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## Exploring the perception on occupational fraud within sport organizations in Finland

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**Abstract**

The impact of fraud is growing, setting organizations continuously at risk. The impact of occupational fraud, which is defined as fraud committed with the involvement of employees of an organization, can seriously harm an organization, seen especially in smaller organizations, such as sport clubs or NGOs.

The objective of the research was to found out what the current state of internal controls preventing occupational fraud within sport organizations in Finland was, and to identify the current level of awareness of occupation fraud within the sport industry.

A literature review was conducted to support the background of the qualitative research. The research has been conducted through content analysis, which has been based on four in-depth interviews. These in-depth interviews were held with three informants representing a major Finnish sport federations and one informants represented a professional ice hockey club in Finland. The topics discussed included the organization demographics, currently awareness and set-up of internal controls, risk management and the fraud exposure of these club organizations.

The various informants recognize the risks their organization is currently be exposed to. Lack of resources, from both monetary and employee resources point of view, resulted in organizations not able to set-up internal control frameworks to prevent occupational fraud in full. In addition, the informants stated that risk management activities have been mainly focused on direct financial risks.

The findings of the research indicates that organizations recognize the occupational fraud risk and are aware of existing tools, such as internal controls frameworks, they could implement to eliminate or mitigate risks of fraud. A challenge, however, which all informants raised was lack of resources to combat occupational fraud. Through increased cooperation, and sharing of best practises between sport organizations, it is possible that in the future the internal control framework and risk management activities within the sport industry can be improved, which might result in a lower exposure to occupational fraud.

**Keywords/tags (subjects)**

Occupational Fraud, COSO, Fraud, Internal Controls, Risk Management

**Miscellaneous (Confidential information)**

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# 1 Introduction

Sport plays a big part in our everyday life . As stated by Karlsson (2014) the interest in sport is higher than ever, with increased accessibility and greater participants numbers. Resulting from mega sport events, such as the Olympics, improved technology, increasing the accessibility, and the commercialization of the sport industry, the impact sport organizations has on society is significant and still growing. Resulting from the change in overall environment and mindset in the sport industry, majority of sport clubs and federations can be seen as commercial entities. This means that sport organization need to ensure that the sport entity functions well and adhere to society standards, this includes, for example, the overall good governance within an organization.

Good governance is nowadays highlighted for companies. As media, and especially social media, exposure increases, companies' risk to be publicly named and shamed if the overall company governance is not perceived as correct by the general crowd. One example of this is Wal-Mart, which is still facing the effects, such as decline in sales, because of a bribery case in Mexico (Roy, 2020). Companies have invested considerable resources in ensuring that the overall governance of their enterprise is appropriate (Deloitte, 2015).

Three significant elements of good governance are 1) an internal control system, 2) internal and external organizational transparencies, and 3) risk management. One of the main aims of these three elements of good governance is to limit fraud exposure an organization encounters. Fraud is defined by Petrașcu & Tieanu (2014) as a *“type of behavior in which people make use of tricks, manipulation, and deceit in order to acquire money, land, goods, or trust, with the overall objective of getting personal gain out of it”*. Fraud can occur in any kind of organization; it has even been claimed that there will always be an individual within every company who cheats, lies or steals for their own personal gain (Wells, 2018).

Many commercial companies attempt to mitigate the risk of fraud by implementing internal controls. Designing, implementing and monitoring these internal controls, however, can often demand a significant amount of money and time. Smaller organizations may often struggle with limited resources for mitigating risk of fraud (ACFE, 2018). The absence of protective mechanisms can result

in an increased risk of fraud. As described by Free & Murphy (2015), fraud causes high and unnecessary costs for companies, organizations and the society. At worst, exposure to fraud may even cause business or organizational continuity risks, often detrimental for small non-profit organizations (ACFE, 2018), which most sport clubs in Finland can be considered to be part of.

The objective of this research is to identify and discuss the current state of the internal controls system and risk management, and the overall awareness of fraud exposure sport organizations within Finland have. In order to reach the objective, the following research questions were set. Firstly, what is the current control environment within sport organizations? Secondly, what is the level of fraud exposure sport organization's executives encounter and identify? And lastly, is information related to the protection against fraud openly available and shared amongst organizations within the sport industry?

As sport organizations could lose significant amounts of money through occupational fraud, identifying the current state of the awareness could support future actions of sport clubs and federations to protect themselves better against occupational fraud.

An extensive literature review about good governance, internal control systems, fraud and fraud exposure, and risk management has been conducted to support this research. In addition to the literature review, four in-depth interviews regarding internal controls, risk management and fraud exposure were completed with informants of three sport federations and one sport club. Regrettably, despite attempts to contact more sport federations and sport clubs, the response rate remained low. This may be partly explained by, as described by Kihl, et al. (2018), the fact that frauds within sport clubs and federations are often not reported externally due to the fear for bad publicity.

The focus of the interviews was on day-to-day operating activities including, but not limited to, record-to-revenue and purchase-to-pay processes. Different forms of corruptions, such as sport bribery and match fixing, are outside the scope of this research.

The research setting was made in a way to focus mainly on occupational fraud within sport clubs and federations within Finland. According the Association of Certified Fraud Examiners (AFCE)

there are three main categories of occupational fraud; Corruption, Asset Misappropriation and Financial Statement Fraud (AFCE, 2022).

Financial statement fraud is outside the scope of this research. As the identification of financial statement fraud would need a thorough analysis of book keeping, the in-depth interviews would not be the most efficient approach to detect this kind of fraud. In this category of occupational fraud is, for example, overstatement of revenues, improper asset valuation and over or understatement of outstanding liabilities and expenses.

## **2 Theoretical Foundation**

The theoretical foundation is mainly build on existing frameworks and research articles related to internal controls, risk management and occupational fraud. As occupational fraud is a rapidly changing subject, the timeliness of majority of reports used, from institutions such as the Association of Fraud Examiners, Institute of Internal Auditors and the World Bank, were considered. In connection to sport organizations, the limited information available with regards to internal controls and occupational fraud were retrieved from major research journals such as the European Sport Management and the European Sport Review.

### **2.1 Sport and non-profit organizations**

Even though some research has shown that non-profit organizations are more susceptible to fraud (ACFE, 2022), the available literature on sport or non-profit organizations' risks to fraud and internal controls is very limited (Kihl et al, 2021). Studies and literature on internal controls and risks of fraud in the field mainly regard match fixing and bribery within the sport industry (Park et al, 2018, Carpenter, 2012). Limited research on the matter contradicts with the fact the non-profit and sport organizations have been mentioned as particularly vulnerable to fraud. Kihl et al. (2021) point out how the heavy reliance on volunteers, complicated revenue streams, and lack of business and financial expertise put these organizations at risk. A reasoning for lack of research in the field might be the significant role the organizations have in a local community. Sport organizations might fear transparency over fraudulent events could become fatal for a small sports club.

### **2.2 Good Governance**

Good governance is nowadays a crucial component of many companies' strategies, annual reports, and marketing activities. The term emerged during the 1990s, and was introduced by, among others, the World Bank (Nanda, 2006). Various definitions have been provided for good governance by the World Bank. In 2005, the World Bank formulated six different dimensions which set the level of good governance. The dimensions were voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law and lastly control of corruption (Kaufmann, Kraay, and Mastruzzi, 2008).

