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ATTRIBUTES OF AUDIT COMMITTEE AND DETECTION OF OCCUPATIONAL FRAUD WITH THE MODERATING ROLE OF INTERNAL CONTROL SYSTEM

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ABSTRACT

This study seeks to determine the effect of the attributes of the audit committee (e.g., size, meeting frequency, financial accounting and audit expertise, and the independence of the audit committee) on the detection of occupational fraud. This research also investigated the role of the internal control system as a moderator in the relationship between the audit committee's attributes and occupational fraud. Data were collected from 413 respondents working in accounting, finance, and audit departments of the companies listed on the Pakistan Stock Exchange. The PLS-SEM technique was used to test the hypotheses. The results show that the attributes of the audit committee have a positive and significant effect on the detection of occupational fraud. The internal control system significantly strengthens the influences between the latent variables in the model. This study lays out both the real-world implications and some hands-on policy tips for managers, policymakers, regulators, audit firms, and investors. It's all about helping them to recognise the role of the audit committee in detecting occupational fraud, and how to make that committee sharper and more effective in its role.

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INTRODUCTION

The audit committee (AC) is a crucial component of the corporate governance system (Liana, Friyani, 2026). It is considered a cornerstone of the modern corporate governance structure, serving as a critical bridge among the board of directors, management, and external and internal auditors (Yahaya, 2026). An effective audit committee serves as a vital mechanism to enhance accountability, transparency, and integrity in a company's operations (Astuti et al., 2026). It ensures that shareholders and other stakeholders receive a clear, accurate, and timely picture of the company's performance, financial condition, risks, and governance (Manurung et al., 2026). It reviews the design and implementation of the internal control system to ensure they are robust in preventing and detecting fraud (Rachmawati and Kusumaningsih, 2026). It also monitors the accuracy, transparency, and integrity of the financial statements (Hassan et al., 2025). AC also looks for unusual trends, inconsistencies, or red flags that might indicate manipulation or fraud (Gorshunov, 2024; Rahmadania et al., 2026). It assesses the fraud risk as part of the overall risk management framework and ensures fraud risk is regularly evaluated. AC tracks outcomes of the investigation when fraud is suspected or detected (Simbolon et al., 2026). The audit committee provides oversight of management practices and financial disclosures (Chen et al., 2026). The presence of an independent and active audit committee significantly reduces the likelihood of fraud in companies (Walker, 2026; Kurniasih and Sari, 2024). Occupational fraud (OF) refers to the fraud committed by employees of the organisation. They steal or misuse organisational assets or take benefits at the expense of organisational resources (Sudjono, 2023). This practice gradually

deteriorates the financial and operational strength of the organisation and sometimes leads to the closure of the business. Fraud is becoming a major cause of business failures and significant losses on investments. Fraud hurts an organisation's competitiveness and damages its reputation both in the marketplace and in the eyes of the public. These types of fraud include asset misappropriation, corruption, bribery, and fake financial reporting (Nakitende et al., 2021). Employees are involved in every type of fraud, and fraud opportunities that exist in the organisation give them a chance to take illegitimate benefits (ACFE, 2024). People who commit this kind of fraud are always on the lookout for fresh, low-risk ways to pull off their schemes, while organisations are constantly trying to stay one step ahead, working to stop and catch them. Because this problem isn't going away on its own, it needs real attention, and the tools companies are using to fight back deserve a hard, honest look. It is a challenge for organisations to eliminate or minimise these frauds. A strong corporate governance system always helps the organisation in achieving this objective (Rasheed et al., 2026). An organisation loses about 5% of its revenue as a result of fraud and corruption (ACFE, 2024). It is impossible to pinpoint the precise cost of fraud (Manning, 2016). The publication of fraud has a detrimental effect on the public's perception of the entire industry since consumers lose faith in the same kinds of companies after learning about scams in those businesses (Liana and Friyani, 2026). Beyond just the money lost, occupational fraud damages an organisation's reputation, shakes the trust of its stakeholders, and reveals serious cracks in how it's governed and controlled (Nakitende et al., 2021). AC builds a workplace where fraud, mistakes, and ineffectiveness are not tolerated by making

sure everyone follows the rules, protecting what matters to the organisation, and holding people responsible for their actions (Kurniasih and Sari, 2024).

