

EFFECTS OF COMPETENCE, ETHICAL BEHAVIOR, AND WORK MOTIVATION ON PREVENTION OF FINANCIAL REPORTING FRAUD: WHISTLEBLOWING SYSTEM AS A MODERATOR

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ABSTRACT

The present study aims to examine the effect of human resource competence, ethical behavior, and work motivation on the prevention of financial reporting fraud moderated by whistleblowing systems. Primary data were garnered from banks in Pekalongan, Central Java, Indonesia. This study employed a moderation regression analysis with an interaction testing. Study findings reveal that human resource competence and work motivation give a significant effect on the prevention of financial reporting fraud, while ethical behavior had no significant effect on the prevention of financial reporting fraud. In addition, whistleblowing systems strengthened both the negative effect of human resource competence on the prevention of financial reporting fraud and the positive effect of ethical behavior on the prevention of financial reporting fraud. Nonetheless, the whistleblowing system did not moderate work motivation toward the prevention of financial reporting fraud. The control variable, i.e., reward and punishment, showed a significant impact on the prevention of financial reporting fraud. The study concludes with some empirical evidence for how banking management fosters the whistleblowing system to prevent financial reporting fraud.

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INTRODUCTION

Numerous cases of fraud in companies or entities have increased as a result of rapid economic growth. Fraud is committed because the perpetrator can benefit or accomplish particular goals (Stubben & Welch, 2020). Conflicts of interest, corruption, bribery, gratuities, and other forms of illegal behavior are frequent examples of this fraudulent conduct.

The Corruption Perception Index (CPI) in 2020 investigated the corruption rate in a survey study in 180 countries. Indonesia received a GPA score of 37, which is lower than the score of 40 it received in 2019. Despite being lower, the CPI score around the globe was 43 points. The CPI measures that there were 60% of countries with a score below 50, including Indonesia. Indonesia Corruption Watch (2020) stated that state losses due to acts of corruption amounted to IDR 56.7 trillion and a four-fold increase compared to 2019 of IDR 12 trillion, with a total of 271 cases.

According to the findings of the 2019 ACFE report, the financial and banking sectors suffered the most losses as a result of fraud by up to 41.4 percent. In Indonesia, there are two types of banking, i.e., conventional banking and Islamic banking. Through Bank Indonesia Circular No.13/28/DPNP concerning Anti-Fraud Policy for Commercial Banks, Bank Indonesia adopted an anti-fraud strategy for both conventional and sharia banking.

Employees of the Bank Jateng Pekalongan Branch are alleged of defrauding Automated teller machines (ATM) and stealing money from businesses in the Central Java Province in the 2018 Pekalongan banking sector fraud case, which resulted in a loss of Rp 4.4 billion overall

(Antaraneews, 2018). In a different case, bank customers in Pekalongan became the target of an irresponsible group's skimming for an ATM burglary, demonstrating the need for banks, as service providers, to exercise caution when resolving issues to protect their clients. In addition, the Tegal Financial Services Authority (OJK) disclosed that 21 public complaints about the banking sector were documented in 2018; the majority of these complaints were in the region of Pekalongan Residency. Based on empirical evidence, the participants in this study were staff members of both conventional and Islamic banks in Pekalongan.

Employees of banks use their knowledge of the fields they oversee to carry out their duties and responsibilities in an effective and efficient manner. Potential issues with human resources involve the existence of fraud and corruption. Employee motivation takes the shape of improved compensation through work performance and awards (Sijbom, Lang, & Anseel, 2019). This endeavor functions to detect and minimize fraud committed by internal parties by utilizing an inadequate and weak internal control system (Agusyani, Sujana, & Wahyuni, 2016).

One internal control that the company can use to avoid fraudulent financial reporting is a system of rewards and penalties. This system can encourage employees to be cautious in carrying out their duties in order to limit errors that might arise. Companies or other organizations take measures to lower the risk of fraud, such as by implementing a Good Corporate Governance framework that can strengthen the organization's internal fraud control (Mustafa & Ali, 2019).

