HOW EFFECTIVE IS THE CODE OF ETHICS IN STRENGTHENING THE ROLE OF FORENSIC ACCOUNTING AND WHISTLEBLOWING IN PREVENTING FRAUDULENT FINANCIAL REPORTING?

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Received	: 10 February 2026	Accepted	: 12 March 2026
Revised	: 20 February 2026	Published	: 23 March 2026

Abstract

This study aims to analyze factors that can influence financial statement fraud. The independent variables in the study are forensic accounting and whistleblowing with the code of ethics as a moderating factor. The study was conducted using a quantitative survey method with 100 employees working in the accounting, audit, and finance departments in both the public and private sectors in Indonesia and analyzed using SPSS. The results show that whistleblowing has an effect on financial statement fraud, including in a moderating relationship. Forensic accounting has an effect on financial statement fraud but not in a moderating relationship.

Keywords: Fraud report finance , accounting forensics , whistleblowing, code ethics

INTRODUCTION

Financial reports serve as a means of communicating a company's financial information to investors, creditors, regulators, and internal parties (Mendrofa et al., 2024). According to SA Section 312 PSA 04, financial reports are considered to contain material misstatements if there are errors or manipulations that are significant enough to cause the report to not fairly present the company's financial position in accordance with generally accepted accounting principles. Financial statement misstatements can arise from two sources: (1) unintentional errors, and (2) intentional fraud. The Association of Certified Fraud Examiners (ACFE) classifies workplace fraud into three categories: asset misappropriation, corruption, and financial statement fraud. According to the ACFE's 2024 report, the average organization worldwide can lose approximately 5% of its annual revenue due to fraud. In Indonesia, several high-profile cases demonstrate that manipulative financial reporting practices still persist. For example, PT Indofarma Tbk (INAF) suffered a loss of IDR 377.4 billion, and PT Sri Rejeki Isman Tbk (SRIL) reportedly lost around IDR 692 billion (Detik News, 2024). These cases indicate that internal control systems and audit mechanisms are not always sufficient to prevent fraud. Fraud can be hidden in reports, and auditors who only use conventional audit procedures are sometimes unable to detect subtle fraud. Therefore, forensic capabilities are an additional aspect that can increase the effectiveness of traditional audits. In addition to forensic accounting, the whistleblowing mechanism is considered an important instrument in uncovering violations. Whistleblowing allows individuals (employees or internal parties) to report fraudulent acts or violations to the relevant authorities. The contribution of this research to academics is expected to enrich the scientific literature in the fields of forensic accounting, whistleblowing, and accounting professional ethics, particularly related to efforts to prevent and detect fraudulent financial statements.

Recent studies have examined *the moderating effects* of variables such as codes of ethics or audit committees on the relationship between whistleblowing systems or whistleblowing attributes and fraud detection. For example, the study " Attributes of Whistleblowing Systems and Detection of Occupational Frauds with the Moderating Role of Audit Committees" examined how whistleblowing system characteristics (such as anonymous channels and job security) influence fraud detection, as well as the moderating role of audit committees. Similarly, the study "The Role of Forensic Accounting Skills in Fraud Detection and the Moderating Effect of the Implementation of Generalized Audit Software (GAS)" examined the role of whistleblowing as a moderator between forensic accounting skills and fraud detection, albeit within the context of audit technology. However, there remains uncertainty in the findings of previous studies. Some studies have found that forensic accounting significantly influences fraud detection (e.g., in the context of auditor skills), but others have found that the effect is insignificant in some organizational contexts (e.g., in a study at the East Kalimantan Inspectorate, forensic accounting and whistleblowing systems had no significant effect on fraud disclosure). Likewise, although many studies have found that whistleblowing has a positive effect on fraud disclosure or prevention, there are also studies that find no significant effect (for example, research on whistleblowing on fraud prevention at the Cirebon Inspectorate). Thus, this study aims to use the moderating variable of the code of ethics to see whether the code of ethics can strengthen or weaken the influence of forensic accounting and whistleblowing on financial statement fraud. With this approach, it is expected to provide new contributions to the accounting literature and publications in reputable journals (including Scopus journals) because it includes a relatively rarely studied moderating variable in this combination.

