4.2364 and 5.2636. This figure indicates there <b>are possibilities of fraud and violations</b> shown by significant $\alpha < 0.05$
5 – 7	Possible	
8 - 10	Almost impossible	

*Aspect of Risk*

Descriptives			Statistic	Std. Error
Risk	Mean		3.1333	.12457
	95% Confidence Interval for Mean	Lower Bound	2.8841	
		Upper Bound	3.3826	
	5% Trimmed Mean		3.0741	
	Median		3.0000	
	Variance		.931	
	Std. Deviation		.96492	
	Minimum		2.00	
	Maximum		6.00	
	Range		4.00	
	Interquartile Range		2.00	
	Skewness		.661	.309
	Kurtosis		.132	.608

Figure 4. Descriptive statistics of risk

Table 7  
Results of risk aspect

Interval	Meaning	Conclusion
2 – 3	Highly possible	The table shows that the value of $\mu$ is in the range between 2.8841 and 3.3826. This indicates <b>greater possibilities of fraud and violations</b> at $\alpha < 0.05$ .
4 – 5	Possible	
6 - 7	Almost impossible	

*Aspect of Compliance*

Descriptives			Statistic	Std. Error
Compliance	Mean		4.5167	.19671
	95% Confidence Interval for Mean	Lower Bound	4.1230	
		Upper Bound	4.9103	
	5% Trimmed Mean		4.5000	
	Median		5.0000	
	Variance		2.322	
	Std. Deviation		1.52373	
	Minimum		2.00	
	Maximum		8.00	
	Range		6.00	
	Interquartile Range		2.75	
	Skewness		.012	.309
	Kurtosis		-.665	.608

Figure 5. Descriptive statistics of compliance

Table 8  
Results of compliance aspect

Interval	Meaning	Conclusion
1 – 3	Highly possible	The table shows that the value of $\mu$ is in the range between 4.1230 and 4.9103. This figure indicates that <b>there are possibilities of fraud and violations</b> shown by significant $\alpha < 0.05$ .
4 – 6	Possible	
7 - 9	Almost impossible	

## Analysis of Surveillance Types

### Type of Surveillance

Group Statistics										
Type Surveillance		N	Mean	Std. Deviation	Std. Error Mean					
Surveillance	National Surveillance	30	11.3667	1.62912	.29743					
	Independent Surveillance	30	13.4333	2.12835	.38858					

Independent Samples Test										
		Levene's Test for Equality of Variances			t-test for Equality of Means					
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Surveillance	Equal variances assumed	1.404	.241	-4.223	58	.000	-2.06667	.48935	-3.04621	-1.08713
	Equal variances not assumed			-4.223	54.298	.000	-2.06667	.48935	-3.04763	-1.08870

Figure 6. Differences analysis of compliance

Using the Levene test for homogeneity of variances, the analysis results in F=1.404 with significance for 0.241 shows the non-significant value would be at  $\alpha > 0.05$ . Therefore, national surveillance possesses a homogeneous variance towards independent surveillance. However, T-test shows the figure 4.223 with a significant value for

0.0000, which is very significant at  $\alpha < 0.01$ . Hence, there is still a difference in terms of fraud probabilities. Based on this figure, **there are probabilities of transactional fraud in independent surveillance area (private companies) and highly possible in the area of national surveillance (public officers).**

### Aspect of Compliance based on Surveillance

Group Statistics										
Type Surveillance		N	Mean	Std. Deviation	Std. Error Mean					
Compliance	National Surveillance	30	5.3667	1.21721	.22223					
	Independent Surveillance	30	3.6667	1.32179	.24132					

Independent Samples Test										
		Levene's Test for Equality of Variances			t-test for Equality of Means					
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Compliance	Equal variances assumed	.835	.365	5.182	58	.000	1.70000	.32806	1.04331	2.35669
	Equal variances not assumed			5.182	57.610	.000	1.70000	.32806	1.04322	2.35678

Figure 7. Differences analysis of compliance

Using the Levene test, the analysis results in F=0.835 with significance for 0.365 shows the non-significant value would be at  $\alpha > 0.05$ . Therefore, national surveillance possesses a homogeneous variance towards independent surveillance in terms of compliance. However, T-test shows the figure 5.182 with a significant

value for 0.0000, which is very significant at  $\alpha < 0.01$ . Hence, there is still a difference in terms of compliance as the assessment component for both surveillance types. Based on this figure, **there are probabilities of transactional fraud in the aspect of private companies' compliance and highly possible in the government.**