It is expected that more individuals will be aware of the value of the internal control system and the whistleblowing system. The National Committee on Governance Policy's (2008) existence, which is supported by the Global Economic Crime and Fraud Survey (GECFS) and the Organization for Economic Co-operation and Development (OECD), is evidence of this. The National Committee on Governance Policy actively promotes Good Corporate Governance because it is thought to be the best method for preventing fraud (fraud prevention).

Currently, banks and companies are using whistleblowing systems as an effective method of preventing fraud (Albrecht, 2009; Mangala & Kumari, 2017; Pamungkas, Ghozali, & Achmad, 2017). In order to avoid fraud within the business, whistleblower security is also kept confidential by the corporation. Employees in companies and banks will feel monitored over and will be reported if there are allegations of fraud.

A study conducted by Alfian et al. (2018) reported that banks applied a whistleblowing system as a fraud detection strategy, to decrease the number of audit findings and enhance the company's operational readiness. Lestari et al. (2016) revealed that the whistleblowing system give significant effect on fraud prevention. The study offers that the whistleblowing system is part of the internal control system in preventing discrepancies and fraud practices as well as strengthening the implementation of good governance practices.

There is a whistleblower system in place in addition to an efficient audit process with the goal of detecting fraud. Whistleblower reports follow the facts as they exist and must meet certain requirements in order to be processed further. These reports cannot have their facts changed. The management of the company's internal controls can foster ethical behavior within the organization. An effective internal control system (a "whistleblowing system") can block opportunities for unethical behavior.

HYPOTHESIS DEVELOPMENT

An employee must possess certain personal traits, in-depth knowledge about, and skills in their field in order to perform their responsibilities and obligations. Employee competences were the fundamental precautions against financial reporting fraud. Human resource competence had a significant impact on fraud prevention (Agusyani et al., 2016). Human

resource competences were also reported to have a significant influence on fraud prevention in village financial management and improving the internal control system (Sujana, Suardikha, & Laksmi, 2020).

H1: human resource competence gives a significant impact on prevention of financial reporting fraud.

Financial reporting fraud can be prevented by creating a positive environment where all employees have ethical behavior supported by applicable policies and regulations (Arens, Elder, & Beasley, 2008). Ethical behavior had a significant impact on fraud prevention in the banking sector in Nigeria (Nwanyanwu, 2018). Honesty, integrity, and the value of knowledge are reflected in ethical behavior, which can increase a good company's production and reduce the risk of fraud. With an internal control system in place, ethical behavior can lower the chance that management will commit fraud by paying attention to the culture of the workplace (Malisetty, Archana, & Kumari, 2017). In order to prevent fraud, ethical behavior should be seen as an understanding of the moral perception process in decision-making. It should also include situational tests of employees' honesty, intelligence, and creativity (Houdek, 2020).

H2: ethical behavior has a positive effect on prevention of financial reporting fraud.

The company's bonus program incentivizes employees to work harder. It can minimize the level of financial reporting fraud by fulfilling employee needs and receiving positive feedback from the company. The intentions of accounting managers in BUMN (state-owned enterprise) in Indonesia to engage in financial reporting fraud are significantly impacted negatively by their subjective norms on behavioral control and moral responsibility (Ghozali, Achmad, & Pamungkas, 2019). Compensation is able to influence employees to support company policies in preventing fraud (Rehman, Ali, Hussain, & Waheed, 2021).

Work that is frequently performed well will enhance the level of incentive that employees will receive, so it can promote excellent behavior and keep repeating it so that employees are motivated to receive bonus income. However, if employees are penalized for making mistakes while doing their job responsibilities, they will keep doing self-evaluations and reducing the error rate, which will encourage them to work on raising their own quality. Consequently, the company's policy of enforcing fair rewards and penalties will have an impact on the company's ability to survive. Additionally, the presence of rewards and penalties can reinforce employees' excellent behavior and prevent financial fraud (Wibisono, 2015).

H3: work motivation has a significant impact on prevention of financial reporting fraud.

