UNDERSTAND THE ROLE WHISTLEBLOWING SYSTEM AND INTERNAL AUDIT ON FRAUD PREVENTION

Agus Bagianto*1, Hendriyana*2,
Universitas Muhammadiyah, Indonesia*12
agusbagianto@umbandung.ac.id1, hendriyana@umbandung.ac.id2

Abstract: The development of the business world, especially banking is increasingly complex with a lot of competition. This can trigger the emergence of asset abuse and other fraud. This condition requires managers in the company to always carry out supervision in order to anticipate losses experienced by the company by doing various ways that can prevent them. This study aims to analyze the role of the whistleblowing system and internal audit on the fraud prevention of PT. Bank Mandiri Bandung branch. The factors tested in this study are the whistleblowing system and internal audit as independent variables, while fraud prevention is the dependent variable. The research design used in this study is explanatory. The population in this study were 50 employees of PT. Bank Mandiri Bandung branch. The sampling technique used in this study is to use a saturated sample because the population size is known with certainty. While the analytical method used in this study is multiple linear regression analysis at a significance level of 5%. The program used in analyzing and using the Statistical Package for Social Science (SPSS) Ver. 23. The results of hypothesis testing indicate that the whistleblowing system and internal audit can prevent fraud.

Keywords: Whistleblowing System, Internal Audit, Fraud Prevention

INTRODUCTION

The development of an increasingly complex business world has triggered the emergence of fraudulent acts such as corruption, misappropriation of assets and other frauds (Mubin et al., 2019). This fraud occurs in various business sectors, both the government sector, the private sector, and even community organizations are also involved in it (Spink, 2017). The high number of fraud crimes in these sectors is considered the root of the problem worldwide, including in Indonesia. Many cases of fraud that have occurred in Indonesia recently have received special attention from the government and the public. Fraud is a form of fraud that is deliberately carried out so that it can cause losses without being realized by the injured party and provide benefits for the perpetrators of the fraud (Fitriyah, 2020). Cheating generally occurs because of pressure to commit fraud or an urge to take advantage of existing opportunities (Sow, 2018)

According to (Avdeyuk, 2017)The factors that cause the high rate of fraud are a high culture of life, an apathetic society and lack of understanding about corruption, a high culture of bribery, lack of supervision and detection, and finally a lack of awareness and commitment to oneself not to commit. Fraud acts generally occur because of pressure, encouragement to take advantage of existing opportunities and rationalization of
actions (Paranoan, 2019). In response, management must be careful and have an understanding of the possibility of fraud and take preventive action as early as possible (Surbhi, 2019). The internal control system is one way to protect assets from abuse that occurs in companies, both large and small (Rahman, 2020). Fraud is a form of fraud that is intentionally carried out so that it can cause losses without being realized by the injured party. Therefore, companies can prevent fraud starting from the internal controls adopted by the accounting and finance departments by covering budget controls, standard costs, training programs and staff inspections (Scarlat, 2019).

The emergence of the problem of fraud does not only occur in private companies without exception also in the management of state-owned companies or BUMN. The role of BUMN is felt to be quite dominant, with the number reaching hundreds of companies and their assets reaching hundreds of trillions of rupiah with a business scope that is on average classified as strategic. Therefore, it is not surprising that BUMN are in the public spotlight. Internal auditor is a profession that has an important influence in a company. Internal audit activities must be independent and must be objective in carrying out their duties (Eulerich, 2017). No matter how good the Internal Control System in BUMN does not rule out the possibility of fraud if the individual is not committed to avoiding fraud. Thus early fraud prevention requires consideration of multiple signals which are inherently difficult without the support of decision aids, even by experts (Sulub, 2020).

