

Whistleblowing Systems And Competence Of Internal Auditor For Fraud Prevention

Richard Aldison Bunga, Sarinah Joyce Margaret Rafael, Minarni Anaci Dethan, I Komang Arthana

Abstract: A Research was conducted at the Regional Inspectorate of East Nusa Tenggara Province of Indonesia, aiming on the effect of whistleblowing systems and the competence of Internal Auditor to prevent fraud partially as well as simultaneously. Purposive sampling was used, and as much as 48 internal auditors on the inspectorate office were participating as a correspondence. Using linear regression provided by SPSS version 21, the data obtained were analyzed. The result showed that whistleblowing system and competence of the Internal Auditor had significant influence for fraud prevention in partial calculation whilst in simultaneous analysis it only gives enough influence for fraud prevention.

Index Terms: Whistleblowing Systems, Competence, and Fraud Prevention.

1. INTRODUCTION

Fraud cases often involve government officials who make people doubt to the government's internal auditors' integrity, one of which is the Inspectorate as the Government Internal Supervisory Apparatus (common known as APIP). APIP has duties and functions in carrying out internal government supervision. In carrying out its role, APIP performs supervisory tasks through audit activities, review, evaluation and monitoring as stated in the Regulation of Minister of Administrative Reform and Bureaucratic Reform (common known as PerMen PAN-RB) number 10, 2012 and further strengthened by Government Regulation Number 60, 2008 concerning the Government Internal Control System (common known as SPIP). The task of APIP is to provide information about the supervision results to the leaders in the form of convincing information and provide adequate guarantees that the implementation of good governance can be realized, including the clean administration that is free from corruption, collusion and nepotism, as mandated in the constitution number 28, 1999. APIP also plays an important role in eradicating criminal acts of corruption, collusion and nepotism. In its implementation realization, the supervision function carried out by APIP through the role of examiners (watchdog), the role of consultants (consultants) and the role of catalysts and management assistance (catalyst). In accordance with the Regulation of the Minister of Administrative Reform (PerMen PAN) number 5 of 2008 concerning Audit Standards the Government's Internal Supervision Apparatus clearly states that, "Government internal supervision is an important management function in the government administration. Through internal supervision, it can be seen whether a government agency has carried out activities in accordance with their duties and functions effectively and efficiently, and in accordance with the plans, policies that have been set. In addition, internal supervision of the government administration is needed to encourage the realization of good governance and clean governance and

support the implementation of effective, efficient, transparent, accountable and clean governance, so it will create a government that is free from the practices of corruption, collusion and nepotism. APIP should be able to assess and ensure that risk management. Internal control and governance in carrying out its duties have been effective in detecting fraud so fraud can be prevented. APIP should be able to develop sharp supervision techniques and methods. The supervisory activities carried out by APIP must test the material truth of a proof, not just a financial statements review, because by reviewing only financial statements it is not effective in detecting fraud indications. Fraud (fraud) is a general term, and includes all kinds of ways that can be used with certain shrewdness, chosen by an individual, to obtain benefits from others by making wrong representations. Various fraud actions are increasingly prevalent at this time, the more sophisticated the existing technology can cause the more diverse the corruptors methods in finding loopholes in a system. Therefore, the auditor's ability to detect fraud must increase in proportion to technological developments. Fraud (fraud) has various forms, such as fraud, forgery, extortion, theft, and so forth. Errors and fraud in the financial statements are caused by two factors, namely errors in misstatement from intentional and unintentional actions. There are two types of relevant misstatements with the auditor's consideration of fraud in the audit of financial statements, namely misstatements that arise as a result of fraudulent financial reporting and fraud arising from improper treatment of assets (SPAP, 2011). There are three elements that encourage overall fraud: (1) perceived pressure, (2) opportunities / opportunities possessed, and (3) the ability to rationalize fraud as acceptable.

