



Can the Effectiveness of the Whistleblowing System and Ewuh Pakewuh Culture Influence Fraud Disclosure?

AFFILIATION:

^{1,2,3}Faculty of Economics and Business,
Universitas Udayana, Indonesia

***CORRESPONDENCE:**

maria.ratna65@unud.ac.id

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Maria Mediatrice Ratna Sari^{1*}, Putu Nokia Sustriani², Herkulanus Bambang Suprasto³

Abstract

This study aims to examine the effect of the effectiveness of the whistleblowing system and the ewuh pakewuh culture on fraud disclosure. One hundred forty-eight internal auditors from Provincial and Regency Inspectorates throughout Bali are used as a sample in this study. This study uses a saturated sampling technique. Collecting data techniques by using questionnaires. Hypothesis analyzed using Structural Equation Model (SEM). The analysis results show that the whistleblowing system's effectiveness positively affects fraud disclosure, and the ewuh pakewuh culture negatively affects fraud disclosure. This research is expected to be an essential input for increasing the internal supervision of local government inspectorates, especially the Bali Regional Inspectorate, which includes the Provincial Inspectorate and Regency or City Inspectorate throughout Bali.

Keywords: fraud disclosure, whistleblowing system, ewuh pakewuh culture

Introduction

Fraud is any illegal act committed by deception, concealment or violation of trust; this action does not depend on the application of threats of violence (Tuanakotta, 2013). This deception can be done by a person or organization to obtain money or wealth or to avoid paying for personal or class interests. This fraud occurs not only in the private sector but also in the government sector to local governments. Fraud carried out continuously will cause hampering economic growth, increase poverty, and infrastructure development will be hampered. To monitor and detect fraud, especially in local governments, internal government supervisory officers (APIP) were formed, one of which was the Provincial and Regency or City Inspectorates. APIP has the authority to conduct internal supervision through audits, reviews, evaluations, monitoring, and other supervisory activities. The Inspectorate plays an essential role in becoming the main guard of supervisors and bodyguards in implementing programs contained in the Provincial and District or City Budgets (APBD). The Inspectorate, in its functions and authorities, is expected to be able to perform early detection and disclose acts of fraud that occur within the local government.

Research that has been carried out previously states that factors influence fraud that occurs in the diamond fraud theory, which is a development of the fraud triangle theory, namely pressure, opportunity, rationality and capabilities of (Wolfe & Hermanson, 2004; Puspitadewi & Sormin, 2018; Hiwawan & Tolen, 2018; Pamungkas et al., 2017; Al Farizi et al., 2020; Apriani, 2020). The rise of fraud cases causes internal and external supervisors to carry out early disclosure and detection of fraud. Several studies state that the competence, professional scepticism, independence, and experience of auditors significantly affect the ability of auditors, especially inspectorate auditors to be able to detect and disclose fraud that occurs (L et al., 2022; Firmansyah et al., 2022; Subiyanto et al., 2022; Eka Putra et al., 2022; Wulandari & Nuryanto, 2018). Mengshang Du's research (2021) shows comprehensive results of building a corporate governance system in three aspects: improving the internal control system, increasing the competence of auditors, and increasing the intensity of monitoring government agencies.

Fraud disclosures carried out by supervisors can also be assisted by some technical assistance, namely by using forensic audits and investigative audits, such as research that has been carried out by E.Eze & E. I Okoye (Eze & Okoye, 2019) states a significant relationship between forensic accounting and detection and prevention in the public sector. Forensic accounting is a science that applies a combination of accounting concepts, audit techniques, and investigative procedures in solving legal problems that boil down to collecting evidence for litigation and prosecuting criminal acts involving embezzlement, fraud, or corruption (Eze & Okoye, 2019). Knowing about forensic accounting can detect fraud early (Alamsyahbana et al., 2022). An investigative audit is also an effective tool to reveal the existence of fraud in any form so that through investigative audits, investigators can obtain evidence that strengthens allegations (Larasati et al., 2020).

