

Asset misuse: Internal governance control restrains

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ABSTRACT

This study aims to determine a more significant influence of internal governance control on asset misuse, where fraud behavior is a mediator. Primary data in this study were 277, which were analyzed using the Partial least square (PLS) analysis method. The findings in this study are related to the significant influence of internal governance control on asset misuse both directly and through fraud behavior. Regarding the author's knowledge, there is still rare research on fraud behavior as a mediation of the influence of internal governance control on asset misuse. In contrast, the concept that supports fraud behavior control by adequate internal governance will reduce asset misuse.

KEYWORDS - Internal governance control, Fraud behavior, Asset misuse, Fraud management

1. INTRODUCTION

Fraud is not foreign in the world, especially in Indonesia; it is an increasingly rampant crime. That is proven by the many new cases with fantastic fraud values. Misuse of assets is commonplace in Indonesia, especially state-owned companies. Misuse is a form of misappropriation, especially in non-cash assets, where assets are used not according to their intended use but are not immediately taken over. Misappropriation has a broader meaning: a scheme in which an employee steals or misuses the resources of the organization where he works, such as false billing, cash theft, or exaggerated expense reports. Fraud is not foreign in the world, especially in Indonesia; it is an increasingly rampant crime. That is proven by the many new cases with fantastic fraud values. Misuse of assets is commonplace in Indonesia, especially state-owned companies. Misuse is a form of misappropriation, especially in non-cash assets, where assets are used not according to their intended use but are not immediately taken over. Misappropriation has a broader meaning: a scheme in which an employee steals or misuses the resources of the organization where he works, such as false billing, cash theft, or exaggerated expense reports [1]. The results of research from the Report to The Nations found that of the three categories of occupational fraud schemes, namely asset misuse, corruption, and financial statement fraud, the frequency of cases of asset misuse involving employees who steal or misuse the resources of the organization where they work is the most common category of occupational fraud in 89% of cases [1]. This phenomenon of asset misuse is also rampant in Indonesia. Land cases and misuse of state assets still occur, such as the case that occurred in Surabaya, where people who use land and official housing as state assets do not fulfill their obligations to pay rent when there is a change in regulations set by the tenant, they take refuge in community organizations to secure their interests [2]. These cases illustrate how company or agency assets can be misused for personal gain, either in inventory, facilities, or land, without any official transfer of ownership. If left unchecked, such practices can cause significant losses to the organization. An organization needs to have a good control system and capabilities to know fraudsters' behavior. According to several studies, internal control in an organization can reduce fraudulent acts. Internal control can be used as an anti-fraud strategy in the workplace. Employees misuse assets in their workplace due to factors such as the pressure they face, their ability to rationalize their actions as not wrong, their abilities, and their egos. In addition, the extent to which someone will misuse assets depends on the person's perception of the strength of the internal control mechanism [3], [4]. but this is different from research by [5] which states that internal control does not affect misappropriation of assets.

Furthermore, fraudulent behavior influenced by pressure, ability, rationalization, opportunity, ego, or collusion is the reason for asset misappropriation; the findings of [6] and [7] prove this. That is by the fraud theory discovered by [8]. Therefore, it is important to handle it seriously, for example, by providing sanctions for acts of asset misuse [9] and improving internal control systems such as integrated GRC in combating fraud [10], [11]. Departing from the phenomenon and the concept that states the influence of internal control and fraudulent behavior on the misuse of assets and the existence of a research gap where internal control does not affect the misuse of assets, it is important to conduct research related to internal control. This research was also developed to determine whether internal control affects misuse of assets either directly or indirectly, namely through reducing fraudulent behavior so that it also reduces misuse of assets. That is the novelty of this research, which is useful in theory and for practitioners in combating fraudulent actions, especially organizational assets. This research begins with the presentation of phenomena and concepts in the introduction, followed by a literature review and preparation of hypotheses, methodology, and results. It ends with a conclusion of the research.

