# Composition of the Audit Committee Moderating the Whistleblowing, Corporate Governance System on Fraud

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## Abstract

*This study examines the effect of the whistleblowing system and good corporate governance with the audit committee as a moderating variable on fraud prevention. The population used in this study are state-owned companies listed on the Indonesia Stock Exchange for 2014-2020. The research sample was obtained by using the purposive sampling method. Analysis of the data used to use logistic regression. The number of samples used in this study was 126 for seven years of research. The results obtained show that there is an influence between whistleblowing on fraud, there is an influence between corporate governance on fraud, the composition of the audit committee is not able to moderate the relationship between whistleblowing and fraud, and also the relationship between corporate governance and fraud.*

## I. Introduction

Fraud is a complex phenomenon with dangerous consequences (Smaili et al., 2020). Fraud is one of the factors that contributed to the financial crisis that occurred, both in the private and government sectors. The development of the financial crisis shows that fraud has negative consequences that can paralyze an entity (Cheliatsidou et al., 2021). Corporate fraud occurs when an employee, manager, or executive violates and commits financial fraud on an entity for specific purposes. One example of corporate fraud is when managers commit fraud against investors or other key stakeholders regarding the company's performance (Smaili & Arroyo, 2019).

The phenomenon that occurs in the Garuda Indonesia company. The fraud in this company was caused because the 2018 financial statements were not by PSAK (Statement of Financial Accounting Standards), namely the recognition of receivables by the company as company profits. This caused the company to record a net profit of USD 809.84 thousand. In contrast, in 2017 the company recorded a loss of USD 216.58 million (Kontan.co.id, 2020). This financial misstatement is caused by the company's failure in implementing corporate governance so that it can damage the company's reputation and the trust of the market, customers and other stakeholders.

The implementation of good corporate governance, both in the government sector, state-owned enterprises (BUMN), and the private sector, is a powerful weapon to fight corruption. GCG run by SOEs has a different impact from private companies. SOEs carry out the task as agents of development, so that the goods and services they produce must be able to improve people's welfare, encourage economic growth, create jobs, and reduce poverty. BUMN should even be a stimulant for the private sector (www.investor.co.id, 2020).

According to Transparency International Indonesia, Indonesia's Corruption Perception Index in 2020 is at a score of 37 out of 100 with a ranking of 102 out of 180 countries, which means it is down 3 points from 2019 (Natalia, 2021). In addition, ICW also noted that state losses resulting from criminal acts of corruption throughout 2020 amounted to Rp. 56.7 Trillion but which can be replaced is only Rp. 8.9 Trillion, it means that the replacement money for the loss is only about 12-13% of the loss that managed to return to the state (Susanto, 2017).

**Table 1.** Number of BUMN Corruption Cases

|                              | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Total |
|------------------------------|------|------|------|------|------|------|------|-------|
| *Number of corruption cases* | 0    | 5    | 11   | 13   | 5    | 17   | 13   | 64    |

Source: www.kpk.go.id, 2022

Data from the KPK shows an increasing trend of BUMN/BUMD corruption cases that occurred during 2014-2020 as many as 64 cases and the most occurred in 2019 as many as 17 cases (Corruption Eradication Commission, 2022). This is supported by research (Aslam, 2022) which states that fraud-prone to occur in the public service sector, including the BUMN sector as one of the providers of public services.

Implementation of corporate governance in SOEs is still low. This shows that the implementation of GCG has not yet become a corporate culture, thus opening up opportunities for fraud (Nuryan, 2016). This type fraud that occurs in BUMN is mostly a case of bribery (Adiyudha & Aminah, 2021).

The occurrence of fraud is influenced by several factors, including the whistleblowing and corporate governance. Whistleblowing refers to someone who reports wrongdoing, unethical behavior or fraud within an organization (Miceli & Near, 1988). The whistleblowing is the most effective mechanism in detecting financial fraud (Association of Certified Fraud Examiners (ACFE), 2020; Culiberg & Mihelič, 2017). The whistleblowing provides an opportunity for employees and other stakeholders to speak up and reveal wrongdoing within the company (Tsahuridu & Vandekerckhove, 2008). This system functions as an early warning system to prevent and stop unethical or fraudulent actions before they are disclosed to outsiders (Meng, 2011) whistleblowing can minimize fraud costs and increase employee trust in the company.

