

## Analysis of Internal Control, Good Corporate Governance and Reporting System Against Fraud

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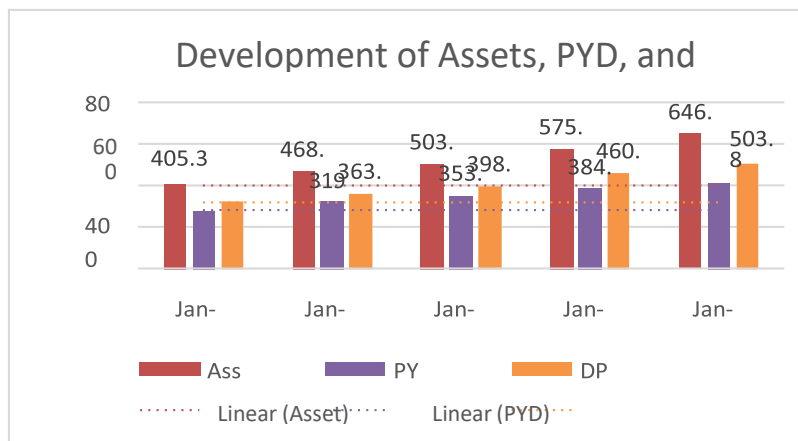
**Abstract .** *The aim of this research is that fraud is still rampant in Islamic banks, both internal and external, to obtain empirical evidence regarding the influence of internal control, good corporate governance and Violation reporting system on fraud in Islamic banks registered with the Financial Services Authority (OJK) for the 2020-2022 period. This research is quantitative in nature using secondary data in the form of annual reports of sharia banking companies for 2020-2022. The samples taken using purposive sampling were 14 companies. Data analysis uses multiple linear regression analysis with SPSS version 26 software. The research results show that the good corporate governance variable has an effect on fraud. However, the internal control variable has no effect on fraud and the Violation reporting system variable has no effect on fraud. Good corporate governance, internal control, and a violation reporting system simultaneously influence fraud. The results of this research have implications for sharia banking management to further strengthen the implementation of GCG to reduce the level of fraud in sharia banking.*

**Keywords:** *Bank, Financial, Fraud, Good Corporate Governance, Internal control*

### INTRODUCTION

The economy depends on the responsibility and trust of those who manage it. Therefore, managers are obliged to provide financial reports that are credible, accountable and transparent so that stakeholders are more confident that the financial reports presented do not contain elements of fraud. However, an entity will not be able to completely avoid fraud because fraud can be committed by anyone and happen to anyone, both internal and external parties. In fact, it turns out that fraud does not only occur in conventional industry, in the sharia-based financial industry ecosystem such as sharia banking, it has been proven that there is still a lot of fraud. One sector of the financial industry where there is still a lot of fraud is sharia banking. Even though sharia banking is developing rapidly from year to year. Based on the data in Figure 1, it can be seen that the development of sharia banks until January 2022 continues to develop positively when viewed from asset value, distributed financing and funds from third parties. With this rapid development, of course the public is increasingly demanding that the sharia banking ecosystem be free from fraudulent practices. Even though it shows positive growth, there are still cases of fraud in sharia banking. Cases of financial fraud are increasing day by day and have become the main feature in several financial scandals in recent years. Moreover, currently during the pandemic, all activities are limited. The government has made various

policies, one of which is the implementation of PSBB to suppress the increasing number of Covid-19 cases. Most activities carried out from home open up opportunities for fraud to increase because all work is carried out using technology (Qalbu Dary et al., 2022). The existence of a sharia label does not make a business or institution safe from fraud (Sri Novita, 2023). This is seen from the fact that there are still a number of fraud cases, namely fraud that occurred at several banks, such as the Commissioner of BJB Syariah who was caught in a bribery case from a businessman related to a project in Cirebon in 2021. Fictitious credit at BRI Syariah bank which caused losses to the state of IDR 13.9 billion in 2021 and Employees embezzled funds at Bank NTB Syariah amounting to IDR 10 billion in 2021. The Fraud cases that occurred in the sharia banking sector. Fraud identified is only a small portion of the total fraud cases that have occurred. The examples above show the lack of effective Good Corporate Governance (GCG) practices and internal controls, resulting in fraud and losses for owners and the government. in fact, banks are a highly regulated sector



