

Factors that affect Fraud Detection: Internal Auditor Independence and Whistleblowing System

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Article Info	ABSTRACT
Corresponding Author: Raisah Nur Hotimah E-mail: 202110315093@mhs.ubharajaya.ac.id	<p>Previous research or relevant research plays a crucial role in building theoretical foundations and hypotheses for future research. This article aims to review the factors that influence fraud detection, focusing on internal auditor independence and whistleblowing system. Internal auditor independence reflects the ability of auditors to perform their duties objectively and unaffected by internal organizational interests, while the whistleblowing system provides a secure communication channel for organizational members to report fraud without fear of reprisal. With a deepened understanding through this article, it is expected to generate strong hypotheses about the relationship between these factors in the context of fraud detection, which can help improve the effectiveness of fraud prevention and detection efforts in various sectors and organizations. The results of this literature review article are: 1) Internal Auditor Independence affects Fraud Detection and 2) Whistleblowing System affects Fraud Detection.</p> <p>Keywords: Fraud, Internal Auditor, Whistleblowing System</p>

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INTRODUCTION

Fraudulent practices are a serious threat to organizations around the world, including in Indonesia, with impacts that are not only financial but also on the reputation and integrity of the institution. Recent data shows that fraud cases continue to increase in various sectors such as private businesses, government agencies, state-owned enterprises, and non-profit organizations in Indonesia. This increase is noted in recent literature as described by Umar et al. (2021), Arianto (2022), and Reskia & Sofie (2022). Fraud can cause huge losses and undermine public trust in the institution.

In an effort to overcome the threat of fraud, prevention and detection are key. One strategy that is considered effective is through the role of internal auditors and the implementation of a whistleblowing system. Internal auditors play a major role in detecting fraud by performing the internal audit function independently and based on strict ethical standards, as discussed in recent literature. They have the responsibility to audit business processes and identify potential weaknesses that can be exploited to commit fraud.

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Apart from the role of internal auditors, the whistleblowing system is also an important instrument in detecting fraud. The whistleblowing system provides a secure communication channel for members of the organization to report fraudulent activity without fear of reprisal. Tuanakotta (2011) and other research by Cut Ismi Wilda Fitri (2016) and Dwi Zarlis (2018) support the importance of implementing this violation reporting system in reducing the risk of fraud in the work environment.

While the importance of the role of internal auditors and whistleblowing systems is recognized in theory, the implementation challenges and critical success factors of these approaches need to be more carefully considered. An evaluation of the effectiveness of these practices as well as an in-depth understanding of the barriers that organizations may face in implementing them is crucial to building an effective fraud prevention and response strategy in Indonesia. A deeper understanding of these factors will provide a solid foundation for organizations to improve their response to the increasingly complex fraud threat.

Through this literature review, an in-depth analysis will be conducted regarding the role of internal auditor independence and whistleblowing system in detecting fraud, focusing on the implementation and key factors that influence the success of these two approaches in the Indonesian context. It is expected that the results of this study can make a significant contribution to efforts to prevent and handle fraud in various sectors, including private business, banking, BUMN, and government agencies. This article discusses the effect of internal auditor independence and whistleblowing on fraud detection, a literature review study in the banking sector.

Based on the background, problems can be formulated that will be discussed in order to build hypotheses for further research, namely: 1) Does internal auditor independence affect fraud? . 2) Does whistleblowing affect fraud?

METHOD

Literature Review

Fraud

Fraud is an illegal act committed by a person or group of people with the aim of obtaining personal gain or harming other parties. This practice can occur in various sectors, including private business, government, banking, and non-profit organizations such as universities. Fraud can have a serious impact on the finances of organizations, groups, and state finances, because it usually aims for the personal gain of the perpetrators. (Rahmi et al., 2024).. The dimensions or indicators of fraud are the independence of internal auditors, the whistleblowing system and other supporting factors such as the control environment in the organization, such as policies and procedures that support transparency and accountability, client tenure, incentives for whistleblowers, and regulations governing the protection of whistleblowers. (Rahmi et al., 2024). The impact of fraud practices is very serious and can be financially detrimental to organizations and society. This crime not only causes material losses, but also damages the integrity, trust and reputation of related institutions. Fraud in the banking sector, for example, can cause significant financial losses to customers and can even destabilize the country's financial system.

