

CHAPTER I

INTRODUCTION

A. Background

Nowadays, many cases of irregularities are found, especially in the financial sector, one of which is fraud. According to the Survey conducted by the Association of Certified Fraud Examiners (ACFE) Indonesia Chapter written in the 2019 Indonesia Fraud Survey report, fraud is a problem that cannot be completely avoided by any institution, organization, or company, and this will continue to be a problem. From the results of a survey conducted every two-year related to Occupational Fraud and Abuse. The most detrimental fraud which often occurs in Indonesia is Corruption with 167 cases or 64.4%, followed by 50 cases of Fraud in Misuse of Assets or State and Company Wealth in the percentage of 20.95%, and the last is Financial Statement Fraud of 9.25% with 22 cases occurring throughout 2019 (SURVEI FRAUD INDONESIA, 2019). The Institute of Internal Auditors (IIA) in its standards, describes fraud as "Fraud encompasses an array of irregularities and illegal acts characterized by intentional deception. It can be perpetrated for the benefit of or to the detriment of the organization and by persons outside as well as inside the organization".

Globally, one of the fraud cases that has become a big phenomenon is the case of Enron Corporation, the Multinational Energy Company in the United States. Indications of fraud, especially in reporting financial statements, have been detected starting since 1999 - 2000 in the case of Enron Corporation. Moreover, Arthur Andersen Audit Firm auditors failed to recognize differences in income structure, that caused the company suffered continuous loss in employee

retirement savings and investor capital, but Enron was able to delay bankruptcy for up to two years (Abdul Karim, 2021). The fall of Enron caused by the manipulation of financial statements that was reported by Sherron Watkins, who at that time served as Vice President of Enron, and became known as the whistleblower of this case (Situmeang et al., 2020).

Another fraud case also occurred in WorldCom, the second largest telecommunications company in the United States. The WorldCom scandal is one of ten financial and accounting scandals that everyone needs to remember. This scandal began as the revenue started to decline yet the debt continued to increase, or quarterly projections were not met. This was used as an excuse by some WorldCom officials to take a negative step, in this case by manipulating the financial statements. Arthur Anderson, as WorldCom's external auditor back then who was supposed to be able to detect this fraud, chose to remain silent until this happened for several years (Westfall, 2019). Cynthia Cooper as Vice President of Internal Audit plays an important role in disclosing fraud that occurred at WorldCom (Cooper, 2009)

Fraud does not only occur in other countries but also Indonesia. There are several cases of fraud that have occurred and involved Audit Firms in Indonesia. The first case is a case involving PT. Kereta Api Indonesia (KAI) sixteen years ago. PT. KAI is known to manipulate their financial statements in 2005 which should have suffered a loss of Rp 63 billion due to its inability to collect taxes from third parties. However, the company recorded Rp 6.9 billion as profit until it was discovered. Moreover, Public Accounting Firm (KAP) S. Mannan, Sofwan,

Adnan and Partners as PT KAI's external auditors were negligent in detecting errors in the audit examination process. Due to the negligence by KAP S. Mannan and Partners, the permit had to be suspended for 10 months starting from July 6, 2007, as a sanction for violating the Professional Standards of Public Accountants (SPAP) and Code of Ethics (Arthawan & Wirasedana, 2018). During the suspension period, KAP was prohibited from providing attestation services including general audits, reviews, performance audits, and special audits (IAPI, 2020).