**Graph 1.** Development of Assets, PYD, and DPK

Source:www.ojk.com OJK (2023)

which is subject to many regulations and supervision because it manages public funds (Andini Andini, 2022). ACFE (2020) observed, “The banking industry has become increasingly vulnerable to fraud over the years as ineffective control measures have been put in place, today's fraud perpetrators are more skilled and versatile in devising other ways to violate these ineffective control systems”. A survey conducted by a public accounting firm (KAP) and consultant RSM Indonesia stated that when Large-Scale Social Restrictions (PSBB) were implemented, the number of cases of asset theft also increased. News (2020) stated that asset misappropriation increased by 35 percent in their organizations during the pandemic. There were 36 percent of respondents who admitted that fraudulent practices resulted in financial losses, while 35 percent highlighted that reputation risks and fraud would disrupt the

company, this was believed by 25 percent of respondents. 4 percent of respondents said that fraud practices were prone to being carried out by middle level management. RSM conducted a survey involving several respondents who work, specifically dealing with risk management in eighteen industrial sectors consisting of the government, banking, commercial and professional services sectors. This survey was carried out with the aim of finding out intentions to practice fraud during the economic recession that was hitting Indonesia. Survey results show that fraud increased significantly during the pandemic. Apart from that, the results of a survey by the Association of Certified Fraud Examiners (ACFE) in 2021, during the Covid pandemic, 71 percent of respondents said that fraud was getting worse. According to research by (Susanto et al., 2022) Fraud can be caused by poor corporate governance. This is proven by the fact that there are still many banks in Indonesia that do not apply good standards in their management. Research by (R. Jannah et al., 2021) shows that GCG has no impact on financial statement fraud. Effective GCG has been implemented for some time, but has not been a factor in fraud prevention. The research results of (Triswantoro & Riyadi, 2022) showed that internal control had no impact on fraud. The reason is that fraud that occurs in Islamic banks is still significant even though the data results have high ratings in internal audits. According to (Triantoro et al., 2020), (Naomi et al., 2017) fraud cannot be completely eliminated but can be reduced. Implementing a whistleblowing system is one factor, because it can help in disclosing information and providing reports regarding fraud that occurs within the company. According to (Darmawan et al., 2019) the Whistleblowing System (WBS) has a positive and significant impact on fraud prevention. This shows that the WBS implemented by BPR is a better fraud prevention effort compared to BPR which does not implement a whistleblowing system. This shows that organizations that build a whistleblowing system will be able to avoid fraud, and the more effective the company is in implementing the whistleblowing system, the less fraud will occur.

This research is a replication of (Meiryani et al., 2023) whose differences include the independent variables, objects and data collection techniques. This research adds GCG variables and a whistleblowing system. (Meiryani et al., 2023) research object was at Bank Syariah Mandiri, Ahmad Yani Bandung Branch using a questionnaire data collection technique, while the object taken by the researcher was Islamic banking in Indonesia registered with the OJK using a purposive sampling technique that took Annual Report data on each bank's website for a period of time. 2020-2022 so that the scope of research objects is wider. The reason for choosing the 2020-2022 period is because there is a phenomenon of merger or merger of three banks, namely Bank Syariah Mandiri, BRI Syariah and BNI Syariah to become

Bank Syariah Indonesia (BSI), so that by merging these 3 banks the data that will be measured in 2021 will experience problems in measurement because it cannot be compared with previous years (Setiawan et al., 2016).

Based on the description above, the problem formulation prepared in this research is: Does good corporate governance (GCG), internal control (WBS), and the whistleblowing system have an effect on fraud in sharia banking, either partially or simultaneously?

