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**THE INFLUENCE OF INTERNAL AUDIT AND WHISTLEBLOWING SYSTEM ON FRAUD PREVENTION WITH INDIVIDUAL MORALITY AS A MODERATOR VARIABLE (EMPIRICAL STUDY ON PEOPLE'S CREDIT BANK IN EAST JAVA)**

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**Abstract**

*This research is specifically for Rural Bank (BPR) companies in Riau province, because they are registered by Otor Financial Services Authority (OJK), the most cases of fraud occur at Rural Banks (BPR) compared to other commercial banks. The aim of this research is to determine the effect of internal audit and whistleblowing systems on fraud prevention with individual morality as a moderating variable. Rural Banks (BPR) are one of entities that carry out fraud prevention efforts. The Association of Indonesian People's Credit Banks (Perbarindo, 2016) states that there are several efforts to prevent fraud carried out by Rural Banks (BPR), namely carrying out regular employee rotations or transfers, increasing the role of supervision at every step of the transaction, increasing understanding of SOPs, law enforcement which is fair, increases understanding that the funds managed are public funds, requires the implementation of leave (block life),*

**Keywords:** BPR, AUDIT, FRAUD, WHISTLEBLOWING

**INTRODUCTION**

One of the problems that companies often face today is cases of fraud. Stamler, et all (2010:15) state that fraud includes all unlawful actions of a person that are deliberately designed to obtain some benefit, for example, deception, providing false information or material to other parties. However, currently, fraud that occurs within a company, both in the private and government sectors, still occurs frequently and is difficult to overcome. One effort to stop the emergence of fraudulent acts is by preventing fraud. According to Karyono (2013:47), fraud prevention is all efforts made to ward off potential perpetrators, narrow the space for activities that are at risk of movement, and identify activities that are at risk of fraud.

Tunggal (2012:59) stated that there are several governance arrangements to prevent fraud, including implementing a culture of honesty and high ethics, management responsibility for evaluating fraud prevention, and supervision by the audit committee. Rural Banks (BPR) are one of entities that carry out fraud prevention efforts. The Association of Indonesian People's Credit Banks (Perbarindo, 2016) states that there are several efforts to prevent fraud carried out by Rural Banks (BPR), namely carrying out regular employee rotations or transfers, increasing the role of supervision at every step of

the transaction, increasing understanding of SOPs, law enforcement which is fair, increases understanding that the funds managed are public funds, requires the implementation of leave (block life), and finally does not allow employees to accept deposits from customers (for example; savings books, deposit slips and deposits). One case of fraud at a Rural Bank (BPR) occurred at BPR Dana Amanah, Pelalawan, Riau Province. One of the BPR Dana Amanah employees has the initials NAP (28) was named a suspect because he was suspected of embezzling customer funds. NAP (28) was a BPR Dana Amanah teller from 2015 to 2016. During his tenure, NAP (28) broke into a customer's account in the name of TSU. NAP (28) drained the victim's account 22 times with withdrawals totaling Rp. 435,950,000.

This transaction was discovered after the leadership of BPR Dana Amanah carried out a special internal audit and conducted an interrogation of the suspect. After that, NAP (28) admitted his actions. NAP (28) admitted to breaking into customer accounts by forging withdrawal slips including the customer's signature. The customer's money stolen by NAP (28) was used for their personal needs and interests. This incident will certainly cause the reputation and performance of the BPR in question to become problematic, leading to the revocation of its business license. Chairman of the Board of

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Commissioners Wimbo Santoso (2020) also stated that throughout 2020, there were 8 BPRs whose business licenses had been revoked by the OJK. In 2020, the most common BPRs whose business permits were revoked by the OJK occurred in the West Java area. The Financial Services Authority (OJK, 2020) stated that the most cases of fraud or fraud occur in Rural Banks (BPR) when compared to other public banks and private banks. Almost 80% of Rural Banks (BPR) are closed every year due to cases occurring at Rural Banks (BPR), the majority of which involve granting fictitious credit, fictitious deposits, embezzlement of credit installments, engineered credit provision, and embezzlement of AYDA sales proceeds (Perbarindo, 2016). In theory, there are several factors that can influence fraud prevention. The first factor is internal audit. Petrascu & Tieanu (2014) show that internal audit is necessary for all entities in order to create good management so that they can fight and prevent fraud, especially in increasing added value in the future. However, this is different from the research results of Lorensa, et al (2018) and Akbar (2020) which found that internal audit had no effect on preventing fraud.