LITERATURE REVIEW

Information asymmetry between principal and agent has the potential to create conflicts of interest. Managers may act in self-interest by manipulating financial reports to appear favorable to investors or shareholders. The application of forensic accounting and whistleblowing can suppress opportunities and rationalization by increasing the detection and accountability of individual behavior within the organization. Ethical theory emphasizes that professional behavior must be based on moral values such as integrity, honesty, and responsibility. In the accounting profession, the application of the accountant's code of ethics regulated by the Indonesian Institute of Accountants (IAI) and IFAC serves as the basis for professional behavior that promotes transparency and prevents financial statement manipulation. The code of ethics plays a significant role in moderating the relationship between forensic accounting and whistleblowing on financial statement fraud. Forensic accounting plays a crucial role in detecting and preventing financial statement fraud through a more in-depth investigative approach than conventional audits. According to Esnawati and Primasari (2022), a forensic accountant must possess several skills, including basic knowledge of accounting, auditing, and financial analysis. Forensic auditors use data analytics, transaction testing, and investigative interviews to identify unusual patterns in financial statements. Forensic accounting serves as a monitoring mechanism that can curb such opportunistic behavior. By implementing forensic audits, the opportunity for fraud (opportunity) is reduced because the risk of detection is greater. Empirical research supports this relationship. Emeh & Obi (2021) found that forensic accounting significantly influenced the disclosure of financial statement fraud in Nigerian public institutions. Yuliani *et al* . (2023) also concluded that forensic auditor skills enhance audit effectiveness in detecting report manipulation. Conversely, Darmawan (2022) found an insignificant effect when the implementation of forensic accounting was not accompanied by support from internal control systems and auditor ethical integrity. Based on the theory and results of previous research, the first hypothesis is formulated as follows:

H1: Forensic accounting has an impact on financial reporting fraud.

Whistleblowing is a voluntary action by individuals within an organization to report violations of the law, ethics, or manipulation of financial statements to the authorities (Near & Miceli, 1995). An effective whistleblowing system includes an anonymous reporting mechanism, whistleblower protection, and a transparent follow-up system. Research by Putri & Rachman (2023) shows that a structured whistleblowing system significantly reduces the risk of fraud in Indonesian public companies. Setiawan & Sari (2024) found that companies with anonymous reporting systems and guaranteed whistleblower security had higher fraud reporting rates. However, research by Rahayu (2022) showed that the effect of whistleblowing was insignificant if whistleblowers lacked protection or when the organization had a culture of fear of reporting. From this description, the second hypothesis can be formulated as follows:

H2: Whistleblowing has an impact on financial reporting fraud.

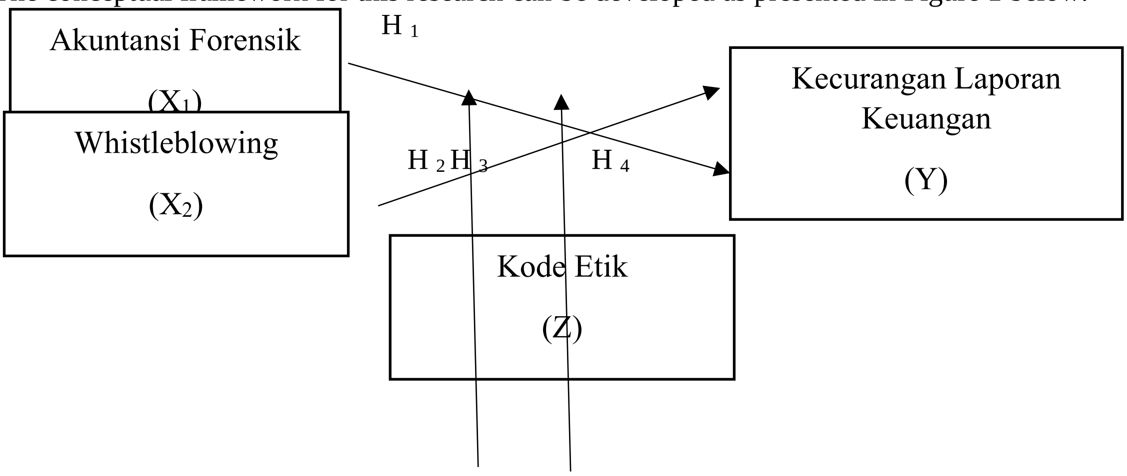
The accounting profession's code of ethics is a set of moral and professional principles that govern accountants' behavior, ensuring they act with integrity, objectivity, and responsibility. In the context of forensic accounting, the code of ethics serves as a moral guideline that strengthens the investigative process and reduces bias or conflicts of interest. Forensic auditors with a high level of ethical compliance will be more independent and objective in assessing indications of fraud (Sekar Rini, 2021). Professional Ethical Theory explains that a professional's moral decisions are influenced not only by technical competence, but also by their value system and personal integrity (Rest, 1986). Therefore, even if an auditor possesses forensic skills, their effectiveness will depend on the extent to which they uphold the profession's ethical values. Research by Zainuddin & Karim (2022) shows that professional ethics acts as a moderating variable, strengthening the influence of auditor competence on fraud detection. Satria & Dewi (2023) also found that accountants with high ethical awareness are more consistent in reporting financial irregularities than auditors with a purely results-oriented approach. Thus, the code of ethics is expected to strengthen the influence of forensic accounting on financial statement fraud because ethics helps auditors act independently, honestly, and oriented towards professional truth.