## **THEORETICAL FRAMEWORK AND HYPOTHESIS**

### **Agency Theory**

According to Zarlis (2018), agency theory is a theory that explains the interactions between agents and principals. In this situation, the principal delegates to the agent to run the company. According to (Inawati & Sabila, 2021), agency theory is generally used to describe agency problems between principals and agents, both private and government institutions. Agency problems arise when agents (banking) take/utilize the power entrusted to them to fulfill their own needs or fulfill the needs of certain parties. They exploit it to act according to their own desires through bribery, embezzlement, fraud, nepotism and blackmail.

### **Fraud Triangle Theory**

This research uses the fraud triangle theory approach. According to (Utomo, 2018) fraud theory explains that fraud that occurs is influenced by three elements, namely:

#### **1. Pressure**

According to (Novita, 2019), pressure is a strong desire to commit fraud, from employees to supervisors who are motivated to commit fraud for various reasons including financial pressure, bad habits, work environment, and other factors.

#### **2. Opportunity**

(Iskandar & Kurniawan, 2020) state that opportunity is a situation where someone has the ability to commit fraud. Opportunities usually occur as a result of a lack of internal controls to prevent and identify fraud.

#### **3. Rationalization**

Rationalization is a person's view that makes sense so that they are encouraged to take action as a reflection of a person's character or attitude. In many fraud cases, fraud perpetrators try to justify their actions (Iskandar & Kurniawan, 2020).

Weak internal controls can tempt or even encourage previously unthinkable groups or individuals to commit fraud because they have a clear opportunity to do so. Rationalization is a process in which someone tries to justify what (Pasaribu & Wijaya, 2017) does. According

to (Iskandar & Kurniawan, 2020), an opportunity allows someone to commit fraud, usually the opportunity arises because it is also caused by weak internal controls and fraud can arise because employees in the company think that even if someone commits fraud, no one will dare to report it.

### **Fraud**

RI Financial Services Authority Regulation No. 39/PJOK.03/2019 Concerning the Implementation of Anti-Fraud Strategies for Commercial Banks, "Fraud is an act of deviation or omission that is deliberately carried out to deceive, defraud or manipulate the bank, customers or other parties that occurs within the bank and/or using bank facilities so that resulting in the bank, customer or other party suffering losses and/or the perpetrator of the fraud gaining financial benefits either directly or indirectly." Based on Karyono (2018) argument quoted from Ernad and Young Consulting, the profiles of fraud perpetrators include educated and knowledgeable, organizational leaders, under family financial and social demands, risk takers, rule breakers who do not consider the consequences of their actions, greedy or not. never satisfied. According to (Erwin Panjaitan et al., 2021), bank fraud can be committed in many ways and most involve insiders (employees) and outsiders working together to successfully carry out deviant behavior. The fraud variable is measured using the number of irregularities/internal fraud incidents committed by permanent and non-permanent employees and directors related to the activity process in the annual report on GCG implementation (Irvan & Rahajeng, 2023).

### **Good Corporate Governance (GCG)**

Implementing GCG is a mechanism or system that can be used to prevent fraud. According to FCGI (2015:01), GCG is a collection of regulations that regulate interactions between employees, creditors, management, government, shareholders and other stakeholders by respecting every existing right and obligation, or a system that manages and regulates the company. According to (Sudarmanto et al., 2021), there are several basic principles related to GCG, namely: Equality and fairness, responsibility, accountability and openness of information.

Measuring the implementation of GCG variables is carried out using self-assessment results (Kumara, 2018). Whether or not the implementation of governance in Islamic banks is good can be seen from the results of self-assessments carried out by Islamic banks, where the smaller the composite value produced, the better the level. implementation of governance in sharia banks. The self-assessment results are in the range 1-5, where the smaller the self-assessment composite value reported indicates that the implementation of GCG at the Sharia

Commercial Bank is very good, so that the smaller the composite value of the self-assessment results for Islamic banks, it is hoped that fraud will decrease.

