Internal Control And WBS On Fraud Prevention: Individual Morality As Moderating Variable

Farah Kamila Huri[1], Mardi[2], Achmad Fauzi[3]

[1]Department of Accounting Education, Universitas Negeri Jakarta, Indonesia

[2]Department of Accounting Education, Universitas Negeri Jakarta, Indonesia

[3]Department of Accounting Education, Universitas Negeri Jakarta, Indonesia

Abstract

The purpose of this study is to look at how internal controls and whistleblower systems affect fraud prevention. Furthermore, to demonstrate empirically that individual morality moderates the impact of internal control and whistleblowing on fraud prevention. This study takes a quantitative approach to explanatory research. The population in this study is composed of employees from a consumer products company. The sample method employed convenient sampling of 59 employees. In this study, data was collected utilizing survey methods. The data used is primary data in the form of questionnaires sent to respondents. SmartPLS 4.0 software is used to perform data analysis utilizing Partial Least Squares Path Modeling (PLS-SEM). This study finds that internal control does not affect fraud prevention, while whistleblowing and individual morality do affect fraud prevention. Furthermore, the interconnection between internal control and the whistleblowing system on fraud prevention cannot be moderated by individual morality.

Keyword: internal control; whistleblowing system; fraud prevention; individual morality

1. Introduction

In current situation, Indonesia has serious challenges in terms of fraud prevention. In Occupational Fraud 2024: A Report to the Nations, Indonesia is ranked 3rd in the Asia-Pacific region as the country with the highest number of fraud cases, with 25 cases recorded. Manufacturing is one of the most representative industries for fraud cases globally (ACFE, 2019). Fraud cases reached 8.8% with an average loss of $194,000. Meanwhile, in Indonesia, the manufacturing sub-sector is a major contributor to the national economic growth (Kemenperin, 2019).

Fraud can occur in any institution or business. From early childhood to productive age, there is no age limit for fraudsters. According to Murdock (2018), all strata, from those working in the upper and lower classes, can become involved in fraud. As a result, fraud can threaten the sustainability of a country's economy. Thus, there is a need for concern from different parties to be vigilant, worried and aware of the potential for fraud in the workplace environment (Melani & Sudibyo, 2020).

Every business should focus more on internal control, according to the Treadway Commission (Commission to Identify the Causes of Deviations). In Indonesia, the internal control adheres to professional norms set by the Indonesian Institute of Accountants. The presence of internal controls can cause employees to be more diligent in carrying out all firm

procedures (Dwiyanti et al., 2022). However, internal control will fail to prevent fraud if it is not properly implemented by all concerned (Agustiawan et al., 2022).

According to ACFE (2019), the hotline or whistleblower system method has the highest percentage of anti-fraud controls. This was evident in the fact that 22.6% of respondents identified the whistleblower system as a highly effective method of fraud prevention. When the whistleblowing system is effective, more people in the community and company personnel will be willing to take action by reporting fraud to the appropriate authorities (Yuniasih et al., 2022).

According to the 2016 Indonesian Fraud Investigation (SFI) and the 2018 Report to The Nations, the main source of fraud detection comes from company employees. The largest percentage came from employees at 50.2%, followed by anonymous parties at 23.4%. Employees who are whistleblowers must have high and good personal ethics. For this reason, individual morality is a moderating variable in this study.

Therefore, the purpose of this study is to examine the interconnection between internal control and whistleblowing systems in fraud prevention. Individual morality is used as a moderator. The outcomes of this study may be valuable for businesses in increasing fraud prevention.

2. Literature Review
2.1 Internal Control

Due to changes in environmental conditions, companies must monitor the effectiveness of internal control (MARDI et al., 2020). This is related to one of the variables that can help avoid fraud, which is internal control. Internal control is defined as a human resource-based procedure that strives to simplify all areas of a corporation in order to support its seamless operation (Anggoe & Reskino, 2023). The Treadway Commission's Committee of Sponsoring Organizations (2013) defines internal control as a procedure implemented by the board of directors, management, and other employees to provide reasonable assurance of the achievement of operational, reporting, and compliance objectives. This has led to the creation of the Integrated Internal Control, which refers to the factors that lead to the fraudulent misstatement of financial statements. The Internal Control - Integrated Framework has five indicators, which are control environment, risk assessment, control activities, communication & information, monitoring activities. It can be summarised to minimize the fraud gap, efficient internal control is required.

