

## EARLY DETECTION IN BOOSTING WHISTLEBLOWING INTEREST (Case Study at Pratama Tax Office of South Sidoarjo)<sup>1</sup>

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### ABSTRACT

*The main purpose of this study is to empirically examine and analyze the effect of early detection principles, comprising anonymous reporting, followed up reporting and reward system, on the encouragement of an individual interest in reporting fraud. The research was conducted at the Pratama Tax Office of South Sidoarjo. The samples used in this research were 53 respondents. Sample collection was done using saturation sampling technique. The results of this research show that followed up reporting has an effect on the encouragement of an individual interest in reporting fraud. In contrast, anonymous reporting and reward system have no effect on the encouragement of an individual interest in reporting fraud.*

#### **Keywords:**

### Introduction

Tax is one of the largest sources of state income compared to other sources of income derived from Non-Tax State Revenues (PNBP), such as oil and gas sectors. Tax is also a top priority in financing the state budget and expenditure. Like other countries, especially in developed countries, the top priority of state revenue comes from taxes (Priantara, 2009: 2). So, income from taxes has become the mainstay in financing the development of the country and it is expected that there is no fraud in tax revenue.

On August 19, 2011, the Directorate General of Tax (DGT) increased the implementation of discipline by issuing bureaucratic reforms in the form of the Director General of Tax Regulation No. PER-22/PJ/2011, on the obligation to report violations and the handling of the whistle-blowing reports within the DGT. Whistle-blowing system in the DGT

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is also intended to increase the participation of the public, especially the tax officers who actively supervise each other. Various cases dragging the tax apparatus in recent years have led to taxpayer skepticism in carrying out his tax obligations (Fasmi dan Misra, 2014). Therefore, whistle-blowing system aims to restore public trust to DGT and create good governance.

The whistle-blowing system or hotline serves as primary defense tool to deter and detect fraud as it proves to have deterrent effect on potential actors (Priantara, 2013:186). Report to the Nations on Occupational Fraud and Abuse released by ACFE consistently reports that most of the fraud detection is done by whistleblower. Whistle-blowing system has been used in various countries in the world, especially in developed countries, because its existence is very important in fighting against fraud. In the United States, the use of whistleblower system becomes a requirement for all public organizations (Zimbelman *et al.*, 2014:109).

It is not easy to make the decision that can boost individuals to be interested in becoming whistleblower, because there are still some aspects that need to be taken seriously. The results of the research conducted by the Institute of Business Ethics in the Public Concern at Work (PCaW) report (2013) show that one of four employees who knew that fraud was happening, more than half (52%) chose to remain silent. There are several risks to be faced when becoming a whistleblower, not only on the position, property and safety of the soul, but also on the life of his family due to retaliation or intimidation. On one side, whistleblower is also considered as a traitor, libel, false. So, it can backfire for whistleblower who intends to report a crime scandal.

One of the basic principles of Regulation No PER-22/PJ/2011 is to boost whistleblower enthusiasm or early detection principles by requiring employees to monitor and report any violations / indications of violations within the DGT. As a counterpart of the obligation, the DGT provides "protection to the complainant".

The protection provided is to conceal the identity of the reporting party, in the event that the reporting party is willing to give his / her identity. However, to ensure the confidentiality, the Ministry of Finance (MoF) ([www.wise.depkeu.go.id](http://www.wise.depkeu.go.id)) appeals not to notify / fill in personal data such as name (anonymity) or the relationship between the reporting party and the perpetrators because the focus of MoF is only on the complaint information.

Deloitte, one of the largest Accounting Firms of Big 4, in its worldwide study concluded the reasons why the whistle-blowing system failed to detect any violations, one of which was the lack of anonymity (Zimbelman *et al.*, 2014:453). Several international studies are still debating between anonymous reporting and confidentiality. Furthermore, empirical studies show that confidentiality tends to be weak, as evidenced in the research conducted by Sumantri (2014), that the employee's support for the confidentiality of the identity of the complainant is only 50%.

Another balance that has an important role in the implementation of whistle-blowing system is the early detection principles as stipulate in the Regulation No. PER-22 / PJ / 2011. One of the early detection principles is to regulate the "follow up report". According to Machzumi (2013), one way to increase the success in the application of whistle-blowing system is that the Ministry / agency needs to consider the aspect of guarantees to following up any reports submitted by the complainant. The results of survey on the effectiveness of the whistle-blowing system in the UK indicate that 74% of the major constraints a person not reporting any allegations of fraud are due to the assumption that the submitted report is ignored and not followed up (PCaW, 2013).

The other early detection principle is to regulate "reward" for whistleblowers who report illegal allegations within the DGT. The same thing is also applied in the US tax agency, that is, IRS (Internal Revenue Service) which

provides rewards to whistleblower. The result of the research conducted by Xu and Ziegenfuss (2008) shows that reward system has an effect on the interest in performing whistle-blowing.

The purpose of this research is to examine and analyze the effectiveness of the Directorate General of Tax (DJT) early detections principles, such as whistleblower identity confidentiality protection, follow-up report, and reward, in encouraging the whistle-blowing interest. The principles are provided as a counterpart to the obligation of employees to supervise each other and report allegations of fraud that occur in the work environment. The election of Pratama Tax Office of South Sidoarjo as the research sample is because in 2012 there was a tax levy bribery case involving PT Bhakti Investama committed by Supervision and Consultation Section Head of Pratama Tax Office of South Sidoarjo, Tommy Hendratno and a businessman named James Gunardjo. The Directorate General of Taxes (DGT) had monitored the suspect Tommy Hendratno since 2011, "he was monitored through whistleblower system," said a Tempo source (Friday, 8/6/2012).

### ***Reinforcement Theory***

This theory argues that the factors that motivate a person in doing a job is a stimulus that will be received from the implementation of the job. The assumption is that a person will repeat a behavior when the behavior gets the desired consequences, and will stop the behavior when it has unintended consequences (Badrudin, 2014:200). However, this theory, as referred by Remender (1980), is more likely to ignore matters relating to social contexts, such as interacting with one another and focusing on the reflective activities already undertaken and experienced. He also asserted and criticized the reinforcement theory argued by Skinner (1962), that reinforcement theory not only emphasizes the stimulus (reward) or punishment, but also concerns the intent or purpose of one's behavior.