### **Internal control**

According to (Erwin Panjaitan et al., 2021), the internal control system is an important element in banking management and the foundation for healthy and safe banking industry operations. Internal controls are the totality of measures that seek to detect errors, fraud and irregularities, to ensure that all transactions are properly processed and ensure that all assets are protected through limiting access to only authorized persons. (Pada et al., 2017), states that control activities exist at all levels starting from the lowest level employees to the highest level employees, because all operations such as authorization, approval, reconciliation, verification, security maintenance, performance reporting, and recording are evidence of activities carried out in accordance with documentation. Control activities are made in the form of standard operating procedures (SOP) which must be adhered to by all employees. Effective and consistent control can reduce the occurrence of fraud.

### **Internal control measurements use internal control**

disclosure index (ICD), which is a scoring method to reveal the implementation of internal control mechanisms in annual reports so that we can see whether internal control is effective in Islamic commercial banks (Deumes & Knechel, 2008). Internal control effectiveness assessment consists of several questions. The score obtained in this research is given a value of 1 (one) if you have disclosed internal control effectiveness items in the annual report and a value of 0 (zero) if you have not disclosed internal control effectiveness items in the annual report. The total score is obtained from adding up the scores of the six items disclosed by the company.

### **Whistleblowing System (WBS)**

Whistleblowing is a reporting tool to complain about employees or organizational leaders who violate the law, carry out unethical behavior, or carry out other activities that have the potential to harm the company or stakeholders to the parties authorized to handle fraud (Primasari & Fidiana, 2020). According to (Suci & Kuntadi, 2022), indirectly the existence of a whistleblowing system is a form of supervision in organizations. According to KNKG (2008), one of the benefits of implementing a good WBS is the emergence of an unwillingness to commit fraud, because they believe in an effective reporting system. According to (Sri Novita, 2023), to increase the effectiveness of implementing the violation reporting system policy, the policy must at least include: Protection for whistleblowers, regulations related to reporting fraud, a complaint system and follow-up mechanisms for fraudulent reports, and policies must

be transparent and consistently implemented. According to research by (Tuan Mansor et al., 2022), the indicators used to measure the system variable in this research are the items implemented (whistleblowing system) (KNKG, 2008). The items for implementing the whistleblowing system according to the KNKG consist of 16 items. The score is obtained from the number of items disclosed in the annual report. To calculate the whistleblowing system variable in this research, use the following formula:

### **Relationship between Variables**

#### **The Influence of Good Corporate Governance on Fraud**

(Soleman, 2013) states that GCG arises because of a conflict of interest between the agent and the principal which motivates the agent to provide incorrect information to the principal. Inaccuracy of the information presented will result in the correctness of the information required by the principal. Based on agency theory, the existence of GCG will regulate the separation between agents and principals which can give rise to conflicts of interest due to information asymmetry, so that the application of GCG and its principles and mechanisms can be used as a way to provide confidence that the rights and relationships of all stakeholders are guaranteed (S. F. Jannah, 2016). (Monalisa et al., 2022), research shows that the implementation of GCG has an effect on fraud, which shows that the level of fraud is reduced due to the increasingly effective implementation of GCG. This research is also in line with (Soleman, 2013) who shows that fraud can be reduced by minimizing the factors that encourage fraudulent acts, namely by implementing GCG principles including accountability, independence, transparency, fairness and responsibility, but research conducted by (Nugroho & Afifi, 2022) shows the opposite, namely that Corporate Governance has no effect on Financial Statement Fraud. Based on the theoretical analysis and research findings above, the hypothesis can be stated as follows:

H1: Good Corporate Governance Influences Fraud.