In addition to the board of directors, the audit committee also plays an important role in corporate governance. The audit committee functions to prevent and detect accounting irregularities within the company (Fama and Jensen, 1983; Jensen and Meckling, 1976). Several previous studies reveal the important role of the audit committee in corporate governance. An effective audit committee can prevent and detect fraud (McMullen, 1996; Agrawal and Chadha, 2005; Smaili and Labelle, 2016). Research by Abbott et al., (2004), Farber (2005) and Marciukaityte et al., (2006) stated a negative relationship between audit committee and fraud. The independence of the audit committee will prevent fraud in the company. The more independent the audit committee members, the less likely the company is to commit fraud.

Overall, previous research shows that effective corporate governance has an important role in preventing and detecting fraud. The separation of the functions of the board of directors and the independence of the audit committee can reduce the occurrence of fraud. However, there are still few studies that reveal the role of corporate governance and the whistleblowing in detecting fraud , which is strengthened by the independence of the audit committee.

## II. Review of Literature

In a company, the owner (principal) provides capital and various levels of risk and employs a manager (agent) to manage the company according to the interests of the owner (principal). The increase in the value of the company's shares, the higher the company value, the higher it will be (Katharina, 2021). In the current economic development, manufacturing companies are required to be able to compete in the industrial world (Afiezan, 2020). The existence of the company can grow and be sustainable and the company gets a positive image from the wider community (Saleh, 2019). Due to the difference in interests between the manager (agent) and the owner (principal), it allows managers to act unethically by committing illegal acts or committing fraud for their own interests and harming the interests of the owner (principal). This is because the manager (agent) has more information about the company's operations than the owner (principal).

One of the biggest challenges faced by companies is reducing information asymmetry that occurs within the company. This information asymmetry is due to the lack of transparency between managers and owners (shareholders), thus providing opportunities for managers to commit fraud in financial reporting (Ndofor et al., 2015). This situation forces the principal to supervise the agent.

This supervision can be done by separating the duties between the owner (principal) and manager (agent). The existence of a separation of duties and responsibilities can minimize the occurrence of fraud in the company so that it does not harm the interests of the owner (principal). Thus, based on agency theory, the board of directors, audit committee and auditors play an important role in corporate governance to prevent and detect fraud (Fama and Jensen, 1983; Jensen and Meckling, 1976). The board of directors and audit committee function to supervise top management. The proportion of independent directors and the separation of CEO and board positions are measures of the independence of the board of directors (Uzun et al., 2004; Baber et al., 2005; Farber, 2005; Beasley et al., 2010). In addition to the board of directors, an effective audit committee also functions to prevent and detect fraud in financial statements (McMullen, 1996; Agrawal and Chadha, 2005; Smaili and Labelle, 2016).

Fraud is a very influential factor in the financial crisis. This financial crisis has negative impacts and consequences on the economy of an entity. No company can avoid fraud (Ohalehi, 2019). All companies are vulnerable to fraud and corruption (Kihl, 2018; Kihl et al., 2018; Kihl et al., 2017; Kihl et al., 2020; Archambeault et al., 2015). Cases of fraud or financial scandals that occur in companies make the public lose trust and reduce the legitimacy and reputation of the company (Cooper et al., 2013).

An whistleblowing effective and appropriate fraud, correct errors in a timely manner and increase employee confidence in the company's response. In other words, whistleblowing can facilitate employees in reporting violations.
H1: Whistleblowing has an effect on fraud

Several major corporate financial scandals occurred due to weak corporate governance. This is reinforced by the results of research in corporate governance and based on agency theory which shows that fraud in companies is caused by weak corporate governance, such as the duality of CEOs and audit committees in companies. The number of independent directors and audit committees affects the level of accounting irregularities (Beasley, 1996 and Baber et al., 2005). The results of this study are reinforced by Persons (2009) and Beasley et al. (2010), which states that most corporate fraud is caused by the duality of the CEO and the board of directors. Marciukaityte et al., (2006) and Farber (2005) also state that companies involved in fraud have more non-independent directors than independent directors.

