



## Fraud Prevention in the Perspective of Internal Audit, Internal Control, Whistleblowing System, and Professional Ethics in Palm Oil Company

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### ABSTRACT

The study aims to analyze the impact of internal audit, internal control and whistleblowing system on fraud prevention with professional ethics moderation. Research is a quantitative study using primary data collected using a questionnaire forming a list of written questions about issues to be discussed to respondents. A total of 325 respondents answered the questionnaire thoroughly and analyzed. Testing the moderated regression analysis hypothesis. The results show that internal audits, internal controls and whistleblowing system have a significant impact on fraud prevention. Professional ethics are able to moderate the variable of internal control in fraud prevention. Specifically, the samples came from a palm oil company that has unique characteristics in determining fraud prevention strategies. The next researcher could develop it by adding decision-making variables in fraud prevention to similar industries or other industries.

**Keywords:** fraud prevention, internal audit, internal control, whistleblowing system.

## INTRODUCTION

Fraud is a comprehensive term that encompasses the diverse array of methods crafted by human creativity, employed by individuals to gain an unfair advantage through deceptive measures or presentations (Anderson et al., 2017). Meanwhile, *Association of Certified Fraud Examiners*, ACFE (n.d.) defined "Fraud" is any activity that relies on deception to make a profit. Fraud becomes a crime when it is "false knowledge of the truth or concealment of material facts in order to induce another person to act against him" (Black's Law Dictionary). In other words, if you are lying to steal someone's or an organization's money or property, you are committing fraud.

Fraud encompasses a broad spectrum of distinct schemes, each characterized by its own strategies and objectives. This is precisely why the ACFE developed the Fraud Tree where there three primary branches: asset misappropriation, financial statement fraud schemes, and corruption (ACFE, 2022).

The 2022 ACFE Report to Nation uncovered 2,110 fraud case across 133 countries, with a total loss exceeding \$3.6 billion, with organizations annually losing about 5% of their revenue to fraud. Notably, 40% of these cases involved a blend of the three primary fraud categories, encompassing various combinations such as asset misappropriation, corruption, and financial statement fraud. Conversely, in Indonesia, ACFE's 2019 survey involving 239 participants found corruption to be the dominant fraud type at 64.4%, followed by misuse of state and company assets at 28.9%, and financial statement fraud at 6.7%. These incidents of corruption inflicted the most significant losses, typically ranging from Rp. 100 million to Rp. 500 million per case, often detected within a year through media exposure and employee reports. Perpetrators tended to be aged 36-45, possessed higher education,

particularly bachelor's or master's degrees, and had a work history of 6-10 years, with the concerning trend of many avoiding legal consequences, in line with previous surveys (ACFE, 2022; ACFE Indonesia, 2020).

PT Sawit Sumbermas Sarana Tbk, known as PT SSMS Tbk, was established on 22 November 1995 (Akta No. 51) and focuses on the palm oil industry. On December 12, 2013, this company conducted an Initial Public Offering (IPO) and listed its shares on the Indonesia Stock Exchange (IDX), Jakarta. The company has 9 subsidiaries that support business activities in Pangkalan Bun, Central Kalimantan, with a total plantation area of 115,649 hectares. Of this amount, 80,148 hectares are mature nucleus plantations (TM), 1,088 hectares are immature nucleus plantations (TBM), and 11,448 hectares of oil palm plantations are managed by plasma smallholders (PT SSMS Tbk, 2023). PT SSMS Tbk, also experienced fraud in its environment, including manpower manipulation, theft of oil palm seeds, fictitious planting reports, and embezzlement of materials such as fertilizers and palm oil (CPO).

The following is a comparison of the types of fraud that occur in the world, Indonesia, and PT SSMS tbk.

