

REVEAL THE SYNERGY OF INTERNAL AUDIT AND WHISTLEBLOWING SYSTEM IN FRAUD PREVENTION

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Received : 20 March 2025

Published : 29 May 2025

Revised : 29 March 2025

DOI : <https://doi.org/10.54443/morfaiv5i3.3037>

Accepted : 13 April 2025

Link Publish : <https://radjapublika.com/index.php/MORFAI/article/view/3037>

Abstract

As fraud becomes increasingly intricate, organizations must devise robust prevention strategies. By establishing effective measures against fraud, organizations can safeguard themselves from fraudulent activities and enhance their credibility and reputation. This research seeks to uncover the collaborative effect of internal audits and whistleblowing systems in curbing fraud within organizational settings. The study employs a literature review with a descriptive qualitative approach, analysing various research on the roles of internal audits and whistleblowing in identifying and preventing fraud. The analysis included ten pertinent articles from 2019 to 2024, concentrating on the efficacy of these oversight mechanisms. Findings indicate that internal audits are crucial for internal control and risk assessment, while whistleblowing systems offer a channel for reporting misconduct that formal systems might overlook. By combining these two elements, a complementary approach is created that can enhance the efficiency of fraud prevention. This research suggests bolstering the internal audit function and establishing reliable whistleblowing systems as essential strategies for upholding organizational integrity and transparency. Future research needs to be strengthened by combining external audits of the whistleblowing system in fraud prevention to obtain more in-depth results.

Keywords: *Fraud Prevention, Internal Audit, Literature Review, Organizational Integrity, Whistleblowing System*

1. INTRODUCTION

In the current age of digital advancement and globalization, businesses and public entities encounter significant hurdles in preserving their operational integrity and transparency. A prominent challenge that continues to surface is the growing intensity and intricacy of fraudulent activities. Fraud not only leads to financial setbacks but also diminishes the credibility of institutions in the eyes of the public and stakeholders. According to recent survey data from wartaekonomi.co.id, fraud remains a pressing issue with substantial financial repercussions. The median financial loss due to fraud is USD 145,000 per incident, while the average loss amounts to about USD 1.7 million. It is estimated that companies lose approximately 5% of their annual gross revenue to fraud, a figure that remains consistent annually without significant reduction. This suggests that current fraud detection and prevention systems are inadequate in addressing the complexity and evolving nature of increasingly varied and sophisticated fraud schemes. Several industries, including mining, wholesale trade, manufacturing, and construction, reported the highest median fraud losses. The banking sector, although experiencing a relatively lower value of losses, is the most susceptible to frequent fraud incidents. In the public sector, the government experienced the largest median loss, while commercial companies and state-owned enterprises faced a higher frequency of fraud cases. These findings highlight that all sectors, both public and private, possess distinct vulnerabilities to fraud and necessitate a more adaptive and comprehensive monitoring and detection system.

This phenomenon highlights that fraud has evolved into a systemic threat that can affect any organization, whether in the public or private sectors. Despite the implementation of various regulations and internal control systems, fraud persists. This underscores the necessity for a more thorough approach to fraud prevention and detection, such as enhancing the internal audit function and establishing a whistleblowing system. Internal audits are crucial for assessing the effectiveness of internal controls, identifying potential fraud risks, and offering recommendations for corrective measures. Several prior studies have demonstrated that an effective internal audit role, bolstered by independence, professional competence, and audit quality, can significantly aid companies in fraud

prevention (Lonto et al., 2023). Conversely, the whistleblowing system is also a vital component in fostering good corporate governance. Whistleblowing enables the confidential reporting of fraud by both internal and external parties of the organization. Although it holds strong potential as an early detection mechanism, the implementation of whistleblowing in Indonesia still encounters cultural barriers, fear of retaliation, and insufficient protection for whistleblowers (Basri, 2022).

Considering the importance of these two mechanisms-internal audit and whistleblowing-in the context of fraud prevention, this study aims to systematically analyse the literature findings related to the role of both. This research focuses on a literature study of scientific articles published within the last five years (2019-2024). Through this study, it is hoped that a comprehensive understanding of the contribution of internal audits and whistleblowing in preventing fraud can be obtained, and recommendations can be provided for strengthening the internal control system in Indonesia. The introduction contains the purpose of the article/research that is formulated and presented by an adequate introduction and avoids detailed references and research result presentations. Research urgency, supporting facts, and data should be included. The preliminary research results should be explained as the basis of this research. Before mentioning objectives/s, a gap analysis must be performed. The gap analysis states the differences between the research and other previous studies. At this point, the novelty is apparent. A research stance must be included, whether it corrects, debates, or supports previous research.