Fraud is an illegal act committed intentionally to obtain personal gain or harm other parties. (Ginanjar & Syamsul, 2020). The dimensions or indicators of fraud are Fictitious or Fake Transactions, Embezzlement of Funds or Assets, Manipulation of Financial Statements, Violation of Policies and Procedures, Collusion or Corruption and Data Incompatibility or Inconsistency (Ginanjar & Syamsul, 2020). (Ginanjar & Syamsul, 2020).

Fraud is an act committed intentionally and illegally with the aim of obtaining personal gain or harming other parties. Indicators of fraud can include various things, especially related to violations of integrity, processes, and organizational policies. (Adawiyah et al., 2023).. The dimensions or indicators of fraud are Internal Control, Whistleblowing System, and Internal Audit. (Adawiyah et al., 2023)..

Fraud is an act that is carried out dishonestly and intentionally that can cause losses to the company, even not only can it harm the company but can also harm employees and other people. (Murtiningrum, 2023). Dimensions or indicators of fraud include internal audit, internal control, and whistleblowing systems. Internal audit is a process of independent examination of company activities and procedures to ensure compliance and detect potential fraud. Internal control includes policies, procedures, and practices designed to prevent and detect fraud and ensure the reliability of financial information. Meanwhile, a whistleblowing system provides a safe communication channel for employees or internal parties to report fraud or unethical behavior without fear of reprisal. The combination of these three indicators can help organizations prevent, detect, and effectively handle fraud cases.

Fraud prevention and detection are critical in reducing risk and the resulting negative impact. Preventive measures include the implementation of effective internal controls, the establishment of clear anti-fraud policies, and employee education and training on good governance and high work ethics. In addition, a whistleblowing system is also an important tool in detecting fraud, by providing a safe communication channel for members of the organization to report fraud without fear of reprisal.

Fraud detection has been widely researched by previous researchers including (Murtiningrum, 2023), (Adawiyah et al., 2023), (Ginanjar & Syamsul, 2020), and (Rahmi et al., 2024).

Internal Auditor Independence

Internal auditors refer to professionals responsible for conducting internal audits and evaluations of an organization's processes, policies, and operations. Internal auditors work within the organization and have the task of assessing the effectiveness of internal controls, checking compliance with policies and procedures, and detecting potential risks, including potential fraud. (Rahmi et al., 2024). The dimensions or indicators of internal auditors are independence, audit knowledge and skills, compliance and obedience, internal control, risk analysis, reporting and recommendations as well as cooperation and communication. (Rahmi et al., 2024).

Internal Auditors are professionals responsible for conducting internal audits in an organization or company. They have a key role in evaluating the effectiveness of internal controls, ensuring compliance with applicable policies and procedures, and detecting potential risks, including the risk of fraud or abuse. (Ginanjar & Syamsul, 2020). The

dimensions or indicators of internal auditors are audit knowledge, independence, analytical skills, internal control and compliance with policies and procedures. (Ginanjar & Syamsul, 2020).

Internal Auditors are professionals responsible for conducting internal audits in an organization or company. They work to ensure that an entity's operational processes, policies, and practices are in accordance with established standards, as well as to detect potential risks, including the risk of fraud or abuse. (Adawiyah et al., 2023). The dimensions or indicators of internal auditors are audit knowledge, analytical skills, internal control, compliance with policies and procedures and communication skills. (Adawiyah et al., 2023).

Internal auditors should have professional expertise in accounting, finance, and internal control. They are also expected to have high integrity, objectivity, and adherence to the auditor's professional code of ethics. Good collaboration with management and other members of the organization is also required so that audit results can be effectively implemented to improve governance and reduce risks to the organization. Internal auditors play an important role in helping organizations prevent fraud and ensure transparency and accountability in their operations. Internal auditors have been examined by many previous researchers, including (Adawiyah et al., 2023), (Ginanjar & Syamsul, 2020) and (Rahmi et al., 2024).

Whistleblowing System

Whistleblowing System is a reporting mechanism or system that allows individuals within an organization to report or disclose information related to suspicious, illegal, or unethical events to authorized or interested parties, such as management, ethics committees, or relevant authorities outside the organization. The main purpose of the whistleblowing system is to reveal the truth, prevent further losses or crimes, and ensure accountability and transparency in the work environment. (Rahmi et al., 2024). The dimensions or indicators of whistleblowing are the existence of open communication channels, whistleblower identity protection, whistleblowing policies and procedures, responsiveness and responsiveness, employee education and awareness and management commitment (Rahmi et al., 2024). (Rahmi et al., 2024).