The reinforcement theory tries to explain the role of reward in shaping certain behaviors. Hanafi (2003:319) states that if a behavior is rewarded with expected fun, the behavior will be repeated in the future. Conversely, if a behavior gets unpleasant reprisals or punishment, the behavior will not be repeated in the future. It would be much better if the stimulus runs naturally. There is a good indication if someone behaves as expected by the principal although the reinforced stimulus is no longer executed (Burgess and Akers, 1966).

The results of research conducted by Thorndike, as quoted by Nugraheni (2011), mention that: (1) Law of exercise, that is, if the association between stimulus and response often occurs, the association will form stronger. The interpretation of this law is the more often the knowledge that has been formed by the association between the stimulus and the response to be trained (used), the stronger the association will be; (2) Law of effect, that is, if the association formed between stimulus and response is followed by a satisfaction, the association will increase. This means that if a response given by a person to a stimulus is true and he knows it, the satisfaction will be achieved and the association will be strengthened.

In addition, Ivan Petrovich Pavlov's research in Nugraheni (2011) suggests that by applying the right stimulus strategy, one's behavior can be controlled and there will be repetition of the desired behavior, in this context the individual is unaware that he is controlled by the stimulus that comes from outside of him. This is in line with research conducted by Skinner (1958), that in the context of one's behavior, the control of individual attitudes / behaviors can be done outside the reward factor. In this study Skinner (1958) conducted experiment on a gambler. A gambler faces two major possibilities: win (positive) or lose (negative). However, although he loses gambling, he still repeats his activities (gambling). From this experiment, Skinner (1958) concluded that the driving factor

is not only a reward, but also the satisfaction of the individual.

According to Hanafi (2003:319), the reinforcement process can be described as follows:

Stimulus → Responses → Consequences →  
Future → Responses

Related to the reinforcement theory, Hanafi (2003:319) explains that there is a certain stimuli, such as orders from superiors, which can encourage one's behavior (eg, subordinates carrying out the order). As the individual can run the order well, there are certain consequences received, such as a salary raise. As the reward received by the individual is pleasant, in the future he will repeat the same response, that is, when he is ordered by the boss he will do well.

From the above explanation, it can be drawn a conclusion that one's behavior can be controlled by a driving factor outside of him. The studies conducted by Remender (1980) and Burgess and Akers (1966) state that it would be much better if the amplifier / propulsion factor comes from within the individual, or running naturally.

### ***Whistle-blowing***

According to Miceli dan Near (1985), whistle-blowing is a disclosure by a member of the organization (former employee or current employee) for illegal, immoral or unlawful acts, and reporting the allegation to a party or organization that can take action on the event. Akers and Eaton (2009) define whistle-blowing as an act of reporting wrong doing to internal or external parties. Whistle-blowing is increasingly referred to as part of good organizational governance for all organizations. Whereas, according to Dorasamy (2013), whistle-blowing can be considered as an employee action reporting unethical practices within the work environment, thus expecting investigations from the disclosure. In essence,

whistle-blowing is a form of disclosure of illegal acts or corruption (Rachagan dan Kuppusamy, 2013). Based on some whistle-blowing notes above, it can be concluded that whistle-blowing is an employee action reporting fraudulent activity within the work environment to the competent authorities, expecting follow-up on the report submitted.

### ***Anonymous Reporting***

In developing whistle blower protection, specifically Walker (2014) proposes to employees how to report fraud anonymously. The reporting is a strategy so that the whistleblower will be in a safe and comfortable zone when he wants to report and avoid retaliation, because by reporting anonymously, the whistleblower will be difficult to trace (Transparency International, 2009). Anonymous disclosure is to report through channels by ensuring that the information conveyed without mentioning the sender's address, providing untraceable phone calls, emails sent from a blocked account, the IT system ensuring anonymity and preventing it from reconnecting (Transparency International, 2009). Park *et al.*, (2008), also defines anonymous disclosure as an employee reporting form of fraud that occurs by not providing any information about himself, and can use a pseudonym.

If employees must report violations through internal channels that do not guarantee anonymity, they may not provide information (Zimbelman *et al.*, 2014). It is an effort to protect themselves against possible hazards. Thus, the complainants require the availability of anonymous channel provided by an organization.

### ***Follow-Up Report***

One important factor that hinder the potential of whistleblowers is the lack of confidence in the responsibilities of follow-up report mechanisms and the unclear procedure of follow-up reports. Therefore, it is necessary

to consider creating an environment that encourages a person to be interested in reporting fraud (Transparency International, 2009).

According to Robert Francis QC (2013), cited in the PCaW report (2013), a follow-up report is that the verifier responds sufficiently to a complaint report or to confirm correction of the report, so as to gain the confidence that the report will be noticed. It is not only physical protection to the whistleblowers, but also other factors that can generate a sense of respect and safety to report. As Chaurasiya *et al.*, (2013) says, whistleblowers are reluctant to report fraudulent actions because there are several disruptions, such as firing, blacklists, threats and physical violence. The majority of issues occurring is that the whistleblower report is often ignored or not followed up.

### **Reward**

The existence of reward in the application of whistle-blowing system has a significant role for its success. As indicated by the United States federal law, the False Claims Act regulates the granting of financial incentives to individuals who report fraud in the workplace. Rewards are often classified by social scientists, in the form of intrinsic rewards. Extrinsic rewards (financial incentives, benefits) are tangible goods that give satisfaction to those who are valued and often used to encourage the behavior of uncovering credible evidence. Extrinsic rewards are generally more effective at encouraging whistle-blowing (Callahan dan Dworkin, 1992).

A person who wishes to report a fraudulent allegation should be encouraged because being a whistleblower is not easy given the negative impact he will receive. Such encouragement may be a reward proportional to the obligation to report alleged fraud. According to an article written by Stiegler (2012), efforts to prevent corruption occurring in the workplace are conducted not only by imposing penalties on employees who receive

bribes, but also providing monetary rewards to employees who refuse bribes and are willing to report them.