Another case that occurred around 2018 involved a public accounting firm and a multi-finance company namely PT. Sun Prima Nusantara Financing (SNP) Finance which became one of Columbia's retail company partners. This financial manipulation case occurred because its financial health deteriorated due to indications of bad credit with Bank Mandiri so that the presented financial conditions did not match the reality significantly and SNP decided to issue debt securities in the form of Medium-Term Notes (MTN) (CNN Indonesia Team, 2018). The involvement of Public Accountants Marlina and Merliyana who became external auditors to audit the financial statements of 2012-2016 SNP caused the two public accountants to receive administrative penalty from the ministry of finance in the form of restrictions on providing audit services to financial service entities due to violating professional audit standards (Suhitha et al., 2022). In addition, the public accounting firm, namely the Public Accounting Firm of Satrio Bing, Eny and Partners which is one of Delloite Indonesia's affiliates, received sanctions from the ministry of finance in the form of

recommendations to make policies and procedures on the quality control system of public accounting firms (CNN Indonesia Team, 2018).

In disclosing fraud, such as manipulation of financial statements cases that occur in other countries or Indonesia, whistleblowing action can be done. According to Ceva & Bocchiola (2019), whistleblowing is a voluntary reporting practice carried out by legitimate members of the organization to initiate actions that can correct and resolve some alleged errors in the organization. In whistleblowing actions, the people who do it are called Whistleblowers and the most important thing in implementing the whistleblowing system is whether employees or whistleblowers who know of fraud have the desire to report wrongdoing actions or not (Saud, 2016). It is obvious that the role of auditors and whistleblowers is inseparable from the disclosures of frauds that occur over time (Rahmayani et al., 2014).

Whistleblowing actions carried out by whistleblowers are certainly based on applicable morals and ethics. In addition, viewed from the aspect of Islam itself which is based on the al-Qur'an, the act of disclosing fraud, which is one form of upholding the truth and being fair, is an act that Allah emphasizes. According to the word of Allah Subhanahu wa ta'ala (Allah SWT - Allah the Glorified and Exalted) in Surah al-Maidah verse 8:

يَا أَيُّهَا الَّذِينَ آمَنُوا كُونُوا قَوَّامِينَ لِلَّهِ شُهَدَاءَ بِالْقِسْطِ وَلَا يَجْرِمَنَّكُمْ شَنَاٰنُ قَوْمٍ عَلَىٰ أَلَّا تَعْدِلُوا ۗ اعْدِلُوا هُوَ أَقْرَبُ لِلتَّقْوَىٰ وَاتَّقُوا اللَّهَ ۚ إِنَّ اللَّهَ خَبِيرٌ بِمَا تَعْمَلُونَ

Translation:

O believers! Stand firm for Allah and bear true testimony. Do not let the hatred of a people lead you to injustice. Be just! That is closer to

righteousness. And be mindful of Allah. Surely Allah is All-Aware of what you do.

Through this verse, Allah SWT emphasizes that as a man of faith, it is important to be a human being who is always telling the truth and upholds the truth itself. Because in this life, Allah SWT knows all good or bad deeds that His creatures do. Therefore, with the existence of this verse, mankind is warned to always do the truth, for example, act fairly when you are a witness so that you can be very close to piety.

The intention to take whistleblowing does not just appear itself, this has also been revealed in previous studies. Research conducted by Alleyne et al. (2019) on auditors at the Caribbean Island of Barbados showed that all the individual characteristics of auditors in this study, except for desired moral approval, were significantly associated with whistleblowing, then overall group cohesion moderated the relationship between attitude, perceived behavioral control, independence commitment, and personal responsibility for reporting with internal whistleblowing intentions.

Research on the intention to conduct whistleblowing is not a new thing in the field of research in Indonesia, several studies involving accounting students have been conducted by Situmeang et al. (2020) at two private universities in Central Java and Bali. In another study involving the Supreme Audit Institution in Central Java, it was found that the intention to do whistleblowing was not influenced by perceived behavioral control (Tanuwijaya, 2020). However, the research involving the Head of the Finance Subdivision and Head of the

Reporting Planning Subdivision, and the finance staff shows the opposite results, which is perceived behavioral control has a positive and significant effect on whistleblowing intentions in research conducted by (Tripermata et al., 2022).