Fraud can actually be prevented if the action can be immediately detected. Fraud prevention can be done if the whistleblowing system is implemented by employees. Wijayanto and Zachrie (2009) in Ariastini (2017) stated that whistleblowing is the most effective way to prevent fraud. Hoffman and Robert (2008) in Wardana (2017), defined whistleblowing as an employee disclosure of information that is believed to contain violations of laws, regulations, practical guidelines or professional statements, or relating to procedural errors, corruption, abuse of authority or endangering the public interest and workplace safety. Whistleblowing will arise when there is a conflict between employee loyalty and protection of public interests. Whistleblowing that is implemented well by employees, can increase fraud prevention. Wardana (2017) in his research

- Richard Aldison Bunga: Accounting Department, Faculty of Economics and Business, Nusa Cendana University, Indonesia, Email: aldyson.bunga97@gmail.com
- Sarinah Joyce Margaret Rafael Accounting Department, Faculty of Economics and Business, Nusa Cendana University, Indonesia, Email: joyce.rafael@staf.undana.ac.id
- Minarni Anaci Dethan: Accounting Department, Faculty of Economics and Business, Nusa Cendana University, Indonesia, Email: minarni.dethan@staf.undana.ac.id
- I Komang Arthana: Accounting Department, Faculty of Economics and Business, Nusa Cendana University, Indonesia, Email: komang.arthana@staf.undana.ac.id

stated that the whistleblowing system had a positive and significant effect on fraud prevention. In the application of a whistleblowing system, the role of the reporting system and the protection of the whistleblower must be taken into account so that an effective, transparent and responsible whistleblowing system will be created. So it can be interpreted that the better the whistleblowing system can increase fraud prevention. Similar research was also conducted by Ariastini (2017) who stated that the whistleblowing system had a significant positive effect on fraud prevention. This research is also supported by research conducted by Agusyani (2016) which states that whistleblowing systems significantly influence fraud prevention. The occurrence of fraud is usually caused by unintentional actions because there is no irregularity in the audited financial statements. The audited financial statements are often considered appropriate. Therefore the auditor's competence is very necessary in the prevention of fraud. Agoes (2018) states competency as a skill and ability in carrying out a job or profession. Competent people means people who can carry out their work with good quality results. In the broadest sense, competencies include mastery of knowledge and knowledge, and have attitudes and behaviors that are appropriate for carrying out the work or profession. Low competency will lead to failure in the audit because the auditor will find difficulties in finding a relation to the occurrence of irregularities. Competence can also determine success in auditing. Without the competencies possessed by auditors the implementation of audits will less inequality. In auditing, an auditor must have good personal quality, adequate knowledge, expertise and experience in their field. This competency is important in the fraud prevention. The competencies possessed can improve the ability and expertise of auditors in preventing fraud. Windasari, et al.(2016) in his research stated that competence has a positive effect on fraud prevention. Similar research has also been conducted by Agusyani (2016) which states that competence has a significant effect on fraud prevention. Other research on competency is reinforced by research conducted by Kadir (2015) which states that competency influences fraud prevention. Based on the background described earlier, the aim of the research is to know the effect of whistleblowing systems and the competence of Internal Auditor in prevent fraud at the Regional Inspectorate of the East Nusa Tenggara Province.

2. LITERATURE STUDY AND HYPOTHESIS DEVELOPMENT

2.1. Fraud Prevention

Zimbelman, et all (2017) suggests that fraud prevention is all efforts and means intended to prevent fraud; such as eliminating perceived pressure, opportunities possessed, and/or rationalization; some actions that reduce or reduce the possibility of fraud occur. In general, fraud prevention is the most effective way to reduce losses due to fraud. AICPA (American Institute of Certified Public Accountants) publishes Antifraud Management Programs and Controls: Guidance to Help Prevent and Deter Fraud (Anti-fraud Program and Control: Guidelines to Help Prevent and Detect Fraud). This guide identifies three elements, which are: Honest and High Ethics Culture, Evaluating the Anti-Fraud Process and Control, and Developing the Right Monitoring Process.