### **Hypotheses Development**

#### **The Effect of Anonymous Reporting on Whistle-blowing Interest**

In the reinforcement theory, it is explained that by applying the right stimulus strategy, the behavior of a person can be controlled / driven and there will be repetition of the desired behavior, in which the individual is controlled by stimuli that come from outside of him. An employee can report fraud occurring in the workplace by using a pseudonym. The strategy is to avoid any threats or negative impacts when he will report and after the reporting. If the action has been realized and has an effect of improving the effectiveness of the organization to a better direction which is free from any form of fraud in the work environment and there is a feeling of comfort and security after reporting, the employees will likely repeat the same thing when they know illegal practices happening in workplace. A comfortable condition is obtained by an employee within an organization if there is a protective procedure to report fraud. The mechanism is very important because of its sensitivity. One of the reporting mechanisms required by SOX 2002 section 301 for public organizations is providing anonymous reporting channels for whistleblowers (Eaton dan Akers, 2007). In this condition, a person is free to submit his / her complaint without any fear of threats that endanger him / her.

Miceli and Near (1985) analyze whistle-blowing with the main question is why some people report immoral or illegal acts and some do not. From the research, they managed to find one of the major factors why some people do not report. It is because they are afraid of the threat or retaliation from wrongdoer. So, it encourages a person to report anonymously to avoid potential threats of violence. It is shown

substantially by ACFE (2014) research results, that anonymous reporting is a way of avoiding the risk of backlash.

The study conducted by Gokce (2013) proves that the percentage of the majority of individuals who report illegal acts with an anonymous system is very high. The result of this study is similar to that of the study conducted by Nayir and Herzig (2012), that the majority of individuals is more likely to choose anonymous system with the aim to avoid the risk of threats.

However, the research conducted by Park *et al.*, (2008) found that the application of reporting with anonymous systems in Turkey and the UK is relatively weak, whereas the application of this system is highly recommended as an effective strategy in combating fraud in South Korea. Based on the explanation described above, the first hypothesis proposed in this study is:

*H1: Anonymous reporting has an effect on whistle-blowing interest.*

### **The Effect of Follow Up Report on Whistle-blowing Interest**

Full attention to the receipt of complaints aims to streamline the whistle-blowing systems. Effective reporting system means that every report of complaints received will get a guarantee to be verified and reviewed. The verifier will serve responsibly. If a whistleblower's complaint report is not responded, the whistleblower will be reluctant to report the alleged fraud for a second time or even none at all. Instead, the whistleblower will move forward in reporting fraudulent allegations if his reports are responded and acted upon. There is a strongly established association when the association between stimuli and responses is common. To encourage someone wishing to report a fraud, one of them is by informing the organization members that the report will be followed up. When the organization members respond to the

information well and they believe that there is a guarantee of response to the whistleblower report, the whistle-blowing action will be stronger.

If the association formed between the stimuli and the response is followed by the satisfaction, the association will increase. Similarly, if an employee reports fraud and the report is certainly followed up, then the employees will feel satisfied because the report is not ignored. If the association is common, the behavior of whistle-blowing will also increase.

The handling of whistleblower report has a profound effect on the success and effectiveness of reducing fraud by applying whistle-blowing system. An experimental study conducted by Schultz *et al.*, (1993) shows that the desire to report will increase positively if there is seriousness and responsibility to report of irregularities. The study also compared the seriousness and responsibilities of reports among several countries, such as France, Norway and USA. The research results show that France emphasis more on the responsibility and seriousness of handling reports than the Norway and USA.

Another study that proves the importance of the whistleblower report to be responded was conducted by Bucka dan Kleiner (2001), that whistleblowers will be disappointed or hurt if no one in the organization concerned listen to or even ignores the reports they make. So, if the reports are not acted upon, the whistleblowers will not report for the second time (PCaW, 2013). The result of this study is also supported by the result of the study conducted by Yeoh (2014) that the factor causing a person to be encouraged not to report fraud actions is not only in the form of threats, but also the absence of the seriousness of the organization in handling the fraud.

On the other hand, in the research conducted by Brewer dan Selden (1998), it is said that although the literature on whistle-blowing suggests that the success of complaints includes

reports will be handled, corrective actions will be done, and perpetrators (fraudsters) will be punished, yet the whistleblowers are not motivated by such ways. Based on the explanation described above, the second hypothesis proposed in this study is:

*H2: Follow up report has an effect on whistle-blowing interest.*

### **The Effect of reward on Whistle-blowing Interest**

Reinforcement theory says that if a behavior gets reward, the behavior will be repeated in the future. Conversely, if a behavior gets unpleasant reprisals or punishment, the behavior will not be repeated in the future. An employee will be enthusiastic if the institution where he works provides a reward program for the obligation to report fraud. If the employee is satisfied with the rewards earned and feels comparable to what he has done, the whistle-blowing will be repeated. Conversely, if the employee knows that he will get retaliation or other negative threats after reporting fraud, the employee will not repeat the same thing.

The monetary reward program as a substitute for taking bribes is expected to make employees firmly refuse bribes and report the perpetrators. This strategy is done so that the employees who receive a relatively small salary or feel less do not tend to accept bribes (Stiegler, 2012). This program is powerful enough to encourage whistle-blowing because in addition to keeping the organization clean, the individuals will also receive rewards in return for reporting fraud.

One thing that cannot be denied is that a whistleblower will be motivated to report if there is guarantee of protection from the organization and the motivation that encourages him. This can be proved empirically in a study conducted by Xu and Ziegenfuss (2008), which indicates that auditors prefer to report fraudulent acts to the higher authorities if the organization provides a monetary reward or

long-term employment contract. The result of this study is similar to the result of the research conducted by Ponemon (1994), that there is a significant influence between monetary rewards or long-term employment contracts that serve as incentives and the application of whistle-blowing systems.

In addition, Xu and Ziegenfuss (2008) also mention that the presence of monetary incentives and the protection of employees can help foster a positive moral environment and increase the likelihood of whistle-blowing behavior within the organization. Therefore, to achieve an optimal role in encouraging the whistle-blowing interest of the organization itself, the employees need to be given a motivation to be more concerned about their work environment when there are indications of immoral or illegal actions.

