

The Influence of Internal Control, Compliance with Accounting Rules and Compatibility of Compensation on the Trend of Accounting Fraud

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Abstract:

The purpose of this study is to gather empirical data on the relationship between internal control, appropriate compensation, and adherence to accounting standards and how those factors affect the tendency of accounting fraud in state-owned companies (BUMN) in the construction industry. The sample of state-owned businesses used in this study (BUMN). Two businesses were selected as samples in this study. Convenience sampling is the foundation of this study. There was a total of 80 respondents in the sample for this study. Several regression analyses approach and a statistical methodology run using the SPSS program are used to test the hypothesis in this study. The findings of this study suggest that internal control, appropriate pay, and adherence to accounting regulations all have an impact on a person's propensity to engage in accounting fraud.

Keywords: internal control, compensation, accounting rules, accounting fraud.

Introduction

In addition to its advantages, the advancement of accounting science also presents challenges. The existence of fraudulent benefits is one issue that arises and a source of issues. The existence of fraud is one of the issues that arises. Recent events have seen an increase in fraud, which has drawn media attention from both domestic and international sources. The State Revenue and Expenditure Budget (APBN) leakage is the most common form of accounting fraud in the public sector. In the private sector, the same type of fraud is more likely to occur, namely inaccurate spending sources of funds. With the increasingly rapid changes in the business world, which require management to develop and design business development strategies, this change towards globalization will clearly have an impact on the roles and responsibilities of internal auditors as internal consultants for company management. New features in the global economy have prompted recognition of the role of internal auditors in creating added value for organizations. Internal auditors must be able to take advantage of this opportunity by adjusting proactively. Adaptation and evolution of the internal auditing profession must occur. The role and expertise that must be possessed by internal auditors have been

the subject of global discussion lately (Adelin & Fauzihardani, 2013).

The enormous number of accounting fraud cases demonstrates that there are still many instances of accounting fraud in both public and private organizations. This also weakens public trust in those responsible for the state and society. According to the definition of tendency, which includes inclination, willingness, and desire, there is a desire to commit fraud since there is a chance to do so. Fraud is described as an illegal conduct carried out by individuals both inside and outside the company with the goal of gaining individual or collective gains at the expense of third parties. Elements include pressure, opportunity, and rationalization since fraud cannot be separated from the idea of the fraud triangle (Andry et al., 2020). There are three forms of fraud, including: First, misappropriation of assets is fraud involving the theft of entity assets. Second, misleading statements on financial statements—misstatements, omissions of sums, or purposeful disclosures made with the goal to mislead the recipients of the financial statements. The third is corruption, which is the use of government positions for personal benefit (Astuti et al., 2023).

Internal control is one of the elements that affects the likelihood of accounting fraud inclinations. This is also supported by earlier research, which claims that efficient internal controls are required to provide good monitoring results. Internal controls that are effective can deter theft, embezzlement, and the inappropriate use of funds. Internal control also offers a reassured level of assurance over the accuracy of business data necessary for the company's success (Fauwzi & Glifandi, 2011). Consequently, internal controls can be depended upon to prevent fraud, even when there are personnel who aim to conduct accounting fraud, if they have been adequately developed and implemented. The appropriateness of pay is another element that fuels Indonesia's rising accounting fraud rate. This phenomenon was corroborated by the statement by the Director of Gratification of the Corruption Eradication Commission (KPK), Giri Supradiono, who explained that, from the various cases that occurred, gratuities committed by civil servants (PNS) were due to the low income from salaries and benefits they received. As a result, civil servants try to find additional ways, including receiving gratuities. Generally speaking, receiving is an act of giving in the broadest sense; receiving might take the shape of cash, products, or other things. Gratification is usually carried out with a specific purpose by a person or group of people and corporations for public officials, including civil servants from the lower class. Mayor of Metro, Lukman Hakim, also stated that one of the causes of corruption was the low salary of civil servants (Meliany & Erna, 2009).

Compliance with accounting regulations is a factor that determines the prevalence of accounting fraud inclinations in addition to the previously mentioned elements. Because they are not directed by the applicable accounting regulations, an agency or institution will commit fraud. This phenomenon can be observed in the cases discovered by the Supreme Audit Agency (BPK), which reported that the results of examinations of 662 objects of inspection found a total of 3,452 cases worth IDR 9.24 trillion that had financial impacts due to findings of statutory provision non-compliance that led to state losses. Possible state losses and a revenue shortfall (BPK, 2014). Accounting regulations offer management instructions for carrying out accounting tasks correctly and effectively in order to produce effective financial reports and be able to give interested parties accurate information. Rules are requirements or requirements that must be followed. The design of accounting standards ensures that they serve as the foundation for creating financial reporting. Accounting standards include guidelines that must be followed when measuring financial statements and presenting them, and they are governed by rules published by the Indonesian Institute of Accountants (IAI). Both internal and external fraud were present, based on the numerous examples that happened. Internal fraud is unlawful behavior carried out by employees, managers, and executives against the organization they work for. External fraud is fraud perpetrated by outsiders against a company or entity, such as fraud conducted by customers against enterprises or taxpayers against the government. Such deception will result in significant losses for the institution or organization (Rahmawati, 2012).