Research on the causal factors and tools used for fraud prevention and detection has been conducted. However, the fact is that the Provincial Inspectorate and the District/City Inspectorate have not been able to prevent and carry out early detection of fraudulent practices in local governments. Based on the 2021 Corruption Enforcement Trend Report by Indonesian Corruption Watch (ICW, 2021), it is noted that village heads are the actors who have committed the most embezzlement of village fund budgets. One governor, three mayors, and 20 Regents/Deputy Regents were designated corruption suspects throughout 2021. Several regional heads in Bali reported fraud in 2018. For example, cases of fraud by the Regent of Buleleng Regency related to misuse of land management owned by the Buleleng regional government (Hiwawan & Tolen, 2018). Still, in the same year, a case of alleged corruption of wages levied on the fictitious mining sector also ensnared the Regent of Bangli (Tabelak, 2018).

In 2022, the former Regent of Tabanan was named as a corruption suspect due to the misappropriation of the Regional Incentive Fund for the fiscal year 2018 (Kadafi, 2022). The rise of fraud cases that occur yearly shows that the internal control system of local governments in Bali is still problematic. The weak internal control condition of local governments is also shown in the findings of the CPC in the Examination Results Overview (IHPS) for the Second Semester of 2021; there are 258 cases of weakness in the internal control system, 39 cases of inefficiencies, inefficiency, and ineffectiveness, as well as 878 cases related to the provisions of laws and regulations. Research (Dewi & Wirakusuma,

2019) states that a weak internal control system will undoubtedly facilitate the opportunity for fraud to occur.

The fraud case that occurred shows the weak performance of APIP inspectorate as the main guard to prevent and detect fraud in the local government environment. The weakness of APIP's performance can be caused by several factors: whether the whistleblowing system in each instance is still questionable. The Inspectorate's Internal Government Supervisory Officer (APIP) plays a vital role as the main guard for whistleblowers in the local government environment. Whistleblowing actions are very influential in the disclosure of fraud cases (Lestari et al., 2019) in their research, resulting in the whistleblowing system's significant effect on fraud prevention. However, whistleblowers are often perceived as betrayers who violate the norms of organizational loyalty; some people consider whistleblowers to be heroic figures to the values of truth and not just loyalty to the organization (Rothschild & Miethe, 1999).

This view creates an ethical dilemma for someone in the internal organization to reveal the truth or pretend not to know the fraud that occurred. The ethical dilemma felt was also influenced by developing a bureaucratic culture, namely the Ewuh Pakewuh Culture. Ewuh Pakewuh culture is a pattern of politeness in the bureaucratic environment carried out by subordinates to their superiors, as subordinates who are reluctant or reluctant to express their opinions that may be contrary to avoid conflicts and maintain good relations with superiors (Soeharjono, 2011). The development of the Ewuh Pakewuh Culture indicates an interdependent relationship between APIP as an internal auditor and regional heads as audit objects. This situation creates a dilemma for an APIP which causes the supervisory function to be ineffective, and the existence of the Provincial Inspectorate and the District Inspectorate has not been able to suppress and prevent fraud.

The Theory of Planned Behavior proposed by Ajzen (Fishbein & Ajzen, 1975) states that the main factors that cause the emergence of individual behaviour are influenced by individual intentions (behaviour intentions) towards these certain behaviours. The intention to behave in the Theory of Planned Behavior is caused by three main components: attitudes towards behaviour, subjective norms, and perceptions of behavioural control. Individuals will first think about the implications of their actions before deciding whether to perform or not to perform certain behaviours. The Motivated Reasoning Theory also supports the statement on the Theory of Planned Behavior; this theory explains that motivation can also influence cognitive thought processes and individual strategies in accessing, building and evaluating beliefs. The result of this thought process will lead the individual to decision-making in action.