In contrast, the research conducted by Brewer dan Selden (1998) reveals that the government employees or public are less motivated to be whistleblowers with the provision of monetary incentives and personal rewards, but the employees are motivated by the interests of others, high performance, job satisfaction, work commitments, self-sacrifice and the existence of work protection. In addition, Near *et al.*, (1993) also finds quite an opposite result that although incentives can motivate and satisfy whistleblowers, the influence of monetary incentives can also produce biased information. Based on the explanation described above, the third hypothesis proposed in this study is:

*H3: Reward has an effect on whistle-blowing interest.*

### **Research Method**

#### **Types of Research and Sources of Data**

This research uses quantitative research. Sources of data in this study are using primary data. The primary data are derived from respondents' answers to written questions (questionnaires) submitted by researchers.

### **Population and Sampling Technique**

Population in this research is all employees working at Pratama Tax Office of South Sidoarjo included in the scope of Regional Office of Directorate General of Tax (DGP) East Java Province. The number of employees of Pratama Tax Office is 76 people. Sample selection technique used in this research is purposive sampling method.

### **Operational Definition of Variables**

This study consists of three independent variables: anonymous reporting, follow up report, and reward; and one dependent variable, that is, whistle-blowing interest. The variables are measured by a 5-point Likert scale. The answers provided are score 1 (Strongly Disagree), 2 (Disagree), 3 (Neutral), 4 (Agree), 5 (Strongly Agree).

### **Data Quality Test**

The research data quality test includes validity test and reliability test. Data management is done by using SPSS 21.0 for windows. The test will be valid if the value of  $r_{count} > r_{table}$  (Sujarweni, 2015:192), while the questionnaire instrument is considered reliable if it has Cronbach's Alpha value  $> 0.60$  (Sujarweni, 2015:192).

### **Classical Assumption Test**

The classical assumption test used in this study includes normality test, multicollinearity test, and heteroscedasticity test. Data normality test can be done using Kolmogorov-Smirnov test. If Sig value  $> 0.05$ , the data is normally distributed, but if Sig value  $< 0.05$ , the data is not normally distributed (Sujarweni, 2015:52). To know the presence or absence of multicollinearity in the regression model, one of them is done by using variance inflation factor (VIF) and tolerance value. If the VIF value generated is between 1 and 10, this means that there is no multicollinearity (Sujarweni, 2015:185). The tolerance value commonly used

to indicate the presence of multicollinearity is a tolerance value  $\leq 0.10$  (Ghozali, 2013:107). Meanwhile, heteroscedasticity test can be done by Glejser test (Sujarweni, 2015:190), that is, by looking at the value of the probability significance of independent variables  $> 5\%$ , then there is no heteroscedasticity (Ghozali, 2013:143).

### **Hypothesis Testing**

According to Sujarweni (2015: 155), to see the effect partially can be done using the following criteria:

1. If  $t_{count} > t_{table}$  or  $Sig < 0.05$ ,  $H_0$  is rejected and  $H_a$  accepted. This shows that there is a significant influence between independent variable (X) and dependent variable (Y).
2. If  $t_{count} < t_{table}$  or  $Sig > 0.05$ ,  $H_0$  is accepted and  $H_a$  is rejected. This shows that there is no significant influence between independent variable (X) and dependent variable (Y)

## **Results and Discussion**

### **Characteristics of Respondents**

This research is conducted to all tax employees working at Pratama Tax Office of South Sidoarjo which is included in the scope of Regional Office of Directorate General of Tax (DGT) East Java Province. The number of questionnaires distributed was 76 questionnaires but only 53 questionnaires were returned. So the total questionnaires processed were 53.

### **Distribution of Questionnaires: Appendix Table 1**

### **Description of the profile of Respondents: Appendix Table 2**

### **Data Quality Test**

The results of validity and reliability testing show that all variables in this study can be said to be valid because the  $r_{count}$  values



of these variables are greater than r table with the Cronbach's Alpha value above 0.60. So, it can be concluded that all the variables proved reliable.

**Validity Test Results: Appendix Table 3**  
**Reliability Test Results: Appendix Table 4**

**Classical Assumption Test**

The results of normality test in this study show the Kolmogorov-Smirnov value of 0.636 and significance value of 0.814 (significance > 0.05), indicating that the residual result has normal distribution. Multicollinearity test results show the tolerance value  $\geq 0,10$  or VIF value (Variance Inflation Factor) produced is between 1-10, indicating that in the multicollinearity test of the three independent variables, there is no correlation

between variables or no multicollinearity. Heteroscedasticity in this study is done using Glejser Test. After testing, it can be concluded that all variables show a level of significance of more than 0.05, indicating that this regression model does not contain heteroscedasticity.

**Normality Test Result: Appendix Table 5**

**Multicollinearity Test Results: Appendix Table 6**

**Heteroscedasticity Test Results: Appendix Table 7**

**Hypothesis Testing**

Results of hypothesis testing using multiple linear regression analysis approach can be seen in Table 4.1

**Table 4.1**  
**Hypothesis Testing Results**

Variable	Coefficient of Regression	t count	Sig.	Note
Anonymous reporting	0.111	1.110	0.273	Not significant
Follow-up report	0.457	6.542	0.000	Significant
Reward	0.082	0.885	0.380	Not significant

Dependent: Individual interest to report fraud  
 Source: Processed Data

**Results of Testing and Discussion of the Effect of Anonymous Reporting on Whistle-blowing Interest**

In Table 4.10 shows that anonymous reporting has t count value of 1.110 which is smaller than t table value of 2.0096, with the significance value of 0.273 which is greater than  $\alpha = 0.05$ . It can be concluded that anonymous reporting has no effect on the whistle-blowing interest. Therefore, this result does not support the first hypothesis presented by the researchers, or H1 is rejected.

