

## **Tendency of Accounting Fraud from Aspect Internal Control, Compatibility of Compensation and Individual Morality**



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**ABSTRACT:** Testing the tendency of accounting fraud from the aspect of internal control, appropriateness of compensation and individual morality needs to be proven through research. The type of research used is associative. The location of the research was at 7 State-Owned Enterprises (BUMN) in Palembang City. The data used were primary data. Data collection techniques were through interviews and questionnaires. The sample collection method used a saturated sample. The population in this study were internal auditors and financial employees as many as 35 respondents. The data analysis method used was quantitative. The results showed that partially internal control and individual morality had no effect on the tendency of accounting fraud, then the appropriateness of compensation had a significant effect on the tendency of accounting fraud.

**KEYWORDS:** Internal Control, Adequacy of Compensation, Individual Morality, Tendency to Accounting Fraud.

### **1. INTRODUCTION**

The development of the accounting profession that is growing day by day in companies and society, not only has a good impact on society, but it has negative impacts such as the fraud problem. Accounting fraud is of great interest among merchants worldwide, and even in both developing and developed countries, fraud in the public and private sectors is common. Fraud is an intentional fraudulent act that causes losses that are not realized by the victimized party, giving profits to the perpetrators of fraud. Fraud is an unlawful act committed by someone outside the organization to gain individual or group benefit that directly harms other parties.

Fraud is deception made to gain personal gain to harm others. In criminal law, fraud is a crime or violation that deliberately deceives other people with the intention of harming them, usually to have something/property or services or gain in an unfair/fraudulent way (Fitrawansyah, 2014).

Generally, fraud (cheating) is an unlawful act committed by people from within and outside the organization with the intention of obtaining personal or group benefits that directly harm other parties. Betri (2020) Fraud often occurs if there is an opportunity to access the assets or has the authority to regulate control procedures that allow fraud schemes to be carried out, so that in order to minimize the opportunity for someone to commit fraud, effective internal controls are needed. Phenomena that occur such as the case regarding the tendency of accounting fraud often occur in state and private and regional companies. The corruption case of PT Pos Finansial (Posfin) corrupted a number of projects, the next case is PT Danareksa's corruption in providing financing facilities to PT Evio Sekuritas' Managing Director Rennie Abdul Rahman Latief. This, if done continuously, can result in the performance of internal auditors in SOEs being assessed as not good. The conclusion of this study is to see what influences the occurrence of accounting fraud and to see the individual morality of a company is good and the compensation given is appropriate and whether Internal control has been implemented properly and effectively. Therefore internal control within the company and individual morality is very much needed and compensation must also be according to what is given in the company so that fraud is avoided. It can be seen from the three phenomena that Internal Control, Appropriateness of Compensation and Individual Morality can affect Fraud. It can lead to a tendency to commit accounting fraud.

### **II. LITERATURE REVIEW**

#### **Internal Control**

Hery (2014) states that internal control is a set of policies and procedures to protect company assets from all forms of misuse, ensure the availability of accurate company accounting information, and ensure that all legal/statutory provisions (regulations) and management policies have been complied with or carried out accordingly that should be run by all employees of the company.

Internal control is a process carried out to provide reasonable assurance that the following control objectives are achieved, such as : (1) securing assets-preventing or detecting the acquisition of unauthorized use, or placement, (2) processing records in good detail to report company assets accurately and fairly, (3) provide accurate and stable information, (4) prepare financial reports in accordance with established criteria, (5) encourage and improve operational efficiency, (6) encourage adherence to managerial

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policies have been determined, and (7) comply with applicable laws and regulations Romney and Steinbart (2016).

Faiz and Mukhlis (2018) states that internal control is designed by management and carried out by personnel at all levels of the organization to achieve organizational goals and objectives by ensuring the efficiency and effectiveness of operating processes, reliability of financial records, and compliance with applicable regulations. It can be concluded that internal control is a process or procedure carried out by the board of commissioners, management and other personnel of the entity that is designed to provide reasonable assurance regarding the achievement of objectives.

### **Compensation Compliance**

Yoyo, (2018), Compensation is total of all rewards received by employees in lieu of the services they have provided. Masram and Mu'ah (2015) state that compensation is everything employees receive as remuneration for their work. Hasibuan (2011) states that Appropriate compensation is all income in the form of money, goods directly or indirectly received by employees as compensation for services provided to the company. Harsuko (2016) states that compensation is the total of all rewards received by employees in lieu of the services they have provided. Based on this description it can be concluded that the suitability of compensation is compensation or remuneration that is appropriate for the work performed, the compensation provided can be in the form of money, salary, wages, bonuses, or incentives to employees.

