



## Factors Affecting Fraud Prevention: Internal Control, Whistleblowing System and Moral

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**Abstract:** Previous research or relevant research is very important in a research or scientific article. Previous research or relevant research serves to strengthen the theory and phenomena relationship or influence between variables. This article reviews the factors that influence fraud prevention, namely: Internal Control, Whistle Blowing System and Morale, a literature study of Human Resource Management. The purpose of writing this article is to build a hypothesis of the influence between variables to be used in further research. The results of this literature review article are: 1) Internal Control affects Fraud Prevention; 2) Whistle Blowing System affects Fraud Prevention; and 3) Moral affects Fraud Prevention.

**Keywords:** Fraud Prevention, Internal Control, Whistleblowing System and Morals

### INTRODUCTION

All organizations of any type, scale of operations and activities have a risk of fraud or commonly referred to as fraud. Fraud is an illegal, deliberate act that can be carried out by a person or group of people for their own or their group's interests which can bring losses to other parties.

The phenomenon of fraud is a topic that is still being discussed by the world community, including Indonesia. Fraud is the use of an individual's position to benefit certain parties in an illegal and deliberate manner (ACFE Indonesia, 2020). The dominating fraud in Indonesia is corruption worth 64.4% (ACFE Indonesia, 2020). In Indonesia itself, fraud has become a common and rapidly growing phenomenon, both in the government sector and the private sector. Fraud can be defined as deliberate lies, untruths in reporting company assets or manipulation of financial data shown for the benefit of the party doing the manipulation (Hall, 2007). Fraud is also a deliberate fraud that causes losses without the injured party realizing it and provides benefits for the perpetrators of fraud (Putri, 2012). Fraud can occur in various sectors, both the government sector and the private sector. The most common fraud in the government sector is corruption (Pristiyanti, 2012).

Several efforts can be made to prevent fraud, including internal control, whistleblowing systems and morals because they have important roles and functions in operations to achieve company performance goals. Research focused on fraud prevention has been carried out testing internal control on fraud prevention, the results state that internal control effectively reduces the tendency to cheat, and the Whistleblowing System is also very effective in reducing the tendency to cheat and Moral, especially religious morals, can be very effective in reducing the tendency to cheat.

Based on the things that have been explained and described, therefore the authors are interested in raising the theme, namely; the effect of control on fraud prevention (Fraud), the effect of the whistleblowing system on fraud prevention (fraud), and the effect of morale on fraud prevention (fraud).

Based on the background, it can be formulated the problems that will be discussed in order to build hypotheses for further research, namely:

1. Does Internal Control affect Fraud Prevention?
2. Does the Whistle Blowing System affect Fraud Prevention?
3. Does Morale affect Fraud Prevention?

## **THEORETICAL STUDIES**

### **Fraud**

*Fraud* is embezzlement or fraud which includes a variety of acts that done intentionally by someone because of the opportunity and pressure to do so. *Fraud* contained in financial statements can be based on the internal environment and the external environment. The internal environment is related to internal control issues, lack of ethical management behavior or liquidity factors (Alfian, 2016). According to Sartono (2014) in international law, fraud contains three elements, namely dishonest acts, done intentionally, and benefits that harm others. The development of an organization as an entity, the problem of fraud is increasingly likely to occur if it is not accompanied by better supervision (Aresteria, 2018).

According to ACFE Indonesia (2020) fraud consists of corruption, misuse of assets and fraudulent financial statements. Therefore, Cressey (1950) formulated three things that are the reasons for fraud in the fraud triangle theory.

The first thing that can lead to fraud is pressure. The existence of problems or personal interests is a reason to violate trust (Cressey, 1950 in the journal *Zahrotul Wardah*, Anita Carolina, Anis Wulandari (2022)). The next factor is opportunity. People who are trusted to carry out certain obligations can have the opportunity to become fraudsters (Cressey, 1950 in the journal *Zahrotul Wardah*, Anita Carolina, Anis Wulandari (2022)). Therefore, people in these positions are obliged not to violate the trust given by the organization by taking personal advantage and are obliged to maintain enviable entity ethics (Cressey, 1953 in the journal *Zahrotul Wardah*, Anita Carolina, Anis Wulandari (2022)). The last factor is rationalization. Rationalization occurs because the fraudster rationalizes the act of fraud into something natural, so he will use rational reasons to justify his actions (Cressey, 1950 in the journal *Zahrotul Wardah*, Anita Carolina, Anis Wulandari (2022)).