This result indicates that the anonymous reporting factor, which is used as a stimulus to boost the employee's desire to report fraudulent actions, has negative result (no effect). The result of this study is in contrast to the results of the studies conducted by Gokce (2013), Kaplan dan Schultz (2007)there is concern that the addition of such a channel may decrease the overall effectiveness compared to a system employing only non-anonymous reporting options. The rationale underlying this concern involves the would-be reporter's likelihood of reporting, the seriousness with which the organization treats an anonymous

report, and the organization's ability to thoroughly follow-up the report. Thus, we explore the extent to which the availability of an anonymous reporting channel influences intended use of non-anonymous reporting channels. Further, in response to Sarbanes-Oxley and the environment of financial scandals that led to its passage, many firms are strengthening their internal audit departments, and providing them with greater independence from upper management's direct control. Accordingly, our examination tests whether the intended use of the internal audit department as an internal reporting channel is greater when the internal audit department is of high versus low quality. Finally, the study investigates intended reporting behavior across three different cases (e.g., settings, Kaplan *et al.*, (2009b) Sec. 301, Nayir dan Herzig (2012), Putri (2012), and Rahmatdi (2013), that anonymous reporting has a significant effect on the individual interest in reporting fraud.

Based on the processed data in this study indicates that although anonymous reporting can boost a person's desire to report fraud as a result of the avoidance of a backlash threat, as previously stated in the study conducted by ACFE (2014), other aspects should also be considered if a person is willing to report fraud anonymously, as well as whether the anonymous reports are valid and reliable or not. So, anonymous reports are questionable and need to be traced to the truth because anonymous reports cannot be taken for granted. The statement is in line with Miceli dan Near (1994) data were analyzed with the case-control method, which is relatively unknown in the organizational literature but is frequently used in medical research to examine the occurrence of rare diseases. Managerial retaliation is more likely when: (1) that retaliation will be more likely to anonymous reports because the managerial side does not respond to and doubts

the validity of the anonymous reports. Lewis (2006) also adds that the boss tends to prioritize the reports presented in confidentiality rather than anonymity, since anonymous reporting is more difficult to evaluate. Furthermore, if it is used for the investigation, anonymous reports result in fewer sources of investigation (Hunton and Rose, 2011) cited by (Sumantri, 2014). Thus, anonymous complaint reports appear to be in vain and on the other hand unprofitable for employees.

Given these perceptions, employees are reluctant to use anonymous reporting in uncovering fraud. The results of this study can indirectly support the research of whistleblowing conducted by (Sumantri, 2014), that if a fraudulent report is submitted in secret, it will likely contain slander or will increase the libel. Thus, this study also agrees with or in line with empirical study conducted by Near dan Miceli, (1995) which indicates that there is a doubt whether an anonymous report needs to be followed up or not.

Besides dealing with the credibility of a report that becomes an important point of anonymous channel, there are other aspects that need to be considered more closely if an organization implements anonymous channel reporting, that is, whether the report can be justified or not, because the study conducted by Near dan Miceli (1995) mentions that reports derived from anonymous channel can be false reports or defamation. Thus, anonymous reporting is still relatively weak because its validity level is still in doubt (Miceli dan Near, 1994) data were analyzed with the case-control method, which is relatively unknown in the organizational literature but is frequently used in medical research to examine the occurrence of rare diseases. Managerial retaliation is more likely when: (1.

In addition, another study which is in line with this research is the study conducted by Park *et al.*, (2008), with the result that the anonymous reporting system perception, for

Turkish and United Kingdom students, is less desirable to apply (relatively low). Referring to the various consequences, anonymous reporting is not a simple matter in encouraging the successful implementation of whistle-blowing system. The messages contained in anonymous reports can lead to various speculations from organizations or individuals who are handling the report. PCaW (2006) presented in Brussels that:

*“...the employee acted anonymously is often claimed as a sign of bad faith or dishonesty....”*

Respondents in the study believe that anonymity is a matter to be considered carefully by considering the consequences that will be generated, because the respondents also do not want if the report he has submitted is doubted and claimed as a lie report. The statement is shown with answers from the respondents as outlined in Figure 4.1 below.

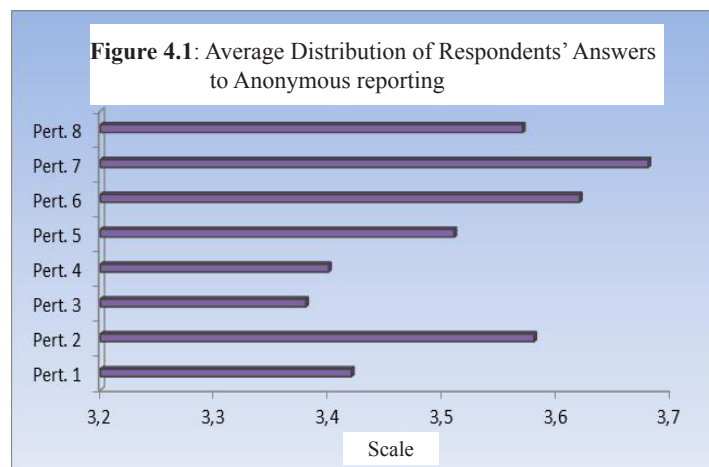


Figure 4.1 shows that the majority of respondents in this study rated below 3.7. This implies that anonymous reporting is between important and unimportant (Neutral) in the application of whistle-blowing system. This result is in line with the reporting system adopted by the Ministry of Finance, whereby the complainants may include and not include their identities when reporting alleged fraud.

Research on the confidentiality done by Sumantri (2014) obtained a small percentage. This is because the tax officers less agree with the guarantee of the confidentiality of the identity of the complainants. So, the results of the research conducted by Sumantri (2014) confirm that 86% of respondents have perceptions that the whistleblower should notify his identity when reporting a case so as not to generate libel and defamation statements because the truth of the

report is more taken into account and important than the whistleblower identity that is kept secret when making a fraudulent report.

In addition, the strong allegation of the negative effect of anonymous reporting on whistle-blowing interest is gender (since the proportion of male respondents of 64.2% is bigger than that of female respondents of 35.8 %). Kaplan *et al.*, (2009a), documented that there was a significant influence between the application of anonymous reporting channel and gender. The results explain that the largest percentage of those using anonymous reporting channel is female compared to men. The research considers that with anonymous reporting, the personal cost is less than non-anonymous. Based on the research, it can be justified that this research is very rational if it gets results that have no effect, and this also

supports the research conducted by Kaplan *et al.*, (2009a).