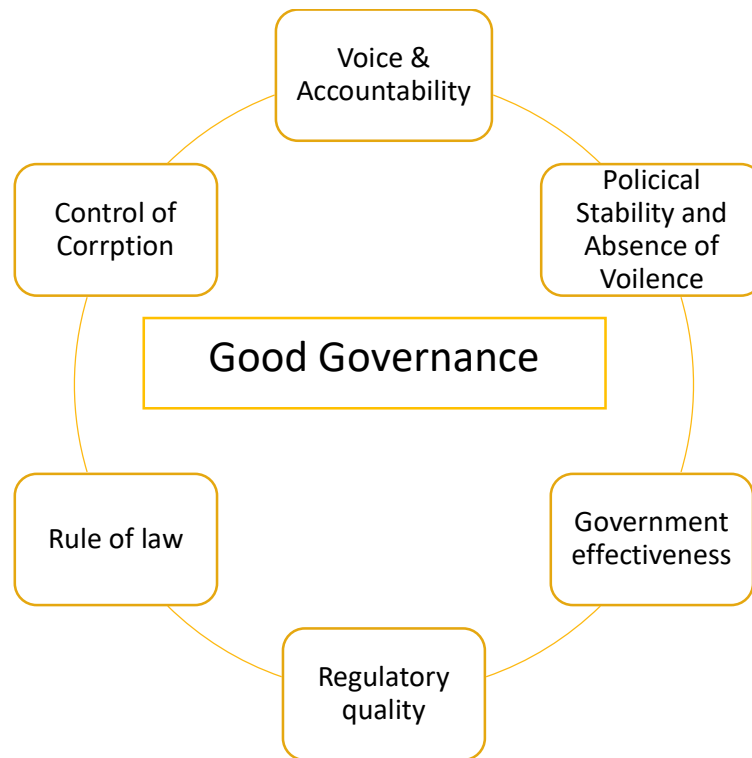


Figure 2.1, The six dimensions of good Governance (based on World Bank, 2005)

Originally a term to describe national level governance, in today's world, good governance is also used in the framework of companies and institutions. As a result, interpretation of the term can vary as many entities discuss good governance from different points of view. A literature review conducted by van Kersbergen and van Waarden (2009) indicated that there are nine different interpretations for good governance. Within the sport industry, the adoption of the term has been slow in comparison to the corporate world (Geeraert et al, 2014). This is partly because sport organizations and federations have been known for their large autonomy, and therefore have been very self-governed. Furthermore, the industry is often considered more as a leisure or cultural industry than a business, which may in part have delayed the adoption of the term (Geeraert et al, 2014).

This research will apply a definition for good governance stated by Kooiman (1993) as the “*purposeful effect to guide, steer, control or manage societies*”. For the scope of this research, “societies” will refer to sport clubs or organizations.

Corporate social responsibility (CSR) and environmental, social and governance issues (ESG) may sometimes be confused with good governance. These two concepts are an important element of an organizations' overall good governance strategy. They are, however, a part of good governance but not good governance itself. Especially with regards to CSR, selection and behaviour of main sponsors, often corporations, is the focal point. Within good governance, however, the prime emphasis is also on the internally managed processes.

As the focus of this research is in the internal governance of sport clubs and sport organizations, environmental and social elements were not discussed with the informants.

Another crucial component of good governance is. As stated by Albu and Flyverbom (2019) the disclosure of information, either internally or externally, creates trust. Transparency in the context of good governance in sport organizations is visible in the background of individuals elected in the managements or boards, but can also refer to the information related to how money is spent within the organization.

Transparency within sport industries is also encouraged by the government. In fact, sport organizations are, in order to operate, often highly dependable on governmental or a higher institution's funding. Funding might be received, for example, from local municipality, national government, through the national Olympic committee or other European, or international, sport federations. The entity funding the sport organization is able to set requirements for receiving the funding. These requirements can lead to an increase in transparency and change in policy within the sport organization.

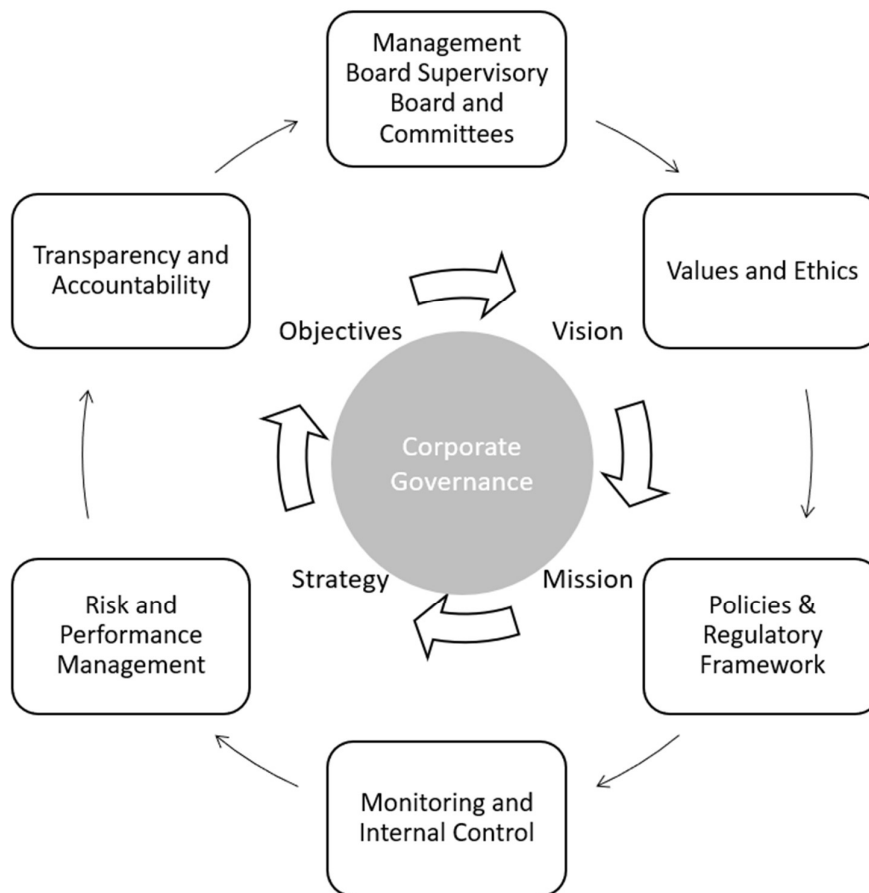


Figure 2.2 Governance Framework, inspired on ASM International (2018)

### 2.3 Fraud

There are many definitions and theories for fraud. According to Albrecht, Albrecht and Albrecht (2008) fraud is *“an act of deception performed to gain something of value from others illegally, either by physical force or by trickery”*. Fraud has been happening for centuries (Petrașcua & Tieanu, 2014).

Fraud is nearly impossible to predict. In every unique company there can be an individual who is cheating, lying or stealing (Wells, 2018). A global survey done by PwC in 2020, identified that 47% of companies have encountered fraud, or fraud-like behaviour in the past two years. In addition, based on a report (2020) from the Association of Certified Fraud Examiner (AFCE), on average a company loses around 5% of their annual revenue due to fraud. Another report from the AFCE

shows that companies with less than 100 employees are more likely to experience fraud than larger corporations (ACFE, 2008; Tysiac, 2012).

One of the most popular theories related to fraud is the Diamond fraud model, created by Wolfe and Hermanson (2004). Their theory is an expanded version of the Fraud Triangle theory, which originates from the 1950s, created by Cressay. The Fraud Triangle theory states that three major elements, namely pressure, opportunity and rationalization, drive fraud. Some theories have replaced the elements of 'pressure' by 'incentive'.

