The Effectiveness of Corporate Governance and Whistleblowing System on Fraud Disclosure

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Abstract

There are increased corporate mechanisms for detecting fraud cases in financial institutions. This study aimed to investigate the impact of corporate governance and whistleblowing systems (WBS) on fraud disclosure. A multiple regression analysis was performed on 34 public banks listed on the Indonesia Stock Exchange (IDX) from 2016 to 2020. The findings showed that the bank's corporate governance rating significantly and negatively affects the disclosure of fraud. This implies that a better corporate governance rating increases the bank's ability to detect fraud. However, the increased violations reported through WBS mechanism did not indicate fraud following the investigation. Another finding showed that the potential for fraud in government-owned and large banks increases due to political intervention and conflicts of interest in business policymaking. Therefore, this study has practical implications for implementing a WBS in fraud violations in the banking sector.

Keywords: fraud, corporate governance, whistleblowing system policy

Introduction

Fraud has become crucial in current corporate governance, as indicated by the many cases involving corporations. According to the 2018 Association of Certified Fraud Examiners (ACFE) survey results, the average firm loses nearly 5% of its annual revenue, or around $4 trillion, due to fraud (Akyol, 2020). The Indonesian Association of Certified Fraud Examiners (ACFE Indonesia Chapter, 2019) also conducted the 2019 Fraud Indonesia Survey (FSI). The results showed that corruption causes between 100-500 million rupiah losses. The fraud perpetrators are experienced people responsible for managing the firm's finances. In line with this, fraud in banking refers to the misappropriation of assets, information leakage, banking crimes, and other fraudulent activities. These activities negatively impact the performance of financial institutions, such as banks. Therefore, efforts are needed to prevent and reduce fraud in banking and financial institutions.

The banking industry is characterized by complex operations that potentially increase information asymmetry and reduce the stakeholders' capacity to monitor the decisions of bank managers (Ţurlea et al., 2010). Governance plays a role in detecting fraud by regulating beh-

-aviour and limiting discretionary power in decision-making (Devilier, 2016). Corporate governance and fraud prevention programs reduce internal or employee fraud. Similarly, risk management is more related to controlling external or customer fraud in the banking sector (Mohd-Sanusi et al., 2015). The Financial Services Authority (OJK) promoted fraud prevention through detection, investigation, reporting, and sanctions. It also promoted monitoring, evaluation, and follow-up through Financial Services Authority Regulation Number 39/POJK.03/2019 regarding implementing anti-fraud strategies for commercial banks. Good corporate governance (GCG) is a critical fraud detection and prevention mechanism (Lokanan, 2019). This mechanism would enable centralized and high-standard bank governance to prevent fraud by providing better monitoring and risk management (Swandaru & Muneeza, 2022). Internal GCG mechanisms, such as board independence and diverse financial and industry expertise from the board of directors and audit committees, significantly reduce fraudulent financial reporting (Mousavi et al., 2022) and increase financial reporting quality (Kaawaase et al., 2021). As the banking sector's external oversight, the authorities and regulators must promote improving corporate governance to reduce the likelihood of financial reporting fraud (Razali & Arshad, 2014). Risk management, corporate governance, and regulatory compliance in the banking industry are integrated to protect the interests of consumers and the public and establish a financially stable and sustainable system. Therefore, OJK Regulation 55/POJK.03/2016 and Circular Letter 13/POJK.03/2017 require commercial banks to self-assess their good corporate performance to implement good governance.

Firms have widely adopted a whistleblowing system (WBS) or the reporting of alleged violations voluntarily to disclose and report fraud cases. The system provides a mechanism that allows reporting of workplace violations or unethical behaviour by employees or external parties (Handajani et al., 2022; Shonhadji & Maulidi, 2021). This policy could enhance the quality of GCG to promote best practices within the organization. According to studies, the consistent implementation of WBS helps improve internal corporate governance. This is indicated by an increase in independent boards of directors, and the CEO is no longer the chairman (Smaili & Arroyo, 2019). Furthermore, a fraud complaint mechanism facility plays a significant role in detecting fraudulent crimes committed by firms employees (Association of Certified Fraud Examiners, 2020). Therefore, WBS is crucial in uncovering corporate fraud cases, although its effectiveness requires a conducive organizational environment (Okafor et al., 2020). The Indonesian Minister of State-Owned Enterprises (SOE) Regulation Number 13/MBU/10/2015 set the guidelines for managing the reporting system for alleged infractions from a regulatory standpoint. In line with this, banks must create and execute anti-fraud strategies to assist WBS. This is outlined in OJK Regulation Number 39/POJK.03/2019 concerning regulations governing the reporting system for suspected violations in banking financial institutions. A violation of these requirements results in consequences, including reduced financial stability, a prohibition on the issue of new products, and the suspension of commercial operations.