2.2. Whistleblowing System

Zimbelman, et all (2017) defines a whistleblowing system as a response mechanism that makes it easy for employees and other parties to report questionable activities or also called complaint channels. Octaviari (2015) in Agusyani (2016) said that the violation reporting system or commonly called a whistleblowing system is a place for a whistleblower to complain of fraud or violations committed by internal parties of the organization. KNKG (2008) states that the effectiveness of implementing a whistleblowing system depends on: a) Conditions that make employees who witness of violations want to report it; b) the company's attitude towards retaliation that may be experienced by violations reporters; 3) possibility of access to violation reporting outside the company, if management does not get the appropriate response. Semendawai et al. (2011) stated that there are two methods of violation reporting systems in order to be effective, the two methods of reporting are: internal and external mechanism. The internal reporting system is generally carried out through standard communication channels within the company. The whistleblower's internal reporting system needs to be emphasized to all employees. Thus, employees can find out which authority can receive the report. In an external reporting system, an institution outside the company is required to have the authority to receive whistleblower reports. This institution has a high commitment to behavior that promotes legal, ethical and moral standards in the company. KNKG (2008) states that the benefits of a whistleblowing system include: 1) availability of ways of delivering important and company critical information to those who must immediately handle safely; 2) the emergence of reluctance to commit fraud, with increasing willingness to report fraud, because of the belief in an effective reporting system; 3) availability of an early detection mechanism for the possibility of problems due to a violation; 4) availability of opportunities to deal with violations problems internally first, before expanding into a public violation problem; 5) reducing the risks faced by the company, the consequences of violations in terms of finance, operations, law, work safety, and reputation; 6) reducing costs in dealing with the consequences of violations; 7) increased company reputation in the eyes of stakeholders, regulators, and the general public; 8) provide input to the company to further look at the critical areas and work processes that have weaknesses in internal control, and to design the necessary corrective actions.

2.3. Competence

Agoes (2018) defines competence as a skill and ability in carrying out a job or profession. Competent people means people who can carry out their work with good quality results. In the broadest sense, competencies include mastery of knowledge and have attitudes and behaviors that are appropriate for carrying out the work or profession. Kayo (2013) suggested that auditor competence has three dimensions, namely knowledge, technical ability and attitude. An auditor must have adequate basic knowledge, among others, related to the science of accounting, auditing, government administration systems, communication and understanding of fraud that occurs in the state finances management. By having this knowledge, an auditor will be more confident and easier to understand the cases being faced, especially related to the engineering of evidence in

financial transactions. The auditor must have the ability to plan and carry out his work by using his professional skills carefully and thoroughly (due professional care) and prudent in each assignment. Mental attitude/moral integrity is a person's mental condition guiding his behavior in his life association. Moral integrity is manifested in life as attitudes and behaviors that emit values such as being honest, egalitarian, respecting others, willing to sacrifice, prioritizing the public interest of personal or group interests and always defending the truth.

2.4. Hypotheses

Fraud can be minimized by implementing an effective whistleblowing system, due to organizational policies regarding protection of reporters, clear reporting mechanisms and evaluations and improvements made to improve the effectiveness of the whistleblowing system so that whistleblowers will be encouraged to act more in reporting fraud they know. This means that the application of an effective whistleblowing system is able to change the culture of silence towards a culture of honesty and openness so that it can prevent fraud. Based on these explanations, the hypothesis that can be built as:

H1: The Whistleblowing system affected fraud prevention.

Incompetent auditor will not be able to solve risky problems, even though the auditor's main task is to monitor and control the organization's internal activities. If the competence possessed by an auditor is low, it will result in a failure in the audit that he does because it will be difficult to find findings that have indications of fraud. Based on these explanations, the hypothesis that can be built as:

H2: Competence affected fraud prevention.

