

CHAPTER I

INTRODUCTION

A. Background

The rise of news about fraud, especially in the financial sector that occurred during the last few years becomes a public spotlight. Starting from the Enron case in 2001 that occurred in America and effect on world of accounting, it became the biggest accounting scandal in that period. Enron's Board of Directors had committed a number of fraudulent manipulations of financial statements that were manifested in the form of high compensation determination for corporate executive and off balance sheet transactions. This accounting ethics scandal also brings Sherron Watkins to become a whistleblower in this case. As a result of unfolding the case is Enron suffered loss and bankruptcy (Agoes and Ardana, 2011).

Not only abroad, accounting fraud cases that present the whistleblower figures also occur in Indonesia. Among them is Susno Duaji case who reveals the existence of tax mafia in his agency (Lestari, 2018). also the case of Agus Condro in the election of Senior Deputy Bank Indonesia and John Wowuruntu in the case of Legal Administration System (Semendawai, et al., 2011). In addition, the case of Khairiansyah Salman, a former auditor of the Supreme Audit Agency / *Badan Pemeriksa Keuangan* (BPK) who reported a bribery case which would be given to members of the General Elections Commission / *Komisi Pemilihan Umum* (KPU) on audits conducted by BPK (Prasasti, 2017)

and alleged cases of corruption in the affairs of telephone stalls licensing in Yogyakarta in 1996 reported by Arifin Wardiyanto (Tuanakotta, 2012).

It is interesting because the presence of a whistleblower figure in the disclosure of fraud cases adds new issues to law enforcement and accounting justice in the territory of the Indonesian state. Whistleblower is in the spotlight for corruption eradication and prevention in various sectors, especially in the government sector. A whistleblower is a party who reports allegations of abuse of authority, fraud, or non-compliance by law and ethical code in an organization to the public as a related party and other parties.

In a study conducted by Setyawati, et al (2015) it is mentioned that whistleblowing is an appropriate way in preventing fraud of accounting to restore public confidence. According to the National Commission on Governance Policy, whistleblowing is the disclosure of acts on criminal offense, rules, practical guidelines, fraud, or related to procedural errors, corruption, abuse of authority and unethical or immoral conduct which is harmful to various parties concern by an employee to an individual or other institution that may affect remedial action (KNKG, 2008).

This whistleblowing method is proved to be more effectively applied in order to combat corruption or accounting fraud compared to internal audit, external audit, and internal controlling system (Sweeney, 2008). This is in line with the government's move to implement the whistle-blowing system based on the results of the Association of Certified Fraud Examiners (2008, 2014) study, which says that more effective whistleblower efforts are used to detect

early fraud. In Indonesia itself, some institutions such as the National Committee on Governance Policy continue to socialize related good governance practices including in the private sector (Semendawai et al., 2011). This indicates that the increased awareness of the importance of whistleblowing intention began to improve although not significant.

Certainly the above corruption problem does not necessarily exist just like that, high fraud rate can occur because of bad governance. To meet the demands for good corporate governance and include bribery, corruption and all kinds of financial fraud, various economic institutions have conducted researches. According to the Organization for Economic Co-operation and Development (OECD), the Association of Certified Fraud Examiners (ACFE), and the Global Economic Crime Survey (GECS) in their research results, one of the most effective ways to combat and reduce conflicting practices and prostitution with good corporate governance is through whistleblowing mechanism. Therefore in 2008, the National Committee on Governance Policy issued the Whistleblowing System General Guidelines as a form of the presence of awareness of various parties including the government to reduce or even eliminate the practice of fraud (Hanif and Odiatma, 2017).

Several state-owned institutions and entities in Indonesia have also implemented whistleblowing system, such as PT Pegadaian Persero, Government Goods / Service Procurement Institution domiciled as a non-ministerial government institution directly responsible to the president, as well as the ministry of finance (Suryono and Chariri, 2016). In the ministry of

finance, the regulation concerning whistleblowing system is contains in Regulation of the Minister of Finance No. 103 / PMK.09 / 2010 and Decree of the Minister of Finance No. 149 / KMK / 2011. The presence of this system is expected as a means of reporting the alleged violation or fraud that occurred in the scope of the Ministry of Finance.

In line with the observations and research conducted on whistleblowing, then any corruption case will follow. The phenomenon that is happening now that the number of corruption cases that is still quite high. Indonesia's current condition based on research results and findings of Transparency International in the Corruption Perception Index 2017, shows that Indonesia still occupies the 96th position of 180 countries measured and is still under the position of neighboring countries such as Malaysia and Singapore occupying each the 62nd and 6th positions (Lestari, 2018). The fact is certainly very disappointing considers that with the geographical conditions and cultural culture that is not much different, Indonesia is still very far behind in terms of eradication of corruption. This indicates that Indonesia is now in a red-line area for continuous corruption cases.