APIP will undoubtedly think about which behaviours and decisions should be made with this social pressure, considering the role of whistleblowers is very important in detecting fraudulent acts. However, whistleblowers are also considered treasonous and violate organizational loyalty norms. Therefore, a sound whistleblowing management system also influences the effectiveness of whistleblowing in an agency. The more effective the implementation of the whistleblowing system in an agency or organization, the more early detection and disclosure of fraud will increase in the agency or organization.

Several studies have revealed that whistleblowers' role affects fraud disclosure. Whistleblowing system research shows results that the whistleblowing system has a positive and significant effect on fraud detection (Pamungkas et al., 2017; Saraswati,

2018; Dewi & Wirakusuma, 2019; Lestari et al., 2019; Triantoro et al., 2020; Rahmida & Urumsah, 2020; Firmansyah et al., 2022). Another study stated that the whistleblowing system did not significantly influence fraud prevention (Atmadja et al., 2019); a similar study also stated that the whistleblowing system has no significant effect and has not become the main alternative to fraud disclosure (Saputra & Suwandi, 2017). Based on the differences in the results of previous studies and existing theories, the more influential the whistleblowing system implemented, the more effective the disclosure of fraud in the local government environment by the APIP Inspectorate increases. Therefore, researchers draw the hypothesis that the effectiveness of the whistleblowing system has a positive effect on fraud disclosure.

APIP, the government's internal auditor, will undoubtedly think twice about disclosing the fraud problem so as not to be involved in agency conflicts. In order to avoid conflicts, it is better to remain silent and not disclose the problems that occur because internal auditors carry out their supervisory functions to regional officials and regional heads as objects of audit as well as their superiors. This silent behaviour is explained in the Employee Silence System; this theory explains that the Employee Silence System is a silent attitude that is shown by deliberately refraining from expressing ideas, opinions, or opinions on a problem in an organization or agency.

Employee Silence System, these categories are acquiescent silence, defensive silence, and prosocial silence. Acquiescent silence is an attitude of silence based on the motive that speaking will not bring about change, so the individual deliberately withdraws from the problems he knows about. Defensive silence is an attitude of silence that is based on the motive of fear of consequences when speaking up. Prosocial silence is an attitude of silence based on the belief that staying silent will benefit the organization or someone being protected; this attitude of silence is also carried out to show a feeling of respect or reluctance towards someone who wants to be protected (Brinsfield, 2009). Soeharjono (2011) conducted the first research on the influence of ewuh pakewuh culture, which significantly affected the effectiveness of the APIP Inspectorate's internal control system. Studies related to Ewuh Pakewuh Culture that developed at the APIP Inspectorate were proven to trigger fraud in the local government environment (Fatmawati, 2016).

Meanwhile, the research (Rozai, 2019) resulted in that the culture of ewuh pakewuh negatively affects the professionalism of internal supervisors in the Solo Raya Inspectorate, study Diniati (2021) also resulted that Ewuh Pakewuh culture significant negative affects the independence of auditors (Diniati, 2021). Based on the theory that the higher the culture of ewuh pakewuh carried out by internal government auditors, the lower the internal supervision and control carried out so that the disclosure of fraud in the local government environment is also low. However, previous studies still have gaps in research results. Therefore, researchers want to retest with the hypothesis that ewuh pakewuh culture research harms fraud disclosure.

The Regional Inspectorate of Regencies and Provinces of Bali as the internal auditor of the Bali regional government, has a very important supervisory role and function to be the strongest 'shield' in preventing and is expected to have the courage to speak out in revealing crimes that exist in the local government environment in order to create good governance. However, several previous studies have not examined the cultural factors of ewuh pakewuh and the effectiveness of the whistleblowing system on fraud disclosure in the local government environment. Thus, this research contributes to

be used as a recommendation in order to improve the quality, professionalism, and integrity of the internal auditors of the Bali regional government through the development of an analytical framework to determine the influence of each variable of the effectiveness of the whistleblowing system and the culture of ewuh pakewuh on fraud disclosure on the supervisory function of the Bali Regional Inspectorate. Therefore, the results of this study are used as an important input in improving the quality, professionalism, integrity and role of auditors in understanding, preventing, detecting and disclosing fraud to suppress fraud that occurs in the local government environment, especially the Bali region.