Agency theory shows that the board of directors, audit committee and auditors have an important role in corporate governance to prevent and detect accounting irregularities (fraud) (Fama and Jensen, 1983; Jensen and Meckling, 1976). The board of directors and audit committee function to supervise top management. Overall, previous research states that good corporate governance plays a role in preventing and detecting fraud.

H2: Good corporate governance has an effect on fraud

Research by Bowen et al., (2010) states that a strong board of directors has an effect on whistleblowing externalThe results of this study are reinforced by Lee and Xiao (2018) which state that a strong audit committee can reduce whistleblowing externalSome of these previous studies show the importance of the audit committee in creating whistleblowing an effective internal

Overall, previous research states that whistleblowing influenced by the audit committee can be used to detect and prevent fraud.

H3: Whistleblowing has an effect on fraud strengthened by the audit committee

Framework good corporate governance (Swamy, 2011). The independence of the audit committee is influenced by the composition of the number of non-executive directors which is more than the number of executive directors (Mohd et al., 2009). Non-executive directors (independent directors) and independent audit committees can eliminate agency conflicts (Erickson et al., 2005). Independence can help make the right decisions without any conflict of interest.

Kipkoech and Rono (2016) stated that the financial expertise of the audit committee has a significant and positive influence on company performance. A different statement was stated by Nickmanesh et al., (2013) that the audit committee does not have a significant effect on company performance.

H4: Good corporate governance has an effect on fraud strengthened by the audit committee.

## III. Research Method

The population used in this study were state-owned companies from 2014 to 2020. The sampling in this study used a *purposive sampling method*. Based on the sample criteria, it is found that ….. BUMN companies per year so that the total data used in this study is… BUMN companies during 2014 to 2020. The sample criteria used in this study can be seen in Table 2.

**Table 2.** Results of Sample Criteria

| Result of Sample Criteria | Quantity |
|---|---|
| 1.  State-owned companies listed on the Indonesian Stock Exchange during 2014-2020 | 18 |
| 2.  State-owned companies that publish Annual Reports and have been audited by independent auditors during 2014-2020 and can be accessed through the official website of the relevant company | |
| 3.  State-owned companies that experienced delisting during 2014-2020 | (0) |
| Number of companies that meet the criteria | 18 |
| Total sample (18x7years) | 126 |

Source: Data analysis, 2022

The dependent variable in this study is *fraud* (*FRAUD*). prevention *Fraud* is measured by using a dummy variable, which will be worth 0 if no *fraud*, 1 if *fraud* is found.

The independent variables in this study are the *whistleblowing* and *good corporate governance*. *Whistleblowing* in this study is a dummy variable which will be worth 0 if it does not meet the *Whistleblowing System* according to the KNKG and is worth 1 if it meets the *Whistleblowing System* according to the KNKG. The variable *of good corporate governance* measured based on the results of *Self Assessment* implementation of *good corporate governance* with a range between 1-5. 1 = very good, 2 = good, 3 = adequate, 4 = poor, 5 = very poor.

This study also uses a moderating variable, namely the audit committee. The measurement of the audit committee uses a dummy variable, number 1 for audit committees that have background, expertise and experience in finance and accounting, while number 0 for audit committees that do not have background, expertise and experience in finance and accounting. The measurement of the dependent, independent and moderating variables is presented in Table 3.

**Table 3.** Operationalization of Variables

| No. | Variable | Measurement |
|---|---|---|
| 1 | FRAUD | 1= fraud cases < 17 cases, 2= fraud cases > 18 cases |
| 2 | WHISTLE | criteria *Whistleblowing System*, 0=other |
| 3 | GCG | *Self-* , Criteria 1=very good, 2=good, 3=enough, 4=poor, 5=very poor |
| 4 | GCG | 1=background expertise in finance and accounting, 0=other |

Source: Results of data processing, 2022

Data analysis and hypothesis testing in this study used a logistic regression model because the dependent variable in this study was dummy. Logistic regression is almost the same as discriminant analysis, namely to test whether the probability of the occurrence of the dependent variable can be predicted with the independent variable (Ghozali, 2013).