Fraud and unethical business practices are on the rise, occurring across organisations worldwide rather than in a single region (Hutagalung, 2024; Aladwey & Diab, 2025). It's just as common in developed nations as it is in developing countries (Jordan & Ong, 2026). No organisation is completely safe from the adverse effects of this economic and social evil. Fraud has become a serious headache for all kinds of organisations, and it's also holding countries back from economic growth (Kalovya, 2023). Fraud has gotten serious enough to bring organisations to their knees and drain investors' pockets. And after watching some major companies crumble, it's clear that fraud is not a small thing anymore (Kurniasih and Sari, 2024).

Despite the organisations' significant and ongoing efforts to reduce OF, it remains a risk and a contributing factor to the rise in losses for government and private institutions (Sinha, 2024). Because of OF, businesses are less profitable, which can lead to unemployment, lower investment, and a decline in state tax revenue; it is detrimental to society as a whole (Kurniasih and Sari, 2024; Yanti et al., 2026). Following the demise of well-known corporations, fraud is no longer regarded as a minor issue. Prominent business scandals make it clear that scams can cause companies to go bankrupt (Yin et al., 2026). Researchers, professionals, and academicians are attempting to investigate the causes of fraud as well as how to prevent and detect various forms of fraud in organisations due to the significant negative effects that fraud has on businesses and the economy as a whole (Rashid, 2022; Jordan and Ong, 2026). Researchers have found that several audit committee features, such as independence, size, resources, meeting frequency, experience, and members' financial literacy, can improve an organisation's effectiveness (Chen et al., 2026). Fraud can be controlled by an efficient AC and corporate governance system (Friyani et al., 2022).

This research aims to make a meaningful contribution, particularly when it comes to spotting and uncovering occupational fraud within organisations through the efforts of the audit committee. The insights, recommendations, or conclusions drawn from this study will help organisations truly understand how vital AC's functions are in the fight against occupational fraud.

REVIEW OF LITERATURE AND EVOLUTION OF HYPOTHESIS

Fraud Triangle and Fraud Diamond Theories

Numerous social scientists studied and explored the social and other factors that stimulate workers in organisations to engage in fraudulent activities (Yarana, 2023; Yusoff et al., 2024). The fraud triangle proposition is the most well-known and most extensively accepted proposition, which was developed by Cressey, who noted there were three elements in every fraud: pressure, opportunity, and rationalisation. Pressure consists of those personal and other factors that pressurise a person to commit fraud, and when he finds an opportunity to do this, he will obtain personal benefit from it at the expense of the organisation (Cressey, 1953). The main reasons for the existence of fraud opportunities are the weak internal control system and poor ethical culture in the organisation. In rationalisation, perpetrators justify their fraudulent activities psychologically (Priambada et al., 2023).

Fraud triangle theory is extensively used to understand the taxonomy of fraud (Apsari and Chariri, 2025; Tieu and Tran, 2026). For further illustration, Wolfe and Hermanson (2004)

added a fourth element called capability and developed a fraud diamond model (Wolfe and Hermanson, 2004; Manurung et al., 2026). Capability refers to the ability of a fraud perpetrator to commit and hide the fraud because, without a capability to commit and hide a fraud, it'll be difficult for a perpetrator to commit fraud (Purwani et al., 2024). These theories explain the fraud and mindset of the fraudsters, which is essential to understand for the development of the mechanism to control the fraud. The purpose of this study is to investigate the effect of the attributes of the audit committee on the detection of occupational fraud, with the moderating role of the internal control system. The following are the attributes of the audit committee that are investigated in the study.

Size of Audit Committee

According to Rachmawati and Kusumaningsih (2026), an adequate number of members is necessary for the AC to function effectively. Any development always relies heavily on human resources, and for the AC, having the number of members required to carry out its responsibilities is also a fundamental necessity (Nurfadilah and Mahadianto, 2025). A sufficient number of members can collectively perform their function more efficiently and produce better results. The size of the committee should be reasonable as per the size and operations of the company (Aladwey & Diab, 2025). The collective wisdom and efforts of the AC will play a pivotal role in the detection and prevention of fraudulent activities in the organisations (Erin et al., 2026). Therefore, it is hypothesised that:

H1: The size of the audit committee affects the detection of occupational fraud.

Members with Financial, Accounting, and Audit Knowledge

In addition to making AC more knowledgeable and efficient, the presence of individuals with superior knowledge and experience in finance, accounting, and audit will aid in the detection of fraud (Haekal et al., 2024). According to research, AC will become more active and effective if its members have competence in the aforementioned domains (Nurfadilah and Mahadianto, 2025). Members with this level of experience are able to comprehend the problems and advise the BoD on them (Febrian, 2025). These experts will help in understanding the nature, causes, and prevention mechanisms of the frauds, and AC will be better able to frame a system to prevent and detect fraud (Rachmawati and Kusumaningsih, 2026). Based on the above-mentioned discussion, the following hypothesis is built:

H2: Members with financial, accounting, and audit knowledge on the audit committee affect the detection of occupational fraud.