This study aimed to fill the gap in previous literature by analyzing corporate governance and WBS policy as a new mechanism for detecting fraud in banking corporations. Previous studies mostly used proxies in measuring corporate governance (Lokanan, 2019; Yiu et al., 2019; Halbouni et al., 2016; McNulty & Akhigbe, 2015; Razali & Arshad, 2014). This approach has yet to describe corporate governance implementation more comprehensively. Furthermore, fraud in previous studies was only partially related

to the implementation of effective management (Cordis & Lambert, 2017; Andon et al., 2018; Johansson & Carey, 2016; Rachagan & Kuppusamy, 2013). The studies did not consider other governance mechanisms, such as WBS. Therefore, this study examines the relationship between corporate governance quality and WBS as an effective mechanism for enhancing corporations' capacity to prevent and detect fraud cases. The novelty is the analysis of the challenges faced by the financial sector with high regulation and business and operational complexity in preventing and detecting fraud.

OJK Regulation Number 55/POJK.03/2016 governs the implementation of governance in the banking sector. Banking governance principles of transparency, accountability, responsibility, independence, and fairness are stipulated in the Indonesian Banking Governance Guidelines (Komite Nasional Kebijakan Governance, 2014). Transparency is the openness of material and relevant information presentation and decision-making. Accountability refers to the clarity of implementing the obligations of the bank's organizational functions to achieve effective management. It is also the adherence of bank management to applicable laws and regulations and sound management principles. Furthermore, independence relates to the bank's professional management without pressure or interference from any party. This implies fairness and equality in satisfying the stakeholders' rights according to the agreements, rules, and regulations.

Studies found a relationship between the implementation of corporate governance and fraud. According to Avortri & Agbanyo (2021), opportunities, pressure, rationalization, and capacity are the most influential factors in fraud in the top management of Ghana's banking sector. The fraud related to the weak governance regarding the lending policy to affiliated parties, specifically when the family ownership structure and CEO became the bank's owner. Furthermore, Trompeter et al. (2013) found that an opportunity related to internal control and the lack of strong corporate governance practices leads to fraud. Akyol (2020) stated that fraud is detrimental to firms' revenue generation and significantly impacts investors, customers, suppliers, employees, and other stakeholders. The study recommended minimizing the adverse effects of fraud on firms and stakeholders. Tan et al. (2017) also found that fraud could harm employees and firms' stakeholders when agents as managers cannot report fraudulent acts. Therefore, GCG is crucial for the success of a congruent relationship between the interests of the agents and the principal and for raising firms' value.

Lokanan (2019) found that the likelihood of fraud is larger in banks with higher organizational complexity. The corporate governance structure is critical in detecting and preventing fraud. Banking institutions need an excellent internal control system emphasizing sound lending practices to promote long-term financial health and viability (McNulty & Akhigbe, 2015). Banks with weak monitoring systems create opportunities for fraud (Leuz et al., 2003). Halbouni et al. (2016) surveyed internal and external accountants and found that management and the supervisory board as proxies for corporate governance and the use of technology prevented and detected fraud. Corporate governance mechanisms in economic transitions, including strategic alliances, business group affiliations, non-tradable state shares, local government ownership, foreign auditors, and foreign listings, prevent and detect fraud (Yiu et al., 2019). This means that the implementation of GCG significantly reduces corporate fraud. Advancements in organizational management and the increasing business dynamism have promoted the evolution of the fraud theory explaining the motivations underlying fraudulent behaviour.

The Fraud Triangle Theory proposed by Cressey (1953) explains why people commit fraud (Homer, 2020). According to the theory, financial pressure, opportunity, and rationalization promote the tendency to commit fraud. Fraud occurs when there is an opportunity, such as when an organization has ineffective internal controls and oversight.