**Table 1**  
**Comparison of types of fraud**

<b>Type Of Occupational Fraud</b>	<b>World</b>	<b>Indonesia</b>	<b>PT SSMS</b>
Asset misappropriation	47%	28,90%	100%
Asset misappropriation and corruption	32%		
Corruption	12%	64,40%	
Corruption, asset misappropriation, and financial statement fraud	5%		
Asset misappropriation and financial statement fraud	2%		
Financial statement fraud	1%	6,70%	
Corruption and financial statement fraud	1%		
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

The Fraud Triangle theory identifies pressure, opportunity, and rationalization as the driving forces behind fraud. Pressure often stems from financial struggles or extravagant lifestyles, while opportunity arises from lax internal controls and inadequate oversight. Rationalization is used pre-crime to maintain self-image but loses relevance. Among these elements, opportunity is manageable through procedural measures, controls, and early fraud detection (Laudeciska et al., 2023).

Survey findings from ACFE Indonesia Chapter reveal that the hotline/whistleblower system is considered moderately effective by 22.6% of respondents, with anti-fraud policy consistency ranked at 13.8%. In the ACFE Report to the Nations, tips/hotlines accounted for 42%, followed by Internal Audit at 16% and Management Review at 12%. In 2022, nearly half of fraud cases resulted from insufficient controls or managerial negligence. Internal Control and Internal Audit play vital roles in operational efficiency and sound financial management. While distinct in scope, they harmonize to curb errors and fraud, detecting control gaps and offering enhancement recommendations. (ACFE, 2022; ACFE Indonesia, 2020).

Internal Control and Internal Audit are two complementary elements in achieving organizational goals (Arens et al., 2012). Internal Control encompasses policies and procedures ensuring operational

effectiveness, compliance, and asset protection. Meanwhile, Internal Audit examines internal controls to assure goal attainment and risk management. They collectively identify risks and recommend improvements, minimizing fraud risks, and sustaining business continuity.

Research by (Baihaqie, 2023) validates the positive effect between internal audit on fraud prevention. Meanwhile, research conducted by (Akhtar et al., 2022), Rahmani & Rahayu (2022), suggest no significant correlation.

The research results Marciano et al. (2021), there is a significant influence between internal control on fraud prevention. While research conducted by (Akhyar et al., 2022), (Azhari et al., 2022), and concluded that internal control has no effect on fraud prevention.

Whistleblowing systems, with whistleblowers as key actors, serve as effective fraud deterrence methods and uphold checks and balances. This represents a moral protest action harming the public interest (Chairi et al., 2022). The effectiveness of the whistleblowing system positively influences fraud prevention (Lianto, 2021). The research results of Johan et. al (2022), (Akhyar et al., 2022), (Baihaqie, 2023) and (Anggoe & Reskino, 2023) show that the whistleblowing system has a significant influence on fraud prevention. While research conducted by (Putranto et al., n.d.), (Dwiyanti et al., 2022), states that there is no significant effect of the whistleblowing system on fraud prevention.

Amid varied research outcomes, a contingency approach with moderating variables to bolster or weaken influences on fraud prevention is vital (Sugiyono, 2013). Notably, even with robust internal controls, professional ethics remain a key factor in fraud occurrences. They foster moral awareness, regulate behavior, and cultivate ethical organizational cultures to minimize fraud opportunities (Pamungkas & Rachbini, 2021).

Researchers are interested in combining the variables of Internal Audit, Internal Control, and Whistleblowing system with moderation of Professional Ethics in the context of PT SSMS Tbk, bearing in mind that the influence of professional ethics on fraud has been proven in previous studies by Smith & Derksen (2020).

A similar study was conducted by (Ningsih & Aprianto, n.d.) berjudul "Pengaruh Auditor Internal, Pengendalian Internal Dan Whistleblowing system Terhadap Pencegahan Kecurangan (Studi Empiris Pada BUMN Yang Terdapat Di Kota Palembang)" uses the same independent variables as this research, namely Internal Audit, Internal Control, and Whistleblowing system. However, the difference lies in the Professional Ethics variable as a moderator that affects other independent variables in this study. Moreover, the previous research examined internal auditing, while this researcher surveyed company employees.

## **METHOD**

This research is a quantitative study that aims to determine a causal relationship between independent variables that can affect the occurrence of research outcome variables (Sugiyono, 2013). This research focuses on the employees of PT Sawit Sumbermas Sejahtera Tbk. (PT SSMS Tbk), an palm oil company listed on the Indonesia Stock Exchange (IDX) since December 12 2013. The sample population consisted of staff employees, Assistant Managers, Managers and Group Managers who were active at PT SSMS Tbk as many as 774 people, with a minimum number of samples taken is 315 employees. This research took place during July 2023.