H3: Code of ethics moderates forensic accounting against financial statement fraud, so that its effect is stronger when the level of ethical compliance is high.

The success of a whistleblowing system depends not only on the reporting infrastructure but also on the organization's ethical culture. If ethical values are upheld, reporting violations will be seen as a moral responsibility, not a betrayal of the organization. Conversely, if organizational ethics are weak, employees are reluctant to whistleblower due to fear of stigma or retaliation. According to Miceli & **Near** (1992), a strong organizational code of ethics encourages individuals to report because they believe their actions are morally and professionally protected. Ethics act as a "moral shield" for the whistleblower, while also enhancing the credibility of the report. Research by Sekar Rini (2021) and Putri & Rachman (2023) shows that professional ethics strengthens the relationship between whistleblowing and fraud disclosure. In organizations with a strong code of ethics, whistleblowing channels are more trusted and more effective in preventing fraud. Thus, the fourth hypothesis is formulated as follows:

H4: Code of ethics moderates whistleblowing against financial reporting fraud, so that the influence of whistleblowing on fraud prevention becomes stronger at high levels of ethical compliance.

The conceptual framework for this research can be developed as presented in Figure 1 below:



RESULTS AND DISCUSSION

This study uses a quantitative approach with a causal research method. This approach was chosen because the study focuses on determining the extent of influence of Forensic Accounting (X_1) and Whistleblowing (X_2) on Financial Report Fraud (Y) with the Code of Ethics (Z) as a moderating variable . The sampling technique used was purposive sampling . The data used were primary data in the form of a questionnaire distributed via Google Forms. The research instrument used a Likert scale of 1–5. Before testing the hypotheses, instrument validity and reliability tests were conducted to ensure the quality of the primary data obtained. Classical assumption tests and hypothesis tests were also conducted. Data analysis was carried out using the SPSS (*Statistical Package for the Social Sciences*) method.

Table 1. Measurement Basis

Variables	Operational Definition	Key Indicators	Source
Financial Reporting Fraud (Y)	Intentional material misstatement of financial statements with the intent to mislead users of the statements.	1. Income manipulation 2. Abuse of accounting policies 3. Asset inflation 4. Concealment of obligations	Natasia et al. (2022)
Forensic Accounting (X_1)	The application of auditing, accounting, and legal skills to detect and analyze fraud.	1. Forensic knowledge 2. Analysis of report anomalies 3. Digital patterns and unusual transactions	Coal (2020)
Whistleblowing (X_2)	Reporting of violations by individuals within the organization to the authorities.	1. Reporting system policy 2. Protection of whistleblowers 3. Follow up on reports	Ardiansyah (2023)
Code of Ethics (Z)	Moral and professional principles that guide the behavior of accountants.	1. Honesty 2. Transparency 3. Ethical responsibility	Angelika *et al* . (2023)

Results and Discussion

The respondents of this study were all employees working in the accounting, audit, and finance departments in both the public and private sectors in Indonesia. The number of respondents in this study was 100 people. This study assessed data quality using two methods, namely the validity test with the results of all variables having a Pearson correlation value of > 0.3. Therefore, all variables were declared valid and the reliability test of all variables had a Cronbach's alpha value of > 0.7. Therefore, all variables were declared reliable. The classical assumption test has been carried out with normal results (sig. 0.200 > 0.05), the Tolerance (T) and VIF values for each variable indicate no multicollinearity (T > 0.1 and VIF < 10), and in the heteroscedasticity test, namely the Glejser test, there was no heteroscedasticity (sig. > 0.05), so that the classical assumption test requirements have all been met.