The whistleblowing system plays a pivotal role as both a channel for reporting fraud and a means of supervision. Employees who are competent in their fields of work demand professionalism and objectivity from themselves, which makes them wary of engaging in fraud. All employees are eligible to use the whistleblower system (Exmeyer, 2020). In other words, inter-employee monitoring can be used to minimize reports of fraud perpetrated by other employees to supervisors. As a result, when employees are well-informed of the whistleblowing system, they are honest when reporting fraud to superiors and the authorities, ensuring that whistleblowers are likewise protected for reports of alleged fraud submitted. This demonstrates how the whistleblowing system can be applied to prevent fraud that is found within the company.

The intent to engage in internal whistleblowing might be influenced by the whistleblower's attributes (Djamal, Pikir, & Wardani, 2019). Meanwhile, professional professionalism and morals have a significant effect on whistleblowing (Elimanto & Mulia, 2016; Sagara, 2018; Yanti, Hasnawati, Astuti, & Kuncara, 2018). Whistleblowing system gives a positive influence on fraud prevention (Nurharjanti, 2017), whereas the whistleblowing system and human resources also significantly affect fraud prevention (Agusyani et al., 2016).

H4a: whistleblowing system moderates the effect of human resources on the prevention of financial reporting fraud.

Employees who are knowledgeable of the whistleblowing system are more likely to act morally and ethically, which will prevent them from engaging in fraud. If they do, they are also more likely to report the occurrence so that the company can effectively prevent fraud in financial reporting. It implies that the risk of fraud in the company can be avoided. Employee awareness of the whistleblowing system promotes more ethical behavior among workers. Employee awareness of the whistleblowing system and ethical conduct in fraud might encourage ethical behavior among employees.

Whistleblowing system functions as a strategy for fraud prevention (Alfian, Subhan, & Rahayu, 2018; Wahyuni & Nova, 2019). This system application can be modified to enhance the efficiency of fraud control. The whistleblowing system is significantly impacted by ethical conduct (Tarjo, Suwito, Aprillia, & Ramadan, 2019). Professional ethics can persuade top management to generate fraudulent financial reporting in businesses with inadequate internal control mechanisms (Awang, Ismail, & Rahman, 2016). Ethical behavior and whistleblowing system have a significant impact on fraud prevention (Purnamawati, 2018).

H4b: whistleblowing system moderates the impact of ethical behavior on the prevention of financial reporting fraud.

A positive work environment provides a boost to employee work motivation. Bonus compensation results in the fulfillment of employee needs. Wibisono (2015) reported that the application of rewards and punishments could increase the level of employee compliance to prevent fraud in the company. It shows that with the reward and punishment structure, employees are expected to be able to combat fraud.

Each employee now feels supervised and has the potential to expose themselves if they are found to have engaged in fraudulent financial reporting owing to the whistleblowing system. As a consequence, it can prevent fraudulent practices, which is endorsed by the National Committee on Governance's policy regarding the system for reporting fraud. Increased organizational commitment and the desire to build whistleblowing disclosures can both be driven by work motivation (Fitriyah & Maghviroh, 2019). Perception of personal responsibility has a positive effect on whistleblowing (Setyorini & Faizal, 2020).

H4c: whistleblowing system moderates the effect of work motivation on prevention of financial reporting fraud.