Rationalization is a justification for fraud, such as organizational and work environment factors. Studies found that the Fraud Triangle Theory is inadequate to explain the increasing complexity of the fraud problem. Wolfe & Hermanson (2004) expanded the Fraud Diamond Theory to incorporate the capability factor to explain the causes of fraud. Conforming to the theory, opportunities for fraud are supported by pressure and rationalization, increasing its possibility. However, capability makes someone capable of utilizing the fraud opportunity (Abdullahi & Mansor, 2018; Avortri & Agbanyo, 2021).

Expanding on the Fraud Triangle Theory, Crowe (2011) introduced the Fraud Pentagon Theory by internalizing competence and arrogance as new factors (Vousinas, 2018). Competence has the same meaning as capability, where fraud is committed by someone with the ability (capacity) to utilize opportunities. Arrogance is in line with the rationalization that fraud perpetrators justify their actions. Internal control through various regulatory mechanisms reduces fraud's potential and negative impact. External regulators influence the organization to comply with applicable regulations and legal frameworks to indirectly decrease the potential for fraud. In line with policies to strengthen corporate governance and minimize the possibility of fraud, Salleh & Othman (2016) stated that the frequency of board director meetings plays a role in preventing fraud. This is based on a study of firms listed on the Bursa Malaysia Stock Exchange. Razali & Arshad (2014) examined the relationship between corporate governance structure and the possibility of fraudulent financial reporting in Malaysian public firms from 2010 to 2011. The study found that the effectiveness of corporate governance decreases the risk of financial reporting fraud.

Tan et al. (2017) evaluated the relationship between corporate governance and the firm's financial performance. There was no effect on the economic performance of organizations where the fraud occurred. Better corporate governance reduces the possibility of fraud. Contrastingly, poor corporate governance represents the role of internal control, and a lack of oversight creates fraud chances. Therefore, the following hypothesis was proposed.

H$_1$: The quality of corporate governance affects the disclosure of fraud.

The policy of WBS is to detect and prevent fraud early enough. It establishes a communication channel for whistleblowers to report acts of fraud, violations of the law and code of ethics, corporate regulations, and conflicts of interest. Whistleblowers making complaints must be based in good faith and confidentiality with no fear or worry about reporting fraud. An empirical investigation established a linkage between WBS's policy and fraud cases' occurrence. According to Gao & Brink (2017), the reporting of violations is influenced by the qualities of whistleblowers, report receivers, reporting channels, characteristics of fraud perpetrators, types of errors, and organizational contexts. The study suggested that a whistleblower system policy and reporting channels play an important role in identifying fraud cases.

Furthermore, Smaili & Arroyo (2019) found that whistleblowers come from the firm's internal and external parties. Most whistleblowers select external channels, such as media exposure, when management fails to respond adequately. Andon et al. (2018) used

an experimental testing approach to examine professional accountants. The study found that economic incentives motivate potential whistleblowers to report financial statement fraud to the appropriate external authorities. This motivation is stronger when the risk perception of fraud is higher. Additionally, Seifert et al. (2010) examined 447 internal auditors and management accountants using an experimental design. According to the findings, WBS policy and mechanisms that combine procedural, distributive, and interactional justice increase the likelihood of an internal accountant reporting fraudulent financial statements.

Cordis & Lambert (2017) stated the importance of regulation on whistleblowers in preventing and detecting possible fraud. In this case, legal provisions and higher awareness are relevant to a lower level of fraud. Furthermore, the proactive role of top management in ethical issues positively impacts whistleblowing rules as an anti-fraud approach in an organization (Suh & Shim, 2020). Yeoh (2014) investigated the motives for internal and external whistleblowing, as well as legal provisions regarding whistleblowing. The study suggested the need for regulatory reform initiatives to protect whistleblowers from retaliation by organizations. Johansson & Carey (2016) surveyed public firms in Australia and found that anonymous reporting channels (ARCs) play an influential role in detecting reported fraud. In line with this, Rachagan & Kuppusamy (2013) stated the need to integrate an objective WBS policy to increase internal control effectiveness in Malaysia. This would be achieved by promoting whistleblowers to report fraud by providing appropriate reporting channels within the organization. Subsequently, this policy reduces fraud and protects the organization's reputation. Okafor et al. (2020) found that whistleblowing could be an accountability mechanism in developing countries. However, its implementation has challenges, such as low awareness in reporting fraud and high risk for whistleblowers, requiring an institutional environment. This implies that WBS policy as an internal control and governance mechanism positively impacts firms' disclosure of fraud cases. Therefore, the following hypothesis was formulated.