Literature Review

Internal control is a procedure that is overseen by a company's management, board of directors, and other employees and is intended to give reasonable assurance about the accomplishment of goals in the following areas: operational effectiveness and efficiency, financial reporting accuracy, adherence to legal requirements, and asset monitoring for unauthorized acquisition, use, or disposal. The organizational structure, all operational procedures, and integrated internal regulatory rules are all considered to be part of an internal control system, according to the American Institute of Certified Public Accountants (AICPA). Because compensation is not the same as the concepts of pay or wages,

they must be differentiated from one another (Tannady & Sitorus, 2017). Wages and salaries are a material type of compensation (Rosmawati, 2020). To be clear, there are various forms of compensation besides salary and earnings (Theodorus, 2012). Compensation has a broad definition; in addition to including salary and pay, it can also include housing, transportation, uniforms, family allowances, health benefits, food allowances, and many other advantages that have a monetary value and are typically taken by employees voluntarily (Sutagana et al., 2022). In order to promote transparency and accountability in financial management and to guarantee that the financial reports that result are efficient, dependable, and accurate, it is a requirement within the organization to adhere to all accounting provisions or rules when performing financial management and preparing financial reports (Rosmawati, 2019). These accounting regulations exist to prevent erroneous behavior that could be detrimental to the organization. Management and investors, among other interested parties, are addressed in financial reports (Setiyawati, 2013). This condition might encourage unethical behavior and lead to accounting fraud, which will be challenging for the auditor to identify, if the financial statements are not prepared in accordance with or without following the appropriate accounting laws (Suwatno & Priansa, 2013). The tendency of accounting fraud is to be more interested in wanting to make false statements resulting from financial statement fraud due to omissions in the amount or disclosure in financial statements and presentation resulting from improper treatment of assets related to entity asset theft, which causes financial statements to not be presented in accordance with generally accepted accounting principles in Indonesia.

Methodology

80 samples from two BUMN that are active in the construction industry were used in this investigation. The convenience sampling approach was used to select the sample. Field research or surveys were employed as the data collection methods to get the information and data required for this investigation. The questionnaire in this study uses structured statements in which alternative answers are available. Respondents were asked to answer these statements in the form of an interval scale that measures respondents' attitudes towards the statements presented. Using quantitative analytic techniques is the study's chosen approach of data analysis. Analyzing a problem that is expressed quantitatively is the process of quantitative analysis. Multiple regression analysis using the Statistical Package for Social Sciences (SPSS) version 26 was the analytical method used in this investigation. Validity and reliability studies on the likelihood of accounting fraud were conducted to maintain the questions in the questionnaire's validity and reliability.

Case studies

Based on gender, it can be noted that there were 23 (32.9%) female respondents, while there were 47 (67.1%) men who responded. That the respondents aged between 20 and 29 years amounted to 33 people (47.1%), for respondents aged between 30 and 39 years, there were 12 people (17.1%), for respondents aged between 40 and 49 years, there were 17 people (24.3%), and for respondents aged > 50 years, there were 8 people (11.4%). Respondents who served as managers were 17 people (24.3%), employees were 13 people (18.6%), supervisors were 3 people (4.3%), and staff were 37 people (52.9%). Respondents with the last high school education were 1 person (1.4%), 16 D3 people (22.9%), 40 S1 people (57.1%), and 13 S2 people (18.6%). Respondents who had work experience < 5 years totaled 34 people (48.6%), 5–10 years totaled 10 people (14.3%), and those > 10 years totaled 26 people (37.1%).

Variable internal controls with a median total response of 28.20 and a standard deviation of 4.695, respondents can respond with a minimum of 17 and a maximum of 42. With an average total answer of 55.01 and a standard deviation of 10.817, the smallest respondent's compensation answer has a variable appropriateness of 31 and the maximum is 78. The minimum and maximum responses provided by the responder range from 27 to 50, with an average total response of 40.16 and a standard deviation of 5.742. The respondent's minimum and highest answers for the variable tendency of accounting fraud are 10 and 35, respectively, with an average of 20.41 and a standard deviation of 6.658. The average respondent's responses to the variables of internal control, suitability of compensation, adherence of accounting standards, and inclinations of accounting fraud are pleasant, according to the findings of the aforementioned descriptive statistical tests.