Hypothesis Testing

The R-square value obtained was 0.529, or 52.9%. This indicates that the independent and moderating variables can explain 52.9% of the Financial Reporting Fraud variable (Y), with the remaining 47.1% influenced by other variables not examined in this study

Table 2
Hypothesis Test Results

Variables	Hypothesis Direction	Beta Coefficient	*P Value*	Conclusion
Forensic Accounting (X1)	Negative	-0.238	0.002	Hypothesis supported
Whistleblowing (X2)	Negative	-0.553	0,000	Hypothesis supported
Forensic Accounting (X1) * Code of Ethics (Z)	Negative	-0.007	0.737	Hypothesis not supported
Whistleblowing (X2) * Code of Ethics (Z)	Negative	-0.069	0.002	Hypothesis supported
Adjusted ^{R2} : 0.529 F-test: 21.092 Sig: 0.000				

Source: Processed by researchers (2025)

The results of this study indicate that the Forensic Accounting variable (X1) has a regression coefficient value of -0.238 with a significance level of 0.002 <0.05. This indicates that forensic accounting has a significant effect on financial statement fraud. A negative coefficient value indicates that the higher the level of forensic accounting, the lower the level of financial statement fraud. Conversely, the lower the level of forensic accounting, the higher the level of financial statement fraud. This significant negative finding indicates that the forensic accounting approach can strengthen the monitoring process, detect transaction irregularities, and improve the quality of evidence used by auditors in identifying indications of fraud (Achmad, T., et al., 2024). Therefore, the presence of forensic accounting can reduce the opportunity for report manipulation, because the investigation and data analysis processes are carried out more comprehensively and based on analytical techniques. In addition, forensic accounting provides more detailed and in-depth detection methods such as transaction pattern analysis, investigative audits, the use of audit software, and digital evidence search techniques. The application of this method increases the likelihood of fraud being uncovered, leading management to be more cautious in preparing financial reports (Achmad, T., et al., 2024). The results of this study align with research by Abidoye, A., Awolowo, I.F., & Chan, D. (2023) which shows that forensic accounting improves auditors' ability to detect financial statement fraud compared to traditional audits. Another study by Kaur, B., Sood, K., & Grima, S. (2023) also found that high levels of forensic accounting implementation significantly reduced the level of financial statement fraud because the investigative analysis carried out was able to uncover irregularities in greater detail. The Whistleblowing variable (X2) has a regression coefficient value of -0.553 with a significance level of 0.000 <0.05. This indicates that whistleblowing has a significant effect on financial statement fraud. A negative coefficient value indicates that the more effective the whistleblowing, the lower the occurrence of financial statement fraud. Conversely, the less effective the whistleblowing, the higher the occurrence of financial statement fraud committed by the company.

The effectiveness of the whistleblowing system in suppressing financial statement fraud can be explained through its prevention and early detection function. When there is a reliable reporting system, auditors and internal management are more alert to violations, and potential fraud perpetrators feel that the risk of being exposed is high, so the desire to manipulate reports decreases (Kuncara, WA, 2022). This system also creates external and internal oversight effects, where reports can come from both internal and external parties, so that company control is not only from the internal audit process, but also from independent oversight elements (Nurhalisa, I., & Rely, G., 2024). The results of this study align with research by Handajani, L., Muhsyaf, SA, & Sokarina, A. (2023), which showed that increased whistleblowing implementation significantly reduced the level of financial statement fraud. Furthermore, research by Amyar, F., Rahma, A., Azis, N., & Suwarno, S. (2023) found that whistleblowing significantly increases the effectiveness of fraud detection in the public sector audit environment, especially when combined with auditor professional skepticism. Based on the results of the moderation regression analysis, a regression coefficient of -0.007 with a significance of 0.737 > 0.05 was obtained for the interaction variable between Forensic Accounting (X1) and the Code of Ethics (Z) or X1 * M. This result indicates that the code of ethics is unable to moderate or strengthen the influence between forensic accounting and financial statement fraud.