Previous Research (Yulian, et al 2021) states that there is an influence between the whistleblowing system on fraud prevention. According to (Mubin et al 2021) one form of internal audit is the implementation of whistleblowing, which is a way to prevent cases of violations from occurring. According to (Arochena, 2019) whistleblowing is the disclosure of violations or acts that are against the law, unethical, or other actions that can harm the company where this can be done by employees or organizational leaders. In addition, research (Islahuzzaman, 2019) states that in addition to whistleblowing, internal audit also has a role in preventing fraud. If a company’s internal control is weak, then the possibility of fraud will be very large, and vice versa, if the control is strong then fraud can be minimized even though it requires a process to be able to eliminate it. Fraud that occurs in the company environment is still common and sometimes difficult to overcome. Results from interviews conducted with one of the employees at the Bank Mandiri company, stated that there were several people who were suspected of spending unreasonable costs regarding the right to build, so that the BPK found fraudulent acts. Then based on this background, this study was proposed to determine the role of the whistleblowing system and internal audit in preventing fraud at PT. Bank Mandiri.

As for the formulation of the problem in this study are; (1) how much influence does the whistleblowing system have in preventing fraudulent actions in the company? (2) how much influence does internal audit have in preventing fraud in the company? (3) how much influence does the whistleblowing system and internal audit have on the prevention of fraud?. This research is divided into five parts, where the first part explains the background of the research, the second explains the relevant theory, the third explains the method used, the fourth explains the results and findings in the research, and finally explains the conclusions and managerial implications.
According to (Triantoro, 2020) whistleblowing is a means of delivering information from internal employees or outside the company's internal regarding legal violations that occur. Bunga, (2020) mentions that whistleblowing is the right way to prevent fraudulent acts. The Whistleblowing system is designed as an effort to prevent violations and crimes in the corporate environment. This system is provided so that employees or people outside the company can report crimes committed within the company, as well as to prevent losses that occur within the company. Whistleblowing can be an action in reminding management of dangers within the company, and can be used in developing a manual violation reporting system in each company or unit within the company. According to Pamungkas, (2017) there are types of whistleblowing which are categorized into, internal and external whistleblowing. Internal whistleblowing occurs when an employee learns of fraud committed within the company. Meanwhile, external whistleblowing occurs when an employee learns of fraud committed by another company and then leaks it. Islahuzzaman (2019) explained that there are three dimensions in explaining the variable whistleblowing system, namely structural aspects, operational aspects, and maintenance aspects. Previous research conducted by Mubin et al (2019) states that the whistleblowing system can affect the prevention of fraud that occurs in the company. 

H1. The whistleblowing system has positively related to fraud prevention.

(Rahman, 2020) states that internal audit is an independent assessment function within an organization to test and evaluate the organization's activities carried out. Internal audit has a role in achieving systematic organizational goals to evaluate and improve the effectiveness of risk management, control, and governance processes. According to (Shah, 2017) internal audit is an examination carried out by the company's internal audit section of the financial statements with the company's accounting records as well as compliance with government regulations and the provisions of the applicable professional ties. Among the objectives of the internal audit itself is to provide analyzes or assessments of the activities it examines within the organization without compromising professional ethics as an audit. (Chang, 2019) states that there are three dimensions in measuring internal audit variables, namely, independence, objective, and supervision. Previous research said that there is a strong relationship between internal audit in preventing fraud that occurs in the company (Rahman, 2020)

H2. Internal audit has positively related to fraud prevention

Fraud Prevention is a generic term, and includes all the various ways devised by human ingenuity to gain an advantage over others by false representation (Rahman, 2020). There is no definite rule that can be established as a general preposition in defining fraud, as it includes deceit, cunning and unfair ways in which others are deceived. The only boundaries that can define it are those that limit harm to humans, groups, or organizations (Suryanto, 2018). Such actions can be carried out for the benefit or loss of the organization and by people outside and within the organization (Sow, 2018). Paranoan, (2019) states that fraud can be divided into three forms, namely corruption, misappropriation of assets, and embezzlement. These three forms of fraud can occur by four main drivers, namely, greed, opportunity, need, and exposure. In an organization, internal control has an important role in increasing awareness of fraud. Managers can tone at the top which is believed to reduce the risk of fraud itself. Although
internal audit is deemed to be able to prevent fraud, it cannot guarantee that fraud will not occur. In order for the internal audit function to run effectively in preventing fraud, the company must implement a whistleblowing system so that prevention can run effectively. This is as stated by research (Islahuzzaman, 2019) that whistleblowing and internal audit jointly affect the prevention of fraud that occurs in the company.