#### **The Effect of Internal Control on Fraud**

Fraudulent practices in the Nigerian banking industry show consistently that theft is the most common with the highest percentage (Sulistiyanti et al., 2021). Based on the fraud triangle theory, building a strong internal control structure can help prevent fraud. Opportunity is one of the variables that causes fraud, but good internal control in an institution or organization can avoid this (Budi & Nusa, 2022), (Utami, 2018). So the perpetrator of the fraud will not have the opportunity and opportunity to commit fraud. In the banking sector, internal control is certainly needed as a means of supervision, in addition to other regulations determined by the government and related companies. Previous research examined by (Meiryani et al., 2023)

stated that the effectiveness of the internal control system influences fraud. (Monalisa et al., 2022) shows that fraud is significantly influenced by the internal control system, so the stronger the internal control system, the less fraud there is. However, research conducted by (Triswanto & Riyadi, 2022) shows the opposite, namely that during the 2015 to 2018 period, internal control had no impact on fraud indicators at Indonesian Sharia Commercial Banks. Based on the theoretical analysis and research findings above, the hypothesis formulated is:

H2: Internal Control Influences Fraud.

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

(Suci & Kuntadi, 2022) Anandya & Werastuti (2020) stated that it is difficult to detect fraud in an organization, because the entity requires the participation of various parties in order to reveal an act of fraud. Disclosure of fraud can be carried out by internal or external parties of the organization, namely by having a whistleblowing system. Based on the fraud triangle theory, the existence of a whistleblowing system is a complementary part of internal control so that it can reduce the opportunities and opportunities for someone to commit fraud. (Intan Bunga et al., 2021) research shows that the whistleblowing system has an influence on preventing fraud in Islamic banks, while research by (Zarlis, 2018) and (Romadaniati et al., 2020) shows the opposite. Based on the theoretical analysis and research findings above, the hypothesis formulated is:

H3: Whistleblowing System Influences Fraud.

According to (Utami, 2018), how to prevent fraud is influenced by various elements, including GCG, internal control and the whistleblowing system. The implementation of GCG is a bank's internal control measures in overcoming the increasingly widespread problem of fraud (Anggrastuti & Mayangsari, 2022). Based on agency theory and fraud triangle theory by implementing GCG, internal control and whistleblowing systems are efforts to minimize fraud cases because they do not provide space and opportunity to commit fraud. Research by (Utami, 2018) shows that fraud prevention is influenced by variables such as internal control, violation reporting systems and effective GCG. Based on the theoretical analysis and research findings above, the hypothesis formulated is:

H4: Good Corporate Governance, Internal Control and Whistle-blowing System Simultaneously Influence Fraud.

## **RESEARCH METHODS**

This research uses quantitative methods. The object of this research is the annual report of sharia banking companies registered with the OJK for the 2020-2022 period. The data source



for this research is secondary data in the form of an annual report for the 2020-2022 period. The data population in this research is Sharia Commercial Banks (BUS) for the 2020-2022 period which are registered with the OJK. The sample for this research is BUS registered with the OJK and which meets the criteria determined by the researcher. The sample selection method is purposive sampling where samples are selected according to certain criteria. The sample selection criteria are as follows: 1) BUS registered with OJK; and 2) BUS which publishes annual reports sequentially during the 2020-2022 period on the official BUS website or other official websites for the 2020-2022 period; and 3) the BUS that reports fraud cases committed by the bank internally, whether committed by permanent employees, non-permanent employees, or directors in the annual report on GCG implementation. 4) BUS which discloses data related to research variables during the 2020-2022 period, including data on whistleblowing system policies and company internal controls. The fraud variable is measured using the number of irregularities/internal fraud incidents committed by permanent and non-permanent employees and directors related to the activity process in the annual report on GCG implementation (Rohemah, 2022). Measurement of the implementation of GCG variables is carried out using self-assessment results. Measuring internal control uses the internal control disclosure index (ICD), which is a scoring method to reveal the implementation of internal control mechanisms in annual reports so that it can see whether internal control is effective in sharia commercial banks (Deumes & Knechel, 2008). Internal control effectiveness assessment consists of several questions. The score obtained in this research is given a value of 1 (one) if you have disclosed internal control effectiveness items in the annual report and a value of 0 (zero) if you have not disclosed internal control effectiveness items in the annual report. The total score is obtained from adding up the scores of the six items disclosed by the company. The whistleblowing system is measured using indicators/items implemented at the 2008 National Committee for Governance Policy (KNKG). To test the hypothesis of this research, multiple linear regression analysis was used with SPSS version 26 through descriptive statistics stages, classical assumption tests consisting of the Kolmogorov-Smirnov normality test, multicollinearity test, heteroscedasticity test (Spearman's rho) and autocorrelation test (Durbin Watson), as well as the hypothesis consisting of t test, f test and coefficient of determination test.