Independence of Audit Committee

The AC will be able to carry out its duties without interference or bias only if they have independent members (Kurniasih and Sari, 2024). The AC members will not be able to research significant issues and form opinions on them if they are subjected to excessive pressure or influence (Haekal et al., 2024). Its function can only be carried out effectively and actively by an independent AC (Nurfadilah and Mahadianto, 2025). The AC's chairs should be independent directors, and its members must be non-executive directors in accordance with Pakistan's CG laws (SECP, 2019). An independent AC always works freely without any fear of retaliation and undesired results (Febrian, 2025). So, the following hypothesis is built:

H3: The independence of the audit committee affects the detection of occupational fraud.

No. of Meetings of the Audit Committee

AC is well-informed on the company's circumstances and regularly meets to discuss significant topics (Fariha et al., 2022). Additionally, it demonstrates that AC members are willing to carry out their duties with diligence and have a good understanding of them (Nyamumbo, 2024). The performance of the AC is favourably correlated with the frequency of its meetings (Haekal et al., 2024). Regular meetings enable urgent discussions of critical topics and prompt decision-making (Aladwey and Diab, 2025). Timely discussion and decision on the reported fraud incidents will help to reduce their harmful results. Frequent meetings will help to achieve these objectives (Sobhan et al., 2026). So, it is hypothesised that:

H4: The number of meetings of the audit committee affects the detection of occupational fraud.

Internal Control System (ICS)-Moderator

ICS is the collection of organisational rules and practices that will offer an acceptable level of assurance over the accomplishment of the organisation's goals (COSO, 2013). This process is affected by BoD, top management, and other employees of the organisation (COSO, 2013; ACFE, 2024). If ICS is insufficient and ineffective, employees will have more opportunities to perpetrate fraud and unethical behaviour within the company (Andini and Mirosea, 2026). To ensure that there are no flaws that could cause OF, the ICS's efficacy and sufficiency should always be evaluated on a regular basis (Rashid, 2022; Yanti et al, 2026). The main advantage of ICS is that it ensures that all of the organisation's financial and non-financial resources are fully utilised and serves as a vehicle for achieving optimal performance. In addition, it lessens the likelihood of OF and shields the company against unforeseen circumstances (Andini and Mirosea, 2026). In this

research, ICS is being used as a moderator. The effect of the ICS on the relationship between the attributes of the audit committee and the detection of occupational fraud is explored.

H5: The internal control system influences how the size of the audit committee relates to the detection of occupational fraud.

H6: The internal control system influences how the members with financial, accounting, and audit knowledge in the audit committee relate to the detection of occupational fraud.

H7: The internal control system influences how independent the audit committee relate to the detection of occupational fraud.

H8: The internal control system influences how the number of meetings of the audit committee relates to the detection of occupational fraud.

METHODOLOGY

Sampling and Data Collection

The data were collected from the persons who are working in the audit, finance, and accounting departments of the Pakistani listed companies. The conceptual framework of the study is presented in Figure 1, which illustrates the proposed relationships between audit committee characteristics and the detection of occupational fraud, while the internal control system moderates these relationships. The data were gathered using a standardised questionnaire that was developed from earlier studies. Eleven of the 424 respondents who were contacted were deemed invalid, leaving 413 questionnaires for analysis. The demographic data are presented in Table 2. All variables were measured using the questions that focused on detecting occupational fraud and attributes of AC in the organisation on a five-point Likert scale (1 = strongly disagree, 5= strongly agree). In Table 1, the variables, their measurement, and the relevant source of the usage of these variables from the literature are given.