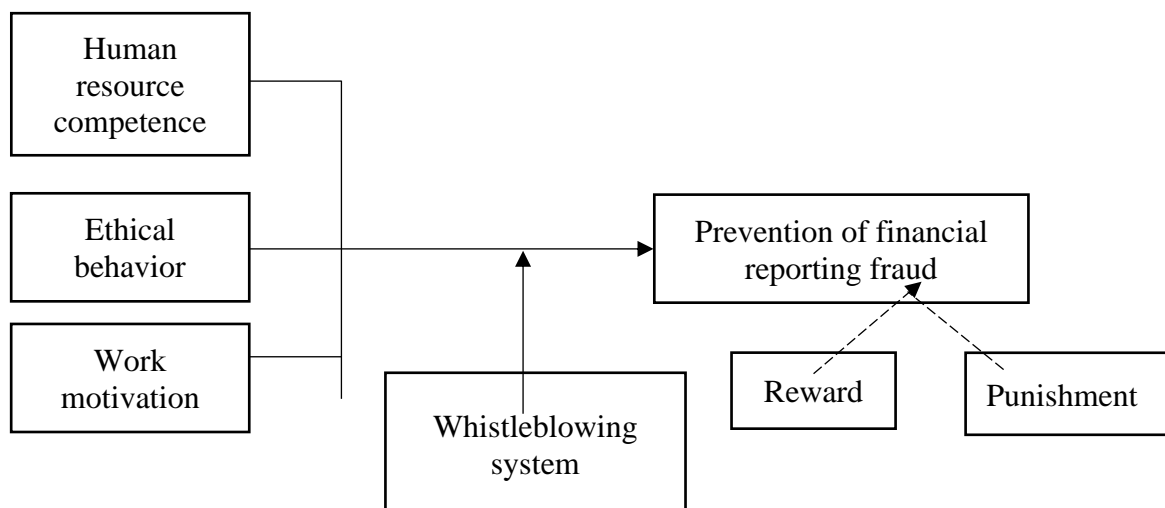


Figure 1. Research Framework

RESEARCH METODOLOGY

This present study employed a descriptive research approach with a survey method. The population in this study was employees of both conventional and Islamic banking in Pekalongan, Central Java, Indonesia. This study aims to describe the role of the whistleblowing system, human resource competence, ethical behavior, work motivation as prevention and detection of financial reporting fraud. Sample was determined using a purposive sampling technique. It was based on the criteria where banking employees served as branch managers, audit and internal control, accounting and reporting units. As a result, 40 bank employees in Pekalongan were recruited to participate.

In the study, the researcher collected accurate data using a list of questions. The primary data in this study were garnered from participants' responses through the distribution of questionnaires with statement items for the variable whistleblowing system, human resource competence, ethical behavior, work motivation, and prevention of financial reporting fraud. The method of assessing respondents' answers employed a five-Likert scale to examine the effect of human resource competence, ethical behavior, and work motivation on prevention of financial reporting fraud. The scale included "Strongly Agree" of score 5, "Agree" of score 4, "Neutral" of score 3, "Disagree" of score 2, and "Strongly Disagree" of score 1.

OPERATIONAL VARIABLE

a. Prevention of Financial Reporting Fraud

The goal of financial reporting fraud prevention is to stop or maintain unlawful behaviors and violations that harm the business, workers, and other parties. By adopting fraud prevention as promptly as feasible, the company achieves its objectives and boosts its reputation. Corruption, the improper use of company resources, and financial statement fraud are examples of financial reporting fraud prevention indicators (Tuanakotta, 2010).

b. Human Resource Competence

Competence is the knowledge and personal traits that enable people to perform tasks with the professionalism, efficacy, and efficiency that are required. Indicators of human resource competence include knowledge of their career paths to undertake duties and responsibilities in line with policies, stages, appropriate techniques, adequate skills with creativity in performing the work. These indicators can be seen in a variety of ways (Hutapea & Nurianna, 2008).

c. Ethical Behavior

An action that is morally upright and in accordance with social norms will be seen favorably and elevate the dignity of the individual. This study promotes the elements of the code of conduct, such as the organizational behavior code, employee conduct generally, relationships with clients and suppliers, interactions with other people and organizations, and prompt communication, privacy, and confidentiality, are all examples of ethical behavior (Arens et al., 2008).

d. Work Motivation

Work motivation is the support provided to employees so they may adapt to their workplace environment and accomplish company goals. Responsibility, performance, possibilities for promotion, performance recognition, and demanding job are all elements of work motivation (Mangkunegara, 2015).

e. Reward

A reward is a present offered in appreciation for an employee's achievements and good behaviors. Employees receive rewards from the employer as part of the psychological contract. Social and physical rewards make up the reward indicator (Mahsun, 2006).

f. Punishment

Punishment is a type of organizational discipline that tries to enhance the performance of violating personnel. Verbal and written warnings, wage reductions, postponed promotions, release from jobs, and staff layoffs are forms of punishment indicators (Mangkunegara, 2015).

g. Whistleblowing system

A whistleblowing system is interpreted as the employee's direct line of communication to the authorities for any fraud committed by the corporation or its internal division. The whistleblowing system indicator has three different components, i.e., structural, operational, and maintenance characteristics (National Committee for Governance Policy, 2008).