The formula used for multiple regression analysis is as follows:

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Y = Fraud

a = Constant

$\beta$  = Regression Coefficient

X1 = Good Corporate Governance X2 = Internal Control

X3 = Whistleblowing system e = error

## **DATA ANALYSIS AND DISCUSSION**

Descriptive statistical results from the research variables are presented below: Based on Table 1, the highest fraud of 26 occurred at BUS Bank Muamalat Indonesia. This can be explained by the fact that even though Bank Muamalat Indonesia has good self-assessment values and adequate control and whistleblowing systems, in reality it still does not able to reduce the incidence of fraud. Next, before testing the hypothesis, a classical assumption test is carried out on the research model which includes tests for normality, multicollinearity, autocorrelation and heteroscedasticity. A summary of the results of the classical assumption test is presented below:

Based on Table 2, the residual data is normally distributed because the significance value or probability value  $l$  is  $0.136 > 0.05$ . The research model has no symptoms of multicollinearity between independent variables. This can be seen from the tolerance value  $> 0.10$  and the VIF value  $< 10$  and there are no symptoms of heteroscedasticity because the relationship between the independent variables and the residuals in the regression model has a significance value  $> 0.05$ . The model also does not contain autocorrelation as indicated by the Durbin Watson (DW) value which is  $1.662 < 1.775 < 2.338$ . From these results it can be explained that the research model meets classical assumptions. The following is a summary of the results of multiple linear regression analysis

Based on Table 3, it is explained that the GCG variable is known to have a significance of  $0.027 < 0.005$ , so it can be concluded that H1 is accepted, which means that GCG has an effect on fraud. The internal control variable is known to have a significance of  $0.260 > 0.005$ , so it is concluded that H2 is rejected, meaning that internal control has no effect on fraud. The whistleblowing system variable is known to have a significance of  $0.149 > 0.005$ , so it is concluded that H3 is rejected, meaning that the whistleblowing system has no effect on fraud. The calculated F value is 3.850 with a significance value of  $0.017 < 0.05$ . So it can be concluded that all independent variables in this research simultaneously (simultaneously) influence the dependent variable, namely fraud. The coefficient value is 0.233 or 23.3%. This means that variations in the independent variables, namely good corporate governance, internal control

and the whistleblowing system are able to explain fraud by 23.3%. while the remaining 76.7% is explained by other factors outside this research model.

**Table 1**  
Descriptive Statistics Calculation Results

Variable	N	Minimum	Maximum	Mean	Std. Deviation
GCG	42	1	3	1.96	0.55
EPI	42	3	6	5.17	0.85
WBS	42	0	1	0.55	0.35
FRAUD	42	0	26	4.67	6.09

Source: Processed Data, 2023

**Table 2**  
Classic Assumption Test Results

Collinearity Statistics			Heteroskedasticity
Variable	Tolerance	VIF	Significant
GCG	0.999	1,001	0.168
EPI	0.826	1.21	0.679
WBS	0.826	1.21	0.607
Monte Carlo. Sig. (2-tailed)		0.136	Durbin Watson = 1.775

Source: Processed Data, 2023

**Table 3**  
Summary of Multiple Regression Analysis Results

Hypothesis	Description	Coefficient Value	T	Sig.	Conclusion
	Constant	-11, 260	-1,833	0.075	
H1	GCGAFRAUD	3,613	2,302	0.027	Accepted
H2	EPIàFRAUD	1,277	1,144	0.26	Rejected
H3	WBSAFRAUD	4,027	1,473	0.149	Rejected
R Square = 0.233		F <sub>count</sub>	3,850	0.017	

Source: Processed Data, 2023.