H_2: Whistleblowing system policy affects fraud disclosure.

Research Method

This study employed a quantitative descriptive method to examine the impact of corporate governance quality and WBS policy on the disclosure of fraud in public banks listed on the Indonesia Stock Exchange (IDX). A descriptive quantitative method collects quantifiable information for statistical analysis of the population sample to describe, explain, predict, or control the phenomena using numerical data (Gay et al., 2012). The unit of analysis used was the annual report of Indonesian banks listed on the IDX. Banks utilize the Annual report with public accountability as a required communication channel to inform firms' stakeholders of financial and non-financial activities, including the disclosure of corporate governance implementation. This study used secondary data pertinent to implementing corporate governance and WBS policy by analyzing annual bank reports. The population consisted of IDX-listed banking firms from 2016 to 2020. Observations were conducted on 34 banks that disclosed information about WBS. The results of their self-assessment of corporate governance in annual reports constituted the study sample. The sample that met the study criteria comprised 34 banks on the IDX for 170 observations. The observation period of the last five years provides an up-to-date picture of governance mechanisms in financial institutions for disclosing banking fraud.

The independent variables in this study are the quality of corporate governance and whistleblowing system policy disclosures (WBS). Corporate governance refers to rules and procedures that ensure managers implement value-based management principles. According to OJK Regulation 55/POJK.03/2016, Good Corporate Governance (GCG) is a bank management procedure that incorporates transparency, accountability, responsibility, independence, and fairness. In this study, the quality of GCG was proxied by its rating. This is the result of a bank's self-assessment of governance implementation. It is in line with OJK Regulation No. 55/POJK.03/2016 regarding the obligation for commercial banks to evaluate corporate governance performance. The highest and lowest corporate governance rating composite values in this self-assessment are represented by 1 and 5, respectively.

A whistleblowing policy is a system designed to report a violation that threatens the bank's reputation as a respectable financial institution. The Circular Letter of Bank Indonesia No.13/28/DPNP dated December 9, 2011, concerning anti-fraud strategies for commercial banks, states that WBS is one of the earliest methods for detecting fraud. This study evaluated the WBS by disclosing the policy using a National Committee on Governance Policy (KNKG)-a developed checklist of violations reporting system guidelines (Komite Nasional Kebijakan Governance, 2008). The dependent variable was fraud disclosure (Fraud). In this case, fraud comprises illegal acts committed intentionally by manipulating or providing false reports to other parties by individuals inside or outside the organization for financial gain (ACFE Indonesia, 2016). Fraud disclosure was measured using the number of frauds that occurred and were reported referring to Huang & Thiruvadi (2004).

This study also used control variables, including bank size, external audit quality, firm ownership, and firm size. Financial pressure on firms and small firms positively correlates to the tendency of fraud in financial reporting (Özcan, 2016; Lou & Wang, 2011). Moreover, small firms cannot employ executives with excellent skills in financial reporting and implement internal controls that prevent fraud. Therefore, the presence of an external auditor is positively correlated with audit quality, reducing the potential for fraud in financial statements.

OJK Regulation 13/POJK.03/2017 governs the use of Public Accountant Services and Public Accountant Firms (PAFs) in financial service activities. In this study, Big Four and Non-Big Four PAFs were used to classify the quality of external auditors. Big Four PAFs are Indonesian PAFs affiliated with Deloitte, PricewaterhouseCoopers (PwC), Ernst Young (EY), and Klynveld Main Goerdeler (KPMG). Those not affiliated with the Big four PAFs are categorized as Non-Big Four PAFs. First, the audit quality variable (Audit) was measured using. A dummy variable with a value of 1 was assigned when The Big Four PAFs externally audited the bank and 0 otherwise. The second control variable is corporate ownership, where state-owned banks have strict supervision, reducing the potential for fraud (Shi et al., 2020). Furthermore, the nominal scale was used to proxy corporate ownership, given a score of 1 and 0 for a state-owned and non-state-owned bank, respectively.