Non-probability sampling methods, especially convenience sampling, are used to select samples that represent the population. Primary data was obtained through a questionnaire with a 5-point Likert scale, measuring respondents' attitudes and views on Fraud Prevention, Internal Audit, Internal Control, Whistleblowing System, and Professional Ethics. The analysis was carried out using moderation regression, investigating how the relationship between the independent variables (Internal Audit, Internal Control, Whistleblowing system) and the dependent variable (Fraud Prevention) is influenced by the moderating variable (Morality). This method introduces the interaction between the independent and moderating variables into the regression model to test its significance.

This study aims to understand how internal control and other factors can influence fraud prevention in companies. With good risk management and high professional ethics, it is hoped that the company can minimize opportunities for fraud to occur. With the operational definition of the variable as follows:

**Table 2**  
**Operational variable definition**

Variable	Definition	Indicator	question	Skala
Fraud Prevention (POJK Nomor 39/POJK.03/2019)	organizational efforts to prevent the occurrence of harmful acts of fraud, deception, or manipulation, involve a series of policies, procedures, controls, and actions aimed at reducing risks and preventing fraud.	Prevention	1-4	Ordinal
		Detection	5-7	
		Investigation, Reporting and Sanctions	8-10	
		Monitoring, Evaluation, and Follow Up	11-13	
Internal Audit (IPPF, 2017)	The role and contribution of the internal audit function in fraud prevention	Internal Auditor Competency	14-16	Ordinal
		Assignment	17-19	
		Monitoring and Follow Up of Results	20-22	
Internal Control (COSO, 2013)	A series of policies, procedures and actions designed by the company to prevent fraud in the company	control environment	23-27	Ordinal
		risk assessment	28-32	
		Control Activities	33-37	
		information and communication	38-42	
		monitoring activities	43-47	
Whistleblowing system (KNKG, 2008)	A reporting system that allows employees to report ethical violations or fraud anonymously	Structural Aspect	48-50	Ordinal
		Operational Aspect	51-53	
		Maintenance Aspect	54-56	
Professional ethics (Velasquez, 2014)	Moral principles and standards of behavior that govern actions and relationships between individuals working in a particular profession or occupation.	Ethical Awareness	57-59	Ordinal
		Ethical Norms	60-61	
		Moral Responsibility	62-63	

## RESULTS AND DISCUSSION

### Validity test

Validity test is used to measure whether the questionnaire is valid or not. The value of  $r$  table with  $df = 323$  and  $\alpha = 0.05$  is  $r$  table = 0.109. In testing the research variables, all values of the corrected item total correlation  $> 0.109$ , which means that all statements in the questionnaire which are divided into 5 variables are all valid.

**Table 3**  
**Validity test results**

Variable	item statement	Value $r_{count}$	Value $r_{tabel} (db=323)^*$	Criteria
Fraud Prevention	13	Min 0,389	0,109	Valid
		Max 0,739		
Internal Auditing	9	Min 0,769	0,109	Valid
		Max 0,89		
Internal control	25	Min 0,682	0,109	Valid
		Max 0,865		
Whistleblowing System	9	Min 0,572	0,109	Valid
		Max 0,851		
Professional ethics	7	Min 0,181	0,109	Valid
		Max 0,906		

Source: Primary data processed (2023)

### Reliability Test

Based on the results of the reliability test of the questionnaire, it can be seen the Cronbach's Alpha value for the variable fraud prevention, Internal Audit, Internal Control, Whistleblowing system and Professional Ethics  $> 0.7$ , measuring the questionnaire on the variable Fraud Prevention, Internal Audit, Internal Control, Whistleblowing system and Ethics The profession is reliable.