Data were analyzed employing validity, reliability, classical assumption, and Moderating Regression Analysis (MRA) tests, with the following hypotheses.

1) Hypothesis 1

$$Y = \alpha + b_1 X_1 + b_2 X_2 + b_3 X_3 + \epsilon$$

Dengan adanya variabel kontrol:

$$Y = \alpha + b_1 X_1 + b_2 X_2 + b_3 X_3 + b_4 X_4 + b_5 X_5 + \epsilon$$

2) Hypothesis 2

$$Y = \alpha + b_1 X_1 + b_2 X_2 + b_3 X_3 + b_4 X_6 + b_5 X_1 * X_6 + b_6 X_2 * X_6 + b_7 X_3 * X_6 + \epsilon$$

FINDINGS AND DISCUSSION

The study garnered primary data by distributing questionnaires. The sample was established using the purposive sampling technique. The sample was determined based on the criteria for banking employees who served as directors, managers, head of internal audit unit (SKAI), internal auditor, and internal control, accounting unit, and remedial supervisor.

Table 1
Demographic Data of Participants

Company Elements	N = 40	Percentage
Organizational Position		
Directors	3	7.5
Reporting Manager	3	7.5
Operational Manager	5	12.5
Credit Manager	7	17.5
Human Resource Manager	5	12.5
Head of Internal Audit Unit	3	7.5
Internal Auditor	3	7.5
Internal Control	2	5
Accounting Unit	5	12.5
Remedial Supervisor	4	10
Gender		
Male	27	67.5
Female	13	32.5
Age		
20 - 30 years	11	27.5
31- 40 years	20	50
41- 50 years	9	22.5
Working Experience		
0-5 years	14	35
5-10 years	11	27.5
>10 years	15	37.5

Frequency Distribution

Table 2
Frequency Distribution

Variable	Interval	Frequency	Percentage	Variable	Interval	Frequency	Percentage
Competence	18-19	1	2.5	Whistleblowing System	30-33	2	5
	20-21	0	0		34-37	4	10
	22-23	9	22.5		38-41	25	62.5
	24-25	16	40		42-45	0	0
	26-27	4	10		46-49	8	20
	28-29	10	25		50-53	1	2.5
Ethical Behavior	39-42	1	2.5	Fraud Prevention	33-35	10	25
	43-46	0	0		36-38	10	25
	47-50	4	10		39-41	7	17.5
	51-54	19	47.5		42-44	8	20
	55-59	4	10		45-47	4	10
	60-65	12	30		48-50	1	2.5
Work Motivation	51-55	3	7.5				
	56-60	2	5				
	61-65	12	30				
	66-70	6	15				
	71-75	10	25				
	76-80	7	17.5				

Table 2 shows that based on the result of observation, the research participants' response score for the question about fraud prevention in the interval of 33-35 is 25%, while the other frequency distributions are 25% in the interval of 36-38, 17.5% in the interval of 39-41, 20% in the interval of 42-44, 10% in the interval of 45-47, and 2.5% in the interval of 48-50.

Table 3
Rank Category

Variable	Score	Category
Competence	>27.41	Very High
	23.5 – 27.41	High
	21.06 – 23.49	Low
	< 21.06	Very Low
Ethical Behavior	>57.75	Very High
	49.5 – 57.75	High
	46.4 – 49.59	Low
	< 46.4	Very Low
Work Motivation	>76.41	Very High
	65.5 – 76.40	High
	54.59 – 65.49	Low
	< 54.59	Very Low
Whistleblowing System	>47.25	Very High
	40.88 – 47.25	High
	34.13 – 40.87	Low
	< 34.13	Very Low
Fraud Prevention	>48.41	Very High
	41.5 – 48.41	High
	32.26 – 41.49	Low
	< 32.26	Very Low

In this study, a test of data quality was conducted where the data were valid and reliable. In addition, the data fulfilled the classical assumption test.