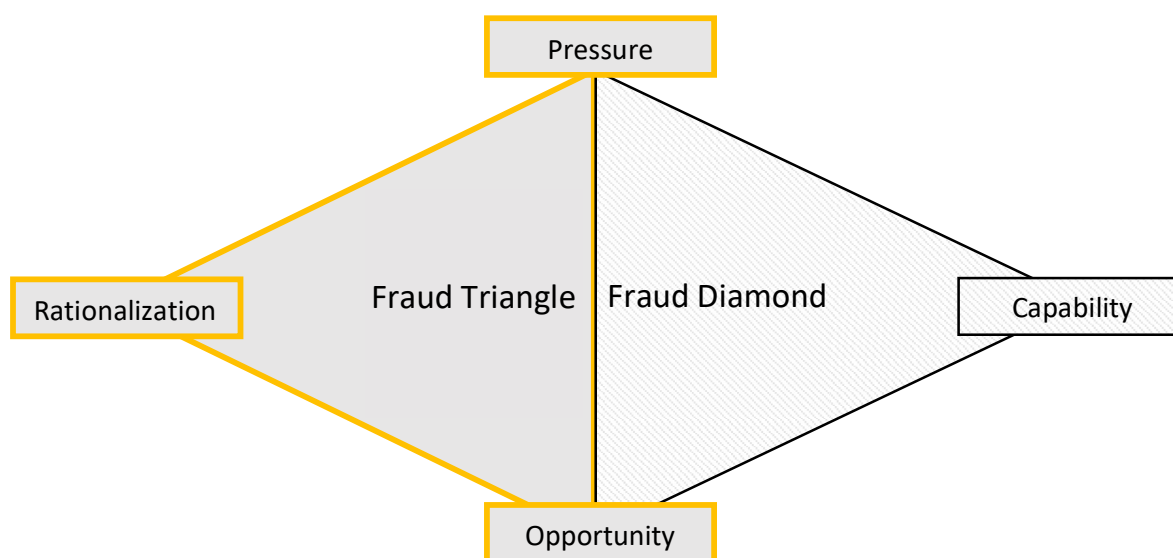


Figure 2.3 Fraud triangle (Cressay, 1950) and diamond (Wolfe and Hermanson (2004)

Using either term, the core remains the same, the pressure represents the existence of, for example, a financial need to commit a fraud. Opportunity, mostly applicable for the scope of this research, represents the lack of internal controls to identify or prevent fraud. Lastly, rationalisation relates to an attitude of the person committing fraud. In some studies also referred to as justification, the person committing fraud often has an reasoning as to why it is acceptable to commit the fraud. Wolfe and Hermanson (2004) argue that there is a fourth dimension, the Capability. Capability refers to an individual needing to have the skills and ability to commit fraud. In common for both theories is the focus on financial motives for fraud.

There are various amendments made to the original triangle theory. Another study adapts different acronyms for the pressure element within the triangle and diamond theory: M-I-C-E (Kranacher et al.,2011). These relate to Money, Ideology, Coercion and Ego (sometimes also referred to as entitlement). A more recent model includes a fifth element. In the S.C.O.R.E model, developed by Vouisinas (2019), the original capability, rationalization and opportunity are accompanied by ego and stimulus.

Fraud can be initiated internally or externally of the organization. Internal fraud is fraud that can be only initiated from within the organization. Internal fraud may be committed by an employee, volunteer or even a board member of an organization. The most common types of internal fraud are direct theft of cash or products from the organization, and not charging or lower charging of products or service to family or friends.

External fraud can be committed by anyone outside of the organization. This kind of fraud may be attempted by a common stakeholder of the business, such as a customer or supplier, but can also be a complete stranger of the organization. External fraud attempted by outsiders, who have no direct relation to the organization has been growing heavily in the past years due to the development in technology with regards to social communication and globalization (Xu et al. 2021). Anyone, anywhere in the world can act as a fraudster, which puts all organizations potentially at a risk.

In one of the most significant reports related to fraud, the reports to the nation from the Association of Certified Fraud Examiners (ACFE), the definition most commonly used to describe fraud is occupational fraud. Occupational fraud is defined as fraud committed with the involvement of employees of an organization (ACFE, 2018). This can be either intentional or unintentional, and without the involvement of the employee, the fraud would not have been possible. Examples of occupational fraud are theft of cash, payroll fraud or the making of improper payments. The three main categories of occupational fraud according to the ACFE are Corruption, Asset Misappropriation and Financial Statement fraud. Each of these categories have subcategories which can be identified in the fraud tree (figure 2.4).

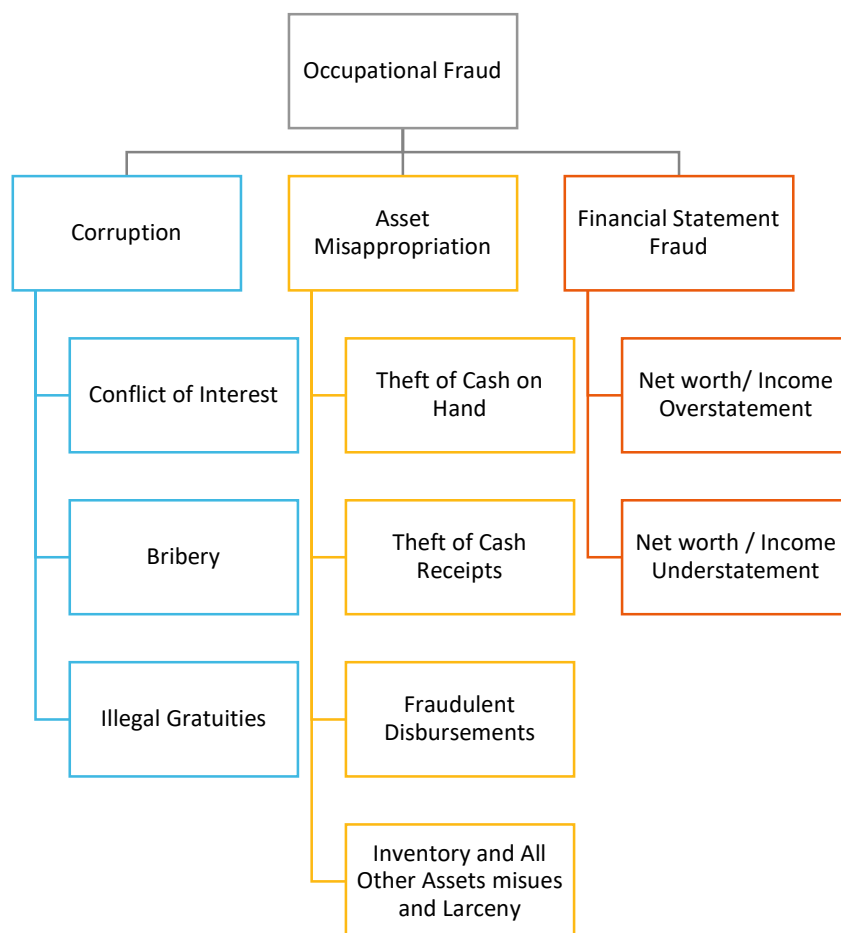


Figure 2.4 Occupational Fraud Tree (inspired on ACFE, 2018)

## 2.4 Internal Controls

Companies and organizations try to mitigate the risks related to fraud by implementing internal controls. Internal controls are policies and processes which give reasonable reassurance to achieve the organization's objectives and reliability of the financial statement (Lehmann, 2010; Zakaria et al, 2016). These controls enable the achievement of objects in regard to compliance with laws and regulations, correct and accurate financial reporting, overall organizational effectiveness and efficiency within its own operations (Mutnuru, 2016). According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2013) internal controls have three main objectives.

