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Effect of internal control, whistleblowing role and data asymmetry against fraud prevention

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Abstract

This study will seek to quantify and analyze the Internal Control, the role of Whistleblowing, and Information Asymmetry in PT Bank Mandiri Ratulangi Area, Makassar, as it relates to fraud prevention. This research utilizes descriptive analysis and multiple linear regression analysis, with a total sample of 31 participants. Multiple linear regression analysis found that the following factors positively and significantly impact fraud prevention at PT Bank Mandiri Ratulangi Area, Makassar: Internal Control, the role of whistleblowing, and information asymmetry.



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1. Introduction

The phenomenon of global companies, organizations, banks, and others dealing with crises and failures could result in their bankruptcy. All organizations must adhere to implementing business sector strategies to handle competitors. Organizations are subjected to internal and external pressures that necessitate a method to enable them to stay active and to achieve a central position in the market. The U.S. accounting and auditing scandals had a widespread impact. It is estimated that numerous factors were instrumental in the emergence of this controversy. Primary and secondary factors are identified. This is a broad, all-encompassing list of issues including those that arise from impractical situations, inadequacies, inefficiencies, and dishonest behavior, such as with regard to financial reporting, accounting, auditing, corporate governance, supervision, and control. Harmful behavior and violation of ethical principles, such as integrity, honesty, transparency, independence, and accountability, are also important to include in the secondary class of characteristics.

(Tuan, 2020) She explained that the fields of accounting and auditing gave birth to internal control. Initially, internal control was understood as a type of accounting control. In order to ensure the reliability of financial reports, internal control involves system controls carried out by external auditors. For COSO, internal control is a process carried out by the board of directors, management and other staff of the entity to ensure that the

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objectives of operational effectiveness and efficiency, reliability of financial reporting, compliance with applicable laws and regulations are achieved in a reasonable manner (Okour, 2016). This goal was then explored in the dimensions of the internal control of COSO, which has now become a guide for the auditing world.

In view of the theoretical and empirical, Based of theoretically raises the correlation in doing standing point analysis and determination significantly in observing variables to be studied. Several things can be done to prevent fraud from occurring in the corporate environment. Internal control is the first one. The dimensions of COSO, which we understand as five dimensions, are used in this research. Studies such as (VR Putri, 2019), (Sunarsih & Mendra, 2017). (Sukriyah et al., 2009), (KP Putri, 2019), (Agro et al., 2018), and (Tuan, 2020) found that prevention was related to internal control positively and significantly. (Sukriyah et al., 2009) explained that, apart from increasing the effectiveness of internal control, information asymmetry is another factor affecting the trend of accounting fraud. The asymmetric theory of information states that parties to the company do not have the same information about the company's prospects and risks.

The PT Bank Mandiri phenomenon relating to indications and fraud is limited to financial reporting problems. In July 2020, there were also several strategic areas, such as credit, operations, accounting, and IT. While system errors in the banking system, particularly Bank Mandiri, have occurred several times, this does not mean they are weak or easily hacked by hackers. In the latest Bank Mandiri case, Pieter noted five points. First, a normal process for improving services with techniques, staging, and risks that should have been taken into account and become part of IT GRC is moving the database and adding systems (Governance, Risk, Compliance). Second, the problems that may occur in the process of failing public services are part of the risk mitigation that has been prepared in the form of a failover and hot backup mechanism in a disaster recovery plan. Third, it is crucial to communicate to the public through trusted media while preserving information that should be for internal purposes only. Fourth, the solution and communication carried out should not cause problems, but add to new problems (customer service phones can not be accessed due to overload calls, servers are overloaded because customers have panic balances, etc.), which should have been included as part of risk mitigation.

This research uses, in particular, three types of theory. Agency Theory assumes that the company has an interest in each of the owners and management. Management as the party that carries out the company's operational activities must fulfill shareholders' interests as the owner of the company. But management, on the other hand, also has an interest in maximizing their welfare. The theory of signaling looks at the signs of the conditions describing a company (Anita & Dewi, 2019). In economics and finance, the signaling theory was developed to consider that company insiders generally have better and faster information about their situation and prospects than individuals outside the company. Prosocial organizational behavior is actions taken by an organization's members against individuals, groups, or organizations that improve the welfare, group, or organization of the individual (Brief, AP & Motowidlo, 1986).

Internal control is an organizational plan. All actions are designed to secure assets, encourage employees to follow company policies, improve operating efficiency, and ensure accurate and reliable accounting records (Miradhi & Juliarsa, 2016). Meanwhile, according to (Perdanawati & Amrita, 2019), internal control is a set of policies and procedures to protect company assets or assets from all forms of misuse, ensure the availability of accurate company accounting information, and ensure that all legal/regulatory provisions/regulations. The laws and management policies have been followed or implemented correctly by all company employees.