H3. Whistleblowing system and internal audit has positively to fraud prevention.

METHODS
This type of research is explanatory research that intends to explain the position of the variables studied and the relationship between one variable and another. In this study, the researcher distributed a questionnaire online by distributing a network link that would direct the object to a page that displayed several questionnaire questions. The data collection methods used in this study are observation, interviews and questionnaires using a Likert scale of 1 to 5. A questionnaire is said to be valid if the questions on the questionnaire are able to reveal something to be measured. The validity and reliability tests in this study show that each statement item in this study has a Sig alpha level 0.05 level, meaning that the research variable is valid. The reliability test showed that each question in the variable obtained a significance value above 0.6, meaning that each instrument was said to be reliable. The unit of analysis in this study is PT. Bank Mandiri uses a sample of 50 employees. While the data analysis used multiple regression analysis with SPSS 23 software.

RESULTS AND DISCUSSION

Respondent Profile
Based on data obtained from 50 respondents in this study, the majority of respondents in this study were male respondents of 70.00% while female respondents were 30.00%. And the most respondents aged > 40 years, namely 72.00%, the least respondents aged between 31-35 years by 2.00%. From 50 people who became respondents in this study, it can be seen that respondents who have the highest level of education are S1 at 84.00% while diplomas are 12.00% and S2 are 4.00%. Judging from the working period, respondents who worked between 21-30 years were the most respondents, namely 66.00%, respondents who worked between 11-20 years and >30 years were the least respondents, namely 8.00% respectively.

Analysis of Respondents' Answers
In this section, the results of the research and discussion obtained from distributing questionnaires to respondents as a source of data in this study will be presented and a literature study was conducted to complement the main data. The questionnaire consists of 46 statement items with details of 15 statements regarding the internal audit variable, 18 statements regarding the whistleblowing system variable, and 13 statements regarding the fraud prevention variable. The methods used to process
and analyze the data in this study are validity and reliability tests, Pearson correlation analysis, classical assumption test, multiple linear regression analysis, hypothesis testing, and coefficient of determination analysis.

**Validity and Reliability Test**

Based on a questionnaire consisting of 18 statements (whistleblowing), 15 statements (internal audit), and 13 statements about fraud prevention, the average value is above 0.3. This implies that each statement item in this study is valid. The reliability test is as follows:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Reliability value</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Whistleblowing System</td>
<td>0.884</td>
<td>Reliable</td>
</tr>
<tr>
<td>Internal Audit</td>
<td>0.945</td>
<td>Reliable</td>
</tr>
<tr>
<td>Fraud prevention</td>
<td>0.667</td>
<td>Reliable</td>
</tr>
</tbody>
</table>

Source: Processed data (2021)

**Multicollinearity test**

Multicollinearity is a situation that shows a strong correlation or relationship between two or more independent variables in a multiple regression model. As for the results of the test are as follows:

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (Constant)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whistleblowing system</td>
<td>.401</td>
<td>.091</td>
<td>4.402</td>
<td>.000</td>
<td>.726</td>
</tr>
<tr>
<td>Internal Audit</td>
<td>.274</td>
<td>.065</td>
<td>4.214</td>
<td>.000</td>
<td>.726</td>
</tr>
</tbody>
</table>

Source: Processed data (2021)
Based on the VIF value obtained as shown in Table 2 above, it shows that there is no strong correlation between the Whistleblowing system (X1) and Internal Audit (X2), where the VIF value of the two independent variables is less than 10 (1.376 < 10) so it can be concluded there is no symptom of multicollinearity between the two independent variables.