Firstly there is the operations objectives. This is related to the effectiveness and efficiency of the organizations' operations. This regards both operational and financial performance goals and protecting the assets from losses. Secondly there is the reporting objective. This objective is referring to all internal and external reporting and the overall transparency and reliability of such reporting. And lastly, there is the compliance objective. This is referring to various laws and regulations the organization needs to adhere to.

A commonly used and known model describing internal controls is the Committee of Sponsoring Organizations (COSO) model. This model was at first created by the COSO in 1992. The latest updated is from 2013 and includes five main objectives and components (COSO model, 2013) embedded in a cube.



Figure 2.5 The COSO cube (COSO, 2013, Internal Control – Integrated Framework, p.14)

COSO set various principles in the COSO model with a goal to ensure the effectiveness of the internal controls. In total, there are 17 different principles split over the 5 objectives, also seen as the bricks of the COSO model.

A control environment is the foundation of the internal controls process within an organization. The control environment is based on processes, standards and structures. The COSO model sets five different principles for this theme, including (1) commitment to integrity and ethical values, (2) the independence and oversight responsibility of the board of director (BoD) towards management, (3) the role of management to set structure, authority and their responsibility, (4) commitment to ensure competent individuals are attracted, developed and retained, and (5) individual accountability towards internal controls in relation to the overall goal of reaching the set objectives.

Second brick in the COSO model is related to risk assessment. Risk management activities regard the identification, analysing, mitigating or elimination of risks that an organization deems to pose a threat to the achievement of the organization's set objectives. Within the COSO model there are four principles set for this theme. (1) Set organizational objectives in a clear way to ensure risks can be identified and assessed, (2) identification and analysing of the risks, (3) within the risk assessment, estimate the potential exposure to fraud when reaching the organization's objectives and (4) identify and assess risks that can impact the overall internal controls environment.

Control activities refer to the action an organization can put in place to help mitigate or eliminate both internal and external risks. The activities include (1) the selection and development of control activities made by an organization, which support in mitigating the overall risk an organization encounters when working towards the objectives, (2) set and develop control activities over the technology involved within the organization, and (3) develop and set policies, guidelines and procedures in place.

The information and communication area refers to the external and internal communication an organization has. Within the COSO model, there are three principles set: (1) the quality of information, (2) internal communication and (3) external communication. All of the principles drive towards enabling all involved stakeholders to perform towards the set objectives, whilst supporting the internal control system and addressing risks exposure.

Monitoring activities refer to the assessment of the overall control environment, including the day-to-day control and risk management activities. Within this segment, the overall majority of internal control and risk management system is monitored. Within the COSO model, this area layer is defined by (1) evaluation done by, for example, internal or external auditors and (2) the evaluation and communication of the noted deficiencies with regards to the internal control environment.

The COSO model includes various steps and actions an organization can take to eliminate the opportunity for manifestation of fraudulent behaviour by its employees (Frazer, 2016). The model was designed to support any kind of business or organization to set-up their own effective internal control system (Frazer, 2012), which is clearly illustrated in Figure 2.5, the COSO cube.

According to the Public Company Accounting Oversight Board (PCAOB) a material weakness is defined as: *“deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company’s annual or interim financial statements will not be prevented or detected on a timely basis”* (2021).

Doyle et al. (2006) conclude that smaller, younger, more complex, and rapidly growing companies are more likely to have material weaknesses. In addition to Doyle et al., Frazer (2016) states that, resulting from poor planning and low controls of procedures, smaller organizations are more exposed to material weaknesses. The difference with non-profit organizations is even more significant. Not only is the level of susceptibility higher with non-profit organizations, but also the impact on the public is considered much bigger (Harvey, 2018).

For internal controls to be successful, companies and organizations need to actively monitor the results. Over time, organizations need to ensure the quality of the internal control system. This could be done by continuous ongoing monitoring or separate evaluation activities (Frazer, 2012). Two possible important stakeholders in the evaluation process are an external and an internal auditor. These two often complement each other to increase the level of reassurance for the management of the organization. The external auditors assess the financial statement and give an opinion on the management assertions with regards to the set internal controls (Lehmann, 2010). An internal auditor is most often an internal employee who assesses the internal controls from an operational

efficiency point of view. Both types of auditors are expected to give an independent assessment on the financial statement, including accounting, reports, asset management and operational activities.

Establishing an internal audit department within an organization can have a significant role in the identification of fraud. According to the institute of internal auditors (IIA), internal audit is an “independent, objective assurance and consulting activity designed to add value and improve an organization’s operations” (Institute of Internal Auditor, 2022). An internal audit function assesses that the overall organizational governance is effective and efficient, and whether the internal controls in place are sufficient to mitigate all the identified risks. In addition, internal audit assesses if the organization meets its goals and objectives. Internal audit is ideally objective and gives the company insights and assurance.

There are three types of internal controls. These include detective, preventative, and corrective internal controls. Detective controls are those controls that identify an issue in company’s processes after they have occurred. An example of a detective control is the account reconciliations process, or a physical inventory count. A preventative internal control is a type of control which eliminates the possibility of a process failure. An example of these controls is travel preapproval or invoice approval before payment execution. Corrective controls, also sometimes referred to as mitigating controls, are those controls which activate when an error or irregularity has occurred. An example of these is that a credit card is automatically blocked after fraudulent activity has been detected, or a sprinkler system that will go on when a fire was detected.

Fraud preventive controls are nowadays considered more by companies (Petraşcu & Tieanu, 2014). The effectiveness of each type of controls can be difficult to assess. It is important, however, that each line of defence has the appropriate means to ensure an organization has an internal control system of high quality (Akisik & Gal, 2017). According to the IIA the three lines of defence are often referred to as those that own the risk (first line of defence), control the risk (second line of defence) and those that give assurance on the effectiveness of internal controls and risk management (third line of defence) (2013).



Figure 2.4, 3 Line-of-Defence model (inspired on IIA, 2013)

In addition to the three earlier mentioned internal controls, organizations have administrative controls in place. These controls are not focused on fraudulent activities, they are created from the health and safety perception. They are, however, as crucial for organizations as the internal controls discussed above. Administrative controls are mostly applicable to situations where there is a risk of injury or accidents. An example of such controls are access restrictions or mandatory trainings on policy and procedures.

## 2.5 Risk governance

As described in the COSO model, risk assessment and risk governance are important within the overall control environment of an organization. Risk assessment and risk management is often a part of the long-term planning within an organization. Over the years, the traditional risk assessment approach has made way for a more complete approach. The more complete approach is called the Enterprise Risk Management (ERM). In traditional risk management, all projects, departments and processes are assessed individually, regarding the potential risks (Buganová & Šimíčková, 2019).

As stated by Frazer (2012) risk management and internal controls are very much interconnected. Risks are something which every company, no matter of their size or type of business, faces and must address internally. As stated in the COSO Model (1992), risk assessment is a process in which an organization identifies all the relevant risks it faces when striving to achieve the set objectives.

Many corporations in the commercial business industry are implementing Governance, Risks and Compliance (GRC) tools to support their risk management activities. The tools can be rather costly, with costs potentially reaching 600.000 Euro for the software and implementation (DPM, 2022). The tool, however, ensures that an organization can be proactive, agile and creates holistic views on the organizations risk environment.