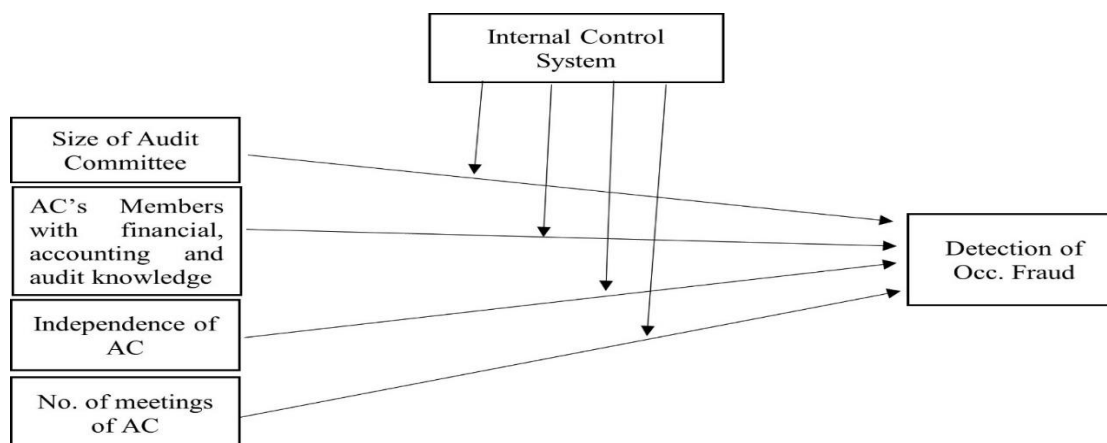


Figure 1. Study's Conceptual Model.

Table 1. Variables' definitions and sources.

Variables	Source
Detection of occupational fraud (DOF)	(Bakar et al., 2023; Lukman and Chariri, 2023; Wahidahwati and Asyik, 2022)
Size of audit committee (SIZE)	(Rachmawati and Kusumaningsih, 2026; Nurfadilah and Mahadianto, 2025; Aladwey & Diab, 2025)
AC's members with financial, accounting and audit knowledge (AFA)	(Haekal et al., 2024; Nurfadilah and Mahadianto, 2025; Rachmawati and Kusumaningsih, 2026)
Independence (IND)	(Kurniasih and Sari, 2024; Nurfadilah and Mahadianto, 2025; Febrian, 2025)
No. of meetings (MTG)	(Nyamumbo, 2024; Aladwey and Diab, 2025; Sobhan et al., 2026)
Internal Control Systems (ICS)	(Yanti et al., 2026; Andini and Mirosea, 2026)

Data were gathered from 424 respondents. However, 11 questionnaires were excluded because they came from unlisted companies, leaving 413 valid responses for the analysis.

Demographics of the respondents are given in Table 2. Most of the companies represented by the respondents in the data collection are older than fifteen years, according to the demographic information shown in Table 1. Over half of the businesses are involved in manufacturing. Over 80% of the respondents have over eleven years of practical experience and are well-versed in the topics posed to them about fraud detection. Half of the respondents are employed in accounting, and the other half are in the organisation's finance and audit departments. 48% of businesses are over 20 years old, indicating that they are highly developed in terms of their systems and expertise dealing with employee fraud.

Data Analysis Techniques

The researchers employed the PLS-SEM method for data analysis using the SmartPLS software. The most modern and

appropriate method for data analysis in this kind of investigation is PLS-SEM (Shakeel et al., 2023). Researchers have used this strategy for studies that focus on fraud detection (Shakeel et al., 2025).

Reliability and Validity

Validation and data reliability must be preserved for the study's instruments to be of high quality. This guarantees that the results obtained from the instrument will not be inaccurate (Algozzine and Hancock, 2017). According to Taherdoost (2022), Cronbach's alpha should be calculated in order to assess the scale items' internal consistency and dependability. The Cronbach's alpha value must be higher than 0.70 in order to establish a benchmark and limit.

The questionnaire used in the survey was evaluated for its validity and reliability by utilising loading, Cronbach's alpha, composite reliability (CR), and average variance extracted (AVE), all of which are satisfactory. Table 3 presents the results.

Table 2. Demographics.

N= 413	Frequency	Percentage
Gender:		
Male	355	86%
Female	58	14%
Field:		
Accounting	206	50%
Audit	112	27%
Finance	95	23%
Experience:		
Less than 5 years	17	4%
5 -10	54	13%
11- 15	161	39%
16 - 20	132	32%
More than 20 years	49	12%
Sector:		
Financial	153	37%
Manufacturing	235	57%
Others	45	11%
Age of firm:(In years)		
Less than 5 years	0	0%
5 -10	4	1%
11- 15	25	6%
16 - 20	186	45%
More than 20 years	198	48%

Table 3. Reliability and validity.