*Aspect of Risk based on Surveillance*

Group Statistics					
Type Surveillance		N	Mean	Std. Deviation	Std. Error Mean
Risk	National Surveillance	30	2.8000	.76112	.13896
	Independent Surveillance	30	3.4667	1.04166	.19018

Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Risk	Equal variances assumed	3.142	.082	-2.830	58	.006	-.66667	.23554	-1.13815	-.19518
	Equal variances not assumed			-2.830	53.097	.007	-.66667	.23554	-1.13908	-.19425

Figure 8. Analysis of risk

*Aspect of Risk based on Surveillance*

Using the Levene test, the analysis results in F=3.142 with significance for 0.082 show the non-significant value would be at  $\alpha > 0.05$ . Therefore, national surveillance possesses a homogeneous variance towards independent surveillance in terms of risk. However, T-test shows the figure 2.830 with

a significant value for 0.006, which is very significant at  $< 0.05$ . Hence, there is still a difference in terms of risk as the assessment component for both surveillance types. In this area, **it is highly possible for private companies to commit transactional fraud; moreover, the government is statistically more vulnerable to commit fraud.**

*Aspect of Governance based on Surveillance*

Group Statistics					
Type Surveillance		N	Mean	Std. Deviation	Std. Error Mean
Governance	National Surveillance	30	3.2000	.76112	.13896
	Independent Surveillance	30	6.3000	1.57896	.28828

Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Governance	Equal variances assumed	13.945	.000	-9.687	58	.000	-3.10000	.32002	-3.74058	-2.45941
	Equal variances not assumed			-9.687	41.787	.000	-3.10000	.32002	-3.74593	-2.45407

Figure 9. Analysis of governance

Using the Levene test, F=13.945 with significance for 0.000 shows the non-significant value would be at  $\alpha < 0.01$ . Therefore, national surveillance possesses a homogeneous variance towards independent surveillance in terms of risk. However, the T-test shows the figure 9.687 with a significant value for 0.000, which is very

significant at  $\alpha < 0.01$ . Hence, there is still a difference in terms of risk as the assessment component for both surveillance types. Based on this figure, **there are probabilities of transactional fraud in the aspect of private companies' governance and highly probable in government.**

**Findings**

Table 9  
Overall surveillance trends based on GRC aspects

Sources	Scale of Transactional Fraud Probability		
	Highly Possible	Moderately Possible	Unsymptomatically Possible
National and Independent Surveillances	-	V	-
Compliance	-	V	-
Risk	V	-	-
Governance	-	V	-

Table 10  
Surveillance trends for each surveillance type

Sources	Scale of Transactional Fraud Probability		
	Highly Possible	Moderately Possible	Unsymptomatically Possible
National Surveillance	-	V	-
Independent Surveillance	-	V	-

Table 11  
Trends of national and independent surveillances based on each component

		IS		
		C	R	G
NS	C	2/1		
	R	<1/1		
	G		2/1	

Below are the explanations related to the figures in this table:

2/1: In the aspect of compliance and governance, there is a moderate probability for transactional fraud to occur in national surveillance (government). However, it is highly probable in the area of independent

surveillance (private company).

<1/1: In the aspect of risk, there is a high probability for private companies to commit transactional fraud; moreover, the government has a higher probability in committing transactional fraud as a policy maker.

## CONCLUSION

This research attempted to build a transactional accountability watch (TAW) as a detection tool to assist fraud investigators to eradicate corrupt practices in public-private-partnership (PPP) agreements in Indonesia. In summary, the results confirmed TAW assessment model is fit to determine the probability of transactional fraud in the context of PPP agreements. The research found (1) overall trends for three aspects of GRC components towards the overall surveillances are proven to be significantly in the same trends; and (2) the homogeneity tests done in four areas of analysis proved that national surveillance (government) statistically possessed a higher probability to commit transactional fraud. To conclude, the TAW assessment model is shown to be relevant for measuring probabilities of transactional fraud in PPP agreements.

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