1. Hypothesis Test

Hypothesis test in this study employed Moderating Regression Analysis (MRA).

Table 4
Hypothesis test 1

No.	Statistics	Value		
1.	Model Summary			
	R Value	0.629		
	R Square	0.395		
2.	ANOVA			
	F Value	7.837		
	F Table	2.866		
	Sig.	0.000		
		Coefficient	t Value	Sig.
3.	Coefficient			
	Constanta	6.578	0.824	
	t Table Value		2.028	
	Competence	0.784	2.341	0.025
	Ethical Behavior	-0.158	-1.249	0.220
	Work Motivation	0.316	3.435	0.002

As informed in Table 4, the value of the correlation coefficient is 0.629. It indicates that the relationship between the variables of Competence, Ethical Behavior, Work Motivation, and Financial Reporting Fraud Prevention is at the level of a good relationship. The competence significance value of 0.025 is smaller than $(\alpha) = 0.05$ so that **H1 is accepted**. The significance value of Ethical Behavior of 0.220 is higher than $(\alpha) = 0.05$ so that **H2 is rejected**. The significance value of Work Motivation is 0.002 which is smaller than $(\alpha) = 0.05$ so that **H3 is accepted**.

Table 5
Control Variable Test

No.	Statistics	Value		
1.	Model Summary			
	R Value	0.687		
	R Square	0.471		
2.	ANOVA			
	F Value	6.066		
	F Table	2.493		
	Sig.	0.000		
		Coefficient	t Value	Sig.
3.	Coefficient			
	Constanta	5.055	0.740	
	t Table Value		2.032	
	Competence	0.546	3.101	0.027
	Ethical Behavior	-0.104	-0.807	0.425
	Work Motivation	0.156	2.906	0.037
	Reward	0.815	2.659	0.012
	Punishment	1.277	2.415	0.021

Drawn from Table 5, the value of the correlation coefficient in the table above is 0.687, meaning that the relationship between the variables of Competence, Ethical Behavior, Work Motivation, Rewards and Punishment with Financial Reporting Fraud Prevention is at the level of a good relationship. The significance value of Reward is 0.012, which is smaller than $(\alpha) = 0.05$. It means that Reward had a significant effect on the Prevention of Financial Reporting Fraud. The significance value of Punishment is 0.021, which is smaller than $(\alpha) = 0.05$. It demonstrates that Punishment gave a positive effect on the Prevention of Financial Reporting Fraud.

Tabel 6
Hypothesis test 2

No.	Statistics	Value		
1.	Model Summary			
	R Value	0.834		
	R Square	0.695		
2.	ANOVA			
	F Value	10.404		
	F Table	2.312		
	Sig.	0.000		
		Coefficient	t Value	Sig.
3.	Coefficient			
	Constanta	-91.802	-1.173	
	t Table Value		2.036	
	Competence	11.573	3.169	0.003
	Ethical Behavior	-5.429	-4.651	0.000
	Work Motivation	1.723	1.493	0.145
	Whistleblowing System	2.440	1.175	0.249
	Moderate 1	-0.260	-2.597	0.014
	Moderate 2	0.124	4.634	0.000
	Moderate 3	-0.032	-1.166	0.252

Table 6 reveals that the value of the correlation coefficient is 0.834. It means that the relationship between the variables of Competence, Ethical Behavior, Work Motivation, Whistleblowing System as a moderating variable with Fraud Prevention Financial Reporting is at a very good level of relationship. As informed in Table 6, the Whistleblowing System as a moderating variable is included in the pure moderate category. It portrays that the Whistleblowing System could strengthen or weaken the influence of Competence, Ethical Behavior and Work Motivation on the Prevention of Financial Reporting Fraud while the Whistleblowing System as an independent variable did not have a significant effect on Prevention of Financial Reporting Fraud.