The internal control system has four main elements, namely 1) an organizational structure that separates accountability and authority. The organizational structure is the framework for the division of functional responsibilities between the administrative units formed to carry out the main activities of the organization. 2) System for authorization and procedures for recording. Each transaction occurs within the organization only on the basis of an authorization from the official who has the authority to approve the transaction. Therefore, for each transaction's approval, the organization must establish a system governing the distribution of power. 3) Practices that are healthy. The division of functional responsibilities and the design of authority and recording procedures implemented will not be carried out properly if ways are not created to ensure healthy practices in their implementation. 4) Employees whose performance is due to their obligations. An essential element of the internal control system is the employee quality element. If the company has competent and honest employees,

it is possible to minimize other aspects of control and the company can still generate reliable financial accountability (Luh Putu Virra Indah Perdanawati & Amrita, 2019). There are five main components of the internal control system: the control environment, risk assessment, control activities, information and communication and monitoring activities (Aulia, 2013).

Whistleblowing is an act of disclosing data from a private or public organization to open to the public dangerous cases of corruption (Kumar & Santoro, 2017). Whistleblowers are, on the one hand, considered heroes because they dare to reveal the irregularities of government organizations (fairness). Some government organizations, on the other hand, believe whistleblowers to be traitors because they have revealed organizational abnormalities (loyalty) and do not have the esprit de corps spirit. (Marga Putri, 2016) states that in combating fraud, whistleblowing is more effective than internal auditing, external auditing, and internal control. system. A country's way of following corruption cases is to observe cases surrounding whistleblowing. Efforts to encourage the role of whistleblowers, such as private companies, government institutions, and the public, can at least begin in the workplace. In these places, a whistleblower needs a reporting and protection system that needs to be continuously socialized and developed.

Information asymmetry is a situation in which the information between the party providing the information or agent and the party requesting information or the principal has been misaligned (Aranta, 2013). The situation of information asymmetry arises when the agent has access to information not owned by the principal; asymmetry happens when the agent is more aware of its internal communication and the prospects of the company compared to the principal and other shareholders (Nita & Supadmi, 2019). Information asymmetry can be divided into two parts (Nita & Supadmi, 2019), namely: adverse selection, a type of asymmetry in which more information about the company is found by one or more parties that carry out a transaction process. And moral hazard is a type of asymmetry of information that occurs when one party takes advantage of the ignorance of the other party to take action outside the prior agreement.

Several indicators, namely, measure information asymmetry: 1) Compared to superiors, information owned by subordinates. 2) The relationship between input-output that exists in internal operations. 3) Potential performance As lower managers are directly involved in the process of operating the responsibility unit, more subordinate managers are better able to estimate the possible performance of their responsibility team than top managers who are not directly involved. 4) Senior managers know more about how the engagement unit achieves goals in technical work than top managers. 5) More subordinate managers are directly involved in operating the division of responsibility in order to be able to assess potential impacts, so that lower managers can better evaluate the risks that may occur in their unit of responsibility's operations. 6). More subordinate managers know better how their accountability team can accomplish plans created in the field of activity (Akhmad Azmi Basyir, 2016).

Fraud is a misrepresentation of material facts made by one party to another to mislead and cause losses to other parties who depend on these facts (Rahmita Dwinesia Paputungan, Bambang Subroto, 2020). Fraud is a general action that includes a variety of meanings in the form of the creative manner of a person, intended to benefit from misrepresenting it (Putri, 2019). In the form of a fraud tree, the Association of Certified Fraud Examiners (ACFE) identifies occupational fraud. This tree depicts, along with its components and units, the branches of fraud in a working relationship. There are three key branches of this occupational fraud tree; corruption, asset misuse, and fraudulent financial statements.

H1: Internal control has a significant positive effect on Fraud Prevention

H2: The role of Whistleblowing has a significant positive effect on Fraud Prevention

H3: Information asymmetry has a positive and significant effect on Fraud Prevention

2 Research Method

This research will be carried out at the Mandiri Ratulangi Area PT Bank, which consists of several branches and micro branches on a regular basis. In this research, the type of data used consists of two types, namely

quantitative and qualitative data. At the same time, primary data and secondary data are the data sources used in this research. All auditors who served in the PT were part of this study population. Bank Mandiri in the Ratulangi region, which includes two categories of branches, namely Regular Branches and Micro Branches, in the work areas. In this research, the number of samples that can be used is only 31 samples. The exploratory research method, also known as experimental research, is the research approach used. The technique of data collection used in this study is by distributing questionnaires. The method of data analysis used in this research is a descriptive method of analysis and a method of quantitative analysis.