Whistleblowing system aims to reveal fraud that can harm the organization and prevent more fraud. Thus the whistleblowing system is defined as a channel of complaints that is used to report any form of activity to be questioned. Furthermore, if the competence of the auditor is low it will result in a failure in the audit that he did because he will find it difficult to find findings that have indications of fraud. So it can be concluded that auditor competence has an important role in preventing fraud. Based on the theory and previous research, the research hypothesis proposed as:

H3: Whistleblowing system and competency influence on fraud prevention.

3. RESEARCH METHOD

The population in this study were 94 staff who worked at the Regional Inspectorate of East Nusa Tenggara Province. Purposive sampling method was used with the considerations intended in this study are the Functional Auditors and Officials of the Regional Government Affairs. From these considerations, there were only 54 staff are qualified to sample for this study. The analysis technique used in this study is multiple linear regression analysis to test hypotheses with the following regression equation

$$\text{Fraud_Prev} = \alpha + \beta_1 \text{Whist_Syst} + \beta_2 \text{Compt}$$

There were validity test and reliability test before doing the regression analysis. The validity test used in this study was conducted to see the level of significance of the score correlation from each question to the total score for each variable. The data is declared valid if the calculated value which is the value of the corrected item total correlation is greater than the r-table at the significance of 0.05 (5%).

Reliability testing is done to see whether a person's answer is consistent over time regarding the questions posed by calculating the Cronbach Alpha coefficient. The t test is used to determine the significance of the influence of independent variables on the dependent variable partially (Ahmad & Ahmad, 2018; Sugiyono, 2017). The F test is used to see the effect of the overall independent variables on the dependent variable (Sugiyono, 2017).

4. RESULTS AND DISCUSSION

Descriptive statistical analysis in Table 1 shows that whistleblowing system (Whist_sys) variable have a minimum score of 58 while the maximum score is 80 with an average value of 68.15 and standard deviasai 5.124. Competency (Compt) variable have a minimum score of 36 while the maximum score is 50 with an average value of 42.71 and a standard deviation of 3.470. Furthermore the fraud prevention (fraud_Prev) variable has a minimum score of 52 and a maximum score of 75 with an average value of 63.83 and a standard deviation of 4.791.

TABEL 1
Descriptive statistic

	N	Minimum	Maximum	Mean	Std. Deviasi
Whist_Sys	48	58	80	68,15	5,124
Compt	48	36	50	42,71	3,470
Fraud_Prev	48	52	75	63,83	4,791

Source: SPSS Data processing result, 2019

The validity test results were based on the whistleblowing system variable, competency variable, and fraud prevention variable. These results are then compared with the values of the r-table with a value of 0.284. The test results show that the calculated value of all question items has a greater value than the r-table value. So that the questions can be declared valid and can be used for further research. All items were declared reliable because the cronbach's alpha value was more than 0.60, the items were declared based on the results of the reliability test of the whistleblowing system variable (whist_syst), a cronbach alpha value of 0.837, competency (compt) 0.854, and fraud prevention (fraud_prev) variable with value 0.898.

TABEL 2
Statistic Test Result

Model	Regression Coefficient	t	Sig.
Constanta	12.703		
Whist_Sys	0.294	2.404	0.020
Fraud_Prev	0.728	4.033	0.000
adjusted R ²		0.593	
F-value		35.196	
F sig.			0,000 ^b

Source: SPSS Data processing result, 2019

Table 2 shows that, the results of the first hypothesis stated that whistleblowing system has a significant effect on fraud prevention is accepted. This was obtained from the results of the regression test which showed that the whistleblowing system variable was influential and significant in preventing