The logistic regression model used in testing this research hypothesis is:

$$FRAUD = + 1\ WHISTLE + 2\ GCG + 3\ WHISTL{*}COMMITTEE + 4\ GCG{*}COMMITTEE + \epsilon$$

Information:

| | |
|---|---|
| FRAUD | Number of fraud cases found |
| **A** | Constant |
| **B** | Koefisien variabel |
| GCG | Assessment of GCG WHISTLE criteria |
| WHISTLE | the whistleblowing system mechanism established by KNKG |
| KOMITEAUD | Expertise, background and experience in finance and accounting |

## IV. Discussion

### 4.1 Results
### a. Descriptive Statistics

The initial test carried out is to find out how the description of the overall sample used for each research variable is:

**Table 4.** Descriptive Statistics

| Descriptive Statistics | | | | | |
|---|---|---|---|---|---|
| | N | Minimum | Maximum | Mean | Std. Deviation |
| WB | 126 | .14 | .93 | .6043 | .21145 |
| CG | 126 | .00 | 7.00 | .8321 | 1.33827 |
| KA | 126 | 1.00 | 2.00 | 1.4127 | .49428 |
| *Fraud* | 126 | .00 | 1.00 | .3810 | .48756 |
| Valid N (listwise) | 126 | | | | |

Source: Output Results, 202

The independent variable, whistleblowing (X1), has a mean of 0.6043 out of 126 samples, with a maximum value of 0.93 for 19 samples, and a minimum value of 0.14 for 3 samples. mean of the *corporate governance* (CG) variable is 0.8321 from 126 samples, with a maximum value of 7, namely by 2 sample companies and a minimum value of 0.00, namely 72 samples. The mean of the audit committee variable (Z) is 1.4127, with a maximum value of 2, namely 52 samples, and a minimum value of 74 samples. For variable Y, the mean value is 0.3810, with a maximum value of 1 of 48 samples and a minimum value of 78 samples.

### b. Classical Assumption

Test This test is conducted to determine changes in the classical assumption test of the tested linear regression equation. This test reveals to see the correlation between independent variables, which should not have a relationship between each variable. Tolerance value and Variance Inflation Factor (VIF) are indicators to detect the presence of multicollinearity. This means to find out which independent variables are explained by other independent variables. There is multicollinearity if there is an independent variable that has a tolerance value of less than 0.10 or a VIF value of more than 10 (Ghozali, 2011). The results of the multicollinearity test in this study can be explained in the following table:

**Table 5.** Multicollinearity Test

| Model | | Collinearity Statistics | |
|---|---|---|---|
| | | Tolerance | VIF |
| 1 | (Constant) | | |
| | WB | .759 | 1.317 |
| | CG | .792 | 1.262 |
| | KA | .936 | 1.068 |
| a. Dependent Variable: *Fraud* | | | |

Source: Output Results, 2022

Based on the table above, the Tolerance value is above 0.10 and the Variance Inflation Factor (VIF) value is overall less than 10. It can be concluded that the regression model in this study does not experience multicollinearity.

### c. Moderated Regression Analysis

Multiple linear regression analysis in this study aims to test whether there is an effect on two or more independent variables with the dependent variable in the interval or ratio measurement scale in a linear equation. The following are the results of data processing:

**Table 6.** Results of Multiple Linear Regression Analysis

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | -.215 | .097 | | -2.211 | .029 |
| | WB | .332 | .159 | .144 | 2.092 | .039 |
| | CG | .397 | .056 | 1.090 | 7.126 | .000 |
| | KA*WB | .146 | .094 | .109 | 1.553 | .123 |
| | KA*CG | -.050 | .036 | -.209 | -1.400 | .164 |
| a. Dependent Variable: *Fraud* | | | | | | |

Source: *output,* 2022

Based on the results of the above work, until the multiple linear regression encounter is obtained as follows:

*Fraud* = -0.215 + 0.332 WB + 0.397 CG + 0.146 KA*WB – 0.050 KA*CG

The results of the multiple linear regression analysis equation can be explained through the following statement:
1) A constant of -0.215 means that if WB, CG, KA*WB and KA*CG have a value of zero, then the *FRAUD* is -0.215.
2) The coefficient value of the WB variable is 0.332. This value indicates that if the other variables are constant, then every 1 WB increase will be followed by an increase in *FRAUD* as*fraud*ak 0.332.
3) The coefficient value of the CG variable is 0.397. This value indicates that if other variables are constant, then every 1 unit increase in CG will be followed by an increase in *FRAUD* for*fraud*ak 0.397.

