

# Factors That Can Influence the Tendency of Accounting Fraud

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## ABSTRACT

*The tendency of accounting fraud is influenced by several factors such as individual moral behavior, the effectiveness of internal control and the appropriateness of compensation in Cimahi City SMEs are the objectives of this study. Primary data was collected using a saturated sample or non-probability sampling method from a questionnaire. The population of this study is Cimahi city MSME employees who have penetrated the global market, totaling 148 employees. While the samples taken were 50 respondents. The instrument test for the questionnaire statements includes validity and reliability tests to then test the normality of the data up to the hypothesis test. Methods of data analysis using multiple linear regression techniques. Simultaneously individual morality, the effectiveness of internal controls and the suitability of compensation affect the tendency of accounting fraud which is the result of the research obtained.*

*Keywords: Individual morality, effectiveness of internal controls, suitability of compensation, propensity for accounting fraud.*

## INTRODUCTION

Accounting fraud has become a media concern in the current era of globalization. Fraud does not only occur in Indonesia, but occurs in various other countries. Fraud is a threat and an important concern for the world's economy, considering how much money is lost due to ongoing fraud. The tendency of accounting fraud is the tendency of fraudulent behavior carried out by violators of financial trust, misuse of assets or illegal behavior that can be detrimental. The phenomenon of fraud itself is of course familiar to the public, it can be a problem for every company in various countries (1). In general, fraud is an unlawful act committed within or outside an organization / company. For personal gain. Fraud in small companies with less than 100 employees causes companies to lose an average of two hundred thousand US dollars per year or the equivalent of 2.8 billion rupiah

per year, which value does not include intangible losses (2).

It is found that almost 90 percent of MSMEs do not have good financial planning and usually the businesses they undertake go bankrupt over time due to a lack of caution in managing the MSME income sources (3).

The fraud case experienced by CV Kondang Murah and PT Muncul Lestari Makmur Mandiri, an MSME company in Solo City, was found to have embezzled taxes or manipulated financial reports of 9 billion (4).

The fraud case experienced by Sabana Fried Chicken Surabaya was in the case of an employee who took away sales money, manipulated the composition of chicken and flour, and manipulated reports regarding raw material supplies.

Morality can be interpreted as a quality that refers to the merits of a person's attitude or actions. In fact, many people break the law because they act and behave according to their

wishes to harm others for their own benefit. Someone who is immoral is more likely to commit fraud that can harm himself or others. Another factor is the occurrence of accounting fraud committed due to the lack of oversight functions resulting in losses for the company due to ineffective company internal controls. The impact of the damage can also affect the person's character. The human person must be seen from his character and mentality not to commit fraud.

### **Research Purposes**

This study aims to determine: [a] The condition of individual morality, the effectiveness of internal controls and the suitability of compensation for the tendency of accounting fraud in SMEs in Cimahi City. [b] There is a simultaneous influence of individual morality, effectiveness of internal control, and suitability of compensation on the tendency of accounting fraud in SMEs in Cimahi City. [c] There is an influence of individual morality on the tendency of accounting fraud in Cimahi City SMEs. [d] There is an effect of the effectiveness of internal control on the tendency of accounting fraud in Cimahi City SMEs. [d] There is an influence of the suitability of compensation on the tendency of accounting fraud in Cimahi City SMEs.

Agency Theory is a difference of interest between the agent and principal relationship, which is a derivative of neo-classical economic theory (5).

Association of Certified Fraud Examiners Defining fraud as an illegal act that is against the law and carried out intentionally with the aim of manipulating or providing information that is incorrect or inaccurate for personal or group gain, so that it can harm other parties. There are three types of fraud: Financial statement fraud, Asset Theft, and Corruption (6).

Triangle Fraud theory in general explains the reasons why people commit acts of fraud (7). Whereas in the triangle fraud theory there are several elements, namely: Pressure, Opportunity, Justification (Rationalization) (8).