fraud with a coefficient of 0.294, which means that with an increased application of the whistleblowing system, fraud prevention would also increase. The existing Whistleblowing system is a form of supervision, not only as a reporting channel for fraud. Fraud can be minimized by implementing an effective whistleblowing system, because of the organization's policy on whistleblower protection, clear reporting mechanisms and evaluations as well as improvements made to increase the effectiveness of the whistleblowing system so that it will encourage the participation of the whistleblower to be more daring to act in reporting fraud that he knows. This means that implementing an effective whistleblowing system is able to change the culture of silence towards an honest and open culture so as to prevent fraud. Zimbelman, et all (2017) defines a whistleblowing system as a response mechanism that makes it easy for employees and other parties to report questionable activities or also called complaint channels. One of the benefits of implementing a good whistleblowing system is the emergence of reluctance to commit violations, because of confidence in an effective reporting system (KNKG, 2008). So it can be interpreted that, the whistleblowing system is an appropriate container for whistleblowers to report any suspicious activity so that fraud can be prevented immediately. The results of this study are supported by similar studies conducted by Wardana (2017), Ariastini (2017), and Agusyani (2016) who state that the whistleblowing system has a significant effect on fraud prevention. The results of the second hypothesis testing show competence has a significant effect on fraud prevention. This was obtained from the results of the regression test which showed that the competency variable was influential and significant to the prevention of fraud with a coefficient of 0.728, which means that with an increase in competence, fraud prevention would also increase. An incompetent auditor will not be able to solve risky problems, whereas the main task of an auditor is to oversee and control the internal activities of the organization. If the competence of the auditor is low, it will result in failure in the audit he conducted because it will be difficult to find findings that have indications of fraud. Competence possessed by an auditor will show the quality of the auditor in carrying out his work duties. The competence will be manifested in the form of mastery of knowledge and professionals in carrying out its function as an auditor (Kayo, 2013). So, auditors with good competence have knowledge (knowledge), skills (skills), and have a good attitude and behavior (attitude) so that they can prevent fraud. The results of this study are supported by similar studies conducted by Windasari & Juliarsa (2016), Agusyani (2016) and Kadir (2015) in their research stating that competence influences fraud prevention. The results of simultaneously test show that the whistleblowing system and competence simultaneously influence the prevention of fraud, this is evidenced by the coefficient of determination of 0.593 (59.3%). This means that by increasing the application of the whistleblowing system and supported by competent auditors who are competent, fraud can be prevented. This research is supported by research Agusyani (2016) states that whistleblowing system and competence simultaneously influence the prevention of fraud. In addition to the whistleblowing system and competence there are other factors that can influence fraud prevention, including the internal government procurement system supported by research conducted by Aristini (2017)

and independence supported by research conducted by Windasari and Juliarsa (2016). In both studies said that the government's internal control system and independence influence the prevention of fraud.

5. CONCLUSION, LIMITATION AND RECOMMENDATIONS

Based on the research results, it can be concluded that the whistleblowing system and competence has significant affected in preventing fraud at the Regional Inspectorate of East Nusa Tenggara Province in partially and simultaneously. This research has limitations because it uses a survey method, so the results obtained are not very deep. So, it is recommended in future studies to use a mixed method, by conducting in-depth interviews with key informant after distributing questionnaires.