### Results of Testing and Discussion of the Effect of Follow Up Report on Whistle-blowing Interest

Table 4.10 shows that follow up report has t count value of 6.542 which is greater than t table value of 2.0096, with significance value of 0.000 which is smaller than  $\alpha = 0,05$ , hence it can be concluded that follow up report has an effect on individual interest in reporting fraud (whistle-blowing). The positive value of coefficient of regression indicates a positive relationship between follow up report and whistle-blowing interest. This means that the more the complaint report is acted upon, the higher the whistle-blowing interest.

These results indicate that the certainty that the report submitted by whistleblower will be followed up, which is one of the stimuli in this study, has resulted in an influential effect on encouraging a person's interest in reporting fraud in his or her work agency. This study is in line with the result of the research conducted by Skinner (1958) that his reinforcement theory can move the attitude / behavior of individuals outside the reward factor.

In this study Skinner (1958) conducted experiments on gamblers. A gambler faces two major possibilities: win (positive) or lose (negative), although he loses gambling, he still repeats his activities (gambling). From the research, it can be drawn straight line, that the driving factor / encouragement of a person's behavior or interest is not only in the form of incentive reward, but also satisfaction. A whistleblower will feel satisfied if the report submitted is appreciated or there is guarantee to be followed up.

In general, this is also in accordance with the nature of individual psychology that if a person gets attention, in which his behavior or action is appreciated, the behavior or action will be repeated in the future. This

was evidenced by the statement of Hanafi (2003:319) in reinforcement theory, that if a behavior gets expected fun, the behavior will be repeated in the future. Conversely, if a behavior gets unpleasant reprisals or punishment, the behavior will not be repeated in the future.

This study is in line with the studies conducted by Lewis and Uys (2007) and PWC (2012), that whistle-blowing will be effective if each received complaint is warranted for investigation and follow-up. Furthermore, the result of the research conducted by Zimbelman *et al.*, (2014:453) states that if whistle-blowing works effectively because of corrective action on the whistleblower report, this will encourage further reporting of violations.

This result is in line with previous research because the majority of respondents in this study agree that ensuring the certainty of follow up is essential for the success in the application of whistle-blowing. This is indicated by the average of respondents' answers that are close to 4.0 (agree) as illustrated in Figure 4.2 below.

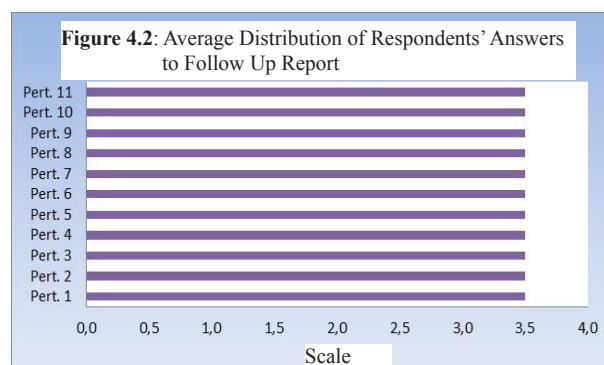


Figure 4.2 shows that the average respondents agree that follow-up report has an important role in encouraging individuals to report fraud. In other words, the statistics imply that if a complaint report submitted by a whistleblower is not responded, the whistleblower will be reluctant to report the alleged fraud. Instead, the whistleblower will report fraudulent allegations if his report is responded and acted upon.

In addition to the above explanation, the concrete evidence to support these findings is the statistical data presented in Table 4.1 below. Although the statistics presented is a compilation of complaints from Internal and External, it is strong enough to explain

the importance of guarantee that the report delivered by the whistleblower will be followed up or acted upon. The guarantee will surely encourage the whistleblower to report allegations of fraud enthusiastically.

Table 4.1

Report of Complaints Follow UP at DGT Period 2013 - 2014		
Description	Total	Percentage %
The Number of Incoming Complaints in 2013	272	100%
The Number of Complaints Followed Up in 2013	222	82%
The Number of Complaints in Process in 2013	50	18%
The Number of Incoming Complaints in 2014	228	100%
The Number of Complaints Followed Up in 2014	208	91%
The Number of Complaints in Process in 2014	20	9%

Source: DGT Annual Report 2014

Table 4.11 above shows that in 2013 the DGT recipient or hotline operator followed up 82% of complaint reports, and the remaining 18% was still in follow-up process. As the implications of the number of complaints that had been followed up, the number of incoming complaints in 2014 was still consistent, indicating that there was no significant change / decline. 91% of complaint reports in 2014 had been followed up and the remaining only 9% was still in the follow-up process.

So, from Table 4.11 above it can be concluded that if the recipient or verifier of the complaint is serious in handling all incoming complaint reports, from both internal and external whistleblower, the whistleblowers will consistently be interested in reporting the potential of fraud, so that the number of incoming complaints report from 2013 to 2014 is still consistent and there is no significant decrease. In addition, as the form of the seriousness in handling and responding to complaints from both internal and external organizations, the Ministry of Finance issued a Regulation No. 149 / KMK.09 / 2011 which regulates the procedures for the management and follow-up of violation reporting and

the management procedures of the violation reporting within the Ministry of Finance.

The result of the research conducted by PCaW (2013) indicates that when a whistleblower's first complaint report is not responded, the whistleblower will not report for the second time. According to Bucka dan Kleiner (2001), this is because the whistleblower feels hurt and frustrated when no one responds and listens to his complaints. He is also afraid of having negative implications and becomes victims if his report is not immediately followed up. So, investigation is the best protection for whistleblowers ((Lewis dan Uys, 2007).

The result of this study is in line with the result of experimental study conducted by Schultz *et al.*, (1993), that the desire to report will increase positively if there is seriousness and responsibility to report irregularities. However, this study is not in line with the result of a study conducted by Brewer dan Selden (1998) that the whistleblowers are not affected or motivated whether or not their reports are followed up.