2. THEORETICAL BACKGROUND AND DEVELOPMENT OF HYPOTHESES

[12] discuss the protection motivation theory, which emphasizes the importance of seriousness or intention in maintaining or protecting assets or wealth. Protecting these assets is important due to employees' or managers' tendency to act in favor of themselves or their groups. That is by the agency theory, which explains the information gap held by the principal, where the information tends to be hidden by agents or employees who are authorized or empowered to act on behalf of the principal in obtaining profits [13]. The behavior of managers or employees who prioritize their interests arises and is detrimental to the organization and the principal. Therefore, the ability of the principal is important. The government, owner, supervisor, and the public in general need to know the behavior of fraud in order to be able to overcome fraudulent acts.

1.1 Internal governance control

Internal governance control (IGC), which includes internal control systems and corporate governance, is a comprehensive and systematic control framework within an organization to ensure that operational, reporting, and compliance objectives are achieved effectively and efficiently, carried out by the board of commissioners, management, and other personnel in an organization, designed to provide reasonable assurance in achieving organizational goals, namely operational effectiveness and efficiency, reliability of financial reporting, and compliance with applicable laws and regulations [11], [14], [15]. The lack or weakness of the supervisory system in the company is a factor in the use of employees to carry out asset misappropriation. [16] states that asset misappropriation is the illegal taking of assets or stealing. Furthermore, KPMG 2013 defines asset misappropriation or asset misuse (AM) as the theft or improper use of company resources to obtain irregular benefits [17], [18].

1.2 Fraud behavior

Fraudulent behavior (FB) is an intentional act involving deception, trickery, or violation of rules for personal or group gain at the expense of other parties [19]. The main factors driving fraud are pressure, opportunity, rationalization, and the perpetrator's ability. Fraud prevention and detection require a strong internal control system, a healthy organizational culture, and ongoing education and supervision because fraud has a broad impact, not only financially, but also on the organization's reputation, employee morale, and sustainability. For example, material misstatements in financial statements can mislead stakeholders and damage public [20]. The factors causing fraud, according to the fraud triangle theory [21], are pressure, opportunity, and rationalization. The addition of the cause of fraud, namely the ability of the fraud diamond [22], continued by the addition of the cause of fraud, namely ego or arrogance, by [23], also known as the fraud pentagon theory. The latest discovery related to the causes of fraud [8] by adding the collusion factor, where the difficulty of preventing and detecting fraud if collusion occurs in fraud by a group of people [24].

1.3 Asset misuse

A deliberate act in a social environment aimed at eliminating property/other illegal rights by an individual or group of people to gain personal and group benefits [25]–[28]. ACFE defines fraud as "The use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets." [1] stated in its report that asset misuse is the most common form of financial fraud committed by internal organizational personnel. Because of its measurable/calculated (defined value) or tangible nature, asset misuse is classified as a form of fraud that is not too difficult to detect. The most common target in this asset misuse is money because the perpetrator can immediately enjoy the benefits of cash or money in the bank. Two general groups of asset misappropriation are cash misappropriation and non-cash misappropriation.

1.4 Internal governance control and Asset Misuse

Research shows that an effective internal control system and good governance can reduce asset misuse by tightening supervision, limiting opportunities for fraud, and increasing accountability. However, if internal governance control is limited to procedures without real supervision, or if the quality of internal audit is inadequate, then the control is unable to prevent asset misuse effectively, such as providing a false sense of security so that employees or related parties feel they can misuse assets without being detected. In addition, factors such as low ethical behavior and lack of organizational commitment can also weaken the effectiveness of internal control so that even though there is a governance system, asset misuse still occurs. Therefore, internal governance control must be supported by a strong organizational culture, high ethical behavior, and quality internal audits to reduce the risk of asset misuse [3], [4], [29].