In today's digital era and globalization, companies and public institutions face serious challenges in maintaining operational integrity and transparency. One of the main challenges that continues to emerge is the increasing intensity and complexity of fraud. Fraud not only causes financial losses but also reduces institutional credibility in the eyes of the public and stakeholders. Recent survey results show that fraud is a serious problem with significant financial impact. The median loss due to fraud reached USD 145,000 per case, whereas the average loss value reached approximately USD 1.7 million. Companies are estimated to lose approximately 5% of their annual gross revenue to fraud, a figure that remains consistent from year to year with no significant decline (Association of Certified Fraud Examiners Indonesia, 2019). This fact indicates that existing fraud detection and prevention systems are not sufficiently reliable to deal with the complexity and dynamics of increasingly diverse and sophisticated fraud schemes.

Several industrial sectors, such as mining, wholesale trade, manufacturing, and construction, recorded the largest fraud losses in median value. Meanwhile, the banking sector is the most vulnerable in terms of fraud incidence frequency, although the value is relatively small. In the public sector, the government incurred the largest median loss, while commercial and state-owned enterprises had higher fraud incidence frequencies. This phenomenon shows that fraud has become a systemic threat that affects any entity in both the public and private sectors. Although various regulations and internal control systems have been implemented, fraud cases continue to emerge. This indicates the need for a more comprehensive approach to preventing and detecting fraud, including optimizing internal audit functions and implementing whistleblowing systems.

2. THEORETICAL SIDE

2.1 Fraud Concept

Fraud involves intentional actions to secure personal or collective advantages by breaking the law, causing harm to others, and manipulating data or information. It is categorized into three primary types: (1) asset misappropriation, (2) fraudulent financial reporting, and (3) corruption. These forms of fraud significantly threaten the sustainability of organizations and are prevalent in both public and private sectors (Association of Certified Fraud Examiners, Indonesia, 2019). To comprehend the root causes of fraud, the fraud triangle theory, introduced by Donald Cressey in 1953, is frequently referenced. This theory suggests that fraud arises from three core elements: pressure, opportunity, and rationalization (Hakim and Suryatimur, 2022). Within an organization, pressure may stem from financial demands or unattainable performance goals, opportunities emerge from inadequate internal controls, and rationalization occurs when individuals justify their actions as morally acceptable. These interconnected elements form the foundation for organizations to develop a thorough system for detecting and preventing fraud.

2.2 Internal Audit and Fraud Prevention

An internal audit is an impartial and objective process aimed at enhancing an organization's operations by assessing its internal control system, risk management, and governance. According to the Institute of Internal Auditors (IIA), internal audit is an independent evaluation function established within an organization to systematically and objectively review and assess its activities (Fatimah & Pramudyastuti, 2022). In the context of fraud prevention, internal audits play a crucial role in identifying potential system vulnerabilities, offering recommendations for ineffective controls, and ensuring the proper functioning of the internal control system. Research by Lonto et al. (2023) indicates that audit quality, professional competence, and auditor independence are

key factors influencing the effectiveness of internal audits in fraud prevention. This conclusion aligns with analyses from various scientific articles, which find that internal audits positively impact fraud prevention across different sectors. However, the success of internal audits in preventing fraud is closely linked to management support and organizational culture. Insufficient support from top management, budget constraints, and limited auditor training are obstacles to optimizing the role of internal audits. Therefore, reinforcing the internal audit framework, enhancing auditor capabilities, and integrating audits into organizational strategic planning are crucial steps in strengthening the internal control function.

2.3 Whistleblowing System in Fraud Prevention Context

Besides conducting internal audits, the whistleblowing system is a crucial component of the fraud prevention framework. Whistleblowing involves individuals, whether they are employees within the organization or external parties, reporting signs of violations or fraudulent activities. This system acts as a form of social control and serves as an effective early warning mechanism to identify violations before they escalate. Implementing a whistleblowing system aligns with the principles of Good Corporate Governance (GCG), which include transparency, accountability, and integrity. In certain instances, whistleblowers are instrumental in exposing corruption that conventional audit methods fail to detect. However, the success of the whistleblowing system largely relies on having a secure reporting process, ensuring the confidentiality of the whistleblower, and providing legal protection for them. In Indonesia, the collective culture and strong social ties often hinder whistleblowing efforts. People are generally hesitant to report violations due to the fear of being labeled as a "snitch" and the potential for retaliation. Therefore, it is essential to adopt a systematic approach to foster an organizational culture that encourages whistleblowing, such as through business ethics education, confidentiality assurances, and the integration of an anonymous and reliable reporting system (Basri, 2022).