There are many different models on how companies or organizations can address the enterprise risk management. According to Bromiley (2014), the most important element of ERM is that instead of managing risk one by one, all risks are identified, managed and monitored comprehensively and coherently. A commonly used tool within commercial companies is the previous mentioned GRC software. This software is the connection between the company's policies, access management, applicable laws and risks.

From the sport organizational perspective, risk management is often not very high on the agenda of sport organizations. At this moment, risk management within the overall sport industry appears to be mainly focused on the physical aspect such as injuries and results, which might eventually impact the financials of an sport organization. It is, however, as stated by Fuller and Drawer (2004) the responsibility of the governing body to ensure the risks of the individual sport organization are

identified and assessed. Another study shows that risk management in sport clubs, federations and event organizers has not explored the effects of risk management (Leopkey & Parent, 2009). The research concluded stating that majority of the involved stakeholders think that risk management is a crucial element of event planning.

## 3 Methodology

### 3.1 In-depth interview approach

The study was conducted using a qualitative data research set-up. Data collection was done through interviews with four sport organization informants. The interviews were conducted through Microsoft Teams between January and March 2022. The predefined interview questions are presented in Appendix I, and were shared with each informants prior to the interview. The interviews conducted had four separate focus areas. First part was mainly concerning on the organization demographics, followed up by questions related to the internal control environment and the risk management activities. The last part of the interviews were related to fraud, with a special focus on the identified fraud and the awareness within the organization of occupational fraud.

27 sport clubs and 7 sport federations were contacted, requesting the organization to participate in the research. The contacted clubs and organizations were selected based on the popularity of the sport, by the number of overall members. A criterion applied to contact a sport club or federation's informant was the that employee is a full-time employee of the organization. This was to ensure the probability that the informant had awareness of internal controls, fraud and risk management in the sport organization. In addition, the objective was to include sport clubs operating on a professional level. Therefore, only clubs in the Finnish football and Finnish ice hockey league were requested to participate in an in-depth interview, and federations with at least 50.000 registered members were selected.

In total 5 approached individuals responded to the request of an in-depth interview, of which four informants were willing to represent their sport organization in the research. The informants involved in the research represent three of the larger federations and one professional ice hockey team within Finland. Anonymity of answers was agreed upon with the participating informants. Therefore, throughout the research, none of the informants, sport clubs or sport federations will be identifiable. Instead, the sport club or federation will be referred to, for example, as 'sport organization' or 'sport entity'.

The discussions with the informants had four different segments. The first segment was related to the demographics of the sport organization, including the role and responsibilities of the interviewee. Following sections focused on identifying the current state of Internal Controls, Risk Management and the Fraud Exposure in place in the sport organizations.

As the aim of the research was to identify the current understanding and to understand what the current perception is of internal controls and occupational fraud, the decision was made to collect data through in-depth interviews. As stated by Guion et al. (2011) the in-depth interviews method enables a researcher to identify an informant's perspectives on a specific subject. This data collection method enables the researcher to gain a lot more detailed information about the topic than what, for example, a survey could have achieved (Boyce and Neale, 2006). The in-depth interviews were semi-structured, and were completed one-to-one and was mainly focused on open-ended questions as described by Allmark et al. (2009).

### **3.2 Content Analysis**

The decision to conduct this research through in-depth interviews was made to enable the informants to share their knowledge and awareness with regards to occupational fraud in detail. In addition, by setting the data collection method as in-depth interview, it enabled to ask follow-up questions, during the interviews, to the informants through their answers given. As the data outcome from the interview was descriptive, the research has been completed through content analysis. In the content analysis, the transcripts of the interviews identified similarities and differences between the various informants.

As the aim of the research has been to identify the current state and overall awareness of internal controls and occupational fraud in sport organizations, and the research literature in this specific area has been rather limited, the design has been to use conventional content analysis (Heish & Shannon, 2005). This technique enables the research to get a better understanding of the focus of individual or within a group (Stemler, 2001).

Alternatives, such as data collection through focus group or discussion forum, was not considered an feasible data collection method as the discussion with regards to occupational fraud might be confidential. In addition, quantitative research through, for example surveys, was examined but would not have given the same level of insights as the interviews and content analysis.

## 4 Results

### 4.1 Sport Organization's demographics

Four informants from various sport organizations participated in the interview phase of the research. The four informants held various position within the organization, including chief financial officer, finance manager or general manager. First part of the research was the overall demographics of the informant's organizations. All of the four sport organizations had full-time employees (FTE) and some also had part-time employees. The number of employees ranged between 25 FTE and 20 part-time employees to 140 FTE.

The overall economic situation, resulting from the global COVID-19 pandemic, heavily impacted the budgets of the informant's organizations during previous and the ongoing sport season. The budgets the sport entities had available were for half of the interviewed organizations less than 50% of the budget during a normal season. The annual budgets for all sport organizations represented in the interviews ranged between 6 and 32 million Euros. All the of informants clearly indicated that special events have a heavy impact on the size of the budget. Special events, such as the Olympics, the Ice Hockey World cup or the European Football Championships nearly doubled the budget.

Only one of the informants indicated that their organization currently has an Enterprise Resource Planning (ERP) system in place. One informant acknowledged the importance of an ERP system, stating that during the last board meeting, the sport organization received an approval to start to identify a suitable ERP system for the organization. Two informant's sport organizations did not have an ERP system and also indicated no intention to acquire one in the short term. All four informants stated that their organization has a Customer Relationship Management (CRM) in use.

All informants indicated that their organization has an elected board of directors. Some, however, do have pre-set quota or a limited number of appointed seats. For one sport organization, for example, the appointed seat is the chairperson of the league. Vice versa, the chairperson of the sport organization has automatically a seat in the league's board of directors. Most commonly the shareholders vote for the board, these can be either the sport clubs within a federation or owners of the sport club. One of the informants also indicated that there is a gender quota for the board. The board of director sizes of the represented organizations ranged between 7 and 11. Nearly 1750 sport

clubs are connected to the sport federations which were represented in the research. These federations represented at least 250.000 individual athletes.

## 4.2 Control environment

As a result of the in-depth interviews, the overall control environment of the represented sport organizations that were identified is limited. The level of identified and implemented internal controls is solely focused to purchasing and payment related activities. All four informants stated that their sport organization has a policy in place related to the payment processes. In addition, three informants stated that they have an employee manual, which describes the overall way of working including, for example, instructions with regards to travel reimbursement or communication guidelines.

All informants interviewed acknowledged the importance of internal controls for their sport organization. The motives why internal controls are so important differed amongst the informants. One informant stated that “because there are so many different stakeholders involved, it is important to have a clear direction”. Another informant stated that “the lack of defined controls seems to be in general an issue for all NGOs”. Two informants voiced differing views on importance of internal controls. One stated that “because most people work there because of their passion, there is no need for very strict controls. It is good, however, to have some general guidelines in place for, for example, payments”. Another informant, on the contrary, stated that as “the need for internal controls is actually very high, when the passion takes over, the rational goes out of the window. The internal controls are crucial to bring structure to a place”.

None of the sport organizations, that the informant represented, had an internal audit function. Half of these organizations purchase services from an external company, for various areas in which normally an internal audit function would operate. These include, for example, topics with regards to whistle blower cases or disputes between referees and the federation.

Lastly, it was noted that only half of the informant’s sport organizations have a written code of conduct. Out of these, one stated that “we only have this because this was a requirement to receive

a governmental funding, not sure if the code of conduct is at all up to date”. The two sport organizations without a written code of conduct, referred that some of the information is most likely in the employee manual, which they have in use.