Fraud is anything that is obtained by cunning and is used for profit by concealing facts, deception, fraud or deception and other dishonest means (9). Accounting fraud can be interpreted as an act that leads to false reporting presented in a financial report or a deliberate act by misusing organizational resources and falsifying information to advance their own interests (10).

Morals are things that are done based on generally accepted beliefs in society that usually refer to standard evaluations of human activity (11). Morality is how morality, principles and values that are overarching in the public eye oversee matters related to positive or negative actions taken (12). Although the effort that everyone takes to reach this stage of development is different, everyone goes through the same stages and periods of moral development (13).

The lowest level is the pre-conventional level, at this level an individual will begin to develop sensitivity to rules and begin to be able to distinguish between comparisons of different benefits or bad, right or wrong for an action from the point of view of the results that will occur or the results of the actions taken. Individuals will focus and base their actions on the approval of others at the conventional level, the second level around them and the norms that apply in society. The highest level of Kohlberg's moral level is the post-conventional level. At this level it is used as a means to understand and carry out different values based on the prevailing moral principles.

Establishing policies and procedures to protect company assets from threats constitutes internal control (15). A process called "internal control" is in place to ensure that various internal control objectives are met. These objectives include protecting assets, preparing financial reports that meet certain criteria, encouraging and improving operational efficiency, keeping sufficient detailed records to ensure proper and accurate reporting of corporate assets, providing accurate and reliable information, and encouraging compliance with management issues, and comply with applicable regulatory and regulatory requirements. Companies with weak internal controls have many loopholes that create opportunities for employees to manipulate events (16). Internal control plays an important role in the organization to minimize the occurrence of fraud. Effective

internal controls cover the possibility of fraud-prone accounting

Compensation is an award received by employees in return for their work contribution to the company (17). Compensation is one of the company's efforts to distribute individual awards in return for carrying out tasks.

Compensation exists in two forms, namely:

1. The compensation is financial
2. Compensation is non-financial in nature(18).

There is little or no compensation will encourage fraud (19).

### **Hypothesis**

H1: There is an influence of individual morality, the effectiveness of internal control and the suitability of compensation simultaneously on accounting fraud

H2: There is an influence of individual morality on accounting fraud

H3: There is an effect of the effectiveness of internal control on accounting fraud

H4: There is an effect of suitability of compensation on accounting fraud.

### **METHOD**

This research was conducted on Cimahi City SMEs that have penetrated the global market and already have business licenses, especially under the auspices of the Department of Trade, Cooperatives, SMEs and Industry of the Cimahi City Disdagkoperind

Descriptive and verification research designs are used. Because it produces and describes

the object under study, this research method will reveal a significant relationship between the variables studied. The descriptive method used in this study is to identify and obscure individual morale, internal control efficiency, and appropriateness of compensation with respect to accounting fraud tendencies. The means of control is to identify and limit the impact of individual morality, the effectiveness of internal controls, and the appropriateness of compensation on the possibility of accounting fraud.

The types of data used in this research are primary data and secondary data. Where to use a questionnaire instrument or distribute questionnaires to MSME respondents who have penetrated the global market in Cimahi City. While secondary data is data that has been processed in quantitative form such as scientific journals, magazine articles, the internet, and other sources of information.

### **Population and Sample**

The population in this study were Cimahi City SMEs which had penetrated the global market as many as 25 SMEs under the auspices of the Cimahi City Trade, Cooperative, and Industry Office (Disdagkoperind).

In this study, non-probability sampling was used as the sampling method. Non-probability sampling is a sampling method in which there is no chance of being selected or every member of the population has an equal chance (20). Types of non-probability sampling can be done using purposive sampling in this

study is saturated sampling or often also called census.

The entire population, including as many as 25 MSMEs, will be sampled in this study, as explained above with the number of respondents 2 people from each company as representatives of the quality of financial reports with the qualifications of owners and the accounting department of MSMEs that have penetrated the global market in Cimahi City which already has a business license under the auspices of the Cimahi City Disdagkoperind. So the number of respondents in this study amounted to 50 people.