### Influence of Good Corporate Governance on Fraud

The results of the hypothesis test state that GCG influences fraud. This can be seen from the regression coefficient of 3.613 so that every addition of 1 (one) unit to GCG will reduce the possibility of fraud by 3.613. The t-test states that the significance value is 0.027, less than 0.05, which means the first hypothesis H1 is accepted. The size of fraud cases in Sharia banking will be influenced by the effectiveness of GCG implementation. The values contained in GCG can be used as a control tool for stakeholders to unite and control the performance of Islamic banks so that they run according to targets. GCG as a control tool can prevent and reduce the occurrence of fraud involving the management of Islamic commercial banks (Rikasari & Hardiyanti, 2022).

Research on GCG variables is in accordance with the theory used, GCG results have an influence on fraud because Islamic banking has good self-assessment results, which will minimize fraud cases that occur. According to Rowa & Arthana (2019) every GCG principle

applied to sharia banking can bridge the conflict between the agent and the principal, where the conflict occurs because the agent has more company information. This research supports (Monalisa et al., 2022) who stated that GCG has an impact on fraud prevention, and Soleman (2013) stated that fraud can be avoided by implementing excellent corporate governance. However, this research is different from the research of ( et al., 2021) which results in GCG having no impact on financial statement fraud.

### **The Effect of Internal Control on Fraud**

The results of the hypothesis test state that internal control has an effect on fraud. This can be seen from the regression coefficient of 1.277 so that every additional 1 (one) unit in internal control will reduce the possibility of fraud by 1.277. The t test states that the significance value is 0.260, which is the significance value  $>0.05$  which means the first hypothesis H2 is rejected. The lack of influence of internal control on fraud shows that the level of internal control used in sharia banking, whether high or low, has no impact on fraud. The design of the internal control system is only one aspect that influences the success or failure of the internal control system. All parties must work together so that the internal control system can function effectively. As a result, even though the internal control system is designed adequately, no one wants to cooperate in implementing the internal control system, so the internal control system design will not affect fraud (Eldayanti dkk., 2020). It can be explained from existing data if the internal control system has been implemented in banking organizations, but there is still a considerable risk of fraud. Apart from that, the challenges that sharia banking must face, especially during the Covid-19 pandemic, have an impact on every line of the organization. During the implementation of the PSBB, which limited space for movement, it still provided opportunities or loopholes for fraudsters to take advantage of this opportunity for their personal interests. ( et al., 2021) stated that leaders from various companies assess that misappropriation of assets and incidents of fraud are increasing, in an effort to maintain company operations and sustainability. The threat of fraud is increasingly widespread through cyberspace along with the intensive use of technology during WFH. The findings of this research do not support the fraud triangle theory, which claims that opportunity is what triggers fraud in the internal control system because there is always the opportunity for fraud to occur in Islamic banking, whether the internal control system is strong or weak, it has no effect on fraud (Tuan Mansor et al., 2020). This research supports research by (Triswantoro & Riyadi, 2022). which shows that internal control has no influence on indications of fraud in the occurrence of fraud at BUS in Indonesia for the period 2011 to 2015. This research is

different from (Meiryani et al., 2023) and (Monalisa et al., 2022) which shows that control internal impact on fraud.