Data were analyzed using descriptive statistics, classical assumption tests, and multiple linear regression analyses (Hair et al., 2010). The variables' characteristics were described using the average, standard deviation, as well as maximum and minimum values. The classical assumption test aimed to evaluate the quality of the data being tested and its ability to fulfil the normality, heteroscedasticity, and multicollinearity assumptions. The data that met the classical assumption requirements were qualified for

a causality test using multiple linear regression analysis. The mathematical equation model tested is as follows:

Fraud = $\beta_0 + \beta_1 GCG + \beta_2 WBS + \beta_3 Size + \beta_4 Audit + \beta_5 Ownership + e$………………………… (1)

The mathematical model equation explains that fraud is the dependent variable measured by the number of reported frauds. Independent variables are the quality of GCG and WBS Disclosures. The control variables were bank size, external audit quality, and corporate ownership. In the multiple linear regression model tested, β0 is a constant, β1 until β5 are the regression coefficients, and e is the error term.

Result and Discussion

The results described descriptive statistics, classical assumption, and multiple linear regression tests are explained in the following section. Table 1 shows that the highest and lowest reported internal fraud cases were 67 and 0, respectively, with an average of 5.2471 cases in the five years. Furthermore, the bank's WBS policy proxied by disclosure offers the highest value of 0.94, fulfilling 94% of the WBS policy indicators. This is according to the National Committee for Governance Policy, comprising 14 WBS policy indicators. On the other hand, the lowest WBS disclosure value of 0.13 means that some banks only state their commitment to forming a culture of compliance and ethical behaviour in general. Additionally, the sample firms that implemented WBS policy with a value of 0.5227 met the WBS policy indicators. This is based on the Komite Nasional Kebijakan Governance (2008), comprising 14 WBS policy indicators.

Table 2 shows the GCG self-assessment variable using the GCG rating in the sample banks. According to the GCG rating variable, the smaller GCG rating reflects better implementation. A total of 76.5% of the 130 banks had a rating of 2 (good) with a composite value range of 1.5 to less than 2.5. Furthermore, 13.5% received a rating of 3 (good enough) with a composite value of 2.5- 3.5. The GCG self-assessment of banks with the predicate of 1 (very good) was only achieved by 7.1% of the banks, with a composite value of less than 1.5. A predicate of 4 (not good) was obtained by 2.9% of the sample banks with a composite value of 3.5-4.5. This means that no bank has a poor predicate rating of 5.

The control variables of bank size (FirmSize), external auditor (AuditExt), and ownership were evaluated using a frequency distribution that employs a dichotomous or category scale. Table 2 shows that the sample comprised 116 banks (68.2%) audited by reputable PAFs affiliated with Big Four PAFs. Public Non-Big Four PAFs audited the remaining 54 banks, or 31.8% of the sample. Regarding state-owned banks, the government owns 16 banks (9,4%), while 90.6% are non-state-owned or private banks.

The multicollinearity test results with classical values satisfied the normality assumption of the Kolmogorov-Smirnov, heteroscedasticity, and Park tests. The normality test results using the Kolmogorov Smirnov test indicated that the significance level

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Fraud case	170	0.000	67.000	5.247	9.874
WBS	170	0.130	0.940	0.522	0.142
Firm size	170	13.410	24.020	17.580	2.064
Valid N (listwise)	170				

Source: Processed Data, 2022

Table 2. Frequency Distribution of GCG Rating, Audit Quality, and Ownership

Variables	Categories	Frequencies	Percentage
GCG Rating	1 = Very good	12	7.1
	2 = Good	130	76.5
	3 = Average	23	13.5
	4 = Not good	5	2.9
	5 = Poor	0	0
Audit Quality	0 = Non-Big Four PAFs	54	31,8
	1 = Big Four PAFs	116	68,2
Ownership	0 = Non-State-Owned-Bank	154	90,6
	1 = State-Owned-Bank	16	9,4
Valid N		170	100

Source: Processed Data, 2022

(Asymp. Sig. (2-tailed)) is 0.82, exceeding 0.05. This indicates no significant difference between the tested and standard normal data. Therefore, the tested data adhere to the rules of normality. The Park test results indicated that the significance level of all tested variables exceeds 0.05, implying no heteroscedasticity. Furthermore, the multicollinearity test results indicated a Variance Inflation Factor (VIF) value that must be less than ten or a tolerance value of less than 1. These findings mean that the regression model has no multicollinearity problems. Therefore, multiple linear regression analysis is conducted when the tested data satisfy the required assumptions.