Therefore, the strength or weakness of the implementation of the code of ethics does not change or strengthen the influence of forensic accounting in reducing financial statement fraud. The results of this study indicate that the effectiveness of forensic accounting depends more on the quality of investigative techniques, the ability of forensic auditors, the use of analytical procedures, and the completeness of evidence, rather than on the existence of an organizational code of ethics. Forensic accounting works through objective, evidence-based procedures, and is relatively independent of employee moral perceptions, so changes in the level of implementation of the code of ethics do not have a major impact on the results of investigations (Alsdai, AA (2023). In addition, codes of ethics in many organizations tend to be normative and are not always followed consistently by all employees. As a result, even if a code of ethics is implemented, its existence does not necessarily strengthen the effectiveness of forensic accounting techniques in detecting or suppressing fraud. This makes the interaction between the two insignificant (Kusuma, GSM, et al., 2025). The results of this study are in line with research by Alsdai, AA (2023) which states that codes of ethics do not have a significant effect on fraud prevention because their implementation is often inconsistent and not supported by adequate supervision. Research by (Kusuma, GSM, et al., 2025) also found that the existence of a code of ethics does not automatically increase the effectiveness of audit or investigation practices, because auditors rely more on technical competence and empirical evidence, rather than organizational ethical guidelines. Based on the results of the moderation regression analysis, a regression coefficient of -0.069 was obtained with a significance of 0.002 <0.05 on the interaction variable between Whistleblowing (X2) and Code of Ethics (Z) or X2*M. This result indicates that the code of ethics is proven to be able to moderate the influence between whistleblowing and financial statement fraud. The results of the interaction test show that the coefficient of the Whistleblowing variable (X2) ×

Code of Ethics (Z) is negative and significant, so it can be concluded that the existence of a good code of ethics strengthens the influence of whistleblowing in suppressing the occurrence of financial statement fraud. This moderation effect indicates that whistleblowing will be much more effective when the organization has clear, firm, and consistently implemented behavioral guidelines. Without a strong code of ethics, reports of violations tend not to be followed up, or reporting is considered a risky action for the reporter (Sulistiyo, A., & Yanti, HB (2022). However, when the code of ethics is enforced properly, the whistleblowing system can run optimally in preventing and detecting financial reporting fraud from the start. This means that when the code of ethics is implemented consistently, employees have greater courage to report violations because they feel protected and supported (Alsdai, A. A, 2023). The results of this study are in line with research by Destiyana, A., Yassarah, FS, & Machdar, NM (2024) which found that the whistleblowing system is more effective in preventing fraud when the organization has a strong ethical environment and strictly implements the code of ethics. Furthermore, research by Wafa, Z. (2024) also confirms that whistleblowing can run optimally when the organization has a clear and consistent code of ethics, because the code of ethics provides behavioral guidelines and a sense of security for reporters. The results of this study indicate that the code of ethics plays a role as a strengthening moderator, namely strengthening The negative influence between whistleblowing and financial reporting fraud. Therefore, the higher the level of implementation of the code of ethics in an organization, the stronger the ability of whistleblowing to suppress financial reporting fraud.

CONCLUSION

Based on the research results, it can be concluded that forensic accounting and whistleblowing have a negative and significant effect on financial statement fraud, so that the higher their implementation, the lower the level of financial statement fraud that occurs. Furthermore, the code of ethics moderates and strengthens the influence of whistleblowing in reducing financial statement fraud. However, the code of ethics is unable to moderate the effect of forensic accounting on fraud. This study has several limitations, namely the limited number of samples and the scope of the research object, which makes this study unable to be generalized widely to all sectors or organizations. Furthermore, the research variables only focus on forensic accounting, whistleblowing, the code of ethics, and financial statement fraud, so it does not consider other important factors such as the effectiveness of internal controls, managerial pressure, or audit quality. The theoretical implications of this research are that it enriches the literature on fraud prevention by demonstrating that forensic accounting and whistleblowing play a significant role in reducing fraud, and that codes of ethics have a moderating function that is not always consistent across variables. The research recommends that organizations strengthen the implementation of forensic accounting, increase the effectiveness of whistleblowing, and optimize the socialization and enforcement of codes of ethics to create an environment that supports transparency and fraud prevention. Future researchers can add other variables besides those in this study.

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