3 Result and Discussion

Statistical Result

Table 1. Validity Test Results of All Variables

| Variable | Item | r-count | r-table | Info |
|------------------------------------|------|---------|---------|-------|
| (X1) Internal control | 1 | 0,714 | 0,355 | Valid |
| | 2 | 0,642 | | |
| | 3 | 0,740 | | |
| | 4 | 0,572 | | |
| | 5 | 0,636 | | |
| | 6 | 0,788 | | |
| | 7 | 0,718 | | |
| | 8 | 0,492 | | |
| (X2) The Role of Whistleblowing | 1 | 0,764 | 0,355 | Valid |
| | 2 | 0,669 | | |
| | 3 | 0,440 | | |
| | 4 | 0,359 | | |
| | 5 | 0,636 | | |
| | 6 | 0,741 | | |
| | 7 | 0,515 | | |
| | 8 | 0,719 | | |
| (X3) Information Asymmetry | 1 | 0,668 | 0,355 | Valid |
| | 2 | 0,468 | | |
| | 3 | 0,674 | | |
| | 4 | 0,573 | | |
| | 5 | 0,562 | | |
| | 6 | 0,584 | | |
| (Y) Fraud Prevention | 1 | 0,634 | 0,355 | Valid |
| | 2 | 0,587 | | |
| | 3 | 0,461 | | |
| | 4 | 0,626 | | |
| | 5 | 0,438 | | |
| | 6 | 0,446 | | |
| | 7 | 0,610 | | |

Table 2. Reliability Test Results

| Variable | Cronbach Alpha | Info |
|----------------------------|----------------|----------|
| Internal control | 0,844 | Reliable |
| The Role of Whistleblowing | 0,825 | Reliable |
| Information Asymmetry | 0,740 | Reliable |

A variable validity test is used to measure whether or not a questionnaire is valid. Table 1 shows that all variables have a r count value greater than the r table is 0.306, so it is possible to say that the items in question are good research. Table 2 shows that all research variables have a Cronbach Alpha value greater than the standard value of 0.60 so that the question items in this data can be said to be reliable.

Normality test, aims to test whether in the regression model, confounding or residual variables have a normal distribution. To see whether the data is normally distributed or not, you can look at the histogram graph. The following are the results of the normality test.

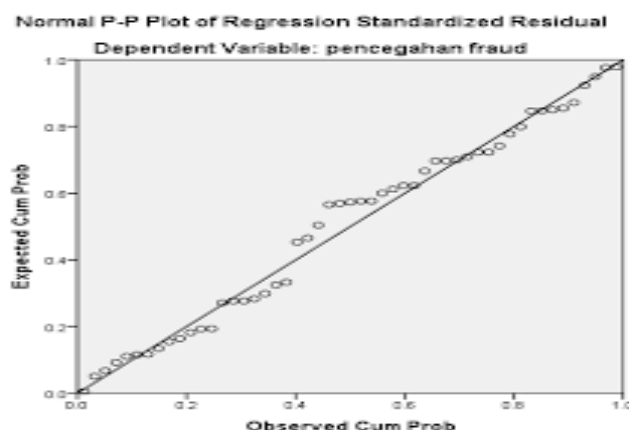


Figure 1. Normality Test

Table 3. Multicollinearity Test

| Model | Correlations | | | Collinearity Statistics | |
|----------------------------|--------------|---------|------|-------------------------|-------|
| | Zero-order | Partial | Part | Tolerance | VIF |
| 1 (Constant) | | | | | |
| Internal control | .661 | .664 | .521 | .884 | 1.132 |
| The Role of Whistleblowing | .585 | .482 | .323 | .847 | 1.180 |
| Information Asymmetry | .317 | .398 | .255 | .948 | 1.055 |

Heterocedasticity test, aims to test whether in the regression model there is an inequality of variance from the residuals of one observation to another.