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

The results of the hypothesis test show that the whistleblowing system has no effect on fraud. This can be seen from the regression coefficient of 4.027 so that every additional 1 (one) unit in internal control will reduce the possibility of fraud by 4.027. The t test states that the significance value is 0.149, where the significant value is more than 0.05, which means the first hypothesis H3 is rejected. This research is not in line with the fraud triangle theory which explains that the existence of a WBS is a complementary part of internal control in reducing fraud incidents, namely by narrowing a person's opportunities and opportunities to commit acts of fraud against the organization. The reason the whistleblowing system has no effect on fraud in this research is because there are still many banking companies that have not implemented a whistleblowing system effectively. Several Islamic banks do not disclose the existing whistleblowing mechanisms in Islamic banking companies and the lack of evaluation and improvement of the existing whistleblowing system makes this system less than optimal. If internal and external parties do not actively participate in the whistleblowing system to identify fraud, then the WBS will not be effective even if it is well facilitated, because this will prevent the whistleblowing system from succeeding in one of its goals of instilling fear in the hearts and minds of the perpetrators. cheating (Rikasari & Hardiyanti, 2022). The implementation of the whistleblowing system has not been able to reduce the number of frauds optimally, even though this policy has been implemented for years, it has not had any effect, even though the work environment in sharia banking must be different from conventional banks, the sharia work environment is full of honesty. However, this is not a benchmark for all employees to behave well and honestly (Suherman & Susanti, 2018). In line with research by (Zarlis, 2018) and (Romadaniati et al., 2020), the whistleblowing system has no influence on fraud prevention. However, this research is different from (Sri Novita, 2023) research, which shows that WBS has an influence on fraud prevention.

### **The Influence of Good Corporate Governance, Internal Control and Whistleblowing System against Fraud**

The calculated F value is 3.850 with a significance value of  $0.017 < 0.05$  with a coefficient of determination of 0.173, so the GCG, internal control and whistleblowing system variables simultaneously influence fraud by 17.3% while the remaining 82.7% is explained by other factors. outside this research model. The research results are in line with agency theory but are not in line with the fraud triangle theory, even though internal control and Islamic banking

WBS are implemented and have a good system, this is still not an effort to prevent and minimize fraud cases because the opportunity to commit fraud can still be done.

Soleman (2013) applies GCG principles such as openness, accountability, fairness, integrity and participation to help prevent fraud. research by (Triswantoro & Riyadi, 2022) which shows that internal control has no influence on fraud indications, the occurrence of fraud at BUS in Indonesia for the period 2011 to 2015, this is due to weaknesses in internal control caused by non-functioning of the internal audit section in a company. Research by (Romadaniati et al., 2020) shows that the whistleblowing system has no influence on fraud prevention. This research, (Utami, 2018) shows that Good Governance has an effect on fraud prevention. This proves that the factors that cause fraud, such as opportunity and rationalization, can be prevented by good governance because every action taken will be accounted for.

## **CONCLUSIONS, IMPLICATIONS, SUGGESTIONS**

From the results of the analysis in this research, it can be concluded that GCG variables influence fraud. Internal control variables have no effect on fraud. The whistleblowing system variable has no effect on fraud. The variables GCG, internal control, and whistleblowing system simultaneously (together) influence fraud prevention.

The limitations of this research are: The object of observation is limited to sharia banks registered with the OJK, so this research cannot be generalized to other banks. The observation period in this study was too short. Internal control variables are measured using the internal control disclosure (ICD) proxy which does not rely on keywords but only on the researcher's subjective opinion. It is hoped that future research will use other proxies, while the analysis used to assess the implementation of the whistleblowing system is based on the concept provided by KNKG (2008), which is the first violation reporting concept in Indonesia.

The suggestion that the researcher would like to convey to future researchers is that further research can expand the object of observation by adding UUS and BPRS so that the results can be generalized to a wider range of objects. Future research can increase the research time interval so that the research results become better. Future research can develop the research model by adding other independent variables such as company culture, HR competency and morality or intervening or moderating variables. For sharia banking, it is better to optimize the implementation of good corporate governance because this system is a good system to implement to optimally achieve the company's vision and mission. Apart from that, joint commitment from various parties is also needed to implement good corporate governance

in order to reduce the incidence of fraud in sharia commercial banks. The results of this research have implications for sharia banking management to further strengthen the implementation of GCG to reduce the level of fraud in sharia banking.

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