Constructs	Items	Loadings	Cronbach's Alpha	CR	AVE
Detection of Occupational Fraud (DOF)	DOF1	0.582	0.824	0.862	0.563
	DOF2	0.525			
	DOF3	0.631			
	DOF4	0.551			
	DOF5	0.619			
	DOF6	0.584			
	DOF7	0.606			
	DOF8	0.583			
	DOF9	0.629			
Size of audit committee (Size)	SIZE1	0.756	0.721	0.788	0.604
	SIZE2	0.817			
	SIZE3	0.678			
	AFA1	0.617			
			0.744	0.791	0.581

Members with financial, accounting, and audit knowledge (AFA) in the audit committee	AFA2	0.698			
	AFA3	0.645			
	AFA4	0.711			
	<hr/>				
No. of meetings (MTG) of the audit committee	MTG1	0.692			
	MTG2	0.713	0.732	0.721	0.595
	MTG3	0.718			
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Independence (IND) of the audit committee	IND1	0.711			
	IND2	0.773			
	IND3	0.693	0.705	0.744	0.586
	IND4	0.709			
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Internal control system (ICS)	ICS1	0.553			
	ICS2	0.624			
	ICS3	0.643			
	ICS4	0.511			
	ICS5	0.567			
	ICS6	0.704			
	ICS7	0.566			
	ICS8	0.682			
	ICS9	0.553			
	ICS10	0.613	0.783	0.836	0.519
	ICS11	0.711			
	ICS12	0.547			
	ICS13	0.601			
	ICS14	0.582			
	ICS15	0.723			
	ICS16	0.542			
	ICS17	0.632			
	ICS18	0.661			

Table 3 presents the factor loadings for all items. The cut-off for composite reliability (CR) to keep or drop an item was set at 0.70, and the threshold for average variance extracted (AVE) was 0.50. All items with factor loadings above 0.5 were retained in the model (Hair and Alamer, 2022). Thus, we read all our objects into the measuring model. Convergent validity was assessed by AVE values, which are all above 0.50 and are thus deemed satisfactory (Magno et al., 2024). Table 3 shows the CR values, which fall in the range of 0.07 to 0.90 and are therefore acceptable (Hair and Alamer, 2022). As a further check for multicollinearity, VIFs are calculated for independent variables, and these values should be below 10, indicating that there is no concern for multicollinearity (Sarstedt et al., 2023); thus, there

is no issue with independent variables, as all values of VIF < 10. Results are shown in Table 4.

We assessed discriminant validity using the Fornell-Larcker criterion, which says that the square root of each construct's AVE should be higher than its strongest correlation with any other construct (Hair and Alamer, 2022). Table 5 shows this clearly; the bold and italicised values are the square roots of the AVEs, and they're all larger than the correlations with other constructs; therefore, discriminant validity is established. After completing the measurement model evaluation, the second step is to check the hypothesis. For this purpose, a bootstrapping approach is applied in PLS-Smart to obtain path coefficients, t-statistics, standard deviation, and p-value. Results of the study are presented in Table 6.

Table 4. Collinearity statistics.



Construct	VIF
Size of the audit committee	2.130
AC members with financial, accounting, and audit knowledge	2.332
Independence of AC's members	2.147
No. of meetings of AC	2.067

Table 5. Descriptive and discriminant validity (Fornell-Larcker criterion).

Variables	Mean	Standard Dev.	DOF	SIZE	AFA	IND	MTG
DOF	4.028	0.417	0.750				
SIZE	4.233	0.446	0.478**	0.777			
AFA	4.152	0.421	0.499**	.462**	0.762		
IND	4.296	0.453	0.503**	.472**	.476**	0.765	
MTG	4.112	0.428	0.588**	.565**	.519**	.564**	0.771

Table 6. Hypothesis testing.

Hypothesis	Variables (Relationships)	Beta	t-value	p-value	Decision
H1	SIZE $\xrightarrow{\text{DOE}}$	0.238	3.923	0.005	Supported
H2	AFA $\xrightarrow{\text{DOE}}$	0.311	4.356	0.003	Supported
H3	IND $\xrightarrow{\text{DOE}}$	0.243	5.068	0.000	Supported
H4	MTG $\xrightarrow{\text{DOE}}$	0.268	5.051	0.001	Supported
H5	SIZE*ICS $\xrightarrow{\text{DOE}}$	0.112	1.829	0.019	Not Supported
H6	AFA*ICS $\xrightarrow{\text{DOE}}$	0.198	3.356	0.006	Supported

H7	IND*ICS		0.202	3.245	0.007	Supported
H8	MTG *ICS		0.128	4.289	0.004	Supported

Discussion of Results

The study's goal was to find out how the characteristics of the AC affect the detection of workplace fraud. This study also measured the internal control system's moderating role. SmartPLS software was utilised to analyse the data using the PLS-SEM technique. This method is frequently used by researchers in studies that use primary data, according to Hair and Alamer (2022). The structural model was assessed to determine the relationship between the variables following a validity and reliability check.