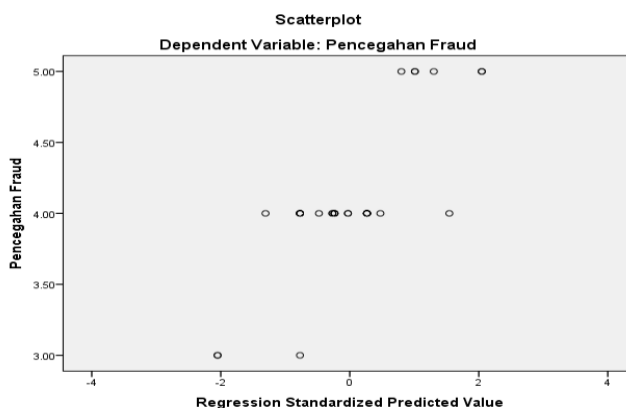


Figure 2. Heterocedasticity test
Table 4. Results of Multiple Linear Regression Analysis

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|----------------------------|-----------------------------|------------|---------------------------|-------|------|
| | B | Std. Error | Beta | | |
| 1 (Constant) | .174 | .592 | | .294 | .771 |
| Internal control | .452 | .098 | .555 | 4.613 | .000 |
| The Role of Whistleblowing | .324 | .113 | .351 | 2.857 | .008 |
| Information Asymmetry | .233 | .103 | .262 | 2.253 | .033 |

Table 4 shows that the constant value $b_0 = 0,174$, the coefficient of the internal control variable is 0.452, the Whistleblowing role variable is 0.324, and the Information Asymmetry is 0.233.

$$Y = 0,174 + 0,452 X_1 + 0,324 X_2 + 0,233 X_3$$

The constant value, namely $b_0 = 0.174$, means that, if the internal control variables, the role of whistleblowing and information asymmetry, do not change, then fraud prevention is 0.174 or 17.4. The coefficient of Internal Control variable (X_1) is 0.452, this means that if the internal control is increased by 1 unit or unit, it will increase Fraud Prevention at the PT. Bank Mandiri tbk in Ratulangi Area is 45.2 with the assumption that the variables X_2 and X_3 are constant. The variable coefficient of the role of whistleblowing (X_2) is 0.420, this means that if the role of whistleblowing is increased by 1 unit, it will increase Fraud Prevention at the PT. Bank Mandiri tbk Ratulangi Area of 32.4 with the assumption that the variables X_1 and X_3 are constant. The coefficient of Information Asymmetric variable (X_3) is 0.233, this means that if the information asymmetry increases by 1 unit or unit, it will increase Fraud Prevention at the PT. Bank Mandiri tbk Ratulangi Area of 0.233 with the assumption variables X_1 and X_2 are constant. The value of the multiple correlation coefficient (R) is 0.809, this shows that the magnitude of the relationship between the independent variables X_1 , X_2 , and X_3 with the Dependent Variable (Y), namely Fraud Prevention is 0.809. This means that the influence of the independent variable on the dependent variable is 80.9. The value of the coefficient of determination (R^2) is 0.655, this shows that the magnitude of the influence of the independent variable (X) on Fraud Prevention at the PT. Bank Mandiri tbk in Ratulangi Area of 0.655 or (65.5) and the remaining 0.345 or 34.5% influenced by other factors or variables not included in this research model.

The F test (Simultaneous Test) is intended to find out how the significance relationship of the independent variable to the dependent variable simultaneously (simultaneously), by comparing the value of f - count with f - table.

Table 5. Simultaneous Test

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|----------------|----|-------------|--------|-------------------|
| 1 | Regression | 5.706 | 3 | 1.902 | 17.094 | .000 ^b |
| | Residual | 3.004 | 27 | .111 | | |
| | Total | 8.710 | 30 | | | |

Discussion

Internal control at PT Bank Mandiri Tbk Ratulangi Area has a positive and important effect on fraud prevention. This means that the first hypothesis in this study can be proven statistically. The relationship shown by the coefficient of regression is positive, which means that the better internal control in the company, the better fraud prevention is. Or, in other words, internal control will enhance the company's fraud prevention. This study shows that the fraud prevention system implemented in Indonesia by BUMN companies demonstrates a positive step towards reducing the space for fraud in the banking sector.

In the PT Bank Mandiri Tbk Ratulangi Area, the role of whistleblowing has a positive and significant effect on fraud prevention. This means that the second hypothesis in this study can be proven statistically. In this study, the whistleblowing variable uses several indicators, namely, organizational support first. This indicator has a value of 4.1 on average. This implies that it is constantly included in the correct criteria. The Reporting Line is the second indicator. This indicator has a moderate 4.0 response rate and is in the appropriate category.

Information asymmetry at PT Bank Mandiri Tbk Ratulangi Area has a positive and important effect on fraud prevention. This means that the third hypothesis in this study can be proven statistically. The relationship shown by the coefficient of regression is positive, meaning that the asymmetry of information has the third coefficient of the two previous variables.

4 Conclusion

The findings of this research suggest that the three hypotheses of this study are accepted. Accept the hypothesis for research. These findings can explain that the fraud prevention system of the company is a positive step in narrowing the fraud space. Whistleblowing has been built as a system to reinforce internal controls and increase fraud prevention. A problem point and potential for fraud is asymmetry; prevention efforts must be made.

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