### **Individual Morality**

Ujang (2019) states that individual morality is an awareness of good principles that are deep in nature, embedded in humans that will affect the way of thinking and acting. A person with good individual morality will appear in attitudes and behaviors such as being polite, humble, not liking to hurt others, tolerant, helpful, hard working, diligent in studying, diligent in worship and others. Morality develops from inside, not from beyond; in fact, a person with strong individual morality will not be impacted by an immoral circumstance that occurs outside of oneself. Individual morality, according to Udayani and Sari (2017), is positive conduct and attitude in which a person is unselfish or does not expect for anything in return. Based on the theory above, it can be concluded that individual morality is an awareness of the good principles that are embedded in humans, selflessly or asking nothing in return.

### **Trends in Accounting Fraud**

Fraud is deception made to achieve personal gain to harm others. In criminal law, fraud is a crime or violation that deliberately deceives other people with the intention of harming them, usually to have something/properties or services or gain in an unfair/fraudulent way.

Romney & Paul (2016) states that accounting fraud is an act committed by someone to achieve an advantage that harms others. There are three conditions that encourage fraud known as the fraud triangle, namely, pressure, opportunity, and rationalism. This deception occurs when a person has high pressure, opportunity to commit, hide and convert, and the ability to rationalize integrity.

According to Betri (2020), fraud is an unlawful act committed by people from within and outside the organization with the intention of obtaining personal or group benefits that directly harm other parties. Furthermore, it can be concluded that accounting fraud is an intentional act of committing fraud against financial reports that harms other people.

### **H1. The Effect of Internal Control on the Tendency of Accounting Fraud**

Internal controls that are effective can defend against theft, embezzlement, and misuse of assets in unsuitable areas. Internal control also delivers reliable assurances for the company's performance. Employees who want to steal funds or conduct fraud must also cover up the wrongdoing by modifying accounting records, therefore asset protection and correct information typically go hand in hand. Internal controls, when correctly designed and implemented, can defend against fraud, even when there are personnel who want to conduct accounting fraud. This suggests that internal control influences accounting fraud. According to Ikhsan and Ishak (2005), attribution theory states that the behaviors of a leader or a person granted power are impacted by causal characteristics, which involve a combination of internal and external influences.

Therefore, a control system is needed to reduce the existence of deviant acts committed by employees who are responsible for carrying out the accounting process and compiling financial reports. If internal controls are properly designed and effective, internal controls can protect against fraud, including when employees intend to commit accounting fraud.

### **H2. The Effect of Appropriate Compensation on the Tendency of Accounting Fraud**

Fraud committed by someone is caused by the desire to maximize personal gain. These actions are driven by individual dissatisfaction with the rewards they get from the work they do. An appropriate compensation system is expected to make individuals feel cared for so that individuals do not take actions that are detrimental to agencies or the government, including committing accounting fraud. The hypothesis that can be made based on the explanation above is as follows: Appropriateness of Compensation Influences the Tendency of Accounting Fraud. Indra Ramadhany (2017)

Compensation is intended to encourage the desired behavior for the progress of the company. Good job performance, experience, loyalty, new responsibilities and other behaviors can be rewarded through an effective compensation plan (Masram and Mu'ah (2015). It can minimize employee actions to commit accounting fraud through asset theft or other fraud because the welfare

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of employees is well cared for by the company through the provision of appropriate and fair compensation. H3. The Effect of Individual Morality on the Tendency of Accounting Fraud

Ujang (2019) states that individual morality is an awareness of good principles that are inward, embedded in humans that will affect their thinking and their action. Individual morality manifests itself through attitudes and behaviors like as politeness, humility, a dislike for hurting others, tolerant, helpfulness, hard work, diligence in studying, diligence in worship, and others. Morality develops from inside, not from beyond; in fact, a person with strong individual morality will not be impacted by an immoral circumstance that occurs outside of oneself. Based on research conducted by Novrita and Nayang (2019) that individual morality has a significant positive effect on the tendency of accounting fraud.

### III. RESEARCH METHOD

This research is associative research. This research reveals whether there is or is the Effect of internal control, appropriateness of compensation, and individual morality on accounting fraud tendencies.

The data used in this research were primary data. Primary data obtained from the interviews (interviews) directly with one of the respondents was used as initial research information and completing research data and questionnaires that were given directly to internal auditors and employees of the finance department at State-Owned Enterprises (BUMN).

The data collection method in this study used questionnaire. The questionnaire was spread by giving a set of questions to the internal auditors and employees of the finance department who work in State-Owned Enterprises (BUMN).