### **4.3 Risk Management**

All informants stated very similar answers with regards to the risk management activities. None of the sport organizations represented had any regular risk management activities, such as workshops, discussions or information sessions, in place. Three of the informants however, stated to have regular meetings with the management team to discuss potential risks. The risks discussed during these meetings, however, were by none of the informants documented and for majority of the participating organizations, the risks were mainly focussed on direct financial risks, such as loss of income. One of the informants stated it very clearly as; “we are only looking into the risk when it comes to euros. During the COVID-19 period, when crowd restrictions were in place, the risks discussion was mainly about our income, otherwise we would still be looking at just the risks related to our costs”. Only one informants raised operational risks and political risks to be discussed on monthly basis with the management team and board of directors.

Furthermore, it was noted that the limited resources, both knowledgeable employees and funding, does not enable the sport entity to invest in supporting tools, such as a GRC tool. As mentioned in the theoretical foundation, one of the most sizable challenges sport clubs and federations face is the funding of the operations. Costs of a GRC tool can reach over half a million euros, which is for some of the interviewed organizations about 10% of the annual budget, and therefore unfeasible to implement.

One of the risks indicated through the in-depth interviews was that majority of the sport organizations has a key person risk. This risk refers to the dependency on one or multiple individuals with regards to the business continuity. If a key person falls ill or decides to leave the sport organization, there is a considerable risk that crucial processes and activities cannot be completed. Even though all organizations agreed that this risk is accurate for their organization, there appears to be very limited mitigation action in place to limit the potential impact if the risk realizes. As one informant

stated; “we are too small to have dedicated back-up persons, if the risk would realize, we will need to find a solution at that moment”.

#### 4.4 Fraud Exposure

The third part of the in-depth interviews focused on the fraud exposure the sport clubs and federations face. Developing technology has a direct increasing effect on the level of fraud exposure of an organization (Xu et al. 2021). It is, therefore, crucial that companies are aware of the level of fraud exposure that they face. There are several areas that can be controlled by an organization that limits the internal and external fraud exposure.

Based on the interviews, it became evident that all four organizations represented are operating through the sequential invoice and payment approval process. The invoice process is traditionally done through this sequential approval process (Figure 4.1). In this process, the invoices are first reviewed and approved by one individual. After the approval is complete, the second review is initiated. This process can, however, be time-consuming as the second review is only initiated when the first review is completed. Secondly, a high number of invoices to be approved by the second reviewer, often a more senior employee, could lead to blind approving. Instead of the traditional sequential approval process, organizations can also consider parallel approval (figure 4.2). In this set-up both reviewers get the task at the same time, and are equally responsible to verify the content and correctness. This process is often considered more time efficient.

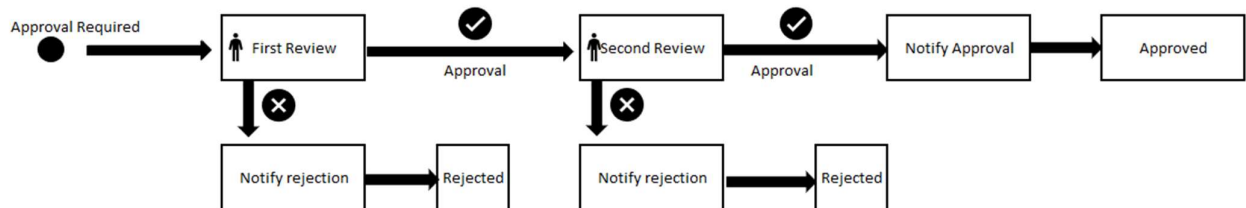


Figure 4.1, sequential approval flow (inspired on Signavio, 2022)

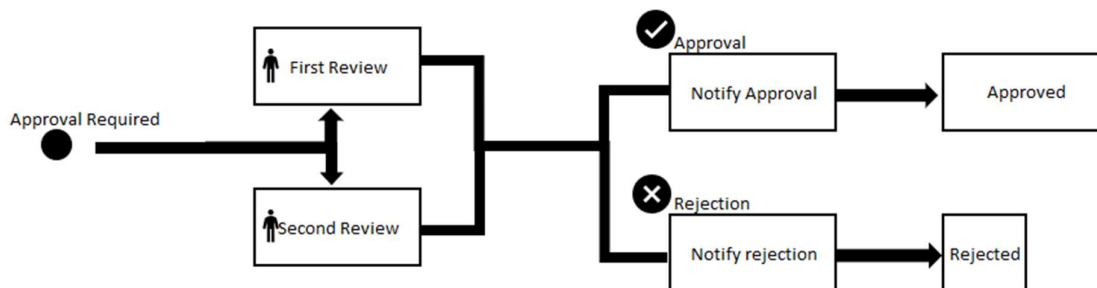


Figure 4.2, parallel approvals flow (inspired on Signavio, 2022)

Based on the interviews, it can be concluded that a four-eye principle with regards to invoice processing has been implemented in all of the represented sport organizations. As most of these sport organizations use an invoice processing tool, these controls are inbuilt to ensure segregation of duties. The four-eye principle is, however, not a guarantee to eliminate fraudulent behaviour from external parties. Fake invoicing has become a true nightmare for many companies. According to the association of Certified Fraud Examiners, the estimated impact of fraud in 2018 was over 7 billion Dollars. In their research, billing fraud is assessed to be 11% and 28% of all invoices. This number depends heavily on the location and business type. As estimated success rate of invoices fraud is around 28% (NPR, 2019), companies should ensure they have solid processes in place to avoid being scammed. 3 out of 4 informants identified that they have been exposed to this kind of fraud. Half of the sport organizations representatives confirmed that they had paid fraudulent invoices in the past year. Especially during the various holiday seasons, organizations appear to be more exposed to invoice scams.

In addition to the invoice processing, a vendor selection process is another process to which the four-eye principle can be applied to. The vendor selection process is not applied only to ensure the best service for the best price. As stated by Gonzalez and Quesada (2003), poor vendor selection can have both critical direct and indirect consequences for an organization. Majority of the informants indicated that the club or federation does not have an official vendor vetting processing place. Only one out of four informants has clearly documented how vendor selection and engagement should be conducted. One of the informants stated that their sport organizations prioritize using their sponsors over any other vendors who are able to supply the same products or services. Even

though prioritizing sponsors might be very common practise, there is also a risk for overpayment or reputational risk.

There are many studies which explain and identify the risks which corporate organizations have by sponsoring a sport club (Ge & Humphreys, 2021 and Crompton, 2014). There is, however, very limited research on what the negative impact can be for a sport organization in case they engage with a company exposed to bad company practises or governance.

Another process common to all organizations is the recruitment, hiring or appointment of employees or volunteers. Not only would the four-eye principle ensure that the potential hire is suitable for the organization, it will also create a level of transparency and should eliminate favouritism, as one will not be able to simply hire a friend or a relative. As mentioned in the theoretical foundation, transparency is a crucial part to ensure good governance within an organization. Giving full transparency to a hiring process, and being able to elaborate the grounds for the hiring, will most likely only increase the trust in an organization.

None of the four sport organization's informants participating in the research has an internal audit function. The most commonly given reasoning for the absence of an internal audit department is the budget of the organization and the scale of the business. As mentioned above, one sport federation did mention that they have an external company acting as an internal objective party. The activities of these auditors, however, seem to be limited to act as an independent body within the federation dealing with whistle blower cases and larger disputes between, for example, the federation and the referees.