Research Method

This study uses a quantifiable approach and aims to test the influence of the variable effectiveness of the whistleblowing system and the culture of ewuh pakewuh on fraud disclosure on the supervisory function of the Regional Inspectorate. The researcher chose the Provincial Inspectorate and the Bali Regional Regency/City Inspectorate as the research location because the Inspectorate is an agency as an internal supervisor that oversees all regional implementation, the role of the Inspectorate is critical in preventing and disclosing fraud in the local government environment.

All variables were measured using a four-point modification Likert scale technique to avoid respondents' biased answers. This scale consists of 1) strongly disagree, 2) disagree, 3) agree, and 4) strongly agree. The use of a four-point scale avoids double interpretation and the indecisiveness of the respondent's attitude toward the problem under study (Azwar, 1997).

The whistleblowing system is said to be effective if the fraud that occurs every year can be reduced by the system's existence (KNKG, 2008). The variable indicator of the whistleblowing system uses measurements in Ramdhani's research (Ramdhani, 2018) because it refers to the guidelines of the National Committee for Governance Policy (2008) related to building, implementing, and managing a whistleblowing system in an organization which is contained in three dimensions, namely structural aspects, operational aspects, and maintenance aspects. The indicator was then developed into ten questionnaire statements.

This attitude of ewuh pakewuh is a reluctance towards superiors to form a pattern of behaviour to be reluctant to express opinions in the bureaucratic environment. The indicators used in the Ewuh Pakewuh Culture variable will then be developed into ten statements in the questionnaire. The indicators used by Brinsfield developed the theory of employee silence systems from research conducted by Van Dyne et al. (2003).

Fraud is a condition found by auditors when conducting examinations. Fraud generally has a broad impact on society. One type of fraud is corruption; therefore, fraud is detrimental to society. Suppose fraud can be detected and disclosed earlier. In that case, the detection system will provide feedback on the prevention system so that fraud expected to cause more significant losses can be known earlier (Wuysang et al., 2016). Fraud disclosure in this study uses several indicators adopted from the research of (Fauzan et al., 2014); later, the statements in the questionnaire will be adjusted or modified with predetermined respondents; these adopted indicators will then be developed into ten statements in the questionnaire.

The total number of samples that can be used is 148 respondents using saturated sampling techniques. The data sources in this study used primary data sources, namely by using questionnaire techniques. The questionnaire is in the form of a printout presented directly to each agency that is a respondent to the study. Testing instruments and hypotheses using the Structural Equation Model Partial Least Square (SEM-PLS) technique with the help of SmartPLS software version 3.0. The stage carried out in the first SEM-PLS is to create an outer model. Testing in the outer model includes testing the validity and reliability tests of the statements in the questionnaire.

Convergent validity tests are seen through the value of the loading factor and the value of the Average Variance Extracted (AVE); the convergent validity test can be accepted if the loading factor value is more than 0.7 and the AVE value is more than 0.5. The discriminant validity test is seen through the cross-loading value of each variable; according to (Alfa et al., 2017) cross loading meets the criteria for discriminant validity if the value exceeds 0.7, while the reliability test is assessed based on the results of Cronbach's Alpha and the composite reliability value. Reliability tests are said to meet if Cronbach's Alpha has a value of more than 0.6. hypothesis testing with inner model testing.

This inner model measurement is also a test to test hypotheses related to relationships between variables. Hypothesis testing is carried out by looking at the partial test results for each variable. The results of the Inner model tested can be known by looking at the values on the R square, Q square, and path coefficient (path coefficient). In this study, the confidence level was 95% ($\alpha = 0.05$). The hypothesis is acceptable if it has a p-value of < 0.05 .