Table 3 summarizes the regression test results, where the goodness of fit model indicates that all variables simultaneously influence fraud disclosure (FraudCase). This is shown by a significance value of 0.000, less than 5%. Therefore, the GCG rating (GCGRating), WBS Disclosure (WBS), firm size (FirmSize), External Audit (AuditExt), and government bank ownership (Ownership) significantly and simultaneously affect fraud disclosure. The coefficient of determination test with the Adjusted R Square found that this model contributed to the specified model's 0.257 or 25.7%. It means that the disclosure of internal bank fraud is influenced by GCG rating, WBS, firm size, external audit, and bank ownership by a combined amount of 25.7%. Factors outside the specified model influence the remaining 74.3%.

The first hypothesis test showed a t-value of -1.129 and a significance level of 0.055, less than 5%, with a negative regression coefficient relationship. These results imply that the quality of GCG significantly and negatively affects fraud disclosure. High GCG quality is represented in this case by high GCG self-assessment results. Scores 1 and 5 are the highest and lowest GCG implementation ratings, respectively. These results indicated that the GCG rating significantly and negatively correlates with bank fraud. It means that a better GCG self-assessment rating reduces the number of fraud cases at the bank, and vice versa, supporting the first hypothesis. The GCG self-assessment reinforced the findings, where 76.5% of the sample banks had a GCG rating. The assessment with a good rating reflects the implementation of good-quality bank governance. These findings suggested that banks with a higher organizational complexity have a higher likelihood of fraud. Therefore, a corporate governance structure is essential for detecting and preventing fraud (Lokanan, 2019). This is in line with Yiu et al. (2019) and Halbouni et al. (2016), which showed that effective corporate governance prevents and detects fraud. It also reduces the likelihood of financial reporting fraud (Razali & Arshad, 2014). The results

Table 3. Summary of Multiple Regression Analysis Result

Variables	Coefficient	t-value	Significance
Constant		-4.075	0.000
CGCRating	-0.131	-1.929	*0.055
WBS	0.042	0.587	0.558
Control Variables:			
Firm Size	0.399	5.122	**0.000
Audit	0.026	0.355	0.723
Ownership	0.229	3.418	**0.001

F test	= 12.633
Sig. F test	= 0.000
R Square	= 0.279
Adjusted R Square	= 0.257

Dependent Variable: FraudCase; **significant at α=5%; *Significant at α=10%

Source: Processed Data, 2022

support Salleh & Othman (2016) that policies strengthen corporate governance and reduce the potential for fraud through the board director role.

The second hypothesis test showed that WBS policy does not significantly and positively affect the occurrence and reporting of fraud cases. This was indicated by a t-value of 0.587 and a significance level of 0.558, greater than 5%, rejecting the second hypothesis. The results are in line with the disclosure data on WBS policy conducted by the sample banks studied, as shown in Table 1. The sample banks are still in the average category with a value of 52.27% of the total 14 expected whistleblowing policy indicators. This indicates that the whistleblowing policy does not significantly impact the disclosure of fraud cases. This means that firms in the banking sector should improve whistleblowing policy that impacts the disclosure of fraud cases. The whistleblowing policy aims to increase the efficiency of fraud detection. This would apply when anonymous reporting channels (ARC) promote whistleblowers to disclose and report fraud. However, this effort requires reform (Yeoh, 2014) to promote whistleblower intentions to report potential fraud (Cordis & Lambert, 2017). The organizational environment influences the whistleblower's intention and willingness to reveal and report potential fraud. Willingness is determined by the characteristics of the whistleblower and the mechanism for reporting suspected fraud.

The findings support Okafor et al. (2020) that effective WBS implementation requires a conducive organizational environment. This is necessary when awareness of fraud reporting is low, and risk is high for the reporter. Whistleblower characteristics also affect the effectiveness of reporting violations. The effect is felt through WBS mechanism as well as characteristics of report recipients, channels, fraud perpetrators, the crime, and the organization (Gao & Brink, 2017). Suh & Shim (2020) also stated that the role of top management in an organization positively impacts the implementation of whistleblowing policy as an anti-fraud strategy. However, the findings contradict Rachagan & Kuppusamy (2013) and Johansson & Carey (2016) that WBS policy and methods of reporting alleged fraud play a role in fraud detection. Unlike previous studies, the results indicated that an effective WBS policy requires a supportive organizational environment. This is in line with Seifert et al. (2010) that integrating procedural, distributive, and interactional justice could increase an internal accountant's likelihood of reporting fraudulent financial statements.