2.2 Whistleblowing System

Whistleblowing is described as an individual reporting a fraudulent act that occurred within a company (Yuniasih et al., 2022). Parties who report acts of fraud are referred to as "whistleblowers". In the reporting of fraud, there is a forum for whistleblowers which is the whistleblowing system (Prena & Kusmawan, 2020). Moreover, the whistleblowing system becomes a reporting channel to make whistleblowers feel protected in reporting fraud (Wardah et al., 2022). Hence, a whistleblowing system needs to be implemented in both the corporate and government sectors. While companies usually have their own forum, the whistleblowing system in the government is called WiSe.

2.3 Individual Morality

The word morality comes from the Latin word moralis, or the same as 'moral'. Basically, morals are defined as standards that guide how individuals or groups behave (Isniawati et al., 2022). Then, individual morality can be defined as a teaching about good and bad attitudes and actions of each individual (Sujana et al., 2020). Fraud prevention is strongly related to individual morality. If the individual has a high level of moral reasoning, it is not easy for the individual to commit fraud.

2.4 Fraud Prevention

Fraud is a deliberate and even planned action to cause harm to other parties (Anggoe & Reskino, 2023). Fraud can be committed by more than one person and can even be committed by third parties by using deception that is against the law in order to make a profit (Yuniasih et al., 2022). In order for fraud to be prevented and stopped, it is necessary to implement fraud prevention. Fraud prevention measures are efforts to reduce opportunities, encourage and rationalise (factors that cause fraud).

3. Material and Method
3.1 Design Study

This study design takes a quantitative explanatory approach. Explanatory research explains the interconnection between hypothesised variables. Explanatory design can be applied to develop and refine theories or weaken theories (Mulyadi, 2013). Survey methods can be used to conduct research with an explanatory design. One of the most commonly used survey methods is the use of questionnaires. This study's population consisted of employees from one of the consumer goods corporations. The sampling technique employed was a convenience sample of up to 59 employees. Primary data was used in the form of questionnaires that were given to company employees. This research was carried out from December 2023 to June 2024.

3.2 Data Analysis

This research focuses on 4 variables that are related to each other and influence each other. A questionnaire was used to collect data, using Google forms and indicators which could influence each variable. Afterwards, the collected data were analysed with the SmartPLS version 4.0, using the calculation functions in the form of the PLS SEM algorithm and the bootstrapping method. The model included the internal control (X1), the whistleblowing system (X2), the prevention of fraud (Y) and the morality of the individual (Z).

4. Result

In general, the analyses and functions in PLS-SEM can be divided into two categories, namely:
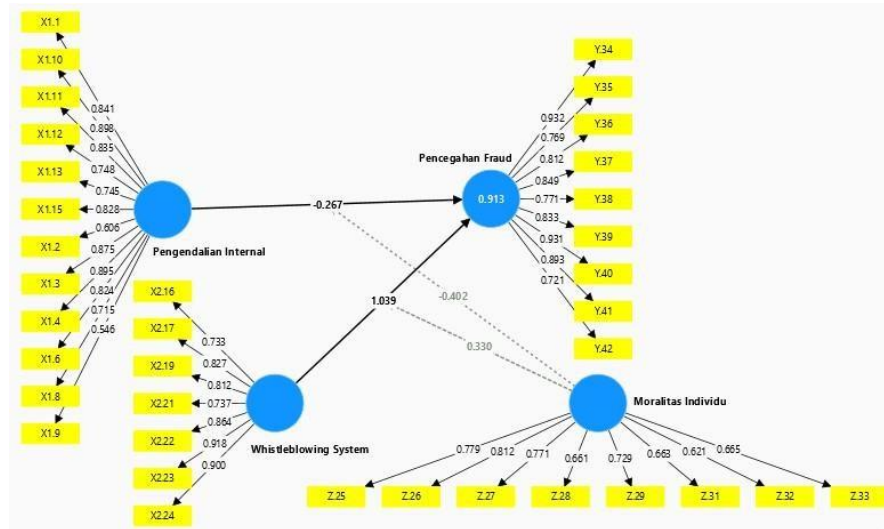
A. Outer Model

Figure 1. Output Outer Model

An external loading factor ≥ 0.70 is required to evaluate the reflective measurement model. The internal consistency with Cronbach's alpha will be assessed if the value is greater than 0.40 and between 0.40 and 0.70. In addition, Average Variance Extracted (AVE) exceed 0.50, the composite reliability must exceed 0.70, and the discriminant validity assessment using the Heterotrait Monotrait Ratio (HTMT) must be < 0.90 (Hair et al., 2022).