H1. Internal governance control is negatively and significantly associated with asset misuse

1.5 Fraud Behavior and Asset Misuse

Fraud behavior that includes pressure, opportunity, rationalization, and capability is the main driving factor for asset misuse in organizations. The stronger the fraud elements, the greater the risk of asset misuse. Therefore, effective fraud risk management should focus on reducing pressure, limiting opportunities, fostering ethics to reduce rationalization, and monitoring employee capabilities and positions in the organization [6]. This pressure positively affects asset misuse because individuals feel forced to find a way out through fraud. The greater the opportunity, the higher the likelihood of asset misuse. This rationalization strengthens asset misuse behavior because the perpetrator feels that his actions are morally acceptable. This capability includes knowledge, influence, and skills that effectively support asset misuse implementation. Arrogance and Collusion: Several studies have shown that arrogance and collusion (cooperation between actors) can strengthen asset misuse behavior. However, the effects vary depending on the organizational context [7].

H2. Fraud behavior is positively and significantly associated with asset misuse

1.6 Internal governance control and fraud behavior

A weak internal control system or less strict supervision tempts individuals or groups to see Opportunities to commit fraud without being detected, such as pressure. Financial, social, or work pressures encourage individuals to commit fraud to overcome personal or professional problems. Rationalization: Individuals who commit fraud often justify their actions with certain reasons, such as feeling entitled or considering that the action is not detrimental. Capability: Certain organizational abilities and positions allow individuals to exploit fraud opportunities. Arrogance and Collusion: Inadequate internal control increases the ego of superiors acting as they please and increases the possibility of cooperation between internal and external parties or internal organizations with different divisions to cover up fraud. Therefore, internal control is important because it can manage fraud or reduce fraudulent behavior [20], [30].

H3. Internal governance control negatively and significantly associated with fraud behavior

1.7 The moderating role of fraud behavior

Fraud behavior is a mediator that connects internal governance control with asset misuse, as seen in Fig 1. Effective internal governance control should be able to control and prevent asset misuse by implementing strict policies, procedures, and supervision. However, the influence of internal governance control on asset misuse is not always direct; fraud behavior is a mechanism that explains how internal control influences fraudulent behavior that ultimately impacts asset misuse. Research shows that good internal governance control can reduce fraud behavior by limiting opportunities, strengthening accountability, and increasing compliance, preventing cooperation in fraud. With a decrease in fraud behavior, the risk of asset misuse also decreases. Conversely, if fraud behavior remains high despite internal control, the effectiveness of internal governance control in preventing asset misuse is reduced. Thus, fraud behavior mediates the relationship by acting as an intermediary that connects the quality of internal control and the level of asset misuse.

H4. Fraud behavior moderate the relationship between Internal governance control and asset misuse

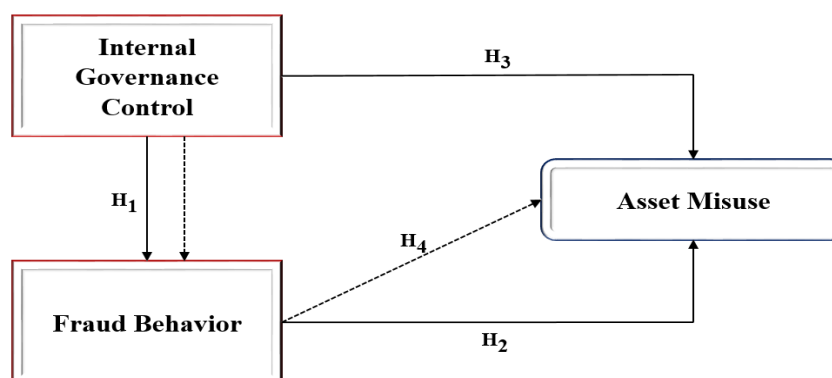


Figure 1 Hypotheses model

3. METHODOLOGY

The research objective is to analyze the influence of internal governance control in reducing fraudulent behavior and its impact on reducing asset misuse. A quantitative descriptive study was conducted using a survey with a closed questionnaire. Samples were taken from employees of ten state-owned companies in Jakarta, Indonesia, at the end of 2024; sample selection was based on purposive sampling that was affordable for researchers in distributing questionnaires. This fact provides a greater contribution to the research results. It allows the findings to function as a driver of good practices in the Indonesian business environment and as a reference for other organizations because state-owned companies are the ones most in the spotlight, as they always stumble over fraud cases, both assets and corruption.