According to Karyono (2013: 47) fraud prevention is all efforts to ward off potential perpetrators, narrow the space for movement, and identify activities that are at high risk of fraud. The tendency to cheat financial statements and management reports is a form of conflict that underlies fraud due to differences in interests between the principal and the agent. The manager acts as an agent who is responsible for optimizing and maximizing the benefits obtained from the company. Prevention of fraud is an integrated effort that can reduce the occurrence of factors that cause fraud (Kwantingtyas, 2017).

According to the State Criminal Law of Michigan in Sikencur Kuntadi's book (2017), Fraud is A generic term and embraces all the multifarious means which human ingenuity can

devise, which are resorted to by one individual, to gain an advantage over another by false representations. No definite and invariable rule can be laid down as a general proportion in defining fraud, as it includes surprise, trick, cunning, and unfair means by which another is cheated. The only boundaries defining it are those which limit human knavery.

In the Criminal Code (KUHP), the definition of fraud as "Various crimes and offenses and their sanctions". In addition to the Criminal Code, there are other laws that regulate unlawful acts that can be categorized as fraud, such as the Law on Combating Corruption (Tipikor), the Law on Money Laundering etc. (Tuanakotta in Kuntadi (2017).

Kuntadi (2017), fraud is any form of fraud that is deliberately carried out by the perpetrator to gain profit and at the same time cause losses without the other party realizing it.

There are three conditions that encourage fraud (Kuntadi, 2017, 31):

1. Opportunity. A situation that opens up opportunities for managers or employees to commit fraud caused by a weak internal control system.
2. Incentive/pressure. The need of the fraudster.
3. Rationalization/ Justification. There is an attitude, character or set of values that allows management or employees to do dishonest things or be in a stressful environment that makes them rationalize dishonest actions.

### **Internal Control**

According to COSO (*Comitee of Sponsoring Organizations*) Internal Control is a process carried out by the board of directors, management and organization personnel designed to provide reasonable assurance related to being effective and efficient and in accordance with applicable laws and regulations. According to Rommey "Internal control is used in planning and methods in the organization to protect assets, provide accurate and reliable information to increase efficiency in the organization and in accordance with applicable regulations".

According to Government Regulation Number 60 of 2008, the internal control system is an integral process of actions and activities carried out continuously by leaders and all employees to provide adequate assurance of the achievement of organizational goals through effective and efficient activities, reliability of financial reporting, safeguarding state assets, and compliance with laws and regulations. The government internal control system, hereinafter abbreviated as SPIP, is a system of internal control Internal control is organized as a whole within the central government and local government.

COSO (2013) defines internal control as an internal process designed to ensure that the organization can achieve its objectives. Internal control is the process of comparing or assessing the effectiveness of the current state of the organization with the previous state (Dimitrijevic et al., 2015). An internal control is carried out with the aim of preventing fraud in the organization (Tuanakotta, 2010: 279). Therefore, internal controls are evaluated gradually to ensure that the system is still functioning properly (McNally, 2013). Controls carried out can be preventive or detective actions at all levels of the organization (McNally, 2013).

According to Ferdiyanti and Priono (2022), the internal control system is a process of activities carried out by management and all staff or employees in order to achieve organizational goals through the implementation of effective and efficient activities, reliability of financial reporting, protection of state-owned assets and compliance with laws and regulations and government regulation number 60 of 2008. Components of the internal control system, including the control environment, risk assessment, control measures, information and communication and internal control monitoring.

IAPI (2011) in Kuntadi de el (2022), Internal control system as a process carried out by

the board of commissioners, management and other entities designed to provide adequate assurance about achievements in the quality of financial statements, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Kuntadi, Puspita and Taufik (2022), the definition of an internal control system is a process made to provide security guarantees for elements within an entity or organization.

According to Rusdi and Kumalasari in Noprianto, Rahayu and Yuli (2020), the effectiveness of internal control is a process to achieve the reliability of financial reports, legal compliance, and a tool to control the organization to operate more effectively and efficiently.

### **Whistle Blowing System**

Kuntadi (Sikencur, 2017), One of the important things in improving the principles of Institutional Governance is to increase the effectiveness of the implementation of the fraud control system. To realize these conditions, the Whistleblowing System is implemented.)