Table 1. Construct Reliability and Validity

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
IC	0.904	0.915	0.919	0.513
WBS	0.909	0.921	0.928	0.650
FP	0.916	0.921	0.931	0.603
IM	0.819	0.840	0.864	0.517

Table 1 above shows that reliability and construct validity are both good. Based on the overall findings, the data indicate that each variable performed well. A variable is considered reliable if it has a Cronbach alpha value greater than 0.70, a composite reliability greater than 0.70, and the overall data value exceeds 0.70. Additionally, all of the variables had AVE values larger than 0.5.

Table 2. HTMT (Heterotrait-Monotrait Ratio)

	IC	WBS	FP	IM	IM x IC
IC					
WBS	0.848				
FP	0.766	0.848			
IM	0.639	0.638	0.830		
IM x IC	0.101	0.088	0.094	0.284	
IM x WBS	0.120	0.099	0.108	0.275	0.824

Table 2 above shows that the HTMT value is below 0.90. Therefore, the variable data is theoretically different and empirically proven. The variable divides the variation of the measured item relative to the item that measures it more than divides the variance in other variable items more than divides the variance in other variable items.

Inner Model

The test of the structural model (internal model) is aimed at predicting the interconnection between the variables in the study. With SmartPLS, this test can begin by checking the absence of multicollinearity between variables using the Variance Inflated Factor (VIF). Then continue with looking at the R-squared value for the dependent variable.

Table 3. Value of Inner VIF

	Y
X1	3.002
X2	3.072
Z	1.640
Z x X1	3.358
Z x X2	3.397

Table 3 above shows that the inner VIF value is below 5. These results are in line with the

criteria that the level of multicollinearity between variables is low. Thus, the table shows that the parameter estimates of the PLS-SEMs were unbiased or robust.

Table 4. Value of R-Square

	R Square	R Square Adjusted	Criteria
Fraud Prevention (Y)	0,810	0,792	Substantial

Table 4 demonstrates that the R2 test value for the fraud prevention variable is 0.810, or 81%, indicating that the internal control, the whistleblowing system, and the moderating effect of individual morality all have an impact on fraud prevention. The remaining 19% is determined by the variable other.

Table 5. Hypothesis Testing Use Bootstrapping Methode

Hypothesis	Influence	Path Coefficients	T-Statistic	P-Value	Result
H1	Internal Control -> Fraud Prevention	0.111	0.958	0.338	Rejected
H2	Whistleblowing System -> Fraud Prevention	0.432	4.220	0.000	Accepted
H3	Individual Morality -> Fraud Prevention	0.497	4.161	0.000	Accepted
H4	**Internal Control x Individual Morality -> Fraud Prevention**	**0.040**	**0.364**	**0.716**	**Rejected**
H5	**Whistleblowing System x Individual Morality -> Fraud Prevention**	**0.165**	**1.437**	**0.151**	**Rejected**

Table 5 above displays the findings, which reveal that two hypotheses in this study were supported and five hypotheses were rejected. Hair et al. (2022) state that a hypothesis will have a direct effect when computing the path coefficient if the association between variables has a T statistic value greater than 1.960 or a P value less than 0.05. The accepted hypothesis is that the whistleblower system and individual morality have an impact on fraud prevention (P-values < 0.05). Furthermore, other variables, such as the internal control, have no effect because the p-values exceed 0.05. Individual morality diminishes the interconnection between the internal control and whistleblower system to fraud prevention, as evidenced by p-values more than 0.05.

5. Discussion

There are 5 hypotheses to test to determine the interconnection between two or more variables in this study. In this section, the focus will be on these 5 hypotheses and whether the interconnection is significant or not on the basis of the results of the calculations.