3. METHOD

This study used a descriptive qualitative approach and a literature review method. This method was chosen because it is in accordance with the main objective of the research, namely, to examine in depth the findings of various previous studies that discuss the role of internal audits and whistleblowing in fraud prevention. Literature studies allow researchers to synthesize various results from relevant scientific studies to build a more comprehensive and integrative conceptual understanding of the topic under study.

The secondary data used in this study were obtained from scientific articles published from 2019 to 2024. In addition, several articles from reputable international journals and official documents such as government regulations, Association of Certified Fraud Examiners (ACFE) reports, and literature from professional institutions such as The Institute of Internal Auditors (IIA) and the Financial and Development Supervisory Agency (BPKP) are used as supporting references.

Data collection procedures were conducted through systematic search techniques using keywords such as "internal audit and fraud," "whistleblowing system," "fraud prevention," "internal control," and "good corporate governance." The inclusion criteria were as follows: (1) articles written in Indonesian or English; (2) articles with a primary focus on internal audit, whistleblowing, or fraud prevention; and (4) articles with a scientifically sound methodology.

The next step was to conduct content analysis of the selected articles. This analysis was conducted thematically to identify similarities, differences, and patterns in findings related to the role of internal audits and whistleblowing systems in fraud prevention. To maintain internal validity, each article was reviewed based on the research context, methodological approach, main results, and recommendations provided by the authors. The results of this analysis were then organized and interpreted to produce a thorough and structured understanding in accordance with the problem formulation that had been previously set.

In the process of data interpretation, researchers conducted a source triangulation process by comparing the findings of similar studies and examining their relevance to the actual conditions of audit practice and organizational governance in Indonesia. With this approach, it is expected that the research results will make a meaningful contribution, both theoretically and practically, as well as a reference for further research on similar topics.

As a side note, although this study did not involve primary data or experiments, the strength of the literature review method lies in its ability to summarize and evaluate diverse preconceived scientific perspectives. Therefore, integrity in the selection and interpretation of sources is an important aspect in ensuring the quality and reliability of the results.

4. RESULTS AND DISCUSSION

Based on the review of other relevant articles or scientific journals, several important patterns of findings were found related to the role of internal audit and whistleblowing systems in preventing fraud. This research thematically analyzes 10 articles, both national and international, that specifically discuss the effectiveness of these two oversight mechanisms in various organizational sectors.

4.1 Internal Audit's Role in Fraud Prevention

Most of the articles reviewed indicate that internal audits are crucial in fraud prevention. Safitri et al. (2024) conducted a study revealing that out of 16 articles examined, 14 confirmed the positive and significant impact of internal audits on efforts to prevent fraud. The internal audit function encompasses assessing internal controls, ensuring adherence to policies, and offering recommendations for system weaknesses. Research by Lonto et al. (2023) corroborates this, highlighting that the effectiveness of internal audits is greatly affected by audit quality, auditor independence, and professional competence. When internal auditors operate independently and adhere to professional standards, the likelihood of detecting potential fraud early increases.

Additionally, Fatimah and Pramudyastuti (2022) emphasize that internal audits can serve as an early warning system when combined with a robust internal control system and active management involvement. Similar findings were reported by Azizah Nurul Tsalatsa et al. (2023), Bangun et al. (2024), and Trijayanti et al. (2021). However, some studies have also pointed out that the role of internal audits has not been fully optimized. Research by Monica et al. (2023) and Fitria (2022) suggests that, in certain contexts, internal audits do not significantly impact fraud prevention, particularly when they lack support from a transparent organizational culture or when auditors do not have unrestricted access to pertinent information.

4.2 Whistleblowing System Effectiveness

The whistleblowing system has demonstrated its effectiveness as a tool for preventing fraud, particularly when it is crafted with a focus on safeguarding whistleblowers and establishing clear procedures for follow-up. Basri (2021) conducted a study that verifies whistleblowing's role as a potent form of informal control, especially in organizations that foster a supportive reporting environment and offer a secure and anonymous reporting framework. Research by Aprillia and Sulfitri (2023), titled *The Effect of Internal Audit, Audit Competence, Compensation Suitability, and Whistleblowing on Fraud Prevention*, indicates that the whistleblowing system significantly enhances fraud prevention in government institutions. Nonetheless, the implementation of whistleblowing in Indonesia faces challenges. The prevalent culture of collectivism often impedes the system's success, as individuals may avoid reporting violations to preserve social harmony or prevent conflict. Furthermore, concerns about stigma and retaliation contribute to low levels of participation in reporting fraud (Basri, 2021).