The data analysis method used by the authors in this study was quantitative analysis, that is the analysis of the Effect of internal control, appropriateness of compensation, and individual morality on the tendency of accounting fraud in state-owned enterprises (BUMN).

Data analysis method is the most important step in a research, because data analysis serves to conclude the results of the research. The technique used to determine the effect of internal control, appropriateness of compensation, and individual morality on accounting fraud tendencies is to use multiple linear regression techniques. The data analysis used multiple regression as a type of statistical analysis that is used in this study is to use multiple linear regression analysis techniques. Then it is done by (t test) to find out the significant of free. Therefore it is concluded that to find the Effect of the independent variables it can be by calculated using the coefficient of determination. The data analysis technique in this study used program for special science (SPSS).

Before conducting the analysis, in accordance with the requirements of the OLS method (ordinary least squares) is one of the methods in multiple linear regression analysis to determine the effect of internal control variables, compensation suitability, and individual morality on fraud tendencies.

### IV. RESULTS AND DISCUSSION

#### Hypothesis Test

#### H2a : There is an Effect of Internal Control on the Tendency of Accounting Fraud.

The results of the hypothesis test showed that it is known that the tcount value for the internal control system variable was -1.350 while the t table with a real rate ( $\alpha$ ) of 5% and  $df = n-k-1 = (35-3-1) = 31$  was 2.039 it can be concluded that  $H_{02a}$  was rejected and  $H_{a2a}$  was accepted because  $tcount < t$  table with numbers  $-1.350 < 2.039$ . Individual hypothesis test results for internal control variables showed that these variables did not affect the variable tendency of accounting fraud with a significant value of  $0.187 > 0.05$ , it can be concluded that internal control had no effect on accounting fraud.

#### H2b : There is an Effect of suitability of compensation on the tendency of accounting fraud.

The results of the hypothesis test showed that it is known that the tcount value for the organizational commitment variable is 2.057 while the t table with a real rate ( $\alpha$ ) of 5% and  $df = n-k-1 = (35-3-1) = 31$  was 2.039 it can be concluded that  $H_{02b}$  was rejected and  $H_{a2b}$  was accepted because  $tcount < t$  table with numbers  $2.057 < 2.039$ . The individual hypothesis test results for the suitability of compensation variable showed that this variable influenced the variable tendency of accounting fraud, with a significant value of  $0.048 < 0.05$ , it can be concluded that the suitability of compensation had a significant effect on the tendency of accounting fraud.

#### H2c : There is an effect of Individual Morality on the Tendency of Accounting Fraud

The results of the hypothesis test showed that it is known that the tcount value for the individual morality variable was -0.489 while the tTable with a real rate ( $\alpha$ ) of 5% and  $df = n-k-1 = (35-3-1) = 31$  was 2.039 and it can be concluded that  $H_{02c}$  was accepted and  $H_{a2c}$  was rejected because  $tcount > t$  table with numbers  $-0.489 < 2.92$ . The results of individual hypothesis testing for individual morality variables showed that these variables did not affect the accounting fraud tendency variable, with a significant value of  $0.625 < 0.05$ , it can be concluded that individual morality had no effect and was not significant on accounting fraud tendencies.

#### 1. The Effect of Internal Control on Accounting Fraud Tendencies

The results of this study hypothesis testing showed that internal control did not affect the tendency of accounting fraud based on table 1. It is evidenced by  $t$  count  $< t$  table or  $-1.350 < 2.039$ . It is because internal control does not affect the tendency of accounting

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fraud. It means that implementing internal control is the main reason to ensure the process of achieving goals can be done and it may reduce various unwanted risks. If in the theory there is strong control but there is collusion (conspiracy) then fraud can occur. Fraudulent actions may be done outside the control that is not in accordance with existing procedures. As a result, the existence of good internal controls will not become an obstacle to carry out fraudulent actions.

The fraud triangle theory states that there are three factors for the fraud such as opportunity, pressure, and rationalization. The greatest opportunity to control fraud lies in the opportunity element. According to Wilopo (2006), to control the occurrence of fraud, it requires supervision (monitoring) within an organization and to get good monitoring results, it requires effective internal control (Iqbal, 2017). Furthermore, the ability to have a positive effect on financial fraud (Sunardi, 2018)

The results of this study are in line with the research of Sahrani (2012), Kusumastuti & Meiranto (2012) and Fitri (2016). The research showed that control had no significant effect on the tendency of accounting fraud. This condition occurs because the effectiveness or ineffectiveness of internal controls did not guarantee a reduction in accounting fraud, even though internal controls are effective accounting fraud still occurs. Weak internal control systems can trigger individual behavior in committing fraud.

