

Tri Hita Karana as Moderating Effects of Internal Control Systems and Whistleblowing Systems on Fraud Prevention

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Abstract—This research aims to examine the influence of the internal control system and whistleblowing system on fraud prevention with tri hita karana as a moderating variable. Several Village Credit Institutions (VCI) that have been involved in fraud cases have had a negative impact on the management of VCIs in Bali, therefore it is necessary to strengthen aspects of fraud prevention to avoid fraud. This research was conducted at 122 VCIs in Badung Regency. The respondent in this study was the head of the VCI which is the highest management. This research uses multiple regression analysis to test the influence of internal control system and whistleblowing system variables on fraud prevention with tri hita karana as a moderating variable. The research results show that the internal control system have a significant positive effect on fraud prevention, whistleblowing system have a significant positive effect on fraud prevention, and the Tri Hita Karana moderates the influence of the internal control system and whistleblowing system on fraud prevention.

Keywords— Internal control system, whistleblowing system, tri hita karana and fraud prevention.

I. INTRODUCTION

Accounting is a system used to provide financial information needed by many parties such as potential investors, potential creditors, company management and report users for decision making. This information is in the form of accounting information in the form of financial reports accompanied by information notes on financial reports. For management, financial reports can be used as material for consideration in determining company activity plans for the coming period and for carrying out daily operational activities. For investors, financial reports are very important information for making decisions about investing in shares.

Considering the importance of financial reports for a company, financial reports must be prepared as well as possible according to accurate data and in accordance with applicable accounting rules. Irregularities in financial reports still often occur in Indonesia. This act of deviation in accounting reports can be called an act of accounting fraud, such as omitting amounts in financial reports to deceive users of financial reports. Accounting fraud or in auditing is called fraud, is an act of fraud committed by an individual or group with the aim of providing benefits to the individual or group.

Bali has a non-bank financial institution called the Village Credit Financial Institution (VCI). The VCI is owned by the traditional village so that the management of the VCI is very closely related to the existence of traditional villages in Bali.

The aim of establishing VCI is to improve the welfare of traditional village communities. The main activity of VCIs is the savings and loans sector, but there are several VCIs that have other business activities. The phenomenon of fraud in VCIs in Badung district shows a lack of fraud prevention in VCIs. Fraud prevention is important before fraud occurs. The internal control system is an important factor that needs to be considered in efforts to prevent fraud. One effort that can be made to improve fraud prevention is to increase the effectiveness of internal control. Research by Adetiloye et al., (2016) shows that internal control itself is effective against fraud. A comprehensive internal control system that is implemented thoroughly and regularly monitors organizational activities is an important step for maintaining and detecting the risk of loss due to handling financial losses (Kuncara, 2022). Different research results are shown by Hendrawati et al., (2022) where internal controls have no impact on fraud prevention.

Another effort that can be made to increase the effectiveness of fraud prevention is to implement a whistleblowing system. A whistleblowing system is a system that is used to collect, process, follow up and make reports on information submitted by whistleblowers regarding violations that occur within the company/organization (Brown et al, 2014). The implementation of the whistleblowing system needs to be encouraged in every organization, both in the private sector and the public sector (National Committee on Governance Policy, 2008). Wahyudi et al., (2021) the higher a person's intention to do a whistleblowing, the higher the level of fraud prevention. However, different results were shown (Sujana et al., 2020) which stated that the whistleblowing system had no effect on fraud prevention.

Bali has a concept known as Tri Hita Karana. Ardika (2017); Ginaya (2018); and Mudana et al., (2018), mention Tri Hita Karana as three harmonious relationships, namely a harmonious relationship with God Almighty, a harmonious relationship with humans and a harmonious relationship between humans and nature and other creatures. The adoption of the Tri Hita Karana teachings as an organizational culture, VCI management in Bali has full responsibility towards God, fellow villagers and their environment. Therefore, if you commit fraud, you must think about it because apart from waiting for the legal process, the process of imposing

sanctions on traditional villages is also more painful (Atmadja et al., 2019).

The existence of the Tri Hita Karana concept is expected to be able to strengthen the internal control system and whistleblowing system at VCIs in Bali to avoid fraudulent practices. The existence of VCI is very important considering that Bali is an area that emphasizes the tourism sector as one of the leading sectors given its natural potential. Many tourism entrepreneurs rely on VCIs to increase their business capital. Especially for those who come from and have a business in the tourism area. The existence of VCI really helps them in providing venture capital. It is very unfortunate if the existence of the VCI, whose initial formation was aimed at the welfare of the people of traditional villages, was misused through fraudulent practices which of course were very detrimental to the community.

II. THEORY

Fraud Triangle Theory

Fraud Triangle Theory is the theory that underlies this research because Fraud Triangle Theory is a theory that can be used to prevent fraud in an organization. This research was first introduced by Donald Cressey in 1953. Based on Cressey's research, the causes or triggers of fraud are divided into three things which can be described as follows:

Pressure is a condition that forces a person to commit fraud. Opportunity is a condition that is triggered due to a weak internal control system so that someone can commit fraud. Rationalization is an act of justification when an individual is in an undesirable situation, and generally prepares justifications before committing fraud, not after (Cressey; 1953).