Whistleblowing System is a mechanism or system that allows employees or internal parties in an organization to report or disclose violations, fraud, illegal actions, or non-compliance with policies or regulations that occur within the organization. The main principle of whistleblowing is to provide a safe and reliable channel for whistleblowers to convey information about potential problems or crimes without fear of retaliation or discrimination. (Murtiningrum, 2023). The dimensions or indicators of whistleblowing are the Code of Ethics or Whistleblowing Policy, Open Communication Channels, Whistleblower Identity Protection and Effective Report Handling Processes. (Murtiningrum, 2023).

Whistleblowing System is a system or mechanism that allows employees or internal parties of an organization to report violations, fraud, or unethical actions that occur within the organization to authorized or interested parties, such as senior management or relevant authorities. Whistleblowing aims to disclose problems or violations that occur within the organization in the hope of preventing further losses or unethical actions that harm the organization. (Adawiyah et al., 2023).. The dimensions or indicators of whistleblowing are the existence of a clear policy or code of ethics governing

whistleblowing reporting procedures, open and trusted communication channels for whistleblowers to report fraud or violations, protection of the whistleblower's identity so as not to face the risk of retaliation or discrimination, an effective and transparent process of handling whistleblowing reports, responsiveness and responsiveness of the organization to whistleblowing reports by seriously investigating each report received. (Adawiyah et al., 2023).

Effective implementation of a whistleblowing system requires full support from the management and stakeholders of the organization. Whistleblower identity protection, anti-repression policies, and efficient and transparent report handling processes are some of the key factors that must be present in a successful whistleblowing system.

Research has shown that organizations that implement a good whistleblowing system tend to have a better ability to detect and prevent fraud or other illegal acts. Whistleblowing systems can be an effective tool in strengthening corporate governance and ensuring compliance with applicable ethical and regulatory standards.

The Whistleblowing System has been widely researched by previous researchers, including (Rahmi et al., 2024), (Murtiningrum, 2023), and (Adawiyah et al., 2023).

Table 1. Relevant previous research

No	Author (year)	Previous Research Results	Similarities with this article	Differences with this article
1	Rahmi (2024)	Independensi Auditor Internal dan Whistleblowing System berpengaruh positif dan signifikan terhadap Pendeteksian Fraud	Internal Auditor Independence and Whistleblowing System affect Fraud Detection	-
2	Murtiningrum (2023)	Peran Auditor Internal berpengaruh positif dan signifikan terhadap Pendeteksian dan Pencegahan Fraud	Internal Auditor Independence affects Fraud Detection	-
3	Adawiyah (2023)	Pengendalian Internal, Whistleblowing System, dan Audit Internal	Internal Auditor Independence and Whistleblowing System affect Fraud Detection	-

		berpengaruh positif dan signifikan terhadap Pencegahan Fraud		
4	Ginanjar (2020)	Audit Internal, Pengendalian Internal, dan Whistleblowing System berpengaruh positif dan signifikan terhadap Pencegahan Fraud	Internal Auditor Independence and Whistleblowing System affect Fraud Detection	-

Research Methods

This scientific article uses qualitative methods and library research to examine theories and relationships between variables from literature contained in books and journals, both offline in libraries and online through sources such as Mendeley, Google Scholar, and other online media. The population used is all relevant literature in the fields of Internal Control, Whistleblowing System, and Internal Audit related to fraud detection. In qualitative research, literature review is carried out consistently with methodological assumptions, which are used inductively to explore topics without directing research questions. Qualitative research is conducted primarily for the exploration of topics that are complex and not yet widely documented (Ali & Limakrisna, 2013).

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.