0.572, or 57.2%, is the adjusted R-squared (R²) value. 57.2% of accounting fraud tendencies can be explained by internal controls, adequate compensation, and adherence to accounting rules, according to the Adjusted R Square

(R2) coefficient of determination of 0.572, whereas 42.8% can be explained by additional variables not addressed in this study. A 31.709 f-value was achieved with a 0.000 significance level. Because the significance threshold is smaller than 0.05, it can be concluded that internal control, compliance with compensation requirements, and compliance with accounting regulations all have a substantial impact on the likelihood of accounting fraud. Internal control has a considerable impact on the likelihood of accounting fraud, as shown by the t test result on internal control of 0.008 < 0.05, which accepts H1. The value of the t-test results for the appropriateness of remuneration is $0.027 < 0.05$, which accepts H2 and leads to the conclusion that the appropriateness of compensation significantly influences the likelihood of accounting fraud. Compliance with accounting regulations has a considerable impact on the likelihood of accounting fraud, as shown by the t-test findings where compliance is $0.005 < 0.05$, which accepts H3.

If internal control, compliance with compensation, and compliance with accounting standards all have values of 0, then Y (the tendency for accounting fraud) will have a constant coefficient of 39743 with a positive value. Positive regression coefficient value for the internal control variable is 0.276. According to the positive regression coefficient value, the likelihood of accounting fraud will increase by 0.276 for every one percent increase in the internal control variable, provided other factors remain constant. The negative regression coefficient for the compensation suitability variable is -0.182. According to the negative regression coefficient value, the likelihood of accounting fraud will decrease by 0.182 for every one percent rise in the appropriateness of the compensation variable, providing other factors stay the same. A negative regression coefficient of -0.420 is present for the variable measuring adherence of accounting regulations. The negative regression coefficient value shows that, assuming other variables remain constant, every 1% increase in the observance of accounting rule variables will reduce the tendency of accounting fraud by 0.420.

According to statistical analysis of the hypothesis (H1), internal control significantly affects the propensity for accounting fraud. The internal control variable's t-statistical test result is 0.008, which is less than $\alpha = 0.05$. As the H1 hypothesis is correct, it can be concluded that internal control has an impact on the likelihood of accounting fraud. Internal controls provide a continual physical assessment of the business's viability (cash, inventory, etc.) to counteract the inclination for accounting fraud to arise. The findings of this study concur with earlier research, which discovered that the internal control system concurrently has a favorable and considerable impact on the accountability of fixed assets in the government.

According to statistical analysis of the hypothesis (H2), the appropriateness of pay significantly influences the likelihood of accounting fraud. The statistical test's findings indicate that the value of the t-variable suitability compensation, which is 0.027, is less than 0.05. The H2 hypothesis is therefore supported, and it can be concluded that the suitability of pay affects the propensity for accounting fraud. Employee actions to commit accounting fraud through asset theft or other fraud will be minimized by providing appropriate compensation to employees as this can increase employee satisfaction and motivation at work. This is because the company values its employees' welfare and prioritizes it through appropriate and fair compensation. The findings of this study are also corroborated by earlier research, which found that employees can perform their tasks effectively with the right compensation, which lowers their propensity to engage in accounting fraud in workplaces where they are employed.

Assessing the hypothesis (H3) reveals that the likelihood of accounting fraud is significantly influenced by adherence to accounting regulations. The t statistical test variable compliance with accounting norms of 0.005, which is less than $\alpha = 0.05$, shows this. As the H3 hypothesis is correct, it can be concluded that following accounting regulations has an impact on the likelihood of accounting fraud. The findings of this study show that accounting fraud by employees and management within an organization is less likely to occur the more compliant the organization is with the relevant accounting rules.

Conclusion

Internal control significantly influences propensity for accounting fraud, supporting hypothesis one (H1). The likelihood of accounting fraud will decline with effective internal control. The second hypothesis is accepted because appropriate compensation has a major impact on the likelihood of accounting fraud (H2). Employee productivity will increase with the right remuneration structure, which will also lessen the likelihood that they will engage in accounting fraud at their place of employment. The notion is supported by the fact that following accounting regulations has a considerable impact on the likelihood of accounting fraud (H3). The probability for employees and management to perpetrate

accounting fraud within the agency will decrease the more compliant the agency is with the applicable accounting rules.

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