As per the results of the data processing using the PLS-SEM technique, it is obvious that all the attributes of the AC positively and significantly impact the detection of occupational fraud. These attributes include the size of the AC, members' knowledge regarding finance, audit, and accounting practices, independence, and the number of meetings of the AC. The conclusions of the various studies on the subject are confirmed by these findings. These attributes should be strengthened by organisations to make ACs' performance more effective.

The relationship between these characteristics and the identification of fraud is found to be effectively moderated by the internal control system, except for the size of the AC. AC's can lead to a robust fraud detection mechanism. The organisation's ethical culture should be promoted by the audit committee. The audit committee should also ensure that no fraud goes unnoticed in the organisation (Reskino and Puteri, 2023). Every reported fraud case must be thoroughly investigated, and the findings should be submitted to the audit committee for further action.

CONCLUSIONS

Detection of occupational fraud is a critical challenge for all types of organisations. Organisations suffer losses because of these types of fraud. Several strategies, tools, and procedures were implemented by the organisations to minimise these types of fraud (Kalovya, 2023). All these types of techniques to control the adverse effects of these frauds. Organisations employ various methods, instruments, and processes to identify occupational fraud. These consist of forensic audit, internal control systems, external audit, and internal audit, among others (Kalovya, 2023). The audit committee also performs a notable role in the detection of these types of fraud. The various elements that make up an audit committee (AC) more effective include the size of the AC, members' knowledge regarding finance, audit, and accounting practices, independence, and the number of meetings of the AC (Kang, 2023; Gibbs, 2025). These characteristics significantly contribute to the committee's increased effectiveness and goal orientation. Our study's findings, which demonstrate a favourable and noteworthy impact on the identification of occupational frauds, corroborate this phenomenon. The presence of these characteristics and their effective function will aid the company in identifying fraud. The audit committee and board of directors should genuinely monitor these qualities and put policies in place to make the AC better. The AC is an important component of the contemporary corporate governance framework. An efficient and well-run AC will improve the organisation's overall governance (Ramadhani and Trisnainingsih, 2023; Nugroho, 2024). The relationship between characteristics of the AC and the detection of occupational fraud is moderated by the internal control system. Occupational fraud can cause financial disruption for businesses, and the AC can fulfil its obligation to ensure the financial stability of the companies by strengthening the whistleblower system. AC

performs very effective functions to minimise these types of fraud and unethical practices (Ginanjar et al., 2023). AC functions help organisations with good corporate governance, risk management, and compliance.

Regulators also need to keep revisiting and updating rules regarding the corporate governance and audit committees regularly so they actually work the way they're supposed to. When rules make sense in the real world, that's when you start seeing real results. Regulators are in a great position to help organisations govern themselves better. They should take real action to stop fraud before it sinks a company and wipes out what stakeholders have invested. Cracking down on occupational fraud helps people trust how organisations operate again, and that trust makes the whole corporate sector and capital markets stronger for everyone.

Managerial Implications

The management of companies considers occupational fraud to be a serious threat and finds it difficult to prevent and detect it (Thomas and Indriaty, 2023). The management may be able to understand and control this threat through effective operations of the AC (Sari, 2024; Yunia and Mutmainah, 2024). The audit committee's ability to effectively carry out its oversight duties is essential to corporate governance. A weak corporate governance framework leads to occupational fraud. For businesses to prevent and detect fraud, an efficient corporate governance model is crucial (Sudjono, 2023). The audit committee can assist in streamlining the company's corporate governance procedures.

Limitations of the Study and Future Research

The study measures the effect of the characteristics of the AC, such as the size of the audit committee, members with financial, accounting, and audit knowledge, the number of meetings, and Independence. There are several other variables of the AC which need to be investigated as a tool for the detection of occupational fraud, other important tools of corporate governance system such as internal and external audit, forensic audit, whistleblowing systems etc. can also be investigated in this regard, and the internal control system is used in this study to measure its effect as a moderator in the relationship between dependent and independent variables, several other features like risk management, ethical culture, internal and external audit etc. can also be investigated as a moderator. Many qualitative studies can be conducted on the various corporate governance tools and their roles in the detection of occupational fraud.

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