Thus, this study confirms that the follow up report has a significant influence on the success of encouraging individuals to report

fraud. And the greater the form of enthusiasm of the agency's response to a report made by whistleblowers, the more compelled they are to report the potential fraud occurring in their work environment.

**Results of Testing and Discussion of the Effect of Reward on Whistle-blowing Interest**

Table 4.9 shows that reward has t count value of 0.885 which is smaller than t table value of 2.0096 with the significance level of 0.380 which is greater than  $\alpha = 0,05$ . It can be concluded that reward has no effect on whistle-blowing interest. Therefore, this result does not support the third hypothesis proposed by the researcher that reward has an effect on whistle-blowing interest, or in other words, H3 is rejected.

This result confirms that the incentive rewards do not have an impact on employee enthusiasm in reporting fraud occurring in the workplace. In other words, the application of reinforcement programs in the form of incentive rewards in controlling the behavior, attitudes or interests of employees in revealing fraud has no relevance. Thus, it is very rational to argue that in reporting the fraud, the employees of Pratama Tax Office of South Sidoarjo are not influenced by external factor in the form of incentive reward. This indicates that they are driven by the internal factor within themselves.

The situation corresponds to the exposure of Remender (1980) that one of the essences of reinforcement theory is to put forward the intent and purpose of why a person behaves in a certain way. From the statement, it can be said that the employees of Pratama Tax Office of South Sidoarjo report wrongdoing not because of the reward / incentive program, but because they think that wrongdoing activities are something that must be fought or eradicated. This is in accordance with the statements given by Burgess and Akers (1966) and Remender (1980) that it would be much better if the

inherent factor originates within the individual, or in other words, it runs naturally.

The result of this study contradicts the research conducted by Xu dan Ziegenfuss (2008), which found that internal auditors would be more inclined to report fraud to the higher authorities if there is internal incentive program within the organization. In addition, this study is also inconsistent with the results of research conducted by Ponemon (1994), Callahan and Dworkin (1992), Moberly (2012), Putri (2012), Stiegler (2012), Zhang (2008), Domfeh and Bawole (2011), which found that there was a significant influence between the monetary rewards being used as incentives and the application of whistle-blowing systems.

The result of this study is contrary to the results of previous studies, because in Table 4.12 it is explained that from the 53 respondents, the minimum answer score chosen by the Tax office employees starting from score 1 (strongly disagree), 2 (disagree), 3 (neutral), 4 (agree), to 5 (strongly agree) on reward, they still answer the lowest score, that is, 1 (strongly disagree). This indicates that they disagree if the grant of financial incentives is used as a stimulus to encourage an interest in reporting fraud . The view can be seen in Table 4.3 below:

**Table 4.3  
 Descriptive Statistics**

Indicator	N	Minimum	Maximum
Question 1	53	1	5
Question 2	53	1	5
Question 3	53	1	5
Question 4	53	1	4
Question 5	53	1	4
Question 6	53	2	5
Question 7	53	2	4
Question 8	53	1	5

Source: Processed data

Researchers assume that respondents are more interested in other rewards offered by the DGT as indicated by respondents' answers to questions 1, 2, and 3. In other words, a number of respondents give category rating "strongly disagree" on those questions relating to financial rewards in encouraging individuals to report fraud. For the question number 1, the respondents who give rating "strongly disagree" is 2%, and "disagree" is 32%. For the question number 2, the respondents who give rating "strongly disagree" is 2%, "disagree" is 33%. And For the question number 3, the respondents who give rating "strongly disagree" is 2%, and "disagree" is 36%.

In addition to reward in the form of financial incentive, the DGT also provides other types of rewards such as certificates and promotions to echelon IV, echelon II appointments, job transfers, special promotions to extraordinary, short courses or training, or special benefits up to 10 times as much as the reported amount or other equivalent benefits (Sumantri, 2014).

The statement is in line with the results of the research conducted by Sumantri (2014) that examined the DGT employees and aimed to determine the level of appraisal of employees to the form of appreciation selected by the whistle-blower. The results show that the most dominant form of reward favored by the respondents is a mutation or rotation of positions 67%, second is promotion 53%, and 43% chooses a training or short course. Meanwhile, the monetary reward is at the lowest level 31%.

According to Sumantri (2014), economic incentives for whistleblowers can make corruption behavior more attractive and equilibrium corruption more stable in the organization. So, the research conducted by Sumantri (2014) rejects if the financial incentive is applied to encourage the interest of whistleblower.

The result is equivalent to a study conducted by PCaW (2013), that although American culture uses financial rewards for whistleblowers, the UK does not recommend a financial reward or incentive for whistleblowers because rewards are not a substitute for strong legal protection for whistleblowers. In addition, monetary rewards can damage the morale and identity of whistleblowers which can lead to reporting false reports due to ambition to obtain monetary rewards. This can also damage the credibility of the whistleblower because he will get a negative assessment.

Furthermore, the result of research conducted by Rahmatdi (2013) indicates that when there is retaliation, the intention of individuals to report fraud cannot be pushed by giving rewards. Similarly, although there is no retaliation, the individual intent to report fraud cannot be encouraged by giving rewards.

The stronger allegation that supports the result of this research is the empirical study conducted by Brewer and Selden (1998), that government or the public sector employees are less motivated to be whistleblowers with monetary rewards, but they are motivated by the interests of others, high performers, job satisfaction, work commitments, tasks, self-sacrifice and the existence of work protection.

Therefore, to increase the effectiveness of the role of whistleblower, an organization should give attention to the level of accuracy and reliability of a report brought by the complainant with the assurance of protection from various threats or retaliation of potential perpetrators.

In addition, it would be better if the organization also pays attention to the Promoting Staff Awareness of Fraud through the provision of continuous training. Rachagan and Kuppusamy (2013) assert that one way to improve the effectiveness of the whistleblowing system within an organization is to brief all employees about what steps to take if wrongdoing takes place in the organization.