Result and Discussion

Respondents in this study were dominated by respondents who had an S1 educational background of 52.03%, had worked for 2-5 years as much as 89.86%, were young auditor positions of 59.86% and became team members in their audit assignments as much as 55.40% of the total number of samples used in the study.

The results of descriptive statistical analysis testing show that the independent and dependent variables in this study have an average value greater than the standard deviation value, so this result means that the data in this study are heterogeneous. Furthermore, the convergent validity test results can be seen through the loading factor value and the average variance extracted (AVE) value. This study used a limit of loading factor value and AVE value of 0.50

Indicators X1.5, X1.6, X1.7, X1.9, X2.1, X2.9, Y1, Y8, and Y10 have a correlation value below 0.50, so the statement item is not further studied and must be modified by

Table 1. Descriptive Statistical Analysis Test Results

	N	Min.	Max.	Mean	Std. Deviation
Effectiveness of Whistleblowing System (X1)	148	29.00	40.00	33.885	3.178
Ewuh Pakewuh Culture (X2)	148	10.00	27.00	18.540	3.519
Fraud Disclosure (Y)	148	29.00	40.00	34.804	3.056
Valid N (listwise)	148				

Source: Processed Data , 2021

the model by removing indicators that have a loading factor value below 0.50 and retesting without including indicators that have a loading factor value below 0.50.

After retesting, each statement item's convergent validity test results are declared valid. Next is to test the validity of the discriminant on the modified model. The test showed promising results because the correlation value of each indicator against the variables it built of them was more significant than the correlation value of each indicator that formed a variable against another variable. The results of both validity tests with modification models against the indicators in this study have met the specified conditions and limits to be called valid.

The reliability test against the construct in this study showed that the values of Cronbach Alpha and Composite Reliability were each above 0.70 so it could be concluded that all indicators from the research instruments used had met reliable criteria. The next test after all indicators in the research instrument is declared to have passed the validity and reliability test is the testing of the structural model (inner model). The inner model test is evaluated through R-square, Q-square, and path coefficient values.

The R-square value of the fraud disclosure variable, which is an endogenous construct in this study, is 0.567. This means that 56.7% of the fraud disclosure construct is explained by the variable effectiveness of the whistleblowing system and the Ewuh Pakewuh culture as an exogenous construct. At the same time, the remaining 43.3% is explained by other factors not present in the model. The Q square value has a value magnitude with a range of $0 < Q < 1$, the Q square value close to 1 indicates the model has better predictive relevancy, while the Q square value < 0 means that the research model has poor predictive relevancy (Irwan & Adam, 2015). The result of the Q square calculation in this study was 0.32, which shows that the structural model in this study has a relatively good predictive relevance.