Table 6 depicts that the significance value of the Whistleblowing System moderating Competence is 0.014, which is smaller than $(\alpha) = 0.05$. It indicates that **H4a is accepted**. The significance value of Whistleblowing System moderating Ethical Behavior is 0.000, which is smaller than $(\alpha) = 0.05$, so **H4b is accepted**. Meanwhile, the significance value of the Whistleblowing System moderating work motivation is 0.252, which is smaller than $(\alpha) = 0.05$. It means that **H4c is rejected**.

The results of hypothesis 1 test show that human resource competence had a significant positive effect on the prevention of financial reporting fraud. Concerning theory of agency, the difference in goals to be achieved between the agent and the principal causes a relationship conflict (Jensen & Meckling, 1976). To minimize the emergence of agency problems, it is necessary to have agency costs or monitoring costs, namely costs incurred by the principal to supervise the behavior of agents.

The results of this study are in line with the research conducted by Agusyani et al. (2016), Sujana, Suardikha, and Laksmi, (2020), reporting that human resource competence had a significant effect on fraud prevention detection. It implies that the better the competence of the employee's human resources, the higher the employee's prevention of fraud. The higher the level of competence of human resources, the smaller the potential for fraudulent financial reporting with endeavors to boost understanding of financial reporting fraud prevention (Mustafa & Ali, 2019; Wahyuni & Nova, 2019). The findings of this study, nonetheless, do not support Hendriani's (2013) findings, which contend that competence had no bearing on the prevention of fraud.

According to the findings of the hypothesis test 2, moral behavior had no significant impact on the prevention of financial reporting fraud. Informed in the participants' responses for the frequency distribution, the very high category had a 30%, the high category possessed a 67.5%, the low category gave a 10%, and the very low category revealed a 2.5%. In order to prevent fraudulent financial reporting, ethical behavior should be seen as an awareness of the ethical perception process in decision-making. It should also include situational measures of honesty, intelligence, and creativity on the capabilities that employees possess (Houdek, 2020).

The findings of this study are consistent with those of Najahningrum (2013) and Purnamawati (2018), who found no conclusive evidence of an impact of ethical behavior on fraud. Because of this, it is essential important to pay attention to employees' reactions and conduct an error analysis when it comes to ethical behavior in organizational culture. It is necessary to do a thorough investigation of the ethical culture of the organization in relation to the different employee reactions. A key antecedent to the need to implement a whistleblowing system on employees' behavior is locus of control. According to Ogungbamila (2014)'s study in Nigeria, the Corruption Perception Index (CPI) score of the nation rises as the proportion of employees rises following the supervision of strong corporate governance and the whistleblowing system.

Findings of the hypothesis test 3 reveal that work motivation had a positive effect on the prevention of financial reporting fraud. Work performance and rewards are forms of employee motivation in terms of compensation improvement (Sijbom, Lang, & Anseel, 2019). Meeting the needs of the company, including bonus compensation, is one of the employee's motivations in preventing fraudulent financial reporting. It can reduce the level of fraud in financial reporting by fulfilling the demand of employees and receiving positive feedback from the company.

Work motivation is able to strengthen employee performance to prevent fraud committed by management (Desai, 2020). This demonstrates that bringing employees under work pressure and providing positive feedback, such as compensation, can reduce the level of fraud that may occur.

Results of hypothesis test 4a prove the whistleblowing system mitigates the negative impact of human resource competence on the prevention of financial reporting fraud. Good corporate governance is the entity that oversees management's activities to prevent financial statement fraud. The whistleblowing system plays a role as a channel for reporting fraud. Employees with skills and knowledge in their fields of work are expected to be professional and objective in their work, so they are absolutely opposed fraud (Exmeyer, 2020). This demonstrates that the whistleblowing system can be used to prevent fraud in the workplace.

This study findings are consistent with previous research (Agusyani et al., 2016; Alfian et al., 2018; Fitriyah & Maghviroh, 2019), which investigated that having a whistleblowing system in place can strengthen the influence of human resource competence on the prevention of financial reporting fraud. The company protects the whistleblower profile by experiencing a whistleblowing system set up to report employee actions that are not in accordance with applicable regulations. Whistleblower characteristics can influence the decision to engage in internal whistleblowing (Djamal, Pikir, & Wardani, 2019).