**Multiple Linear Regression Analysis**

Multiple linear regression analysis is a linear relationship between two or more independent variables (X1, X2, ..., Xn) with the dependent variable (Y). This analysis is to determine the direction of the relationship between the independent variable and the dependent variable whether each independent variable is positively or negatively related and to predict the value of the dependent variable if the value of the independent variable increases or decreases. As for the regression equation as follows:

\[ Y' = a + b_1X_1 + b_2X_2 + \ldots + b_nX_n \]

**Table 3. Multiple Regression Test**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (Constant)</td>
<td>4.745</td>
<td>3.610</td>
<td>1.314</td>
<td>.195</td>
</tr>
<tr>
<td>Whistleblowing System</td>
<td>.401</td>
<td>.091</td>
<td>.462</td>
<td>4.402</td>
</tr>
<tr>
<td>Internal Audit</td>
<td>.274</td>
<td>.065</td>
<td>.443</td>
<td>4.214</td>
</tr>
</tbody>
</table>

Source: Processed data (2021)

The results above, will be entered into the regression equation, as follows: \( Y = 4.745 + 0.401X_1 + 0.274X_2 \)
- \( a = 4.745 \) means, if the independent variable Whistleblowing System and Internal Audit is equal to zero or constant, fraud prevention has a value of 4.745 units.
- \( 1 = 0.401 \), meaning that if the internal audit independent variable has increased by one unit, and the value of the other variables is constant or equal to zero, then the value of the fraud prevention variable is predicted to increase by 0.401 units.
- \( 2 = 0.274 \), meaning that if the Internal Audit independent variable has increased by one unit, and the value of the other variables is constant or equal to zero, the value of the fraud prevention variable is predicted to increase by 0.274 units.
Correlation Analysis

Table 4. Correlation Test

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.790</td>
<td>.623</td>
<td>.607</td>
<td>4.58431</td>
</tr>
</tbody>
</table>

Source: Processed data (2021)

Based on table 4.21, it is obtained that the multiple correlation value (R) is 0.790 which is included in a strong relationship. The correlation that occurs is a positive correlation, which ranges from 0.600 – 0.799. This shows that there is a strong relationship between the Whistleblowing System and Internal Audit on fraud prevention.

Hypothesis test (t-test)

Table 5. t-Test

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>4.745</td>
<td>3.610</td>
<td>1.314</td>
<td>.195</td>
</tr>
<tr>
<td>Audit Internal</td>
<td>.401</td>
<td>.091</td>
<td>.462</td>
<td>4.402</td>
</tr>
<tr>
<td>Whistleblowing System</td>
<td>.274</td>
<td>.065</td>
<td>.443</td>
<td>4.214</td>
</tr>
</tbody>
</table>


Source: Processed data (2021)

Based on the table above, it can be concluded that the results in the coefficient table, which the authors present on the next page, are as follows:
1. Based on the data in table 5, the tcount value is 4.402 by taking a significance level of 5%, then the value of ttable or tcount or t is 0.05.48 = 2.01 or by looking at the significant level of 0.000 which is smaller than 0.05 then Ho is rejected or in other words, the Whistleblowing System has a positive effect on Fraud Prevention.
2. Based on the table data above, it is also obtained that the t-count value is 4.214 by taking the significance level of 5%, then the t-table value or t is 0.05.48 = 2.01, or by looking at the 0.000 significance level which is smaller than 0.05 then Ho is rejected or in other words, the Internal Audit variable has a positive effect on Fraud Prevention.
Hypothesis F test

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>1635.665</td>
<td>2</td>
<td>817.833</td>
<td>38.915</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>987.746</td>
<td>47</td>
<td>21.016</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2623.411</td>
<td>49</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent variable: Fraud Prevention
b. Predictors: (Constant), Internal Audit, Whistleblowing System
Source: Processed data (2021)