4) The coefficient value of the WBZ variable is 0.146. This value indicates that if the other variables are constant, then every increase of 1 WBZ unit will be followed by an increase of *FRAUD* 0.146
5) The coefficient value of the CGZ variable is 0.050. This value indicates that if other variables are constant, then every 1 unit increase in CGZ will be followed by an increase in NP of 0.050.

#### d. Coefficient of Determination Test

According to Ghozali (2006) in Aliniar & Wahyuni (2017) this test intends to test how much ability among models in explaining the dependent variable. The value of the coefficient of determination is between zero to one $(0 < R^2 < 1)$.value of $R2^A$ means that the quality of the independent variable in explaining the variation of the variable is very small. When the value is close to one, it means that the independent variable provides almost the information needed to predict the variation of the dependent variable.

If $R^2 = 0$, there is no ratio between the independent variable and the dependent variable, otherwise if $R^2 = 1$ there is a perfect relationship. A*djusted* R2 is used as the coefficient of determination if the independent regression variable is greater than two

The results of the table data are presented as follows.

**Table 7.** Coefficient of Determination Test Results

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .822[a] | .675 | .664 | .28256 |

a. Predictors: (Constant), WB, CG, KA
Source: *Output,* 2022

The value of *Adjusted R Square* = 0.664 from the table above, indicates that 66.4% of the *fraud* can be explained by the variables *WB*, *CG*, *WBKA*, and *CGKA,* while the*fraud*is influenced or can be explained by other variables. *Fraud* is not included in the research model—this, which is 33.6%.

#### e. Model Feasibility Test (F Test)

This test is used to measure whether all independent variables included in the model have a joint influence on the dependent variable (Ghozali, 2007) in Pratiwi & Sari (2016). The test criteria are as follows:
a. Ho is accepted and Ha is rejected if F count < F table or significance value > 0.05.
b. Ho is rejected and Ha is accepted if F count > F table or significance value < 0.05.

**Table 8.** Coefficient of Determination Test Results

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 20.053 | 4 | 5.013 | 62.790 | .000[a] |
| | Residual | 9.661 | 121 | .080 | | |
| | Total | 29.714 | 125 | | | |

a. Predictors: (Constant), WB, CG, KA
b. Dependent Variable: *Fraud*
Source: *Output* , 2022

Based on the chart above, the total F test is 62.79 (significance f=0.000) while the F table is 3.07. So, sig f<0.05. The table shows that together the independent variable (X) has an effect on the dependent variable (*fraud*).

## f. Partial Significance Test (t-test)

This test is used to identify the level of significance due to each independent elastic to the limited elastic partially (Aliniar & Wahyuni, 2017). There is an important effect of each independent to limited elastic if the significance level is less than 0.05 or 5%.

References in the collection of decisions are:

a. If the probability or the number sig> 0.05 or the number t count t table, then Ha is rejected.

b. If the probability or the number sig < 0.05 or the number t table> t table, then Ha is obtained.

**Table 9.** Results of t-test

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | -.215 | .097 | | -2.211 | .029 |
| | WB | -.332 | .159 | .144 | -2.092 | .039 |
| | CG | -.397 | .056 | 1.090 | -7.126 | .000 |
| | KA*WB | .146 | .094 | .109 | 1.553 | .123 |
| | KA*CG | -.050 | .036 | -.209 | -1.400 | .164 |

a. Dependent Variable: Y

Source: *Output*, 2022

Based on the results of the chart above, proving the following results:

1) WB (Whistleblowing)
   The t-count value is -2.092, with the t-table value is 1.65734. The resulting significant level for the probability of 0.039 < 0.05. Confirm that t arithmetic 2.092 > t table 1.65734 so that H1 is accepted. This means the variable X1 has a significant effect on Y (Fraud).