**Table 4**  
**Reliability test results**

Variable	Cronbach's Alpha	N of Items	Reference	Conclusion*
(Ghozali, 2021)				
<b>Fraud Prevention</b>	0,862	13	0,7	Reliable
<b>Internal Auditing</b>	0,941	9	0,7	Reliable
<b>Internal control</b>	0,973	25	0,7	Reliable
<b>Whistleblowing system</b>	0,891	9	0,7	Reliable
<b>Professional ethics</b>	0,810	7	0,7	Reliable

Source: Primary data processed (2023)

## Classical Assumption Testing

### a. Normality Test

The normality test can also be performed using the Kolmogorov Smirnov statistical test. Kolmogorov Smirnov statistical test value is 0.200. Because the value of the statistical test is greater than alpha (0.05), then  $H_0$  is rejected, which means that the residual data from the resulting model is normally distributed.

**Table 5**  
**One-Sample Kolmogorov-Smirnov Test**

		Unstandardize d Residual
N		325
Normal Parameters <sup>a,b</sup>	,0000000	,0000000
	3,16994097	3,04854893
Most Extreme Differences	,036	,041
	,036	,030
	-,031	-,041
Test Statistic		,036
Asymp. Sig. (2-tailed)		,200 <sup>c,d</sup>
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		
d. This is a lower bound of the true significance.		
Source: Primary data processed (2023)		

### Multicollinearity Test

Based on the table below, it can be concluded that all independent variables are free from multicollinearity problems. This can be seen from the absence of variables with VIF values  $\geq 10$  or tolerance values  $\leq 0.10$  (Ghozali, 2021).

**Table 6**  
**Multicollinearity test result**

Variable	Collinearity Statistics		Conclusion
	Tolerance	VIF*	
Internal Auditing	0,358	2,796	No multicollinearity
Internal control	0,160	6,245	No multicollinearity
Whistleblowing system	0,291	3,432	No multicollinearity
Professional Ethics*Internal Control	0,224	4,458	No multicollinearity

\*VIF = *Variance Inflation Factor*

Source: Primary data processed (2023)

### Heteroskedasticity Test

To detect the presence of heteroscedasticity, one of which can be done with the Spearman Rho test. If the significance value between the independent and absolute residual variables is more than 0.05, then there is no heteroscedasticity problem. From the test results, the variable significance value is  $> 0.05$  (Iskandar et al., 2022).

**Table 7**  
**Heteroscedasticity test results**

		Unstandardized Residual
Internal Auditing	Correlation Coefficient	0,107
	Sig. (2-tailed)	0,054
	N	325
Internal control	Correlation Coefficient	0,051
	Sig. (2-tailed)	0,360
	N	325
Whistleblowing system	Correlation Coefficient	0,059
	Sig. (2-tailed)	0,285
	N	325
Professional Ethics*Internal Control	Correlation Coefficient	0,063
	Sig. (2-tailed)	0,259
	N	325

Source: Primary data processed (2023)

### Regression Equation

Moderated Regression Analysis (MRA) is a data analysis technique used to maintain sample integrity and provide a basis for controlling the influence of moderator variables (Ghozali, 2021). The results of the analysis using SPSS version 26 obtained the following results:

**Table 8**  
**Regression Equation result**

Model	Final equation	
	Coefficient	Sig.
(Constant)	15,392	0,000
Internal Auditing	0,375	0,000
Internal control	0,127	0,000
Whistleblowing system	0,202	0,001
Professional Ethics*Internal Control	0,001	0,042
R <sup>2</sup>		0,734
Adjusted R <sup>2</sup>		0,731
Uji F		221,206
p-value (uji F)		,000 <sup>b</sup>

Source: Primary data processed (2023)



From the results of the analysis above, the final research model is:

$$\text{Fraud prevention} = 15.395 + 0.375\text{AI} + 0.127\text{PI} + 0.202\text{WBS} + 0.001\text{EP*PI}$$

with:

AI = Internal Audit

PI = Fraud Prevention

WBS = Whistleblowing system

EP = Professional Ethics

Interpretasi dari regresi di atas adalah sebagai berikut:

1. Constant (a) this means that if all independent variables have a value of zero (0) then the value of the dependent variable (Fraud Prevention) is 15.395.
2. AI = Internal Audit (independent variable); the Internal Audit coefficient value is 0.375, meaning that for every one unit increase in AI, Fraud Prevention will increase by 0.375 assuming that the other independent variables in the regression model are constant.
3. PI = Internal Control (independent variable); the coefficient value of Internal Control is 0.127, meaning that for every increase in PI by one unit, Fraud Prevention will increase by 0.127 assuming that the other independent variables in the regression model are constant.
4. WBS = Whistleblowing System (Independent variable); the coefficient value of the whistleblowing system is 0.202, meaning that for every increase in WBS by one unit, Fraud Prevention will increase by 0.202 assuming that the other independent variables in the regression model are constant.
5. EP\*PI = Professional Ethics\*Internal Control (moderation Variable); The coefficient value of the Professional Ethics\*Internal Control Moderation Variable is 0.001, meaning that for every increase in EP\*PI by one unit, Fraud Prevention will increase by 0.001 assuming that the other independent variables of the regression model are constant.

#### Coefficient of Determination Test (R<sup>2</sup>)

The coefficient of determination (R<sup>2</sup>) is 0.734 or 73.4%, this indicates that the variable fraud prevention can be explained by the variables Internal Audit, Internal Control, Whistleblowing system and Moderation of Professional Ethics \* Internal Control of 73.4% and the remaining 26.6 % is explained by other variables outside this model.

**Table 9**  
**Model Summary Result**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,857 <sup>a</sup>	,734	,731	3,190

a. Predictors: (Constant), Professional Ethics\* Internal Control, Whistleblowing System, Internal Audit, Internal Control  
 Source: Primary data processed (2023)



### Hypothesis Test (t-test)

The results of the hypothesis test (t test) show that the value of t count > t table is 1.967 (t table at dk = n-2 = 325-2 = dk 323), and the results of the individual parameter significance test in the table above show that individually each significant variable influencing fraud prevention.

**Table 10**  
**Hypothesis Test (t-test) result**

Model	Coefficients <sup>a</sup>				
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	15,392	1,508		10,208	,000
Internal Auditing	,375	,055	,327	6,787	,000
Internal control	,127	,030	,308	4,280	,000
Whistleblowing System	,202	,060	,181	3,383	,001
Professional Ethics*Internal Control	,001	,001	,124	2,039	,042

a. Dependent Variable: Fraud Prevention

Source: Primary data processed (2023)

### Simultaneous Significance Test (F-statistic Test)

Based on the table, it can be seen the calculated F value is 221.206 with a significance value of 0.000 (<0.05). Thus, it can be concluded that the regression model is feasible to use, and the independent variables which include Internal Audit, Internal Control and Whistleblowing system and the Professional Ethics \* Internal Control moderating variable have a simultaneous influence on the dependent variable Fraud Prevention.

**Table 11**  
**Simultaneous Significance Test (F-statistic Test)**

ANOVA <sup>a</sup>					
Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	9002,327	4	2250,582	221,206	,000 <sup>b</sup>
Residual	3255,722	320	10,174		
Total	12258,049	324			

a. Dependent Variable: Fraud Prevention

b. Predictors: (Constant), Professional Ethics\*Internal Control, Whistleblowing System, Internal Audit, Internal Control

Source: Primary data processed (2023)

### The Influence of Internal Audit on Fraud Prevention

The results of hypothesis 1 test show that internal audit has a significant effect on fraud prevention with a significance level of 0.000 (<0.05), validating Ha1. Internal audit's role in fraud prevention is to eliminate or minimize their causes, preferably preventing fraud before it occurs. This effort involves policies, systems and procedures carried out by management, the board of

commissioners and company personnel to achieve the goals of reliable financial reporting, operational efficiency and legal compliance (COSO, 2013). The positive influence of Internal Audit on fraud prevention is also demonstrated by other studies, including those conducted by (Baihaqie, 2023).

The implication is that the role of internal audit must be strengthened through effective competence, assignment, monitoring and follow-up. Strengthening the role of the Internal Auditor needs to consider qualifications, experience, independence, and a deep understanding of fraud. Implementation of assignments must utilize appropriate analytical methods to identify potential fraud and provide recommendations for improvement. Internal auditors must also report fraud findings quickly, monitor follow-ups, and ensure that preventive measures are implemented effectively and in a timely manner (IIA, 2017a).