One of the occupational fraud segments, derived from the fraud tree (AFCE, 2022), is theft of cash. As stated in the Report to the Nations (AFCE, 2022) the amounts of cash theft are often small, the risk of is much higher than other fraud categories. 100% of the interview informants recognized that cash, especially petty cash, carries risks. Prior to the COVID-19 pandemic, 2 out of 4 of the sport organizations still worked with larger sums of cash. During some events these amounts could even go up to 10.000 Euro. Since the pandemic, however, a lot has moved towards online purchasing of, for example, tickets or the used of new technologies such as MobilePay.

In addition, all four sport organizations have outsourced the merchandising activities. One of the main reasons given for this was to enable the organizations to focus on the actual sport aspect and eliminating the risk of handling cash.

With regards to the existence of a decision matrix, all four informants stated that they have a decision-making matrix in place. When discussing this in more detail, it appears that for 2 out of 4 organizations this mainly was applicable for the process related to purchases only, and for one organization the matrix is also applicable in the hiring processes, in that organization new employee needs to be approved by CFO or CEO. The other two organization appeared to have a more structured and documented decision matrix, which is based on roles and approval limits.

Lastly, all four organizations have a whistle blower channel in place. The channel, however, is in majority of the cases actually not managed and controlled by the sport organization themselves. Instead, they are using a third-party company to manage the channel. As stated in the report to the nations, (ACFE, 2022) this is one of the most effective ways that occupational fraud is detected. From the detected fraud, 42% of causes were identified through this kind of channel. This is up to three times more efficient than the next most common method, which is through an internal audit department. One of the organizations stated that having an official whistle blower channel is one of the requirements for receiving governmental funding.

## 5 Discussion

The main aim of this research was to discuss the current state of internal controls preventing occupational fraud within sport organizations within Finland, and to identify what the current level of awareness is within the sport industry. One of the key findings is that key controls within the organizations were lacking. This can be mainly driven by the size and level of professionalism of the sport clubs and federations in Finland. As stated by the Association of Certified Fraud Examiners, small organizations have a significantly lower level of internal control implementations. As stated in the report to the nations (2022), only 53% of small organizations have common controls in place, compared to a much higher proportion of 90% of larger companies.

Another significant finding was the low participation rate in a discussion over internal controls. 12% of all contacted organizations were willing to participate in the research, raising questions on whether the topic of internal controls, risk management and fraud is an unattractive discussion topic for sport organizations. In fact Kihl, et al. (2018), describe that frauds within sport clubs and federations are often not reported out of fear for bad publicity.

As the number of informants was limited for this research, the reliability of the results can be questioned. It is plausible that the answers provided by the four informant organizations do not reflect the situation for all sport organizations. On the contrary, the informant can be identified as four significant clubs or federations within Finland, from both size (budget and members) and the impact on the society.

### 5.1 Fraud Opportunity

The discussions with the informants closely focused on the opportunity element of the Fraud triangle. None of the organizations interviewed discussed any internal fraud. It is possible that none of these organizations faced internal fraud. On the other hand, based on the in-depth interviews and literature, it is also possible that the organizations do not wish to publicly discuss internal fraud or have not identified that there has been internal fraud.

The opportunity of fraud the organizations faced was only through external fraud. As listed in the section 2.3, the organizations all identified external fraud through fake supplier invoicing. As stated

by Xu et al. (2022) there is potentially a direct connection between the overall development in technology and the increased attempts in external fraud by individuals that are not a direct stakeholder of an organization. In addition to the external fraud through vendors, half of the organizations had also faced external fraud attempts, of which at least one had been successful, through customers.

## **5.2 Four eye-principle**

Based on the interviews, it appears that the monitoring activities, especially with regards to vendor payments, are the responsibility for the CEOs or CFOs of the sport organizations. Majority of the organizations that participated in the interview stated that these roles have the final approval before a payment goes out. Even though this way of sequential approval is a commonly used method to approve invoices and payment, it can create a high dependency risk of one individual. Only one of the organizations had identified this key person risk with regards to the payment process. There were, however, no mitigating actions taken, due to the fact that the organization is too small to have allocated deputy roles.

## **5.3 Risk supervision**

The interviewed sport organizations have a traditional, reactive approach to risks management and the overall supervision of the risk environment. Only one informant reported to having a defined and complete views on risk management. Mitigations are often focused solely on the occurring risk in one single department and does not take the holistic organization's view in consideration.

All informants appeared be very aware how they could potentially mitigate risks they are faced with, especially related to occupational fraud. The problem, however, raised in every interview was the funding and size of the organization. The informants did not consider it feasible to establish for example, an own internal audit department to monitor and assure overall compliance, governance of the organization or the effectiveness of the internal controls.

One of the risks that appeared to be almost completely ignored was vendor management. Relationships with vendors were often not identified as a conflict of interest and there was often no time and money available to conduct pre-engagement background checks. Not only is there a risk that the organization overpays or the vendor is unable to deliver a product or services at the requested

quality level, there may also be an overall reputation risk. According to the interviews, informant commit their business to the sponsors without considerations of the above mentioned risks.

Sponsorship agreements might initially be set-up from sport organizations' point of view to secure funding. The sponsor might, however, be aware of future purchases of the organizations and therefore have the sole aim to ensure a future deal. There is for the sport organization, however, no guarantee that the price or service offers has been according to market standard. The sport organization might overpay, or not receive the products or services at the level that competitors may be able to supply them. One of the biggest underestimated risks in this area is overpayment for received products or services.

#### **5.4 Sport Organizations and the COSO Model**

The control environment refers to the actions and tone from the top of an organization. Organizations need to have a foundation, including standard, policies and procedures in place for their employees to function. All informants acknowledged the importance of a control environment. As mentioned by one of the interviewee, it is important to have something that gives structure at time when the sport passion takes over.

Even though all four informants acknowledged the importance of internal controls, the available policies and procedures in these organizations appeared to be limited. The number of identified policies was small and, as one interviewee stated, the policies are quite dull. Two informants stated that policies were limited to a purchasing policy and an overall employee code of conduct. Crucial policies, such as communication, recruitment or compensation policy were absent. Even though the sport organizations are challenged by limited resources, the creation of these policies are often not very complex nor time-consuming. It can be argued that all the interviewed sport organizations, and potentially other sport entities too, can in the long-term benefit from investing in creating an effective control environment.

A crucial finding over risk assessment was that the risks assessment currently being done by the sport organizations was focused mainly on operational and financial risks in the short term. Only one informant stated there was a structural process in place to report risks. Furthermore, there appeared to be very limited information documented with regards to risks identification. Risks

were only discussed within the top management, and seemed to be treated as non-relevant for other parts of the organization.

There are several reasons why sport organizations benefit from investing in their risk management capabilities. Involving all levels of an organization in risk management can improve the early identification of risk and help the organization to set-up mitigating actions to reduce a potential impact. Furthermore, it also creates transparency and guides decision-making throughout an organization.

As previously reported, the informant's organizations were found to have only limited policies and standard working procedures in place. The level of controls is automatically impacted by lack of policies and standard working procedures. Furthermore, the technology used within the interviewed organizations appeared to be limited. None of the sport organizations had an established enterprise resource system in place, and most accounting activities was done through Excel and external tools. All organizations did have a CRM system in place. 3 out of 4 of the informant's organization had outsourced data management in the CRM to an external party. Despite outsourcing, potential misuse of the CRM data could have a negative impact on the sport organization itself.

Basic preventive controls, such as the four-eye principle, seemed to be established by the interviewed organizations. Other controls, such as employee and vendor screening, were not conducted at all. Furthermore, the lack of controls over the technology in place, including data privacy and information security, may have a significant impact on the business continuity of these organizations.