### **Data analysis method**

To facilitate the stages of data processing, researchers use Microsoft Excel 2013 software, MSI Software and SPSS Version 26 which are used to process data and information on a quantitative methodology. By utilizing this software, it is expected that the data reduction process can be easier and faster with a high level of accuracy.

This study uses quantitative descriptive analysis as a method of data analysis. The author conducted a validity test, reliability test, Kolgomorov Smirnov data normality test on the questionnaire result data then a hypothesis test was carried out which included analysis of the correlation coefficient, analysis of the coefficient of determination and multiple regression coefficients and hypothesis testing by conducting a t test.

The general linear regression analysis equation is as follows:

$$Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{3i} \dots [1]$$

Information:

X1: Individual Morality

X2 : Internal Control Effectiveness

X3: Compensation Compliance

Y: Tendencies of Accounting Fraud

Bo: Constant

$\beta_1$ : Individual morality regression coefficient on accounting fraud tendencies

$\beta_2$ : Internal Control Effectiveness regression coefficient on accounting fraud tendencies

$\beta_3$ : Regression coefficient of the appropriateness of compensation to the tendency of accounting fraud

e: Standard error

## RESULTS AND DISCUSSION

The results of the validity test for each statement have a greater value of 0.287, so it can be said that all of these statements are valid. Test reliability for Individual Morality, Internal Control Effectiveness, and Compensation Appropriateness respectively 0.884, 0.948, 0.922 and 0.930 have Cronbach's Alpha > 0.60, so that it is said that all variables are said to be reliable. The results of the point normality test are distributed around the diagonal line, and the distribution follows the direction of the diagonal line. Based on the individual variables of morality, internal control efficiency, and adjustment, the regression model can be used to identify the tendency of accounting fraud in this case. The multicollinearity test results for

individual variable morality, internal control effectiveness and Compensation Appropriateness are 0.397, 0.276 and 0.244 so because the tolerance value is 0, it can be said that multicollinearity does not occur. While the VIF values for individual morality variables, internal control effectiveness and appropriateness of compensation are 2.518, 3.621 and 4.099. VIF value obtained <10, it can be said that there is no collinearity. The results of the heteroscedasticity test show that there is no clear pattern and the points are located above and below the number 0 on the Y axis. So it can be concluded that there is no heteroscedasticity. The results of the calculation of the Durbin Watson autocorrelation test for the position of DW 1.986 are between 2 and 3-du. So that in this model there is no autocorrelation. Based on the output, the equation obtained is: The results of the heteroscedasticity test show that there is no clear pattern and the points are located above and below the number 0 on the Y axis. So it can be concluded that there is no heteroscedasticity. The results of the calculation of the Durbin Watson autocorrelation test for the position of DW 1.986 are between 2 and 3-du. So that in this model there is no autocorrelation. Based on the output, the equation obtained is: The results of the heteroscedasticity test show that there is no clear pattern and the points are located above and below the number 0 on the Y axis. So it can be concluded that there is no heteroscedasticity. The results of the calculation of the Durbin Watson

autocorrelation test for the position of DW 1.986 are between 2 and 3-du. So that in this model there is no autocorrelation. Based on the output, the equation obtained is:

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + e.....[2]$$

$$Y = -2.826 + 0,667X_1 + 0,323X_2 + 0,053X_3 + e.....[3]$$

The results of the above equation can be explained as follows:

1. The constant value is -2.826 and is indicative negative, indicating a tendency for accounting fraud to have a negative effect of -2.826.
2. Individual morality is 0.667, this shows a positive direction, so that with an increase in individual morality the variable tendency of accounting fraud will increase by 0.667.
3. Internal control effectiveness of 0.323, this shows a positive direction and therefore if the internal control effectiveness variable is increased, the accounting fraud tendency variable will increase by 0.323.
4. Compensation suitability is 0.053, this shows a positive direction, so the compensation suitability variable is increased, the accounting fraud tendency variable will increase by 0.053.