According to (Jayanti & Suardana, 2019) whistleblowing is an effort that can prevent fraud by reporting by active and inactive members of the organization regarding violations, immoral actions to parties inside and outside the organization. This system is a place to reveal and report fraud by detecting, minimizing fraud. According to (Setiawati, 2016) "Whistleblowing is the reporting of fraud that occurs in an organization or company. Both carried out by individuals and groups to authorized parties. The intention to do whistleblowing can be interpreted as how someone has the desire to report fraud if someone finds fraud. So that the Whistleblowing process has three the parties involved in whistleblowing are the whistleblower, the offender and the reported party.

*Whistleblowing* is simply an act of disclosing information to open all kinds of dangerous *fraud* problems from a private or public organization (Kumar, and Santoro, 2017). Another definition, *whistleblowing* is all kinds of reporting by members of the organization about illegal actions, violations, or immoral actions to related parties (Lasmini, 2018). Then, *whistleblower* is a term for parties who inform or report suspected abuse of authority, non-compliance, or fraud which is certainly not justified by law or the organization's code of ethics (Sweeney, 2008).

*Whistleblowing system* is a system that makes it easy for a *whistleblower* to submit information on *fraud* that occurs within the scope of a public organization that can harm the organization. The application of the *whistleblowing system* in efforts to prevent and disclose *fraud* has proven to be quite effective. In accordance with previous research which interprets the *whistleblowing system* to play a very good role and can help in providing information and reports on fraud that occurs in corporate or government organizations (Noviani and Sambharakreshna, 2014).

According to Nugroho (2015), a violation reporting system or what is commonly called a whistleblowing system is a forum for a whistleblower to report fraud or violations committed by internal parties to the organization. The whistle blowing system is one of the efforts to prevent fraud committed by members of the organization by reporting violations, illegal acts or immoral acts to the party responsible for handling whistleblowing.

### **Moral**

Morality is concerned with objective and rational thinking. Morality is the implementation of obligations due to respect for the applicable law. According to Amalia (2015), morals can be divided into two types, namely:

1. Pure morals or conscience, which is the morals found in every human being.
2. Applied morals, which are morals derived from various philosophical teachings, religions, and customs that govern human play.

Kohlberg's model is one of the theories of moral development that is widely used in ethical assessment. Kohlberg's model states that there are three stages in moral development, namely the pre-conventional stage, the conventional stage, and the post-conventional stage. In the early stage (pre-conventional), individuals will perform an action because they are afraid of the applicable laws or regulations.

In maintaining the values of professionalism as ethics and code of ethics, there are several ways, one of which is by understanding *moral reasoning* (Gaffikin, and Lindawati, 2012). *Moral reasoning* itself can be interpreted as an understanding of how someone should act or what reasons arise in order to justify or criticize behavior. The existence of *moral reasoning* can show whether an action is considered right or whether the action is considered wrong (Syarhayuti and Adziem, 2016). *Moral reasoning* complements the reasons for joining or opposing beliefs that are believed to be moral as an effort to show that these beliefs are classified as right or wrong (Gaffikin, and Lindawati, 2012). If an auditor has *moral reasoning*, then the auditor can maintain their professional values in order to provide a trustworthy opinion (Naibaho *et al.*, 2014).

Dewi *et al* in Wulandari and Widodo (2020), unethical behavior is behavior that deviates from agreed duties and obligations caused by weak management control or leadership one level above, thus opening up the potential for employees to do unethical (immoral) things and causing losses to the organization or company.

Morality is the attitude, action or behavior taken when trying to do something based on experience, conscience, and advice. Good and bad morals can be seen from behavior when interacting with someone (Ferdianty and Priono, 2022). If someone acts and speaks in accordance with the values accepted by society, it will be considered moral and vice versa (Aprilia and Yuniasih, 2021).

People who have desires and needs are not satisfied with the assets they have and greedy and greedy behavior will tend to have opportunities to commit fraud, the better the morality of the apparatus, the less the tendency to commit accounting fraud (Kuntari *et al*, 2017). According to Noprianto, Rahayu and Yuli (2020), Morality is the attitude and behavior of respondents shown or owned in the face of work duties.