4.3 Internal Audit and Whistleblowing Synergy

Based on the findings from the literature review, it seems that combining an internal audit with a whistleblowing system results in a more robust and multi-layered control framework. Internal audits serve as a structured formal process, while whistleblowing offers insights that auditors might not access, particularly in ambiguous areas that are challenging to audit. The integration of these two mechanisms introduces redundancy in complementary oversight. For instance, a whistleblower's report can serve as a starting point for internal auditors to carry out thorough investigations. Conversely, audit results can bolster the whistleblowing system by offering an objective and documented foundation. Referring to the three lines of defense model in risk management, internal audits represent the third line of defense, whereas whistleblowing can be considered part of the first line of control, driven by individual awareness. Thus, the synergy between these two not only enhances the effectiveness of oversight but also fosters a more transparent and integrity-driven organizational culture.

Table 1. Research Mapping Summary

No.	Author & Year	Article Title	Methods	Key Findings
1	Safitri et al. (2024)	Analysis of the Role of Internal Audit in Fraud Prevention	Literature Review	14 of 16 articles supported internal audit's significant role; 2 articles stated it was not significant.

No.	Author & Year	Article Title	Methods	Key Findings
2	Lonto et al. (2023)	The Effectiveness of Internal Audit for Fraud Prevention	Mixed Methods (PLS)	Internal audit is effective in preventing fraud if the audit is qualified; quality is influenced by competence & independence
3	Basri (2021)	Whistleblowing System and the Role of Internal Audit in Preventing Fraud	Library Research	Whistleblowing is effective when the culture is supportive and whistleblowers are protected.
4	Fatimah & Pramudyastuti (2022)	Analysis of Internal Audit's Role in Accounting Fraud Prevention and Detection	Literature Review	Internal audit plays a role in fraud prevention and detection; depending on the effectiveness of internal controls
5	Monica et al. (2023)	The Influence of Organizational Culture and the Role of Internal Audit on the Prevention of Fraud by Internal Control as Intervening Variable	Quantitative (SEM)	Internal audit is not significant to fraud prevention; the influence is greater than internal control.
6	Rahmani & Rahayu (2022)	Effect of Internal Audit & Internal Control on Fraud Prevention	Quantitative	Internal audit not significant; importance of top management involvement
7	Trijayanti et al., (2021)	The Effect of Audit Committee, Internal Audit, and Whistleblowing System on Fraud Prevention	Quantitative, multiple liner regression	Internal audit and whistleblowing system have a positive effect on fraud prevention in the wholesale trade sector.
8	Bangun et al., (2024)	The Role of Internal Audit in Fraud Prevention Efforts	Literature Review	8 out of 9 journals support that internal audit plays a role in fraud prevention.
9	Azizah et al. (2023)	The Role of Internal Audit in Preventing Fraud in the Company	Literature study & case analysis	Internal audit helps detect internal control system weaknesses and supports an anti-fraud organizational culture.
10	Aprillia & Sulfitri, (2023)	The Effect of Internal Audit, Audit Competence, Compensation Suitability and Whistleblowing on Fraud Prevention	Quantitative, questionnaire & regression	Internal audit and whistleblowing system have a significant positive effect on fraud prevention in government agencies.

The integration of these mechanisms creates complementary oversight redundancy. For example, a whistleblower report can be an initial source for internal auditors to conduct in-depth investigations. Conversely, audit findings can strengthen whistleblowing systems by providing objective and documentary basis.

5. CONCLUSION

After reviewing a range of scientific literature from both domestic and international sources, it is evident that internal audits and whistleblowing systems are two key elements that play complementary roles in preventing fraud within organizations in both the public and private sectors. Firstly, internal audits are crucial in identifying weaknesses in internal controls, offering suggestions for improvements, and fostering transparency and accountability within organizations. The success of this function is largely determined by factors such as the professional skills of auditors, their independence, and the quality of the audits conducted. Research and empirical evidence indicate that when these factors are well-managed, internal audits can greatly diminish the likelihood of fraud. Secondly, whistleblowing systems serve as a form of social oversight, enabling individuals to report suspected fraudulent activities in a secure and confidential manner. This system is an essential addition to formal audit processes as it can uncover information that might be inaccessible through traditional auditing methods.

However, its success relies heavily on the organizational culture, the protection offered to whistleblowers, and the trust in the reporting mechanism. Thirdly, the integration of internal audits and whistleblowing systems has been shown to create a more robust and multi-layered control framework. This combination not only enhances the early detection of fraud but also bolsters organizational ethics and encourages all members of the organization to actively participate in upholding institutional integrity. This research paves the way for further studies, such as case studies or quantitative analyses, to empirically examine the relationship between internal audits, whistleblowing, and fraud occurrences in specific sectors like local governments, state-owned enterprises, and the financial industry. Additionally, comparative studies across countries with varying cultural approaches could provide deeper insights into the global effectiveness of whistleblowing.

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