Internal control is a series of policies to protect organizational or company assets from fraud, ensure the availability of accurate accounting information, and ensure that all laws and regulations have been implemented and complied with by all employees of the organization (Uswati Dewi et al., 2015). Accounting fraud can occur if there is an opportunity to do so. These opportunities can be reduced with a good internal control system. A good internal control system can reduce or even close the opportunity for accounting fraud. Kuncara's (2022); Wahyudi et al., (2021); and Sujana et al., (2020) stated the internal control system has a positive effect on preventing fraud.

H₁: The internal control system has a positive effect on preventing fraud

A whistleblowing system is a system that has a formal objective for each company to secure and control sensitive information which, if disclosed to legal authorities or third parties, could harm the company's interests (Brown et al., 2014). One of the benefits of maintaining a good whistleblowing system is the emergence of reluctance to commit violations, with an increased willingness to report violations, due to trust in an effective reporting system (National Committee for Governance Policy, 2008).

Latifah's research (2011) states that the whistleblowing system has a significant effect on fraud prevention. Widiyarta et al.

(2017) states whistleblowing has a positive and significant effect on preventing fraud in managing village funds.

H₂: The whistleblowing system has a positive effect on preventing fraud

The implementation of the tri hita karana culture will help VCI to be able to shape the good character of its employees. The application of tri hita karana will teach employees to be able to live in harmony with each other and not harm each other. This relationship will encourage someone to live in love with each other so that there is no desire to do harm or act fraudulently.

H₃: Tri Hita Karana culture strengthens the influence of the internal control system on fraud prevention

H₄: The Tri Hita Karana culture strengthens the influence of the Whistleblowing system which has a positive effect on fraud prevention

III. RESEARCH METHOD

This research was conducted at Village Credit Institutions throughout Badung Regency. The population in this study was 122 VCIs in Badung Regency. The sampling procedure carried out in the research was a non-probability sampling technique with a saturated sampling method, which is a sampling technique when all members of the population are used as samples (Sugiyono, 2019). The sample in this study was all VCIs in Badung Regency. The respondents in this study were the heads of each VCI, totaling 122 respondents. The data collection technique used in this study was through distributing questionnaires. The fraud prevention variable refers to proactive steps initiated by an organization to avoid or stop fraud from occurring (AICPA et al., 2001). Internal control system variables are a process, influenced by an entity's board of directors, management, and other personnel that is designed to provide adequate assurance regarding the achievement of objectives related to operations, reporting, and compliance (COSO, 1994). The whistleblowing system variable uses a system that is used to collect, process and follow up and make reports on information submitted by reporters regarding violations that occur within the company/organization (Brown et al., 2014). The Tri Hita Karana variable emphasizes balance, stating that people tend to view themselves and their environment as a system that is controlled by the value of balance and is manifested in the form of behavior (Astuti et al., 2015).

This study uses the analysis technique of multiple linear regression models because in addition to being able to measure the strength of the relationship between two or more variables, it can also show the direction of the relationship between the dependent variable and the independent variable (Ghozali, 2016). This multiple linear regression model is used to find out how the influence of the Internal Control System and the Whistleblowing System on Fraud Prevention with Tri Hita Karana as a moderating variable.

IV. RESULT AND DISCUSSION

A constant value of 9.266 indicates that if the internal control system, whistleblowing system, moderate I and moderate II are equal to zero, then the VCI fraud prevention

value (Y) tends to increase by 9.266. Based on calculations using MRA, the probability value of the internal control system, whistleblowing system, moderate I and II on VCI fraud prevention is each smaller than 0.005, so that the internal control system, whistleblowing system, moderate I and II have an effect on fraud prevention.

TABLE 1. Results of Tri Hita Karana Cultural Moderation Analysis on VCI Fraud Prevention

Variable	Unstandardized Coefficients		Standardized Coefficients	Sig.
	B	Std. Error	Beta	
I (Constant)	9,266	2,661		<,001
SPI	0,384	0,133	0,271	0,005
WS	0,307	0,149	0,197	0,041
THK	0,204	0,102	0,174	0,048
SPIXTHK	0,010	0,005	0,253	0,031
WSXTHK	0,011	0,005	0,245	0,037
R Square	: 0,812			
F Hitung	: 16,029			
Sig. F Hitung	: 0,0000			

Analysis of the coefficient of determination is carried out to measure how much the independent variable is able to explain changes in the dependent variable. Based on Table 1, it can be seen that the R Square value in the model is 0.812 or 81.2 percent, this means that 81.2 percent of the variation in VCI fraud prevention is influenced by the variables of the internal control system, whistleblowing system, and Tri Hita Karana culture, while 18.8 percent is influenced by other variables outside the research model.