Data was collected by distributing questionnaires electronically with Google Forms to employees in the five private companies, namely, the internal control system, internal audit, and operational divisions. The distribution of questionnaires produced 277 questionnaires that employees had filled out completely from 10 state-owned companies. The questionnaire consisted of initial questions that described the respondent's profile, and 31 questions were used to assess respondents' perceptions of the function of internal governance control (10 questions), fraud behavior (12 questions), and asset misuse (9 questions). The operationalization of the variables consists of IGC measured using an instrument developed from the research of [4], FB measured using an instrument developed [24], and AM measured using an instrument developed by [4]. The question items are measured using a 5-point Likert scale. Data collection will be analyzed using SmartPLS 3.3.9, which is used for hypothesis testing, by looking at the p-value of the path coefficient for each path after going through the bootstrapping stage [31]. This study uses the PLS-SEM approach, which allows for the estimation of complex models involving several constructs, variables, indicators, and structural paths and is causal-predictive, namely the predictive ability in the process of estimating statistical models designed to identify and explain causal relationships between [32].

4. RESULTS AND ANALYSIS

The research sample consists of auditors from ten state-owned businesses in Jakarta, Indonesia, and the findings start with outlining the characteristics of the respondents. TABLE 1 indicates that 277 respondents completed the distributed questionnaires, and those returned were duly filled up. Furthermore, in TABLE 2, which is about descriptive statistics, we can see the mean of all indicators filled out by respondents who agree with all questions representing all dimensions and the three research variables because they are above number four (agree) to number five.

Table 1 Characteristic of respondents

| Category | Frequency | (%) | Category | Frequency | (%) |
|----------------------------|-----------|-------|------------------------|-----------|-------|
| Respondents (n=277) | | | | | |
| <i>Division</i> | | | <i>Education level</i> | | |
| Management | 108 | 38,99 | Associate degree | 61 | 22,02 |
| Internal control system | 132 | 47,65 | Bachelor's | 205 | 74,01 |
| Audit Internal | 37 | 13,36 | Master's | 11 | 3,97 |
| <i>Age</i> | | | <i>Position</i> | | |

| | | | | | |
|---------------|-----|-------|------------------|-----|-------|
| -30 | 114 | 41,16 | Staff | 181 | 65,34 |
| 30-40 | 83 | 29,96 | Asistant Manager | 89 | 32,13 |
| 40+ | 80 | 28,88 | Manager | 7 | 2,53 |
| <i>Gender</i> | | | <i>Tenure</i> | | |
| Male | 119 | 42,96 | 1-5 | 116 | 41,88 |
| Female | 158 | 57,04 | 6-10 | 84 | 30,32 |
| | | | 11-15 | 77 | 27,80 |

Source: Authors' computation

Table 2 Descriptive statistics

| | Mean | Median | Stand. Dev. | Excess kurtosis | Skewness | N | Cramér- von Mises test statistic | Cramér-von Mises p value |
|-----------------------------------|-------|--------|----------------|--------------------|----------|-----|---|--------------------------------|
| Asset Missue | 0,000 | 0,131 | 1,000 | -1,000 | -0,083 | 277 | 0,578 | 0,000 |
| Fraud Behavior | 0,000 | 0,384 | 1,000 | -1,419 | -0,288 | 277 | 2,280 | 0,000 |
| Internal Governance Control | 0,000 | 0,386 | 1,000 | 1,234 | -1,634 | 277 | 6,541 | 0,000 |