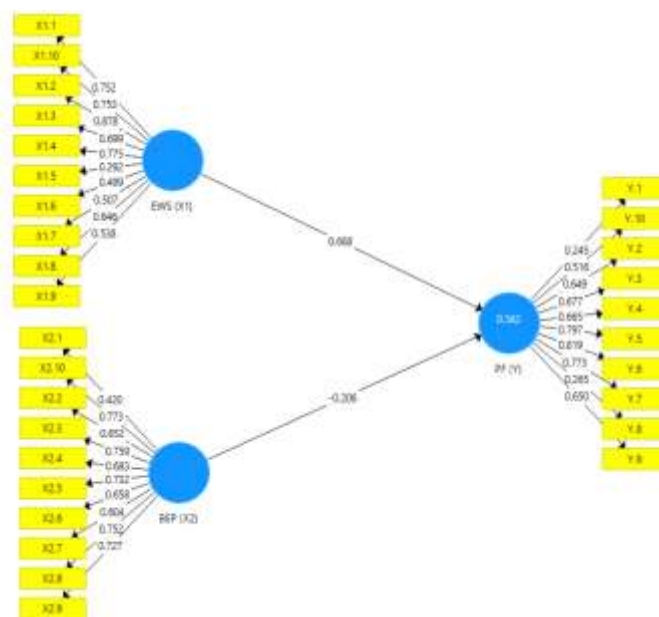


Figure 1. First Convergent Validity Test Results

Source: Processed Data, 2021

The P-Value value indicates a value of 0.000 (<0.05) and an original sample value of 0.670. This means that the first hypothesis (H_1) is acceptable, and the effectiveness of the whistleblowing system has a positive effect on fraud disclosure. This result interprets that the higher the effectiveness of the whistleblowing system implemented in an agency, the higher the disclosure of fraud carried out in that agency. This occurs due to the high understanding and utilization of internal whistleblowers related to the fraud reporting system that exists in an agency to report fraudulent acts within their agency.

The results of this study are consistent with the Theory of Planned Behavior (Fishbein & Ajzen, 1975), that the main factors of behaviour carried out by an individual are based on intention. The intention is influenced by three primary factors: attitudes towards behaviour, subjective norms, and perceptions of behavioural control. The attitude towards behaviour reflects the belief of a person's attitude towards a social state so that he/she will tend to act following the beliefs that exist in him. This means the more an individual believes that, the better the system and often whistleblowing is carried out in his organization, it will reduce the fraud that occurs and will also be more straightforward and higher the disclosure of fraud committed.

Subjective norms affect a person's intention to make decisions based on others, the environment and surrounding conditions, meaning that individuals will increasingly want to carry out whistleblowing system actions if the environment, friends, or superiors in an organization support whistleblowing by improving the management of the reporting system and informing the protection of whistleblowers, then it is likely that more and

Tabel 2. Second Convergent Validity Test Result

Variable	Statement Items	Outer Loading Factor	AVE	Description
Effectiveness of Whistleblowing System (WBS)	X1.1	0.814	0.604	Valid
	X1.2	0.897		Valid
	X1.3	0.724		Valid
	X1.4	0.824		Valid
	X1.8	0.627		Valid
	X1.10	0.748		Valid
Ewuh Pakewuh Culture (BEP)	X2.2	0.633	0.523	Valid
	X2.3	0.757		Valid
	X2.4	0.710		Valid
	X2.5	0.745		Valid
	X2.6	0.653		Valid
	X2.8	0.739		Valid
	X2.10	0.808		Valid
Fraud Disclosure (PF)	Y2	0.684	0.536	Valid
	Y3	0.715		Valid
	Y4	0.683		Valid
	Y5	0.816		Valid
	Y6	0.815		Valid
	Y7	0.771		Valid
	Y9	0.661	Valid	

Source: Processed Data, 2021

more individuals will be involved in whistleblowing actions which will later increase the effectiveness of the whistleblowing system in the organization. Furthermore, the control of perceptual behaviour will affect the more experience and information possessed will strengthen individuals in carrying out whistleblowing actions; in this study, it is related to research respondents who are APIPs, of course, have sufficient experience and information to be able to carry out whistleblowing actions.

The path coefficient of Ewuh Pakewuh culture results on fraud disclosure has a P-Value value of 0.000 (< 0.05) and the original sample value of -0.229. These results suggest that the second hypothesis is acceptable and means that the Ewuh Pakewuh culture variable negatively influences the fraud disclosure variable. The results of this test interpret that the higher the Ewuh Pakewuh culture that develops in an organization, the more individuals are reluctant to disclose fraudulent acts, so the disclosure of fraud is lower. On the other hand, if the Ewuh Pakewuh culture that develops and is applied is low, fraud disclosure will be easier to do or high. The growing culture of Ewuh Pakewuh can influence the actions and independence of the Inspectorate's APIP in making decisions in carrying out its supervisory functions because the Regional Inspectorate in the relevant government structures and regulations is a single entity and is still under the command line of the regional head which is at the same time the object of supervision and audit.