H1: The interconnection of Internal Control On Fraud Prevention

H1 is rejected based on the hypothesis testing table. This means that the effect of internal control on preventing fraud, not significant, but it is positive. This is shown by the p-value (0.338 > 0.05) and the t- statistic 0.958, which is less than 1.96. Furthermore, the coefficient is positive at 0.111. This shows that when the value of internal control is increased, the prevention of fraud is increased by 0.111. This result is consistent with the study by Agustiawan et al. (2022) who proved that internal control has no significant impact on fraud prevention in educational institutions. Another study by Widyawati et al. (2023) found that internal control had a positive but insignificant effect on fraud prevention. This research is also an explanation of the Hexagon Theory of Internal Control. The fraud hexagon theory suggests that there are several reasons why someone might commit fraud. The opportunity provided by a lack of internal control to monitor the operation of the business is one of these factors. If the company is to reduce the incidence of fraud, effective internal control is a prerequisite.

H2: The interconnection of Whistleblowing System On Fraud Prevention

H2 is accepted based on the hypothesis testing table. Whistleblowing's effect on fraud prevention is significant and positive. This is demonstrated by the p-value of less than 0.05 and the t-statistic of 4.220, which exceeds 1.96. In addition, the coefficient has a 0.432 positive value. This implies that the value of preventing fraud will rise by 0.432 for each increase in the whistleblowing system. According to Isniawati et al. (2022) there is proof that the whistleblowing system significantly reduces the risk of fraud. Anggraeni Mersa et al. (2021) found similar results. The findings demonstrated that the whistleblowing system has a major and beneficial impact on fraud prevention since its deployment will reduce the amount of fraud. Moreover, authorities and accountants in other nations, like the US, concur that fraud has been successfully discovered through whistleblowing.

H3: The interconnection of Individual Morality On Fraud Prevention

H3 is accepted based on the hypothesis testing table. Individual morality's effect on fraud prevention is significant and positive. The impact of individual morality on fraud prevention is large and favorable. This is demonstrated by the p-value of less than 0.05 and the t-statistic of 4.161, which exceeds 1.96. Furthermore, the coefficient is positive by 0.497. Thus, for every rise in individual morale, the value of fraud prevention increases by 0.497. The results of the study

show that individual morality has a major influence on fraud prevention in BUMN banks (Isniawati et al., 2022). According to a study by Anandya & Werastuti (2020), morality on an individual basis has a major and advantageous impact on preventing

fraud. Strong moral reasoning will sway a person's behavior to be morally upright, which will affect efforts to prevent fraud.

H4: The Interconnection of Internal Control on Fraud Prevention Moderated by Individual Morality

H4 is rejected based on the hypothesis testing table. The moderating variable, according to the hypothesis testing table, has a coefficient value of 0.040, a t-statistic of 0.364, which is less than 1.96, and a p-value of 0.716, which is greater than 0.05. The association between internal control and fraud prevention is found to be weakened by the moderating variable. Afterward, further bolstered by studies conducted by Biduri et al. (2023). Furthermore, Dwiyanti et al. (2022) claim that an individual's morality does not moderate internal controls for fraud prevention. Because certain employees are involved in the work of others, excellent morals cannot strengthen the internal control for the prevention of fraud.

H5: The Interconnection of Whistleblowing System on Fraud Prevention Moderated by Individual Morality

H5 is rejected based on the hypothesis testing table. According to the hypothesis testing table, the moderating variable has a coefficient value of 0.165, a t-statistic of 1.437, which is less than 1.96, and a p- value of 0.151, which is greater than 0.05. The association between the fraud prevention system and the whistleblowing system is shown to be weakened by the moderating variable. Dwiyanti et al. (2022) said the same thing. Moreover, individual morality does not modify the whistleblowing system in fraud prevention (Biduri et al., 2023).

6. Conclusion, Implication, and Recommendation
6.1 Conclusion

This study finds that the internal control has no substantial impact on fraud prevention. Employees are more likely to perpetrate fraud when internal controls are inadequate. This is inline with the fraud hexagon theory.