Another factor that can influence fraud prevention is the whistleblowing system. Anandya, et al (2020), Wardana, et al (2017) show that the whistleblowing system has an effect on preventing fraud, meaning that by having a whistleblowing system or tightening internal supervision, actions that lead to fraud or actions that can harm the continuity of the organization can be minimized. However, this is different from the research results of Sujana, et al (2020) and Trisno (2019) which show that the whistleblowing system has no effect on preventing fraud. This research uses individual morality as a moderating variable. Ramamoorti (2008) states that one of the factors which is the root cause of fraud is behavior, where behavior here is related to individual morality in making moral considerations when facing ethical dilemmas. According to Kohlberg (1969), individual morality consists of three levels, namely pre-conventional, conventional, and post-conventional. This research is a development and replication of research by Romadaniati, et al (2020) which examined the influence of village apparatus competence, internal control systems, and whistleblowing systems on preventing fraud in village governments with individual morality as a moderating variable. This research is specifically for Rural Bank (BPR) companies in Riau province because they are registered by Otor Financial Services Authority (OJK), the most cases of fraud occur at Rural Banks (BPR) compared to other commercial banks. The aim of this research is to determine the effect of internal audit and whistleblowing systems on fraud prevention with individual morality as a moderating variable.

## THEORETICAL BASIS.

### FRAUD TRIANGLE THEORY

This theory emerged because there are three conditions that are always present when financial statement fraud occurs (Feess & Timofeyev, 2020). These three conditions are pressure, opportunity, and rationalization which has become known as the fraud triangle. The fraud triangle consists of:

Figure 1. Fraud Triangle



Source: (DeZoort & Harrison, 2018)

#### 1. Pressure

In general, what drives fraud is need or financial problems, but many are simply driven by greed. Pressure is an impulse that causes someone to commit fraud (I. M. L. M. & I. M. N. Jaya, 2020). Situational pressure has the potential to arise due to financial obligations that exceed management's capacity limits, and failure of working relationships between the company and its employees, both with regard to access to or use of company assets, compensation that is not in line with expectations, or the level of management career. unclear (Sandhu, 2020).

#### 2. Chance

Opportunity is an opportunity that allows fraud to occur (I. M. L. M. & I. M. N. Jaya, 2020). Opportunities that arise can be caused by weak internal controls in an organization, lack of supervision, or abuse of authority (Fitri et al., 2019). Among the three elements of the fraud triangle, opportunity is the element that is most likely to be minimized through the implementation of processes, procedures, controls, and early detection efforts for fraud.

#### 3. Rationalization

Rationalization is an important element in the occurrence of fraud, because perpetrators seek justification for their actions (DeZoort & Harrison, 2018). This justification can occur when the perpetrator wants to make his family and loved ones happy, the perpetrator feels entitled to something more (position, salary, promotion) because he has served the company for a long time, or the perpetrator takes some of the profits because the company has made large profits (Abdullahi & Mansor, 2015).

#### 2.2. Fraud Prevention

Fraud is simply defined as cheating (Paseková, 2019). In general, fraud is defined as an act of cheating or deception intentionally to obtain personal or group gain and have the effect of misleading other people. Fraud is interpreted differently by various parties.

According to Merriam-Webster's online dictionary, fraud is "an intentional perversion of truth in order to induce another to part with something of value or to surrender a legal right." Meanwhile, Black's Law Dictionary in (Said et al., 2018) defines fraud as "a knowing misrepresentation of the truth or concealment of a material fact to induce another to act to his

or her detriment." The AICPA in (Said et al., 2018) defines fraud based on categories. External fraud, namely "involves theft of improper use of the organization's resources perpetrated by individuals outside the organization". Meanwhile, Internal fraud is Activities perpetrated within the organization such as intentional misrepresentation of financial statements or financial statement transactions, theft, embezzlement, or improper use of the organization's resources. Includes both employee and management fraud.

Although fraud has different meanings in defining it, fraud is definitely carried out with an element of intention. This is different with errors that are made purely and not on purpose.

### **The Relationship between Morality and Fraud**

Moral development theory has been widely used in understanding the reasons a person makes when making moral judgments (Pontell, 2005). Morality is the totality of principles and values relating to good and bad (Pickett & Roche, 2018). Another important thing about the theory of moral development is its orientation to reveal morals that only exist in the mind, and which are differentiated from moral behavior in the sense of real actions. The higher a person's stage of moral development, the more stable and responsible his morality will appear in his actions (Wahyudi et al., 2022). Individual morality has an influence on accounting fraud, if individual morality is low, it will provide greater opportunities for accounting fraud to occur. Other research has found that individual morality has a negative influence on the tendency for accounting fraud to occur. This means that if employees/employees have high individual morality, the opportunity for accounting fraud to occur will be lower (Kurniawan & Azmi, 2019). Morality is related to individual behavior, where if an individual is under pressure, there is an opportunity and justification for committing fraud (Fernandhytia & Muslichah, 2020). Therefore, fraud is related to morality.