If there is an increase or decrease in individual morality, the effectiveness of internal controls and the appropriateness of compensation, it will affect the level of the tendency for MSME accounting fraud in Cimahi City.

The multiple correlation coefficient values of individual morality, effectiveness of internal control and suitability of compensation with

accounting fraud tendencies of 0.958 indicate a very strong relationship because they are between 0.800 – 1.000. Based on the results of the SPSS output above, it is known that the R Square shows a number that is 0.919 or 91.9% which means that individual morality, effectiveness of internal control and appropriateness of compensation have an effect on the tendency of accounting fraud of 91.9% and the remaining 8.1% are influenced by other factors that were not examined, such as: unethical behavior, compliance with accounting rules, conformity of information and others.

Based on the statistical calculation of the individual morality t test above,  $t_{count} = 5.885$  is greater than  $t_{table} = 2.0141$ , in this case  $H_a$  is accepted and  $H_o$  is rejected. This means that there is a positive influence between individual morality and accounting fraud tendencies. The results of the t test for the effectiveness of internal control above,  $t_{count} = 6.945$  is greater than  $t_{table} = 2.0141$ , then  $H_a$  is accepted and  $H_o$  is rejected. This means that there is a positive influence between the effectiveness of internal control and the tendency of accounting fraud. And the t test for the suitability of the compensation above,  $t_{count} = 0.584$  is smaller than  $t_{table} = 2.0141$ , then  $H_a$  is rejected and  $H_o$  is accepted. This means that there is no influence between the suitability of compensation and the tendency of accounting fraud.

Test results obtained  $F_{count}$  of 161,649 While the value of  $F_{table}$  with degrees of freedom in the numerator 3 and denominator

45 at  $\alpha$  (0.05) is 3. Thus  $F_{count} (161,649) > F_{table} (19.5)$ , so it is clear that  $H_0$  is rejected and  $H_1$  is accepted. It shows that individual morality, the effectiveness of internal control and the suitability of compensation simultaneously influence the tendency of accounting fraud.

1. The Influence of Individual Morality with the Tendency of Accounting Fraud on MSMEs in Cimahi City. This reinforces Simanjuntak's opinion which states that the driving force behind someone committing fraud is because of morality, especially because of greed (21). Everyone has the ability to be greedy because basically humans are never satisfied. The results of this study are in line with Fernanda's research that the tendency of accounting fraud is significantly influenced by individual morality (22).
2. The Impact of Effective Internal Control on MSMEs The Tendency of Cimahi City Accounting Fraud This supports the notion that internal control is a set of policies and procedures designed to protect the wealth or wealth of a company from all threats (15). Effective internal control will close the opportunity for fraudulent tendencies to occur in accounting. The results of this study are in line with the existence of a fairly strong and negative relationship between internal controls and fraudulent tendencies (23). Likewise, the Effectiveness of Internal Control has a negative and significant

effect on the Tendency of Accounting Fraud (11).

3. The Effect of Appropriate Compensation on the Tendency of Accounting Fraud. The results of the study show that the suitability of compensation has no effect on the tendency of accounting fraud. The results of this study support the results of the study that the suitability of compensation has no effect on the tendency of accounting fraud (24).

## CONCLUSION

Based on the results of data analysis and discussion that has been carried out regarding the tendency of accounting fraud in MSMEs in Cimahi City with the influence of individual morality, the effectiveness of internal controls and the suitability of compensation as a measuring tool for MSMEs in Cimahi City, the conclusions in this study are that:

the condition of individual morality, the effectiveness of internal control, the suitability of compensation and the tendency of accounting fraud from the results of data processing stated that they were in good condition within a reasonable average not to fluctuate excessively.

Individual morality, the effectiveness of internal controls and the suitability of compensation have a significant effect on the direction of a positive relationship to the tendency of accounting fraud. The partial results show that individual morality and the effectiveness of internal control have a

significant effect on the direction of a positive relationship. On the other hand, the suitability of compensation does not have a significant effect on the direction of a positive relationship to the tendency of corporate accounting fraud.

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