### **The Influence of Internal Control on Fraud Prevention**

The results of hypothesis testing 2 show that the internal control variable has a significance level of 0.000 ( $<0.05$ ), indicating a significant effect on fraud prevention and confirming Ha2.

Effective internal controls help prevent fraud and protect company assets. Internal control also has an important role in securing financial reporting, increasing compliance, and reducing the risk of loss (Arum Ardianingsih & CA, 2021).

The implementation of internal control involves five main elements, control environment, risk assessment, control activities, information and communication, and monitoring (COSO, 2013). Research results (Marciano et al., 2021), there is a significant influence between internal control on fraud prevention.

In this study, hypothesis testing and correlation testing show that effective internal control has a positive effect on fraud prevention in organizations. Therefore, companies need to pay attention to the implementation of good internal control to reduce the risk of fraud and losses.

### **The Influence of Whistleblowing System on Fraud Prevention**

The results of hypothesis testing 3 show that the whistleblowing system variable has a significance level of 0.001 ( $<0.05$ ), indicating a significant effect on fraud prevention and confirming Ha3. Whistleblowing system is a mechanism for reporting fraud or internal violations of the organization, with the aim of preventing losses and fraudulent actions (Basri, 2021).

Organizational climate characteristics influence whistleblowing decisions. Research shows that a climate that supports whistleblowing and the perception of serious violations can increase the tendency of the reporter to use the whistleblowing system (Near & Miceli, 1995). Thus, organizations need to create a climate that supports and pays attention to perceptions of violations for whistleblowing effectiveness. The positive relationship between the whistleblowing system and fraud prevention is supported by research conducted by (Akhyar et al., 2022), (Baihaqie, 2023) and (Anggoe & Reskino, 2023).

It is important for organizations to consider factors such as trust in management, fairness, and proactive personality in developing a good and effective whistleblowing system, so that employees feel safe and are motivated to report violations.

### **The influence of Internal Control on Fraud Prevention with moderation of Professional Ethics**

The results of hypothesis 6 test show that the moderating variable of professional ethics\*internal control has a significance level of 0.042 ( $<0.05$ ), indicating a significant effect on fraud prevention and confirming Ha6. Professional ethics moderates the effect of internal control

on fraud prevention, where the more effective professional ethics are applied, the stronger the influence of internal control in preventing fraud.

Internal control is a dynamic and integrated activities carried out by an organization to ensure operational effectiveness, reliable financial reporting, and regulatory compliance (COSO, 2013). The effectiveness of fraud prevention can be achieved by implementing strong internal controls, which involve five integrated components: control environment, risk assessment, control activities, information and communication, and monitoring.

Professional ethics is a principle in internal control, which is contained in the control environment. The control environment includes ethical culture, board of directors oversight, organizational structure, and other parameters that support internal control (COSO, 2013). Strong professional ethics will influence the effectiveness of internal control and assist in preventing fraud.

The influence of professional ethics in moderating internal control relationships on fraud prevention is also shown by other studies, including those conducted by (Anggoe & Reskino, 2023).

The implication of this research is that companies need to strengthen professional ethics through training, leadership support, recognition of ethical behavior, and the establishment of an ethics team or committee. These steps will ensure alignment between professional ethics and internal control in efforts to prevent fraud.

## **CONCLUSION**

Fraud can occur in various sectors including the palm oil industry. Examples of fraud that often occur include labor manipulation, theft of oil palm seeds, fictitious planting reports, and embezzlement of materials such as palm oil. Therefore, efforts to prevent fraud are important for companies. The conclusions related to this research are:

1. Internal audit plays an important role in fraud prevention by eliminating potential causes of fraud before it occurs.
2. Internal controls have a significant impact on preventing fraud by ensuring operations comply with guidelines and SOPs.
3. The whistleblowing system plays a role in disclosing violations by both internal and external parties, preventing fraud that is detrimental to the organization.
4. Professional ethics plays a role as a moderation of internal control in preventing fraud, related to the ethical values of the organization and the oversight of the board of directors.

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