It is due to the fact that research instrumental measuring instruments on indicators of environmental control and direct risk assessment are not able to prevent fraud in 7 companies in state-owned regional enterprises, these results can be used as an analytical tool for BUMN in preventing fraud related to internal control. The existing internal controls cannot be used to prevent fraud.

These results are in line with research by Yulina (2015) and Novrita et al (2019) stating that internal control had no effect on the tendency of accounting fraud.

The results of this study internal control had no effect on the tendency of accounting fraud through five measurements such as measurement of the internal environment, measurement of risk assessment and risk response, measurement of control activities, measurement of information and communication, measurement of monitoring

### **2. The Effect of Appropriate Compensation on Accounting Fraud Tendencies**

The results of this hypothesis test showed that  $H_02b$  was accepted and  $H_a2b$  was rejected. It means that the suitability of compensation had a significant effect on the tendency of accounting fraud, based on table 1 this was evidenced by  $t_{count} < t_{table}$  or  $2.057 < 2.039$  that was the lower the suitability of compensation will affect the action to commit accounting fraud. Compensation had a significant effect on fraudulent acts, giving inappropriate compensation will make employees had the incentive to commit fraud to meet the needs and pressure they feel because of inappropriate compensation. The more inappropriate the compensation given, the higher the possibility of employees to commit accounting fraud.

Appropriate compensation is the total of all awards given to employees in return for the services provided to the organization to achieve organizational goals. So it can be concluded that if employees are not satisfied with the compensation they receive, it will have an impact on the organization. The dissatisfaction is not resolved properly, then each employee expresses a desire to receive appropriate compensation. Provision of appropriate compensation can provide satisfaction and motivation to employees, thus encouraging employees to give their best for the company in achieving company goals. It can minimize employee actions in fraudulent actions because the welfare of employees is well cared for by the company through compensation that is in accordance with what they have given to the company and is fair.

Giving appropriate salary or wages will make employees enthusiastic at work, they will feel valued for what they have done if they get a proper salary and vice versa if the salary given does not match what they have done, they will feel disappointed and the fraud will occur.

These results are in line with Indra (2017), Tia (2016) and Novrita et al (2019) that the appropriateness of compensation affects the tendency of accounting fraud.

The results of this study showed the suitability of compensation and significant effect on the tendency of accounting fraud through two measurements of direct compensation and indirect compensation. The results of this study are supported by the answers of respondents who answered on average answered strongly agree and agree regarding the suitability of compensation, therefore causing an Effect between the appropriateness of compensation on the accounting fraud tendency.

### **3. The Effect of Individual Morality on the Tendency of Accounting Fraud**

The results of the research hypothesis test showed that  $H_02c$  was rejected and  $H_a2c$  was accepted, it means that individual morality did not affect the tendency of accounting fraud. Based on table 1, it is evidenced by  $t_{count} < t_{table}$  or  $-0.498 < 2.039$ . It means that individual morality variables had no effect on fraud prevention. Illegal actors are part of unethical behavior, so there is a need for binding legal provisions as an effort to uphold individual moral standards so that the life of society can be maintained. This showed that good morality in auditors and financial employees cannot guarantee that auditors and financial employees did not commit fraud against the company.

It does not support the theory presented by Liyanarachchi (2009) in Yulina (2015), that their level of individual moral reasoning will influence their ethical behavior. People with high morals will be different from people with low morals, it means that people with low moral level will behave differently from people with high levels of reasoning when faced the ethical dilemmas.

According to the findings of a study on the state of the firm at PT Perusahaan Listrik Negara, individual morality has a big



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effect on accounting fraud inclinations. Individual morality variables are where individual factors are directly related to the inherent behavior of the individual so that they are indirectly related to a personal morals and it depends on the person's morals whether he wants to commit fraud or not at all, and the higher the level of one's reasoning then will prevent fraud.

The results of this study are in line with research conducted by Astri, (2020) and Agung, et al (2021) that individual morality has no effect on the tendency of accounting fraud.

The results of this study showed that individual morality had no effect and was not significant on accounting fraud tendencies through 3 measurements, namely pre-conventional measurements, conventional measurements, post-conventional measurements. The results of this study are supported by the answers of respondents who answered neutral, regarding individual morality and it is suspected that it may cause no effect between individual morality and the tendency of accounting fraud.

## V. CONCLUSION

Based on the results, it can be concluded that :

1. Internal Control has no effect on the Tendency of Accounting Fraud in State-Owned Enterprises in Palembang City.
2. Appropriate Compensation affects the Tendency of Accounting Fraud in State-Owned Enterprises in Palembang City.
3. Individual morality has no effect on the tendency of accounting fraud in state-owned enterprises in Palembang city.

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