Thus, researchers believe that if employees have gained an understanding of the forms of fraud, the impact of fraud, the red flags or symptoms of a fraud and can identify the risk of fraud, the monetary loss due to fraud will decline and even could be avoided

It is necessary to reiterate in this research that the existence of sustainable education programs to increase employee awareness of fraud could be one of the best ways to combat fraud. In addition, the program is much better than rewarding and more efficient. As confirmed by the research conducted by KPMG (2006), in formulating a plan to combat fraud risks, an organization should pay attention to building a culture of awareness of fraud, with initiative adjustments to job functions that become the responsibility of employees.

### Conclusion

This study aims to examine the effectiveness of early detection principles issued by the Directorate General of Taxation (DGT) in boosting individual interest in reporting fraud. The results of this study show that statistically anonymous reporting has no effect on the individual's desire to report fraud. This indicates that although they are given non-reward stimulus in the form of availability of access to report wrongdoing anonymously, the respondents of Pratama Tax Office of South Sidoarjo are not encouraged to report fraud. In other words, they prefer non-anonymous reporting.

The finding related to the aspect of follow up report gets conflicting result. In other words, employees of Pratama Tax Office of South Sidoarjo will be motivated to report fraud occurring in the workplace if the report submitted gets full attention with the guarantee for follow-up. The greater the attention given to whistleblower complaints, the greater the interest of the employees to reveal the fraud. It is possible that this result can generalize to all employees in a cross-sector. This is because

psychologically the individual who gets stimuli will feel appreciated if his complaint reports receive a positive response.

The results of this study empirically confirm that the giving of incentive reward has no effect on individual interest in reporting fraud. Based on the results of this study, it can be concluded that in revealing wrongdoing that occurs in the work place, the employees of Pratama Tax Office of South Sidoarjo are not driven by financial reward stimulus.

### Suggestion

1. It is necessary that further researchers extend the research area
2. It is suggested that further researchers examine and assess whether the diversification of rewards can encourage employee interest in reporting fraud. This is because, giving a reward does not affect the individual interest in reporting fraud.
3. The last point is that the number of studies on whistle-blowing in Indonesia is still relatively few so there are still many variables beyond the scope of early detection principle that may influence the decision to become a whistleblower. It is suggested that further research add the status of wrongdoer variable because the variable will be the explanation of one of obstacles of wrongdoer.

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## APPENDIX

**Appendix Table 1. Distribution and Collection of Question naires**

Questionnaire	Total
Number of employees of Pratama Tax Office of South Sidoarjo	76
Number of questionnaires distributed	76
Number of non-return questionnaires	23
Number of questionnaires returned and analyzed	53

**Lampiran Tabel 2. Deskripsi Profil Responden**

Description	Total	Percentage%
Gender		
Female	19	35.8%
Male	34	64.2%
Age		
<25 years	2	3.8%
25-35 years	35	66.0%
35-54 years	15	28.3%
>54 years	1	1.9%
Length of employment		
1-5 years	15	28.3%
6-10 years	25	47.2%
>11 years	13	24.5%
Last education		
Associate's degree	13	24.5%
Bachelor's degree	31	58.5%
Master's degree	9	16.9%
Doctoral degree	0	0
Understanding of Whistle-blowing System		
Do not understand	0	0
Understand	53	100%

**Appendix Table 3. Validity Test Results**

<b>Part A: Anonymous Reporting (X1)</b>			
Question	r-count	r-table	Description
Question 1	0.780	0.271	Valid
Question 2	0.636	0.271	Valid
Question 3	0.672	0.271	Valid
Question 4	0.666	0.271	Valid
Question 5	0.615	0.271	Valid
Question 6	0.558	0.271	Valid
Question 7	0.633	0.271	Valid
Question 8	0.561	0.271	Valid
<b>Part B: Follow Up Report (X2)</b>			
Question	r-count	r-table	Description
Question 1	0.597	0.271	Valid
Question 2	0.883	0.271	Valid
Question 3	0.833	0.271	Valid
Question 4	0.672	0.271	Valid
Question 5	0.877	0.271	Valid
Question 6	0.833	0.271	Valid
Question 7	0.883	0.271	Valid
Question 8	0.672	0.271	Valid
Question 9	0.597	0.271	Valid
Question 10	0.672	0.271	Valid
Question 11	0.547	0.271	Valid
<b>Part C: Reward (X3)</b>			
Question	r-count	r-table	Description
Question 1	0.634	0.271	Valid
Question 2	0.678	0.271	Valid
Question 3	0.614	0.271	Valid
Question 4	0.658	0.271	Valid
Question 5	0.597	0.271	Valid
Question 6	0.576	0.271	Valid
Question 7	0.566	0.271	Valid
Question 8	0.588	0.271	Valid

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**Part D: Whistle-blowing interest (Y)**

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Question	r-count	r-table	Description
Question 1	0.816	0.271	Valid
Question 2	0.532	0.271	Valid
Question 3	0.473	0.271	Valid
Question 4	0.717	0.271	Valid
Question 5	0.625	0.271	Valid
Question 6	0.833	0.271	Valid
Question 7	0.474	0.271	Valid
Question 8	0.833	0.271	Valid

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**Appendix Table 4. Reliability Test Results**

Variable	Cronbach's Alpha	Reliability	Description
Anonymous reporting (X1)	0.795	0.60	Reliable
Follow up report (X2)	0.912	0.60	Reliable
Reward (X)	0.763	0.60	Reliable
Whistle-blowing interest (Y)	0.804	0,60	Reliable

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**Appendix Table 5. Normality Test Results**

	Unstandardized Residual	Description
Kolmogorov-smirnov z	0.636	Normally distributed
Asymp. sig. (2-tailed)	0.814	

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**Appendix Table 6. Multicollinearity Test Results**

Variable	Tolerance	VIF	Description
X1	0.887	1.127	No Multicollinearity
X2	0.886	1.129	No Multicollinearity
X3	0.998	1.002	No Multicollinearity

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**Appendix Table 7. Heteroscedasticity Test Results**

<b>Variable</b>	<b>Sig.</b>	<b>Description</b>
X1	0.476	No Heteroscedasticity
X2	0.071	No Heteroscedasticity
X3	0.661	No Heteroscedasticity