The test results in this study are consistent with the theory of the employee silence system and the theory of Motivated Reasoning Theory. The Theory of the Employee Silence System (Van Dyne et al., 2003) is a silent attitude carried out by employees or employees in an agency. In this study, APIP Inspectorate is the auditor of local government, which is still under the control of the party it supervises, namely the regional apparatus organization (OPD). Van Dyne et al. (2003) formulated three categories of the silence of an employee or employee, namely acquiescent silence is the silence of a person to restrain his ideas or ideas by withdrawing himself from problems that he knows, prosocial silence is an attitude of concealment of ideas, opinions, and information, work to provide beneficial benefits for others or their organization based on concern for others. Brinsfield, (2009) developed the category of silence into four clusters, namely acquiescent silence, prosocial silence, self-protective silence is the employee's silent attitude based on the feeling of fear of material losses if they speak so that they must protect themselves. The last cluster is deviant silence is an attitude of silence based on the desire to hurt others to cause harm to the person deliberately.

The next theory, motivated reasoning theory (Kunda, 1990), states that an individual's motivations, goals, or preferences can influence the individual's conclusions or decisions. Motivated Reasoning Theory is divided into two categories, namely accuracy

Table 3. Path Coefficient Result

Hypothesis	Original Sample	T-Statistic	P-Value
Efektivitas Whistleblowing System (EWS) → Pengungkapan Fraud (PF)	0.670	15.055	0.000
Budaya Ewuh Pakewuh (BEP) → Pengungkapan Fraud (PF)	-0.229	3.608	0.000

Source: Processed Data , 2021

goals and directional goals; accuracy goals are related to someone who has the motive to arrive at a goal or the most accurate conclusion, while directional goals are related to individuals who have the motive to arrive at the goal that best suits the individual's wishes. For example, APIP as the internal auditor of the government in making decisions related to its supervisory function will begin with initial cognition based on facts in the field; if an APIP Inspectorate has high independence, it aims to make accurate decisions based on facts in the field, APIP inspectorate has accuracy goals. Meanwhile, suppose the Ewuh Pakewuh culture influences the APIP Inspectorate in making decisions related to fraud disclosure by following the directions and wishes of its superiors, which, finally, the wishes of their superiors are different from the facts on the ground. In that case, the APIP Inspectorate has a directional goal of goals.

Conclusion

The findings in this study show that the higher the culture of Ewuh Pakewuh that develops in an inspectorate, the intention of internal auditors to whistleblowing becomes low, causing the whistleblowing system that has been established to be ineffective and the supervisory function of the Inspectorate weak. This will undoubtedly hinder the disclosure and detection of fraud. On the other hand, developing a low Ewuh Pakewuh culture in an organization will help increase the intention of internal auditors to become whistleblowers in disclosing fraud. The higher intention of the internal auditor inspectorate to be a whistleblower means the whistleblowing system of the organization is effective in fraud disclosure. The limitation of this research is the statement in the questionnaire that is not accompanied by examples of everyday life events that align with the auditor's experience in doing their function as an internal auditor. The second limitation is the results that are tested only based on the answers to the questionnaire.

The recommendation from the researcher for the following study is to add secondary data in the form of a Supervisory Result Report conducted by the Inspectorate to each region in accordance with its supervisory function. Subsequent researchers should also include organizational culture variables to identify the root causes of Ewuh Pakewuh culture in each agency. Preferably, the method used for data collection also uses interview techniques to confirm and dig up respondents' answers regarding the development of the Ewuh Pakewuh culture in each agency. Recommendations for the heads of the Inspectorate of each Region in Bali to evaluate and report the results of the internal supervision evaluation. Later these results can be published so that the public can widely access them to oversee the realization of a sound internal control system to achieve good governance.

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