Nevertheless, research on whistleblowing among public accountants, especially in Indonesia, is still rarely done. Many previous studies involved accounting students, employees, and heads of finance in a company, or the public sector. This research will involve public accountants or external auditors at IAPI-registered Public Accounting Firms in the DKI Jakarta, Tangerang, and South Tangerang areas. The selection of public accountants as the object of research is because public accountants have a very important role related to the detection and disclosure of fraud that occurs in an organization or company, as the public accounting profession is as an examiner of financial statements and provides opinions on these financial statements (Muniroh & Suryatimur, 2021). Moreover, public accountants have an attitude of independence as described in the applicable *Standar Profesi Akuntan Publik (SPAP)*, so a public accountant must disclose fraud related to organizations or companies.

This research will refer to the research conducted by Alleyne et al. (2019) entitled "Does group cohesion moderate auditors' whistleblowing intentions?". Based on the results of this study, almost all variables related to the characteristics of individual auditors are indicated to have a significant relationship with the intention to do whistleblowing. Moreover, the relationship between these six variables with the intention to whistleblowing is also moderated by the group

cohesion variable. However, the relationship between the desired moral approbation variable is not supported in this study.

This study will examine individual characteristics, specifically perceived behavioral control, desired moral approbation, and personal responsibility for reporting to see its relationship to the auditor's intention to do whistleblowing. Apart from existing research, this study adds a team norms variable to test its influences on the group cohesion variable as a moderating variable between individual characteristics and the intention to take whistleblowing actions. These variables were chosen because there were still inconsistencies in several previous study results, moreover, there were still variables which had not been studied much, especially in Indonesia. Therefore, this study is entitled "**THE INFLUENCE OF PERCEIVED BEHAVIORAL CONTROL, DESIRED MORAL APPROBATION, AND PERSONAL RESPONSIBILITY FOR REPORTING ON AUDITOR'S WHISTLEBLOWING INTENTIONS WITH GROUP COHESION AS A MODERATING VARIABLE**"

B. Research Question

Based on the background above, the researcher proposes a problem formulation as follows:

1. Does perceived behavioral control have a positive effect on auditor's whistleblowing intentions?
2. Does desired moral approbation have a positive effect on auditor's whistleblowing intentions?

3. Does personal responsibility for reporting have a positive effect on auditor's whistleblowing intentions?
4. Does group cohesion moderate the relationship between perceived behavioral control and whistleblowing intentions?
5. Does group cohesion moderate the relationship between desired moral approbation and whistleblowing intentions?
6. Does group cohesion moderate the relationship between personal responsibility for reporting and whistleblowing intentions?
7. Do team norms influence group cohesion?

C. Research Objectives

Based on the research problem above, the objectives of this study are as follows:

1. To examine the relationship between perceived behavioral control and whistleblowing intentions
2. To examine the relationship between desired moral approbation and whistleblowing intentions
3. To examine the relationship between personal responsibility for reporting and whistleblowing intentions
4. To empirically test the effect of group cohesion moderating the relationship between perceived behavioral control and whistleblowing intentions
5. To empirically test the effect of group cohesion moderating the relationship between desired moral approbation and whistleblowing intentions

6. To empirically test the effect of group cohesion moderating the relationship between personal responsibility for reporting and whistleblowing intentions
7. To examine the relationship between team norm and group cohesion

D. Significance of the Study

1. Theoretical Usefulness

Through this research, it is hoped that it can be useful for enriching research and accounting literature, especially related to the whistleblowing behavior of auditors, which is still relatively small in Indonesia since previous research focused on different entities, such as schools, the public sector, and others.

2. Practical Usefulness

This research is expected to be able to motivate and encourage auditors in Public Accounting Firms in Indonesia, especially in Jakarta, South Tangerang, and Tangerang areas to become whistleblowing agents by revealing indications of fraud if it occurs. In addition, this research can be used as a reference and evaluation material for Public Accounting Firms regarding the implementation of a more effective and efficient whistleblowing system.