Source: Authors' computation

This part summarises the outcomes of the research analysis, as illustrated in TABLE 3. The Outer model's PLS analysis approach demonstrates that convergent validity is attained since the loading factor or correlation of question item scores (31 questions) with construct indicator scores of the indicators that measure the construct is valid. The discriminant validity has been satisfactorily established. The construct's cross-loading correlation value with its indicators is higher than the correlation value with other constructs. Additionally, the Average Variance Extracted (AVE) value is more significant than 0.5, and the square root value of AVE for each construct is greater than the correlation value. In a similar vein all structures exhibit strong reliability as per the established minimum value thresholds. The subsequent phase involves evaluating the Inner model. Both external constructs strongly explain 68.7% of the variation of the endogenous construct AM, according to adjusted r-square FP (0.687). Variables external to the two variables account for as much as 31.3% of the explanation. Similarly, FB accounts for 21.6% of the variance explained by an exogenous component, leaving 78.4% unexplained. The overall fit index (GoF) yields a value of 55.7%, indicating that the model developed in this study possesses substantial predictive capability in elucidating the link between the exogenous constructs IGC and FB and the endogenous construct AM.

Table 3 Outer and Inner Models

| Item | Asset Misuse | Fraud Behaviour | Internal Governance Control |
|---|--|--------------------|-----------------------------------|
| <i>Convergent validity:</i> | | | |
| Loading factor | | > 0,5 | |
| <i>Discriminant validity:</i> | | | |
| Cross-loading | The cross-loading correlation value of the construct with its indicators is greater than the correlation value with other constructs | | |
| AVE | 0.699 | 0.702 | 0.660 |
| Conbach's Alpha | 0.946 | 0.961 | 0.943 |
| The square root value of AVE for each construct is greater than the correlation value | | | |
| <i>Composite reliability:</i> | 0.947 | 0.964 | 0.946 |
| <i>Determination Test:</i> | | | |
| r-square | 0.689 | 0.219 | |

Source: Authors' computation from PLS

The Path coefficient results help answer the research hypothesis test after bootstrapping with subsample 2000 to meet the Rules of Thumb employed in this study with a p-value significance threshold of 0.05 (5%), and the beta coefficient is positive. When looking at the four study hypotheses presented in TABLE 4, it is clear that all of the hypotheses are accepted.

Table 4 Path Coefficients Results

| Path | Original Sample | Sample Mean | Standard Deviation | T Statistics | P Values |
|---------------|-----------------|-------------|--------------------|--------------|----------|
| IGC → AM | -0.573 | -0.576 | 0.034 | 16.734 | 0.000 |
| FB → AM | 0.679 | 0.681 | 0.034 | 20.048 | 0.000 |
| IGC → FB | -0.468 | -0.472 | 0.034 | 13.884 | 0.007 |
| IGC → FB → AM | -0.318 | -0.321 | 0.026 | 12.138 | 0.000 |

Source: Authors' computation from PLS

5. DISCUSSION AND CONCLUSIONS

5.1 Discussion

Internal governance control. This study found that with adequate internal governance control implemented by an organization or company, fraudulent behavior, and asset misuse can be reduced, either directly or through fraud behavior control. That can be seen from the results of the questions to respondents where the importance of each transaction has adequate documentation and approval from the appropriate senior staff members; transactions are recorded within a specified time period, and there is a clear separation of roles and responsibilities. In addition, the importance of proper supervision, monitoring, and review of work to be implemented. The policies, procedures, and guidelines are well documented and communicated to employees proactively. Other things that are no less important, such as closed circuit facilities, are used to monitor all activities, and there are proper records and documentation for all resources, in addition to proper supervision of the use of organizational facilities such as telephones and internet connections. It is expected to carry out physical control over adequate assets consistently, and there is proper supervision to prevent employees from using health certificates and other work incentives.