Cases of corruption that occurred in the scope of Indonesian government now also begin to penetrate into the topic that since five years ago has began to develop and grow rapidly the village funds. Based on data from Indonesia Corruption Watch (ICW) by Bagustianto and Nurkholi (2015), from 2016 until the beginning of August 2017 there have been 110 cases of misuse of village funds and the allocation of village funds involving more than 130 perpetrators,

which are dominated by the village officials and officials themselves. In one study that was conducted by ICW, it is found that the losses experienced by the government during the period 2016 until August 2017 were estimated to reach 30 billion (Wahyuningsih, 2016). Surely that is not a small number if it is examined deeper actually village fund is a thing to develop in Indonesia. However the case of corruption that occurred has reached 30 billion in a short time. This proves that corruption has become a major problem that needs to be reduced and even eradicated thoroughly.

According to Law No. 6 of 2014 on Villages in Chapter 8 Article 77, it has been explained that the management of village property must be carried out based on the principles of public interest, functional, legal certainty, openness, efficiency, effectiveness, accountability and economic certainty (Suryono and Chariri, 2016). This means that in the management of village funds and assets owned by the village or by the authorized institution must be transparent and accountable for its fair and open use. All parties involved in administering the village funds include employees in the Village Owned Enterprise obliged to implement professional, effective, efficient, clean, transparent and accountable village principles which are free from all forms of corruption, collusion and nepotism.

Since the village funds were firstly launched in 2015, the government has spent Rp 127.74 trillion on the development. As many as 74,910 villages have received funding from 2015 to 2017 as much as Rp 20.76 trillion, Rp 49.98 trillion and Rp 60 trillion. Each related village in the first year gets cash of

approximately 300 million, followed by 600 million in the next year, and in 2017 gets 800 million (Aliyah, 2015). We can imagine how damage a natural government can make if the use of the funds is not clearly monitored. Yet based on the fact that happened today, accounting cheating on village fund has started happen everywhere. The case of village fund corruptions begins to rise and becomes one of the hot topics on the corruption eradication commission. Village development funds that should be used to promote and utilize villages are misused by various parties including by the management of the Village-Owned Enterprise.

The phenomenon that currently happens is that many of the Village-Owned Enterprises do not stand alone and are still within the same scope of the organization with the village office. The fact that there are still many village officials who concurrently hold positions as administrators of Village-Owned Enterprises. With regard to cases of corruption that continue to occur in village funds, it is possible to influence the funds of Village-Owned Enterprises, most of which are still in one management with village funds.

As a proof, in 2016-2017 there was a corruption case for village fund allocation for Village Owned Enterprises in Purwosari Village, South Lampung which caused a loss of up to Rp 142 million. Another similar case occurred in Sumbernongko Village, Jombang, East Java where corruption occurs in the allocation of village funds for Village-Owned Enterprises in the amount of Rp. 100 million in 2017. Stepping back, in the beginning of 2016, which was still the beginning of the development of Village-Owned Enterprises in Indonesia,

there were corruption cases and misappropriations of Village-Owned Enterprises funds that happened in Babulu Darat Village, Penajam Paser Utara District. Unmitigated, losses allegedly reached Rp 900 million. Another series of cases occurred, the latest in 2018 in Sukaraja Village, Pesawaran District, there was embezzlement of funds reaching up to Rp. 80 million. These cases are evidence and facts that corruption cases on Village Owned Enterprise funds are no longer rarity in the government.

According to data from Indonesia Corruption Watch (ICW), by the end of 2017, the cases of corruption, collusion, and nepotism of village funds that have been detected to reach more than 900 cases (Aliyah, 2015). The count of nearly thousands of this is not yet included with cases that have not been detected by legal lawyers. Weak supervision of the village sector is currently considered to be one of the biggest factors contributing to the ongoing fraud. If the weakness of this supervision allows continuesly, it is possible if the case of corruption is increasing and the funds are depleted for the benefit under the guise of the apparatus continues to mount.

The presence of whistleblowers in various corruption cases in the government sector either in the district or city, province, or in the central government has so far not been followed by the presence of whistleblower figure in the village government sector. Evidents from the unprecedented reports of village fund fraud reported by internal and external parties in the village administration. This becomes commonplace as village funds are new and present in less than five years. However, the small age of village funds did

not affect the small number of cases of corruption or fraud. The number of corruption cases occurring in village funds is not inferior to the number of corruption cases in other sectors that are much larger and wider. So the presence of whistleblower figure in village government becomes important to be able to compensate for the high number of frauds that continues to occur. Therefore, it is expected to help the government in reducing fraud or corruption that occurred in the village funds.

The frauds in village funds can be anticipated if the various parties concerned and directly related to the use of funds such as employees of the Village-Owned Enterprise are active and readily available if at any time it is necessary to become a whistleblower in the case of village funding fraud can occur. So, understand the factors that drive the civil apparatus of the state and in the case of this research, the employees of the Village-Owned Enterprises to take whistleblowing action becomes important to know so that institutions, organizations, and government can know what factors are influential. Also know the policies can be done as well as whistleblowing system such as what is effective to apply. The participation of employees to be a whistleblower is crucial because a reporting system will be useless if there is not a reporter who utilizes the system.