However, the whistleblowing system and individual morals have a significant beneficial impact on fraud prevention. This depicts how a whistleblowing system can record interactions between workers. Employees are also more deliberate in their actions. Therefore, that a person's level of moral reasoning influences their ethical actions. High individual morality influences fraud prevention endeavors.

Furthermore, individual morality undermines the interconnections between internal control and the whistleblowing system in fraud prevention. This implies that employees with high individual morality are more certain in preventing fraud, so they disregard morals. Then, some employees become involved in the work of other employees. Furthermore, workers with high morals are unwilling to disclose crimes because fear of not being safeguarded.

6.2 Implication

The implications of the research findings are the following:

1. The indicator of understanding the code of ethics has the highest score from the results of the average number of fraud prevention indicators. This is an indication that there is an understanding of the company's code of ethics by employees so that a culture of honesty and openness can be built. The indicator for a positive working environment then has the lowest score. One of the reasons for this is that the company has never tried to reward the results achieved by the employees.

2. The control activities indication has the highest score based on the average count of internal control indicators. This indicates that the company regularly conducts stock-taking, cash- taking, and recordkeeping. The risk assessment indicator gets the lowest score. One reason is that the company is unable to evaluate changes that may have an impact on internal controls.

3. The operational aspect indicator has the highest score from the results of the average number of whistleblowing system indicators. This means that for every whistleblowing report submitted by employees, the company takes further investigative action. The maintenance aspect indicator the has the lowest score. One reason for this is that the corporation does not communicate with employees about how to use the whistleblowing system.

4. The indicator of legal awareness is the highest among the results of the average of the individual morality indicators. This means that by understanding the rules in the company, the employees have worked according to good morals and ethics. The indicator of awareness based on rewards then has the lowest score. One of the reasons for this is that the company has not been able to provide adequate facilities to support each employee in working.

6.3 Recommendation

Here are some recommendations that researchers can give are:

1. Hopefully, it can attempt to use independent variables not examined in this paper
2. Hopefully, it can expand the research subject and respondent criteria in different areas
3. Hopefully, it can use an open-ended questionnaire so that respondents can express opinions freely

7. References

Agustiawan, A., Ririn Melati, & Siti Rodiah. (2022). Pengaruh Budaya Organisasi, Proactive Fraud Audit, Whistleblowing, Dan Pengendalian Internal Terhadap Pencegahan Kecurangan Dalam Pengelolaan Dana Bos. *Accounting and Management Journal*, *6*(1), 17–25. https://doi.org/10.33086/amj.v6i1.2378

Anandya, C. R., & Werastuti, D. N. S. (2020). Pengaruh Whistleblowing System, Budaya

Organisasi dan Moralitas Individu Terhadap Pencegahan Fraud pada PT. Pelabuhan Indonesia III (Persero) Benoa Bali. *Jurnal Ilmiah Akuntansi Dan Humanika*, *10*(2), 185. https://doi.org/10.23887/jiah.v10i2.25933

Anggoe, M., & Reskino, R. (2023). Pengaruh Pengendalian Internal, Whistleblowing System, Dan Komitmen Organisasi Terhadap Pencegahan Kecurangan Dengan Moralitas Individu Sebagai Variabel Moderasi. *Jurnal Akuntansi Trisakti*, *10*(1), 31–50. https://doi.org/10.25105/jat.v10i1.15818

Anggraeni Mersa, N., Sailawati, S., & Elok Larasatining Malini, N. (2021). Pengaruh Whistleblowing System, Sistem Pengendalian Internal, Budaya Organisasi, dan Keadilan Organisasi Terhadap Pencegahan Kecurangan. *Jurnal Akuntansi Keuangan Dan Bisnis*, *14*(Vol. 14 No. 1 (2021)), 85–92. https://doi.org/10.35143/jakb.v14i1.4613

Biduri, S., Ferisanti, R. A., & Sigit Hermawan. (2023). Pencegahan Kecurangan di Pemerintah Desa melalui Moralitas Individual. *Jurnal Riset Dan Aplikasi: Akuntansi Dan Manajemen*, *6*(2), 185–196. https://doi.org/10.33795/jraam.v6i2.005