Knowledge fraud behavior. This study proves that fraud behavior carried out by employees or managers in a company increases asset misuse. As for the ineffectiveness of internal governance control in controlling fraud behavior, it will impact increasing asset misuse. That is to the concept and theory of agency, where employees must obey the regulations and implementation of the internal control system and corporate governance that is applied. Managers, employees, or internal control departments must learn, train, and understand the behavior of each other employee, which tends to lead to fraudulent actions as found from the results of respondents' answers where employees feel that the income they receive is sometimes not enough to meet their needs, feel that their superiors do not appreciate their performance, even though they have contributed a lot to the company. As for leaders, they feel that the higher the position, the easier it will be to do whatever they want, in addition to being good at seeing situations by exploiting weaknesses in internal control in the organization. Employees have the opportunity to commit fraud because the company does not take firm action against employees who commit fraud; this is also due to the lack of effective communication within the company. Employees feel that they are not treated with respect even though they have worked for a long time, so fraud is a natural thing, and they feel that it is not a serious problem if the fraud committed is only small and temporary. Leaders do whatever they want without being asked or asking for opinions. Leaders are afraid of losing their positions or status. In addition, there is also illegal cooperation or agreements that are secret between two or more people that aim to violate applicable laws and regulations. Therefore, controlling all forms of fraudulent behavior is important and urgent to reduce asset misuse.

Minimization of Asset Misuse. This study proves that the way to control or reduce asset misuse is by increasing internal governance control, thereby reducing fraudulent behavior that may occur and reducing asset misuse. The results of the respondents' answers reflect this. Asset misuse includes taking some of the organization's resources, using office time for personal work, and not complying with all policies regarding the use of assets. In addition to borrowing cash/cash equivalents for personal use, borrowing office assets for personal use, using office internet services for personal use, and taking office assets home for personal use. Using office computers and printers for personal use and recording medical expenses that may not occur. All actions continue as if they were normal and commonly done by employees. Therefore, the role of management is very important in innovating internal governance control so that it is effective and efficient.

5.2 Conclusion

Effective internal governance control suppresses fraudulent behavior, reduces fraudulent behavior, and reduces asset misuse. Therefore, to minimize asset misuse, organizations must strengthen internal control and governance and focus on managing and reducing fraudulent behavior within the organization. This study shows that the implementation of adequate internal governance control is very effective in reducing fraudulent behavior and asset misuse in companies by ensuring complete transaction documentation, segregation of duties, strict supervision, and clear policy communication to employees; conversely, ineffective internal control encourages increased fraud triggered by employee dissatisfaction, weak sanctions, and abuse of office by leaders, so management needs to continue to develop and innovate internal control systems in order to minimize asset misuse and maintain organizational integrity.

5.3 Implication

The implications for companies from this review are the importance of implementing effective and innovative internal governance control to prevent fraudulent behavior and asset misuse, thereby increasing operational efficiency, reliability of financial statements, and compliance with regulations while building a transparent and accountable organizational culture; management needs to focus on training, supervision, and good communication to address factors that trigger fraud, including employee dissatisfaction and abuse of office by leaders. For academics, the results of this study open up opportunities to study more deeply the relationship between internal control, fraud behavior, and corporate governance with the agency theory and corporate governance approaches, as well as to develop an adaptive internal control innovation model for organizational dynamics and work culture, so that it can provide theoretical and practical contributions in increasing the effectiveness of fraud risk management and asset misuse in various business contexts.

5.4 Limitations and future research

This study is limited to respondents in the same scope, namely state-owned companies, so it is necessary to study this asset misuse in the future in different companies, such as private companies or even service or manufacturing companies. Therefore, this asset misuse can occur in all types of companies. Further research can also examine the influence of culture or comparison of characters in several regions that may differentiate fraud behaviors.

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