Based on table 6 the calculation results in the ANOVA table show the calculated F value of 38.915 where the rejection criterion is H0 if F count is greater than F table or F0 is greater than F 1, n-1, by taking a significant level (α) 5% then from the F distribution table, the F table value is F0.05.2.47 = 3.20. Because 38.915 > 3.20 and the significance of F is 0.000, then H0 is rejected. This means that it can be concluded that there is a significant relationship or influence between the variables of the whistleblowing system and internal audit on fraud prevention.

Discussion

The Influence Whistleblowing system on fraud prevention

Based on the results of the calculations that the researchers put forward, it is known that the whistleblowing system has an effect on fraud prevention. This can be seen from the results of multiple linear regression analysis which shows that the effect of the whistleblowing system on fraud prevention is expressed by the t-test statistic which is greater than the t-table (4,402>2.01). The results of the weak test are the dimensions of the operational aspects in the questionnaire statement regarding reports of violations reported by the complainant, further investigation is carried out, with an average score of 3.72 or 74.40%. This is because respondents who answered in doubt reached 32%. Based on the results of interviews with respondents, this is due to the lack of special training for auditors, especially young auditors with limited flight hours.

The Influence of Internal Audit on Fraud Prevention

Based on the results of the calculations that the researchers put forward, it is known that internal audit has a positive effect on fraud prevention. This can be seen from the results of multiple linear regression analysis which shows that the influence of internal audit on fraud prevention is expressed by the t test statistic which is greater than t table (4.214> 2.01). The test results that have a weak value are on the objectivity dimension in the questionnaire statement regarding access to internal auditors that is not limited to any area within the company when conducting investigations with an average score of 3.78 or 75.6%. This is because the respondents who answered in doubt reached 30%. Based on the results of interviews with respondents, this happens because there are still respondents who do not fully understand internal audit procedures.
The Influence of Whistleblowing system and Internal Audit on fraud prevention

Based on the results of the F test research, it shows that the whistleblowing system and internal audit have a significant effect on fraud prevention. The amount of the whistleblowing system and internal audit simultaneously contributes to the effect of fraud prevention by 39.91%, while the rest is influenced by other factors outside the research model such as competence of internal auditor resources, professionalism of internal auditors, and control. Internal, good corporate governance, or other factors. The test results show that the smallest value obtained based on the questionnaire results is in the dimensions of building a good internal control structure, namely management provides an assessment of the quality and effectiveness of the company's internal control system with an average score of 3.74 out of 74.80%. This is because the respondents who gave undecided answers reached 30% and 4% of the answers did not agree with the implementation of the internal control system assessment by management. Based on the results of interviews with respondents, this is also caused by a lack of understanding of internal audit and the violation reporting system by employees, management, and the internal auditors themselves.

CONCLUSIONS

Based on the analysis results and research findings using multiple linear analysis methods regarding the Effect of Internal Auditors and the Whistleblowing System on Fraud Prevention, the following conclusions can be drawn: Based on the results of the study, it shows that internal audit has a significant effect on fraud prevention. The higher the internal audit, the higher the fraud prevention. Based on the results of the study, it shows that the implementation of the whistleblowing system has a significant effect on fraud prevention. The higher the implementation of the whistleblowing system, the higher the prevention of fraud. Based on the results of the study, it shows that internal audit has an effect on the whistleblowing system. The higher the implementation of internal audit, the higher the implementation of the whistleblowing system. Based on the results of the study, it shows that the internal audit and whistleblowing system have a significant effect on fraud prevention. The higher the internal audit and whistleblowing system, the higher the detection of fraud.

REFERENCE


https://www.scopus.com/inward/record.uri?partnerID=HzOxMe3b&scp=85079626855&origin=inward