The findings of hypothesis test 4b reveal that the whistleblowing system moderates the positive impact of ethical behavior on the prevention of financial reporting fraud. Based on agency theory, good corporate governance is fostered to reduce the existence of fraudulent financial reporting. There is a monitoring cost as a way to reduce agency

conflicts due to the difference in interests between the principal and the agent in progressing the company. Employees' ethical behavior, reinforced by employee knowledge of the whistleblowing system, can help prevent fraud. This emphasizes that the whistleblowing system is established as a fraud detection strategy. (Alfian, Subhan, & Rahayu, 2018; Wahyuni & Nova, 2019). Its application can be used to increase the effectiveness of fraud control. Perception of personal responsibility has a positive effect on whistleblowing (Setyorini & Faizal, 2020).

The findings of this study confirm Tarjo, Suwito, Aprillia, and Ramadan (2019), pointing out that the influence of ethical behavior can reduce managers' decision-making based on their own interests, such as continuing a project that has actually failed, only for its own sake to gain profit. In other words, the relationship between an ethical environment and the decision-making process of managers has a strong influence on the ethical environment, causing managers to enforce ethical principles in every decision-making process. The existence of an environment that upholds ethical values can prevent opportunistic behavior of a manager in a state of agency problems and directs managers to maintain the interests of the company.

The significant risk associated with situational interventions related to ethical behavior is that the work is not optimal, and some still find it to be inconsistent with proper ethical behavior. Whistleblowing has an effective influence on the prevention of fraud in financial reporting with a good organizational culture in order to achieve higher employee retention goals, particularly executive management supervision (Desai, 2020). Punishment is enacted to promote banking employees' ethical behavior, and hence increasing employee responsibility and compliance. Employees with greater moral ethics and the ability to act ethically can help prevent fraud in the business world (Djamal et al., 2019; Nwanyanwu, 2018; Tarjo et al., 2019).

The findings of hypothesis test 4c demonstrate that the whistleblowing system had no effect on moderating the negative effect of work motivation on the prevention of financial reporting fraud. Monitoring costs, i.e., costs incurred by the principal in monitoring agent behavior activities, are regarded as an effective means of reducing agency problems (Jensen & Meckling, 1976). A positive work environment boosts employee work motivation. Employee needs are met as a result of bonus compensation. With the whistleblowing system, each employee feels supervised and can be reported if fraudulent financial reporting is encountered. Work motivation can increase organizational commitment, which affects the intention to perform whistleblowing (Fitriyah & Maghviroh, 2019).

The study findings support previous research (Fitriyah & Maghviroh, 2019; Setyorini & Faizal, 2020), which reported that work motivation could increase organizational commitment and influence intentions to report financial reporting fraud. With the existence of a whistleblowing system, each employee feels supervised and can be reported if fraudulent financial reporting is revealed. As a direct consequence, it can prevent the occurrence of fraud, which is supported by the National Committee for Governance Policy on the whistleblowing system.

CONCLUSION AND SUGGESTION

The present study promotes that human resource competence and work motivation have a significant positive effect on financial reporting fraud prevention, whereas ethical behavior has no significant effect on financial reporting fraud prevention. The whistleblowing system reinforces both the negative impact of human resource competence and the positive impact of ethical behavior in the prevention of financial reporting fraud. The whistleblowing system, on the other hand, does not moderate work motivation toward preventing financial reporting fraud.

This is due to the absence of a whistleblowing system in banking institutions. With the whistleblowing system as a moderating variable, the variable of work motivation has no significant effect on the prevention of financial reporting fraud. Meeting the needs of executive management can boost employee work motivation while also preventing financial loss.

The limitation of this study is that it only included 40 banking employees in Pekalongan, Central Java, Indonesia so generalization is still restricted. The quantitative approach used did not provide detailed answers. Therefore, this study recommends future researchers should include research objects so that research findings can be broadly generalized. Furthermore, future studies could overtake a qualitative approach.

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