Individual moral reasoning is divided into three stages, namely where the individual considers the good and bad of the consequences in the form of rewards or punishments arising from his behavior (Pre-Conventional), then the individual acts on the basis of other people's judgments (Conventional), and the individual can see from an angle a fair view including general rules and laws and considering the interests of each person in every situation (Post Conventional)(Setiawan, 2018). Therefore, if the higher and better morality among leaders, the relationship with audit reporting to prevent fraud will also decrease. This can happen because individuals at the highest moral level (post-conventional) already think about the values that apply in society. Apart from that, individuals have also taken into consideration universal ethical values. Thus, the resulting decision will be a good decision by considering the interests of the larger stakeholders.

### **Internal Audit on Fraud Prevention**

Internal auditing is an assessment carried out by trained company employees regarding the accuracy, trustworthiness, efficiency, and usefulness of company records (accounting),

as well as internal controls within the company. The aim is to assist company leaders (management) in carrying out their responsibilities by providing analysis, assessment, suggestions, and comments regarding audited activities. To achieve these objectives, internal auditors carry out the following activities: Reviewing and assessing the goodness, adequacy, and implementation of the management control system, internal control structure, and other operational controls as well as developing effective controls that are not too expensive, Ensuring compliance with policies, plans and procedures that have been established by management. Ensure to what extent company assets are accounted for and protected from the possibility of all forms of theft, fraud, and misuse. Ensure that data management developed within the organization can be trusted. Assess the quality of work of each section in carrying out the tasks assigned by management. Suggest operational improvements in order to increase efficiency and effectiveness. The role of internal audit can trigger the implementation of management risk control, internal control systems, and audit committees which have an important role in various aspects of the organization, including fraud prevention (Kurniawan & Azmi, 2019). Internal audit has an influence on fraud prevention (Eigner, 1992). Previous research related to internal audit was (Rahman, 2020) conducting research entitled the influence of the role of internal audit on fraud prevention (empirical study on banking in Pekanbaru) which had the result that internal audit had a positive effect in minimizing fraud in the banking environment. The role of internal auditors is very necessary in an organization to minimize the risk of fraud. One of the actions of internal auditors to detect and prevent fraud is by increasing the effectiveness of the quality of internal audit implementation (Fullerton, & Durtschi, 2011); (Sudarmanto, & Utami, 2021). Based on the description above, the following hypothesis can be formulated:

H1: Internal audit has a positive effect on fraud prevention.

### **Whistleblowing System for Fraud Prevention**

Whistleblowing is the disclosure of violations or unlawful acts or corruption/other acts that can harm the company or its stakeholders, which are conveyed by internal/external personnel/legal entities to company leaders so that action can be taken regarding these violations. According to the National Governance Policy Committee, the whistleblowing system indicators consist of 3 aspects, namely structural, operational, and maintenance aspects. Fraud can be prevented with a Whistleblowing System because the Whistleblowing System is a mechanism for submitting complaints about alleged criminal acts of corruption that have occurred or will occur involving employees and other people related to alleged criminal acts of corruption committed within the organization where they work (Huang et al., 2017 ). Several studies have found that the Whistleblowing System has an effect on preventing fraud (Mate et al., 2017) (Kurniawan & Azmi, 2019).

Several researchers who focus on fraud prevention include (Wahyudi et al., 2019), (Nur Cahyo & Sulhani, 2017) with research results that the whistleblowing system has a positive

and significant effect on fraud prevention. Meanwhile (Rizqa, 2019) proves that the internal control system has a positive and significant effect on fraud prevention. Based on research conducted by (Sujana, 2017), it is stated that organizational culture has a positive and significant effect on fraud prevention. (Latan et al., 2018) which states that organizational justice has a positive and significant effect on fraud prevention. Based on the phenomenon of corruption fraud cases that have been stated and related to previous research regarding efforts to prevent fraudulent practices, it is necessary to conduct this research to find out whether there is an influence of the whistleblowing system, internal control system, organizational culture and organizational justice on preventing fraud. Based on the description above, the following hypothesis can be formulated:

H2: The Whistleblowing System has a positive effect on preventing fraud.

**Individual Morality as a Moderating Influence of Internal Audit on Fraud Prevention**

In carrying out internal audit practices, an internal auditor must consider that ethics is an important consideration, which includes principles regarding morality (Sulistiyowati & Panjaitan, 2018). Previous literature found that internal auditors with a low moral level tend not to report when irregularities are discovered during an audit, while internal auditors who have a high moral level do the opposite (Putra & Susanto, 2020) (Megawati, 2022). According to research (Putra & Susanto, 2020), Morality has succeeded in positively moderating the influence of the internal control system on fraud prevention in company financial management. (Sulistiyowati & Ingrid, 2018) also stated that individual morality will influence a person's tendency to commit accounting fraud, which means that the higher the level of individual morality, the more the individual pays attention to broader and universal interests rather than the interests of the organization alone, let alone individual interests. Thus, the higher a person's individual morality, the lower the possibility of that person having a tendency towards accounting fraud. Based on the description above, the following hypothesis can be formulated:

H3: Morality moderates the influence of internal audit on fraud prevention.