Hypothesis one (H₁) states that the internal control system has a positive effect on VCI fraud prevention. The statistical test results show that the first hypothesis (H₁) is accepted. The test results may mean that the higher the internal control system implemented by the VCI in Badung Regency, the higher the fraud prevention will be. Vice versa, the lower the internal control system implemented by the VCI in Badung Regency, the lower the fraud prevention will be. The results of this test are in line with Cressey's (1953) Fraud Triangle Theory concept. One of the factors in the occurrence of fraud according to Cressey (1953) is opportunity. Opportunity is a condition or situation that allows someone to commit or cover up a dishonest act. Usually this can happen due to a weak internal control system, lack of supervision, and/or abuse of authority. According to Zimelman et al (2014), the most common way to prevent fraud is to have a good internal control system. This means that a good internal control system is the single most effective tool in preventing and detecting fraud. This shows that organizations with a good internal control system can reduce the occurrence of fraud. The results of this research show the same results as Kuncara's research (2022); Wahyudi et al., (2021); and Sujana et al., (2020) which state that an effective organizational internal control system can reduce individual tendencies to commit acts of fraud.

The second hypothesis (H₂) states that the whistleblowing system has a positive effect on preventing VCI fraud. The statistical test results show that the second hypothesis (H₂) is accepted. This result means that the whistleblowing system

has a positive effect on fraud prevention at the VCI in Badung Regency, so that H₂ is accepted. The results of this test could mean that the higher the whistleblowing system implemented by the VCI in Badung Regency, the higher the fraud prevention will be. Vice versa, the lower the whistleblowing system implemented by the VCI in Badung Regency, the lower the fraud prevention will be. This is in line with Cressey's Fraud Triangle Theory (1953) where fraud can occur due to chance factors. The implementation of a whistleblowing system causes employees to be more careful in all their actions related to fraud, because these actions could be reported by other employees who become whistleblowers. So, by implementing a whistleblowing system, fraud prevention efforts will be increased so that there is no opportunity to commit fraud. The results of this research are in line with Latifah's (2011) research which states that the whistleblowing system has a significant effect on fraud prevention. Another study conducted by Widiyarta et al. (2017) also stated that whistleblowing had a positive and significant effect on preventing fraud in managing village funds.

The third hypothesis (H₃) states that tri hita karana strengthens the influence of the internal control system on VCI fraud prevention. The statistical test results show that the third hypothesis (H₃) is accepted. This result means that the existence of tri hita karana as a moderator increases the influence of the internal control system on fraud prevention. This indicates that if the VCI uses tri hita karana as a moderator, the internal control system will be better and will improve fraud prevention at the VCI. According to Suparsabawa and Kustina (2018) the concept of tri hita karana is a philosophy of living tough. This philosophy has a concept that can preserve cultural and environmental diversity in the midst of globalization and homogenization. An organization that implements tri hita karana can increase the success of the internal control itself so that it can achieve more effective fraud prevention. A strong organizational culture can increase success in preventing fraud.

The fourth hypothesis (H₄) states that tri hita karana strengthens the influence of the whistleblowing system on VCI fraud prevention. The statistical test results show that the fourth hypothesis (H₄) is accepted. This result means that the existence of tri hita karana as a moderator increases the influence of the whistleblowing system on fraud prevention. This indicates that if the VCI uses tri hita karana as a moderator, the whistleblowing system will be even better and will improve fraud prevention at the VCI. The moderating role of the Tri Hita Karana cultural variable on the whistleblowing system variable is proven. If an agency uses the tri hita karana culture in properly implementing the whistleblowing system, employees will have the courage to disclose fraud, this will prevent manipulation, especially regarding the financial side. The implementation of the tri hita karana culture will help VCI to be able to shape the good character of its employees. The application of tri hita karana will teach employees to be able to live in harmony with each other and not harm each other. This relationship will encourage someone to live in love with one another so that there is no desire to harm and act

dishonestly.

V. CONCLUSION AND SUGGESTION

Conclusions

1. The internal control system has a significant positive effect on fraud prevention.
2. The whistleblowing system has a significant positive effect on fraud prevention.
3. Tri Hita Karana strengthens the influence of the internal control system on fraud prevention.
4. Tri Hita Karana strengthens the influence of the whistleblowing system on fraud prevention.

Suggestions

This study has limitations in concluding that it is based on the perceptions of the Heads of the VCI alone, where of the many administrators and employees involved in VCI operational activities, their opinions are only represented by one person who has a stake in decision making. Future researchers are expected to carry out their research by involving several parties who are still in touch with all the businesses run by VCI. In addition, future researchers are expected to broaden the research subject, because this study examines only the VCI in Badung Regency, so it is expected to provide diverse research results. VCIs are expected to implement the tri hita karana culture in order to strengthen the role of the internal control system and whistleblowing system in preventing fraud. Village Credit Institutions (VCI) are non-bank financial institutions owned by traditional villages in Bali. Tri Hita Karana itself is a philosophy that is very strong in Balinese culture.

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