There are some factors that the author considers to have enough role in the intention to conduct whistleblowing are personal costs, perceptions of the seriousness of fraud, and organizational commitment. Personal cost is the result that the subject will receive in relation to the behavior he will do . Perceptions

about the seriousness of cheating each individual are certainly different and depend on the values embraced, but to what extent the perception about cheating will certainly affect the thinking of individuals related to its intention to carry out reporting actions. While organizational commitment is a sense of loyalty that individuals have towards certain institutions or organizations that will influence the whistleblowing intention of the individual (Lestari, 2018)

The results of the previous study show that personal cost negatively affects the whistleblowing intention (Lestari, 2018; Aliyah, 2015), perception about the seriousness of fraud positively affect the whistleblowing intention (Lestari, 2018; Aliyah, 2015; Bagustianto & Nurkholis, 2015; Setyawati et al., 2015) and organizational commitment also has positive influence on the interest to take whistleblowing actions (Setyawati, et al., 2015; Wahyuningsih, 2016; Prasasti, 2017; Bagustianto and Nurkholis, 2017;).

So far, there has been little research on whistleblowing either internationally or nationally, more particularly in the public sector. Research on whistleblowing in the public sector is also more likely to be done in institutions such as Supreme Audit Agency or regional work unit in each region and has not been done in the village government as in the Village Owned Enterprises. Therefore, based on this case, this research needs to do examine to know the factors that influence the whistleblowing intention in the employee's environment in the Village Owned Enterprise. Therefore, it is expected that this research can help to eradicate or reduce fraud on the management of village funds, especially in the Village Owned Enterprise.

This research refers to research conducted by Lestari (2018) entitled "Whistleblowing and Factors Affecting the Implementation by State Civil Apparatus". However, different from previous study, this study will use the perception about seriousness of the fraud and personal cost as an independent variable and organizational commitment as a moderating variable. Thus, this study uses the title, **“Factors Affecting Whistleblowing Intention of Employee in Village-Owned Enterprise to Reduce Fraud in Village Fund (Empirical Study on Village-Owned Enterprise in Bantul Regency)”**

B. Research Scope

The problem limitation of this research is:

1. This study examines of perception about seriousness of fraud, personal cost, and organizational commitment as the independent variables, organizational commitment also as a moderating variable with whistleblowing intention as the dependent variable.
2. The sample of this research is employee of Village-Owned Enterprise in Bantul Regency, Special Region of Yogyakarta.

C. Research Questions

Based on the background above, the researcher proposed the following research questions, that is :

1. Does personal cost have negative effect to the whistleblowing's intention of employee in village-owned enterprise?
2. Does perception about seriousness of fraud have positive effect to the whistleblowing's intention of employee in village-owned enterprise?

3. Does organizational commitment have positive effect to the whistleblowing's intention of employee in village-owned enterprise?
4. Does organizational commitment weaken the negative effect of personal cost towards whistleblowing's intention of employee in village-owned enterprise?
5. Does organizational commitment strengthen the positive effect of perception about seriousness of fraud towards whistleblowing's intention of employee in village-owned enterprise?

D. Research Objectives

Based on the research questions above, this research has a purpose :

1. To get empirical evidence about negative effect of personal cost towards whistleblowing's intention of employee in village-owned enterprise
2. To get empirical evidence about positive effect of perception about seriousness of fraud towards whistleblowing's intention of employee in village-owned enterprise
3. To get empirical evidence about positive effect of organizational commitment towards whistleblowing's intention of employee in village-owned enterprise
4. To get empirical evidence if organizational commitment weaken the negative effect of personal cost towards whistleblowing intention's of employee in village-owned enterprise

5. To get empirical evidence if organizational commitment strengthen the positive effect of perception about seriousness of fraud towards whistleblowing intention's of employee in village-owned enterprise

E. Significance of the Study

1. Theoretical Function

The results of this study are expected to enrich the science and researches on whistleblowing in the economic context in Indonesia. In addition it is an early milestone in research on how to reduce corruption cases of village funding especially about whistleblowing systems because since the village fund regulation was launched in 2015 there has never been any research that explain about factors affecting whistleblowing intention to village employees. This research also can be a resource of reference that can be used for subsequent research. Furthermore, it can be used as a reference and literature for further research.

2. Practical Function

This research is expected to provide empirical evidence to all related parties about what factors affect the intentions of the employees of the Village Owned Enterprise to conduct whistleblowing in order to assist the government in reducing fraud to the village funds. These factors are expected to be utilized to the maximum extent by management and government to encourage employees particularly within the scope of the Village Owned Enterprise and to other government agencies in general to

act as a whistleblower report fraudulent accounting and fraud acts within the scope of the institution and as well as.

It can also be used as a source of information and referrals for Village Owned Enterprises in the applying the of whistleblowing system in the organization so that its implementation can be more effective and efficient. The results of this study can also be used as a reference for other organizations that want to apply whistleblowing system in institutions or in their respective organizations.