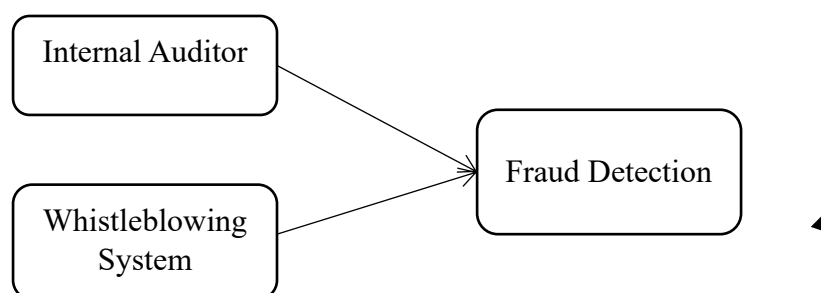


Figure 1. Conceptual Framework

Based on the conceptual framework picture above, Internal Auditor Independence and Whistleblowing System affect Fraud Detection. Apart from these two variables that influence Fraud Detection, there are still many other variables that influence it, including:

- a) Internal Control: (Adawiyah et al., 2023) and (Murtiningrum, 2023).
- b) Human Resource Competencies (Cris Kuntadi, Bhayu Adi Puspita, Achmad Taufik, 2022), and (I Made Hangga Hariawan, Ni Komang Sumadi, Ni Wayan Alit Erlinawati, 2020).
- c) Compensation Suitability (Cris Kuntadi, Bhayu Adi Puspita, Achmad Taufik, 2022).

RESULTS AND DISCUSSION

The Effect of Internal Auditor Independence on Fraud Detection

Internal Auditors affect Fraud Detection, where the dimensions or indicators of internal auditors, namely, audit knowledge, analytical skills, internal control, compliance with policies and procedures and communication skills affect the dimensions or indicators of fraud detection, namely, the independence of internal auditors and the whistleblowing system. (Murtiningrum, 2023).

Internal auditors have a positive effect on fraud detection. This shows that internal auditors who have expertise and abilities in finance and accounting play an important role in fraud detection. The more internal audit members who have this expertise, the more effective they are in preventing and detecting fraud in the company. Internal auditors who are skilled in finance and accounting can effectively identify suspicious patterns or transactions, and analyze financial data to find potential indications of fraud.

The presence of a competent internal audit is expected to assist management in preventing fraud by providing recommendations and suggestions for improving the company's internal control system. Thus, the ability of good internal auditors can reduce the level of fraud that occurs within the company through timely and accurate preventive and detection actions.

Internal Auditor Independence affects Fraud Detection, this is in line with research conducted by: (Rahmi et al., 2024), (Murtiningrum, 2023), (Ginanjari & Syamsul, 2020) and (Adawiyah et al., 2023).

The Effect of Whistleblowing System on Fraud Detection

Whistleblowing System affects Fraud Detection, where the dimensions or indicators of the Whistleblowing System, namely, code of ethics or whistleblowing policy, open communication channels, protection of reporter identity and organizational commitment to whistleblowing affect the dimensions or indicators of Fraud Detection, namely the attitude of internal auditor independence and whistleblowing system. (Adawiyah et al., 2023).

Whistleblowing System has a positive effect on fraud detection. This shows that the whistleblowing system is a mechanism that allows employees or other internal parties to report fraud or violations that occur within the organization to the authorities. The study by Ike Trijayanti, Nedi Hendri, and Gustin Padwa Sari (2021) shows that companies that implement a whistleblowing system tend to have a better level of fraud prevention. The whistleblowing system provides an effective communication channel for employees to report fraud that they know or suspect, thus enabling management to take appropriate preventive action.

The more active and effective a whistleblowing system is implemented in a company, the better the ability to prevent and reduce fraud. An active whistleblowing system encourages employee participation in providing information about potential fraud, thus enabling more efficient and transparent disclosure of fraud.

Whistleblowing System affects Fraud Detection, this is in line with research conducted by: (Rahmi et al., 2024), (Murtiningrum, 2023), (Ginanjar & Syamsul, 2020) and (Adawiyah et al., 2023).

CONCLUSION

Based on theory, relevant articles and discussion, hypotheses can be formulated for further research: 1) Internal Auditor Independence affects Fraud Detection. 2) Whistleblowing System affects Fraud Detection. Based on the above conclusions, the suggestion that can be given in this article is the need for further research to explore other factors that influence fraud detection, apart from internal auditor independence and whistleblowing systems, in various types and levels of organizations or companies. Other factors to consider include internal control, human resource competence, and compensation suitability. Thus, further studies involving these additional variables can provide more comprehensive insights into fraud detection and prevention efforts in an organizational context.

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