The informants reported that the most focus within the overall internal controls topics was in the area of information and communication, which partly relates directly back to the level of transparency within an organization. Based on the discussions, it appeared that the organizations try to be as transparent as the possibly can. Half of informants reported an established plan for transparency. One federation, for example, has enabled the board meeting notes to be available internally to all members of the sport organization.

In addition, even though there were some pre-set quota limitations, all organizations have an elected board with a transparent appointing system through voting. The limitations were set in half of the interviewed organizations and were mainly focused to eliminate a one-gender only board.

For all informants, monitoring activities were limited to external auditors. one organization mentioned having internal auditors, but their tasks were solely limited to work conflicts and can therefore be considered more as an ethical support rather than an internal audit function which monitors the overall effectiveness of the control environment.

## 6 Conclusion

Based on the data collected, all informants stated that the awareness of occupational fraud, and the exposure to it, is high within the sport organizations in Finland. All of the informants were able to identify various risks their organizations faces within its day-to-day operations.

The level of the control environment, however, is rather limited. Based on the available and discussed literature and the conducted interviews, there are clearly weaknesses within the sport clubs and sport federations, which may partly be explained by the lack of resources. As stated by the ACFE (2022), small companies or organizations are just simply not able to implement the same level of protection mechanisms as large corporations.

Based on the in-depth interviews, it became evident that sport organizations have some level of internal controls in place. The overall coverage and active monitoring, however, seems to be insufficient and unsystematic. The controls are often solely related to the purchase and payment processes. It is, however, often aimed and limited to individuals who work in the lower levels of an organization. As one of the interviewees stated, “if our CEO wants to do fraudulent payment to, for example, himself, it will take weeks, if not months, before it might be discovered”.

All-in-all, the sport industry, especially in smaller scale sports or countries, are likely more vulnerable for fraud. One of the reasons for this is that the opportunity element from the fraud triangle, is present. Controls are limited, or even non-existent, with regards to corruption and asset misappropriation, which enables the opportunity part of the fraud triangle. Another significant risk, which may be identified as a fraud opportunity, is that majority of these sport organizations have a high dependency on various key people. As mentioned earlier, there is often a dominant operational role for one or very few people within the organization. If they truly want to gain themselves an advantage on the expense of someone else, they often have the opportunity to do so, as controls are scarce.

None of the federations receives support with regards to setting up internal controls or risks management, from larger entities such as European or global sport organizations. Two out of three informants stated that, from the sport federations point of view, how applications for governmental funds may support the development of the internal controls set-up through requirements set by

the funds. The sport industry might not be an exception to this. Future research could identify similarities between the sport industry and recreation industry and any other kind of non-profit organization.

Cooperation between various federations with regards to creating a whistle blower channel was raised in multiple discussions. Best practises with regards to implementation and monitoring of whistle blower channels have been shared amongst the biggest sport federations within Finland. Such transparency and shared knowledge can be seen as a fruitful development which can spread more widely to, for example, smaller sport federations, or even develop into sharing other best practises to eliminate fraud from the sport federation and clubs.

Understandably, all organizations have limited resources. Therefore, going forward, it would be a feasible idea for the sport industry to identify how they can cooperate to strengthen the overall control environment, raise the level of awareness of potential occupational fraud and implement proper risk management activities within the sport industry. A potentially additional study would be to analyse and identify in which areas different sport organizations could work together, and how this cooperation would work in practise. A suggestion of this could be to set-up an internal audit entity which can offer support and guidance to the sport organizations.

Furthermore, this research was mainly focussed on the opportunity elements of the fraud triangle. Especially as the informants mainly discussed external fraud, future studies can be focused more towards the capability and rationalization angle of the fraud triangle.

The importance and level of transparency appears to be growing in the sport industry. For example, two informants indicated that board meeting notes are available for internal stakeholders.

In conclusion, the sport organizations were very well aware of the risk they have. The sport organizations were aware of the tools, including internal controls, they could implement to eliminate or mitigate the various risks, including the occupational fraud risk. The challenge all informant's organizations faced was the lack of resources. The lack of resources can be identified as both the human capital and the funding to improvement and implement the control activities, monitoring activities and risk management.

## 6.1 Research Limitations

One interesting element of the in-depth interviews was that all informants managed to identify external occupational fraud. None of the informants, however, spoke about internal misconduct. This research limitation has been described by Kihl et al. (2015), it is very likely that the sport organizations did not want to discuss potential identified internal fraud out of fear for bad publicity. This same reasoning might be applicable for the overall lack of informants. The fact that very few informants were willing to participate is one of the major limitations to the research. Even though the collected content from the in-depth interviews started to show many similarities, and therefore the data was maturing, the research could be benefited from additional informants.

Another limitation of the in-depth interviews with major sport clubs and federations is that it did not represent the full sport industry. As identified in the interviews, the smaller individual clubs do not get any additional support setting up a control framework. One of the interviewed federations stated very clearly that they only support clubs when they reach out for help. Another federation stated that they try to give some guidance to clubs, but they are not stating clear instructions. The last federation acknowledged that, especially the smaller clubs, are often managed by volunteers, "the risks of fraud can be significant for those sport entities. The federation does provide some trainings but we are not helping these clubs hands on". Additional research through, for example, quantitative data collection, could support the finding of this research. In qualitative research, however, the validity is approved through improved understanding of the subject (Aspers & Corte, 2019).

## 6.2 Ethical Considerations

As the research has potentially various confidential, which could harm an organization both legally and socially, it was agreed during each in-depth interview with the informants that they were not obliged to answer the questions if they could not or did not want to. Furthermore, the informants were made aware that their answer will be confidential and within the research, the information, sport federation or sport club would be unidentifiable.

Furthermore, the informants were approach on voluntary basis, and there has not been any pressure or coercion for them to participate to the research. At the beginning of each of the in-depth

interviews, the informants were informed of the purpose of the research. In addition, the in-depth interviews were recorded through Microsoft team after each informant had given their consent for this. Lastly, as stated in the methodology, the informants received the original list of interview questions, and were informed about the length of the in-depth interviews.

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## Appendices

### Appendix 1. Original list of interview questions

Research Interview – Internal Controls and Risk Management in Sport Organization within Finland

#### Part I – Demographics of the Organization

How many people are employed within your organization?

What is the size of your organization?

What is the budget of your organization?

Does your organization have an ERP system?

Does your organization have a board of directors? Are the board members elected or appointed?

#### Part II – Internal Controls

Does your organization have formalised internal controls?

Are these controls preventive, detective or corrective?

Does your organization have defined policies and processes? (For example, related to reimbursements, travel, payroll and communication) -

Does your organization have an internal audit function?

Do you consider internal controls valued-needed for sport organizations?

Is there external support with regards to internal controls-fraud preventive controls (for example, from the governmental organizations).

Does your organization have a written code of conduct?

Does the federation support clubs with the organization of internal controls?

#### Part III – Risk Management

Does your organization have risk management activities in place?

How often is the risk assessment revised? And how is the risk assessment done? (for example through workshops, surveys, data analytics or interviews).

Does your organization have a GRC tool in place? (GRC – Governance, risk and compliance)

#### Part IV – Fraud Exposure

Have you, or your organization, encountered fraud, or attempts of fraud, in the past? If yes, was this internal and-or external?

Where any action taken since then?

Does your organization ensure that there is a segregation of duties in place?

Does your organization still work-handle cash?

Does your organization have a decision-approval matrix?

Does your organization have an official whistle-blower channel?