**RESEARCH METHODS**

This research was conducted using quantitative methods. Quantitative research is research carried out using data in the form of numbers or qualitative data in figures (Sugiyono, 2018). In accordance with the level of explanation, this research is categorized as associative research. Associative research is research that aims to determine the relationship between two or more variables (Sugiyono, 2018). The type of data used in this research is primary data. This data was obtained by distributing surveys to several respondents. This survey data was collected directly using an instrument in the form of a questionnaire which was transformed in to google. form. The questionnaire is used to determine the influence of the relationship between variables, so as to obtain specific

information regarding three variables, namely fraud prevention (dependent variable), Internal Audit and Whistleblowing System (independent variable), and individual morality (moderating variable).

**RESEARCH RESULT**

Descriptive Statistical Analysis: Some of the questionnaires distributed to respondents in this study were distributed online and some were distributed online, namely through the Google Form application. The questionnaire was distributed by the author to each BPR in Riau Province, totaling 29 BPRs in Riau Province with a total of 87 respondents. Questionnaire Return Rate: In this study, 87 questionnaires were distributed to the internal audit and finance sections of BPR Riau Province with a questionnaire return rate of 91% or a total of 79 questionnaires that could be processed. Respondent Demographics In this study, there was not too much difference in the number of female respondents and male respondents. The dominant age category of respondents is <35 years old. The majority of respondents' last formal education in this study was at Bachelor's level (Strata 1). Respondents in this study have on average worked for the company in question for >5 years

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Audit Internal	79	54	120	91.44	12.915
Whistleblowing System	79	39	65	51.10	5.497
Moralitas Individu	79	19	34	24.89	2.806
Pencegahan Kecuranga	79	44	73	55.86	6.944
n					
Valid N (listwise)	79				

Sumber: Data Olahan

Based on the table above, it explains that the internal audit variable, whistleblowing system, individual morality, and fraud prevention have a mean value greater than the standard value so that data deviations that occur can be said to be low then the distribution of values is even.

Audit Internal	Whistleblowing System	Moralitas Individu	Pencegahan Kecurangan
1.752	2.600	1.356	2.115

Sumber: Data Olahan

Based on the table above, it explains that all construct variables have a "Full Collinearity VIF" value below 3.3. So it can be concluded that the internal audit construct, whistleblowing system, individual morality, and fraud prevention free from collinearity or common method bias Based on the table above, it can be seen that the P-value value is 0.001 < 0.05 with a coefficient value path of 0.361. This proves that internal audit has a positive influence on fraud prevention (Ha1 accepted, Ho1 rejected). The whistleblowing system has an influence positive towards fraud prevention (Ha2 accepted, Ho2 rejected) as proven by P-Value value 0.001 < 0.05 with a path coefficient value of 0.468.

First Hypothesis Test Results (H1) Based on the results of the hypothesis test carried out, it shows that the internal audit variable has a significance level of 0.001 < 0.05. These results indicate that internal audit has an influence on fraud prevention, or in other words the hypothesis (H1) is accepted. To prevent fraud, the role of internal audit cannot be





separated. Internal audit is closely related to the problem of preventing fraud within the company. The results of this research are in line with the results of research conducted by Marsandy and Rahmaita (2018), Ahsan (2015), Suginam (2016), and Petrascu and Tieanu (2014) who found that the role of audit internal influence on fraud prevention.

Uji Hipotesis	Prediksi Tanda	Koefisien Jalur	Standard Error	Effect Size	P Value
AI→PF	+	0.361	0.101	0.238	<0.001
WS→PF	+	0.468	0.098	0.335	<0.001

Sumber: Data diolah

## CONCLUSION

The results of this research show that internal audit and the whistleblowing system have an influence on fraud prevention and individual morality moderates the influence of internal audit and the whistleblowing system on fraud prevention. This research does not conduct direct interviews with respondents, because it takes into account the situation not respondents. The questionnaire was sent via Google Form, and respondents filled out the questionnaire online.

## SUGGESTION

It is hoped that Rural Banks in Riau Province will continue to increase the role of internal audit, use the whistleblowing system as best as possible, and instilling morality in each individual in an effort to minimize the occurrence of fraud. Future researchers are expected to make preparations for data collection better and conduct direct interviews with respondents so that answers are more reliable. For future researchers, they can carry out tests with other variables that are thought to be related to fraud prevention.

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