The results on the control variables showed that only firm size and ownership of government banks significantly and positively affect the disclosure of fraud cases. In contrast, PAFs' reputation has no significant effect. The results indicated that large firms have more significant assets under management, increasing the potential for fraud. However, the findings contradict Özcan (2016) and Lou & Wang (2011) that financial fraud is increasing in smaller firms due to a lack of internal controls. The reputation of PAFs represented by the bank audited by the Big Four PAFs gave positive but insignificant results on fraud disclosure. This means that reputable PAFs affiliated with the Big Four PAFs positively correlate with the increased exposure of fraud cases. In this study, the number of banks audited by reputable PAFs (Big Four) was only 68.2%. Therefore, it did not significantly impact the disclosure of internal fraud. The results showed that state-owned banks have a higher level of fraud due to political intervention and conflicts of interest that occurs in decision-making. This has the potential to increase cases of internal fraud. However, this finding contradicts Shi et al. (2020) that state-owned banks have strict supervision, reducing the potential for fraud.

A whistleblowing policy does not necessarily encourage the intention to report suspected fraud and violations. Anonymous reporting mechanisms, guarantees of reporters' confidentiality and safety, as well as their protection against retaliation, are insufficient to encourage reporting of alleged violations. In this situation, Yeoh (2014) stated that reform in the whistleblowing policy is a challenge. This is because the success of the WBS mechanism in disclosing fraud is influenced by support from the organizational environment, the role of top management, and the whistleblower's characteristics.

This study explained the effectiveness of corporate governance mechanisms and WBS policy in promoting the disclosure of financial institution fraud. The provisions of Bank Indonesia's authority regarding corporate governance self-assessment could generate best practices as a governance mechanism that promotes the disclosure of corporate fraud. Regarding policy contributions, the findings support reporting bank fraud and an early detection system. This is in line with OJK Regulation, which requires commercial banks to self-assess corporate governance according to OJK Regulation No. 55/POJK.03/2016.

This research has the practical implication of explaining the effectiveness of corporate governance mechanisms and whistleblowing system policies in promoting the disclosure of financial institution fraud. The provisions of Bank Indonesia's authority regarding corporate governance self-assessment can generate best practices that can become a governance mechanism that encourages the disclosure of corporate fraud. In terms of policy contributions, the findings of this study support the implementation of a system for reporting bank fraud and an early detection system. This supports the Financial Services Authority Regulation, which requires commercial banks to conduct a self-assessment of corporate governance according to Financial Service Authority Regulation No. 55/POJK.03/2016 on implementing good corporate governance.

Conclusion

This study examined corporate governance's and WBS policy's effectiveness on fraud disclosure in the banking sector. It tested 35 banks that disclosed WBS policy in their annual reports during the 2016 to 2020 observation period. The results showed that the bank's corporate governance rating negatively affected fraud disclosure. The finding indicated that better rating implementation of bank governance increases the ability to

disclose more fraud cases. This means that good bank governance prevents and detects fraud cases in banking. However, the results showed a positive and insignificant effect of exposure to WBS policy on fraud disclosure. The increased reporting of violations through the WBS mechanism did not indicate fraud after the investigation. Therefore, a system reporting media with anonymous reporting channels is needed to promote whistleblowers to report violations without worrying about retaliation. Another finding showed that the potential for fraud in government-owned and large banks with high asset turnover increases due to the influence of political intervention and conflict on business policymaking.

This study had several limitations that could be addressed in future literature. First, fraud disclosure was measured using the number of internal frauds disclosed through the bank's annual report. This may not be the same as the fraud cases reported through WBS reporting. Therefore, future studies could elaborate on additional testing using fraud cases indicated through the WBS report. In addition, the studies could use a triangulation approach to assess the implementation of WBS policy with whistleblowing policy indicators by the guidelines for the violation system of the Komite Nasional Kebijakan Governance (KNKG). Second, the financial sector is highly regulated and has specific characteristics that provide limited evidence about the effectiveness of WBS. Therefore, future studies on the non-financial sector could enrich perspectives in this area.

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