**Table 1: Relevant previous research**

No.	Author (year)	Previous Research Results	Similarities with this article	Differences with this article
1	Wulandari and Widodo (2020)	Internal Control and unethical behavior affect Fraud. Information asymmetry and rule compliance have no effect on fraud.	Internal Control, and Unethical Behavior have an effect on Fraud Prevention.	Adherence to accounting rules and information asymmetry have no effect on fraud prevention (Fraud)
2	Kuntandi, Puspita and Taufik (2022)	Internal Control, Human Resource Competence and Compensation Appropriateness affect the following Fraud Prevention.	Internal Control affects Fraud Prevention	Human Resources Competence and Compensation Suitability affect fraud prevention.
3	Ferdianty and Priono (2022)	Village Apparatus Competence, Morality, Internal Control System, and Good Governance affect fraud prevention. Governance affect fraud prevention.	Morality and Internal Control affects Fraud Prevention	Village Apparatus Competence, and Good Governance have an effect on Fraud Prevention.



4	Supriyanto (2022)	Internal Control System, E-Procurement and Systems and Procedures have an effect on Fraud Prevention	Internal Control System affects Fraud Prevention	E-Procurement and Systems and Procedures have an effect on Fraud Prevention
5	Yudanto and Novianti (2016)	Leadership Style, Compensation Appropriateness, Internal Control Effectiveness internal control effectiveness and obedience accounting rules have an effect on Fraud Prevention to Accountability	Effectiveness of control Effectiveness of Internal Control on the tendency of fraud on Accountability	Leadership Style, Compensation Fit, and obedience accounting rules have an effect on fraud prevention against accountability.

**METHOD**

The method of writing this scientific article is with a qualitative method and literature review (**Library Research**). Examine theories and relationships or influences between variables from books and journals both *off line* in the library and *online* sourced from **Mendeley, Scholar Google** and other online media.

In qualitative research, literature review must be used consistently with methodological assumptions. This means that it must be used inductively so that it does not direct the questions asked by the researcher. One of the main reasons for conducting qualitative research is that the research is exploratory, (Ali & Limakrisna, 2013).

**DISCUSSION**

**1. The Effect of Internal Control on Fraud Prevention.**

The results of research conducted by Hanurani and Jaeni (2022) show that the internal control system variable has a significant positive effect on fraud prevention. This shows that the higher the internal control system, the higher the fraud prevention. In accordance with fraud diamond theory, a good internal control system in a company will prevent fraud factors such as opportunity.

According to research by Wulandari and Widodo (2020), using quantitative research methods, that the internal control variable has a negative effect on fraud. The hypothesis of the study was proven. The internal control system is an activity that is carried out continuously by all employees. The higher the internal control implemented, the lower the fraud will occur.

In Ferdyanti and Priono's research (2022) using quantitative methodology. The results showed that the internal control system had an effect on preventing fraud in the management of ABBDes. The development of an effective internal control system can be used as evidence that efforts to avoid fraud in the administration of ABDSEs are being made.

According to the results of research by Zahrotul Wardah, Anita Carolina, Anis Wulandari (2022), it shows that the results of the hypothesis test prove that internal control has an effect on fraud prevention. This happens because of the monitoring that is carried out regularly to reduce unwanted risks by managers. Internal control is designed to provide fairness in achieving goals.

Agus Sulistiyo, Harti Budi Yanti (2022) used quantitative methods with causality type. The results of his research show that internal control has a positive effect on fraud prevention. This is because internal control is a way that can be done to prevent fraud,

namely by reducing the opportunity for fraud to occur. Internal control is closely related to fraud prevention because the application of internal control can minimize the possibility of fraud in financial reports or false evidence of financial accountability.

## **2. The Effect of Whistle Blowing System on Fraud Prevention**

Hanurani and Jaeni (2022) in their research results, the whistleblowing system has a negative and insignificant effect on fraud prevention. This means the whistleblowing system has no effect on fraud prevention at the locus of research. As with research by Gunawan (2020) and Prasasthy (2021) which shows that the whistleblowing system variable has no effect on fraud prevention.

According to Zahrotul Wardah, Anita Carolina, Anis Wulandari (2022), according to the results of the first hypothesis, it is proven that the whistleblowing system cannot provide influence on fraud prevention. Whistleblowing is related to whistleblower confidence that reporting through the whistleblowing system is a relevant and appropriate action, so that managers can provide security guarantees for whistleblowers to feel confident in reporting to the whistleblowing system.

The results of research by Agus Sulistiyo, Harti Budi Yanti (2022) prove that the whistleblowing system has an influence on fraud prevention, which means that the whistleblowing system is important in a company because it affects fraud prevention. The relationship between the whistleblowing system and fraud prevention with agency theory is the assumption of information asymmetry between principals and agents.