Dwiyanti, D., Wicaksono, A. P. N., & Ulum, I. (2022). Internal Control, Whistleblowing System, Organizational Commitment and Fraud Prevention: Individual Morality as A Moderating Variable. *JAK (Jurnal Akuntansi) Kajian Ilmiah Akuntansi*, *9*(2), 172–188. https://doi.org/10.30656/jak.v9i2.4577

Hair, J., Hult, T., Ringle, C., & Sarstedt, M. (2022). Partial least squares structural equation modeling. In *Women Entrepreneurs*. SAGE. https://doi.org/10.1201/9781032725581-7

Holly, A., & Daromes, F. E. (2021). PENGARUH BUDAYA ORGANISASI, PENGENDALIAN INTERNAL DAN MORALITAS INDIVIDU TERHADAP PENCEGAHAN FRAUD PADA INSPEKTORAT PROVINSI PAPUA. *Jurnal Bisnis Dan Ekonomi*, *28*(2), 180–194.

Isniawati, A., Salsabella, A., & Heningtyas, O. S. (2022). Analisis Sistem Pengendalian Internal Dan Good Corporate Governance Dalam Mencegah Kecurangan Dengan Moderasi Moralitas Individu. *Financial: Jurnal Akuntansi*, *8*(1), 50–57. https://doi.org/10.37403/financial.v8i1.386

MARDI, M., PERDANA, P. N., SUPARNO, S., & MUNANDAR, I. A. (2020). Effect of Accounting Information Systems, Teamwork, and Internal Control on Financial Reporting Timeliness. *Journal of Asian Finance, Economics and Business*, *7*(12), 809–818. https://doi.org/10.13106/JAFEB.2020.VOL7.NO12.809

Melani, L. M., & Sudibyo, T. D. (2020). *Pengaruh Fraud Pentagon Terhadap Tingkat Kecurangan Laporan Keuangan (Pada Perusahaan Sub Sektor Makanan dan Minuman yang Terdaftar di BEI Periode 2019)*. *1*(1).

Mulyadi, M. (2013). Penelitian Kuantitatif Dan Kualitatif Serta Pemikiran Dasar Menggabungkannya. *Jurnal Studi Komunikasi Dan Media*, *15*(1), 128. https://doi.org/10.31445/jskm.2011.150106

Murdock, Dr. H. (2018). Association of Certified Fraud Examiners (ACFE). *Auditor Essentials*,

7–10. https://doi.org/10.1201/9781315178141-3

Prena, G. Das, & Kusmawan, R. M. (2020). Faktor-faktor Pendukung Pencegahan Fraud pada Bank Perkreditan Rakyat. *Jurnal Ilmiah Akuntansi*, *5*(1), 84. https://doi.org/10.23887/jia.v5i1.24275

Sujana, I. K., Suardikha, I. M. S., & Laksmi, P. S. P. (2020). Whistleblowing System, Competence, Morality, and Internal Control Against Fraud Prevention on Village Financial Management in Denpasar. *E-Jurnal Akuntansi*, *30*(11), 2780. https://doi.org/10.24843/eja.2020.v30.i11.p06

Wardah, Z., Carolina, A., & Wulandari, A. (2022). Pengaruh Whistleblowing System, Internal Control, Leadership dan Budaya Organisasi terhadap Fraud Prevention. *Nominal Barometer Riset Akuntansi Dan Manajemen*, *11*(2), 233–247. https://doi.org/10.21831/nominal.v11i2.49346

Widyawati, N. P. A., Sujana, E., & Diatmika, I. P. G. (2023). Pengaruh Sistem Pengendalian Internal, Budaya Organisasi Dan Kompetensi Sumber Daya Manusia Terhadap Pencegahan Fraud Dengan Good Corporate Governance Sebagai Variabel Intervening. *JIMAT (Jurnal Ilmiah Mahasiswa Akuntansi) Undiksha*, *14*(01), 71–92. https://doi.org/10.23887/jimat.v14i01.49868

Yuniasih, N. W., Sudiana, I. W., & Putra, I. P. D. S. (2022). Moderasi Keyakinan Hukum Karma Dan Moralitas Pada Hubungan Whistleblowing Dan Pencegahan Kecurangan. *Buletin Studi Ekonomi*, *27*(1), 9. https://doi.org/10.24843/bse.2022.v27.i01.p02