2) CG (Corporate Governance)
   The t-count value is 7.126, with the t-table value is 1.65734. The resulting significant level for a probability of 0.000 < 0.05. It is confirming that t arithmetic 7.126 > t table 1.65734 so that H2 is accepted. This means that the X2 variable has a significant effect on Y (Fraud).

3) KA*WB
   The calculated t value is 1.553, with the t table value is 1.65734. The resulting significant level for the probability of 0.123 > 0.05. Confirm that t count 1.553 < t table 1.65734 so H3 is rejected. This means that the X1Z variable does not have a significant effect on Y (Fraud).

4) KA*CG
   The calculated t value is -1.400, with the t table value is 1.65734. The resulting significant level for the probability of 0.164 > 0.05. Confirm that t count -1.400 < t table 1.65734 so H4 is rejected. This means that the X1Z variable does not have a significant effect on Y (Fraud).

## 4.2 Discussion

### a. Whistleblowing has an Effect on Fraud

From the results of statistical tests, it is known that whistleblowing has a negative and significant effect on fraud. That is, the better the whistleblowing system in a company, the less fraudulent acts will be. This result is reinforced by the results of research conducted by (Triantoro et al., 2020) which also found the result that the intention to commit fraud would be greater when the whistleblowing system in the company was not good and weak. This shows that fraud will be easier to do when there is no clear whistleblowing system in the company.

### b. Corporate Governance has an Effect on Fraud

The results of the hypothesis test indicate that there is a negative influence on the relationship between corporate governance and fraud. From these results, it is known that acts of fraud will decrease when the implementation of corporate governance is getting better, and this is also true if the implementation of corporate governance is getting worse, the acts of fraud will increase. In line with the results of this study, research conducted by (Andnyani et al., 2020) which also shows that there is an influence of CG on fraudulent acts that occur within the company, CG is a control effort carried out by the company so that the company runs well, so, with good CG implementation, this will also reduce the opportunity for fraud perpetrators to commit fraud within the company.

### c. The Audit Committee Moderates the Whistleblowing Relationship on Fraud

The audit committee, which is seen from its composition, is considered capable of moderating the whistleblowing relationship with fraud. However, on the day of the statistical test, it was found that the audit committee was not able to moderate the relationship between the two. Thus, the audit committee is considered not to have any relationship to the two. The audit committee itself is the most important part in the supervision of the company so that it is considered that the presence of the audit committee is able to minimize the occurrence of fraud. In addition, the audit committee is also considered to have a role in the preparation and manufacture of the whistleblowing system contained in the company. So it can be said that the effective implementation of the whistleblowing system in the company is one of the efforts to reduce fraud.

### d. The Audit Committee Moderates the Relationship between Corporate Governance and Fraud

From the results of statistical tests, it was found that the audit committee was not able to moderate the relationship between CG and fraud. Thus, this hypothesis cannot be accepted or rejected. The audit committee which is measured based on its composition turns out to have no role in both. This can happen due to the ineffectiveness of the role or involvement of the audit committee in the implementation of good CG. In fact, ideally, the audit committee is an important element in the implementation of corporate CG so that the audit committee should be involved effectively in the implementation of corporate CG. However, this is supported by research conducted by (Qintharah & Bagaskara, 2021) which shows that the audit committee is not really needed by the company to increase the effectiveness of the company.

# V. Conclusion

The results of this study indicate that whistleblowing affects the disclosure of fraud, the implementation of corporate governance affects the disclosure of fraud. For the moderating variable, namely the audit committee, the test results found that the audit committee was unable to moderate the whistleblowing relationship to fraud disclosure and the audit committee was unable to moderate the corporate governance relationship to fraud disclosure.

Limitations in this study, this study is difficult to find companies that disclose their fraud as a whole and in detail. Especially because the population in this study only uses a population of companies that are BUMN listed on the Indonesia Stock Exchange (IDX) so that the number of samples in this study is limited.

Further researchers are advised to look for more complex and more complex measurements of fraud disclosure variables. Also clearer in the measurements. Thus, it is suggested for further researchers to be able to test the influence of the fraud variable with different measurement methods, such as making an index to measure fraud disclosure based on relevant rules or regulations.

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