In the research of Ni Kadek Purnama Dewi, Sang Ayu Putu Arie Indraswarawati, I Made Endra Lesmanaputra (2022), the whistleblowing system affects fraud prevention. This is in accordance with agency theory which is a solution to agency problems, where there needs to be a system that limits the desire of village governments to commit fraud.

Silmi Syifa Safitri, Syaifinal (2023) explained in their research that the Whistleblowing system affects the prevention of Fraud in the Procurement of Goods and Services. This research is supported by the theoretical basis, namely one of the most effective ways to prevent and combat fraud is through the Whistleblowing System (violation reporting) mechanism. The whistleblowing system is able to reduce the culture of silence towards honesty and openness which is useful in preventing fraud.

## **3. Moral Influence on Fraud Prevention.**

The results of research from Wulandari and Widodo (2020) related to unethical behavior variables that unethical behavior has a positive effect on fraud. Unethical behavior is behavior that violates generally accepted social norms such as fraudulent behavior. The results of this study mean that the higher the unethical behavior, the higher the opportunity to commit fraud.

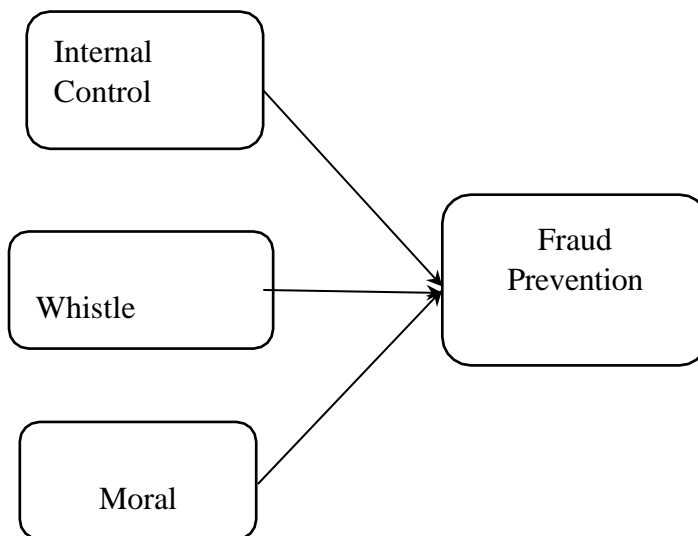
According to research by Ferdianti and Priono (2022), based on the hypothesis test conducted, the hypothesis can be accepted. The results of the study state that individual morality has an effect on fraud prevention in managing the APBDes. Many individuals in the village government who behave well give confidence that fraud prevention has been done well, on the other hand, if many individuals in the village government do not behave well, then efforts to prevent fraud in the APBDes have not been implemented optimally.

In the research of Ni Kadek Purnama Dewi, Sang Ayu Putu Arie Indraswarawati, I Made Endra Lesmanaputra (2022), individual morality variables affect fraud prevention. Agency theory supports this, where the Village Government is obliged to carry out the work of the Central Government. In carrying out its work, the village government is required to follow applicable laws. The higher the morality, the higher the prevention of fraud because people who prioritize morality are more likely to follow the rules that apply according to

ethical principles.

### Conceptual Framework

Based on the formulation of the problem, theoretical studies, relevant previous research and discussion of the influence between variables, the thinking framework of this article is as below.



**Figure 1: Conceptual Framework**

Based on the conceptual framework picture above, then: Internal Control, Whistleblowing System, and Morale affect Fraud Prevention.

Apart from these three exogenous variables that affect Fraud Prevention, there are still many other variables that affect it, including:

- a) Human Resource Competencies: Kuntandi, Puspita and Taufik (2022) and Ferdyanti and Priono (2022)
- b) Leadership Style: Yudanto and Novianti (2016)
- c) Organizational Commitment: Khomah and Arifah (2020)

## CONCLUSIONS AND SUGGESTIONS

### Conclusion

Based on theory, relevant articles and discussion, hypotheses can be formulated for further research:

1. Internal Control has an effect on Fraud Prevention.
2. Whistle Blowing System has an effect on Fraud Prevention.
3. Moral influence on Fraud Prevention.

### Suggestions

Based on the above conclusion, the suggestion in this article is that it is still there are many other factors that affect Fraud Prevention, apart from Internal Control, Whistleblowing Systems, and Morale at all types and levels of organizations or companies, therefore further studies are still needed to find what other factors can affect Fraud Prevention apart from the variables examined in this article. Other factors such as Human Resources Competence, Leadership Style, and Organizational Commitment.

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