REFERENCES

- [1] Agoes, Sukrisno, and Ardana, I Cenik. (2018). *Business and Professional Ethics - Challenges to Building a Whole Man*. Revised Edition. Jakarta: Salemba Empat.
- [2] Agusyani, Ni Kadek Siska. (2016). "The Influence of Whistleblowing System and Competence of Human Resources on Prevention of Fraud in Financial Management of Local Revenue (Study in the Regional Revenue Office of Buleleng Regency)". *Accounting Journal S1 Program*. Volume 6 Number 3. University of Education Ganesha. Published.
- [3] Ahmad, I., & Ahmad, S. 2018. Multiple Skills and Medium Enterprises Performance in Punjab Pakistan: A Pilot Study. *The Journal of Social Sciences Research*: 44-49: 44.
- [4] AICPA. (2002). "Management Antifraud Programs and Controls - Guidance to Help Prevent and Deter Fraud". On <https://www.aicpa.org>. Accessed on April 1, 2019. pdf.
- [5] Aristini, Ni Kadek Dwi. (2017). "The Influence of Human Resource Competence, Government Internal Control System, Proactive Audit Audit, and Whistleblowing System Against Fraud Prevention in the Management of Bos Bosses of Klungkung Regency". *Accounting Journal S1 Program*. Volume 8 Number 2. University of Education Ganesha. Published.
- [6] Asiah, Nur. (2017). "Effect of Bystander Effect and Whistleblowing on the occurrence of fraudulent financial statements". *Nominal Journal*. Volume V1 Number 1. Yogyakarta State University. Published.
- [7] Ghazali, Iman. (2005). *Application of Multivariate Analysis with the SPSS Program*. Semarang: Diponegoro University Publishing Agency.
- [8] Indonesian Institute of Certified Public Accountants. (2011). *Public Accountant Professional Standards (SPAP)*. Jakarta: Salemba Empat.
- [9] Kadir, Hernawati. (2015). "The Effect of Internal Control and Auditor Competence on the Effectiveness of Audit Procedure Implementation in Fraud Prevention (Study at the Auditor of Kendari City Inspectorate)". *Accounting journal*. Halu Oleo University. Published.

- [10] Kayo, Amrizal Sutan. (2013). Forensic Audit - Use and Competency of Auditors in Eradicating Corruption Crimes. Yogyakarta: Graha Ilmu.
- [11] National Committee on Governance. (2008). "Guidelines for Violation Reporting System (SPP) - Whistleblowing System (WBS)". On <https://www.knkg-indonesia.org>. Accessed on March 25, 2019. pdf. Indonesian government. (2012). Minister of Administrative Reform and Bureaucratic Reform (PerMen PAN-RB) Regulation Number 10 of 2012 concerning Implementation of Government Internal Control Systems within the Ministry of Administrative Reform and Bureaucratic Reform. At <https://jdih.menpan.go.id>. Accessed on March 5, 2019. pdf.
- [12] Indonesian government. (2008). Minister of Administrative Reform (PerMen PAN) Regulation Number 5 of 2008 concerning Audit Standards for Government Internal Supervision Apparatus. At <https://itjen.pu.go.id>. Accessed on March 5, 2019. pdf.
- [13] Indonesian government. (2008). Government Regulation Number 60 of 2008 concerning the Government's Internal Control System. On <https://www.bpkp.go.id>. Accessed on March 5, 2019. pdf.
- [14] Indonesian government. (2006). Law Number 13 of 2006 concerning Protection of Witnesses and Victims. Di <https://jdih.kemenkeu.go.id>. Accessed on March 5, 2019. pdf.
- [15] Indonesian government. (1999). Law Number 28 of 1999 concerning the Implementation of a Clean and Free of Corruption, Collusion and Nepotism. At <https://kpk.go.id>. Accessed on March 5, 2019. pdf.
- [16] Semendawai, Abdul Haris et al. (2011). "Understanding the Whistleblower - Witness and Victim Protection Agency". On <https://www.lpsk.go.id>. Accessed on March 25, 2019. pdf.
- [17] Sugiyono. (2017). Business Research Methods. Bandung: Alfabeta.
- [18] Wardana, I Gede Adi Kusuma. (2017). "The Influence of Internal Control, Violation Reporting System and Apparatus Morality Against Fraud Fraud at the Buleleng Regency Public Works Service". S1 Accounting Journal Program. Volume 8 Number 2. University of Education Ganesha.
- [19] Windasari, Made Yunita, and Juliarsa, Gede. (2016). "The Effect of Competence, Independence, and Internal Auditor Professionalism in Preventing Fraud in BPR in Badung Regency". Accounting journal. Volume 17 Number 3. Udayana University. Published.
- [20] Zimbelman, Mark F., Albarecht, Conan C., Albarecht, W. Steve, and Albarecht, Chad O. (2017). Forensic Accounting. Issue 4. Jakarta: Salemba Empat.