THE INFLUENCE OF COMPENSATION SUITABILITY, EFFECTIVENESS OF INTERNAL CONTROL, AND INDIVIDUAL MORALITY ON TENDENCY OF ACCOUNTING FRAUD

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Abstract
This study aims to determine the effect that could be given of compensation suitability, internal control effectiveness, and individual morality to the tendency of accounting fraud. This research was conducted at Regional Apparatus Organization in Purbalingga regency and the sample in this study amounted to 31 samples using Slovin method. The collected data analyzed through multiple linear regression analyses. The result that can be obtained from this study give evidence that the suitability of compensation, the effectiveness of internal control, and the individual morality has a negative and significant influence on the tendency of accounting fraud. Base on the result in this study, Regional Apparatus Organization of Purbalingga Regency needs to pay attention to various policies related to increasing compensation conformity, the effectiveness of internal controls, and individual employee morality to reduce employee fraud tendency.

Keywords: Compensation Suitability; Individual Morality; Internal Control Effectiveness; Tendency of Accounting Fraud.

JEL Classification: D23, M42

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1. INTRODUCTION

Reform affects regional finance in Indonesia. The decentralization system makes each branch office keeps records of transactions that occur in the branch office in full (Tanjung, 2015). Financial statements are one form of financial manager accountability. Regional governments as regional financial managers must also account for the public money they manage in the form of local government financial reports. Accountability must be disclosed transparently so that it truly reflects accountability. To assess the accountability of government accountability, government financial reports have to be audited by Supreme Audit Agency (or it can be called BPK) as an external auditor. There is data found after examination of BPK has indication accounting fraud occurred in financial statements for the 2016 Local Government Financial Report (LKPD), which identified 2,525 issues of non-compliance with statutory provisions resulted in a loss of Rp 1.13 trillion (Saubani, 2017).

Association of Certified Fraud Examiners (2015), give a brief explanation about fraud is a misconception about the truth or concealment of material facts to encourage others to act for their loss. There is three kinds of fraud mention in it, consist of fraud in financial statements, misuse of assets, and corruption. Accounting fraud is defined as a misstatement that arises from fraud by purpose in financial reporting (Indonesia Accounting Institute, 2001). This misstatement that can be a deliberate omission of amounts even give disclosures in financial statements is to deflect the facts so financial statements users could be deceived. This kind of defective behavior of fraudsters usually because of the pressure to commit fraud or encouragement to take advantage of opportunities. In general, accounting fraud is closely related to corruption (Wilopo, 2006). From a criminal perspective, accounting fraud is categorized as white-collar crime. White-collar crime in the business world includes forms of misstatement of financial statements, manipulation in the capital market, commercial bribery, bribery, and acceptance of bribes by public officials directly or indirectly, fraudulent taxation, and bankruptcy (Sutherland, 1940).

In the Tuanakotta (2010) book, cited fraud triangle theory by Clinard and Cressey (1954) that explain there are three causes of fraud. The first is pressure or incentive, the second is opportunity, and the third is rationalization. Meanwhile theory of moral development by Kohlberg (1969) completed observation of the individual carrying out an action in the moral dilemmas and how people will justify their doing if they have the same moral issue at the same time. Almost all fraud is motivated by some incentives (compensation) and usually related to performance bonuses or stock prices or both, weakness or lack of internal controls provide opportunities for fraudsters to commit their crimes, and white-collar criminals usually have a personal code of ethics (rationalization), they justify crime based on their circumstances (Singleton and Singleton, 2010). Agency theory explains the mess that is often being met in agency relationships. One of them is caused when the wishes of the principal and the agent meet a conflict with different purposes. In order to solve this problem is by giving incentives to agents, as well as
issuing monitoring costs (Jensen and Meckling, 1976). Unethical behavior arises because employees feel dissatisfied and disappointed with the results obtained from the organization. Accounting fraud has thin boundaries with ethics issues, and it is an illegal act (Puspasari and Suwardi, 2012). After employees engage in illegal activities, deviant norms and values develop around these behaviors, and violations become part of organizational culture (Baucus, 1994). Cheating in organizations is understood as multiple failures, one is in individual morality and the other is in the organization's efforts to control individual honesty (Morales et al., 2014). Research in the ethics subject uses the theory of moral development to better observation individual base minds to carrying out an action. Kohlberg's level of moral reasoning theory is often used to breakdown reasons and dilemmas into moral reasoning stages. Level moral reasoning of someone gives the specific personal ability to fix ethical dilemmas (Welton and Lagrone, 1994).

Indonesia is ranked 96th out of 180 countries surveyed worldwide (Hariyanto, 2017). In 2016, Indonesia also had the same score. Seeing conditions like this, there is no improvement to overcome corruption by the Indonesian government. Recently, there has been a case of bribery by the Regent of Purbalingga. The Corruption Eradication Commission (KPK) has appointed Purbalingga Regent, Tasdi, as a suspect in the case of alleged receipt of gifts or pledges related to the procurement of goods and services within the Purbalingga Regency Government (Fahmi, 2018).

This research is motivated by two reasons. First, this research is conducted on government institutions for the first time after a corruption case happened which befallen the Regent of Purbalingga after obtaining the title of Unqualified (WTP). Second, understanding the factors that make individuals commit fraud is important for auditors to be able to check financial and internal controls that are effective and efficient in preventing and reducing violations and fraud. This research is interested to examine whether pressure, rationalization, and opportunity are the factors causing all accounting fraud in the public sector. Different from most earlier studies, this research is interested to synchronize the fraud triangle into the moral development model by Kohlberg (1969) to give a comprehensive explanation of moral dilemmas and people's justification about a tendency to do fraud. Based on these facts, this research has a purpose to analyze the effect of pressure related to compensation, opportunities related to internal control, and rationalization related to individual morality based on the Fraud Triangle Theory concept and Kohlberg Moral Development Theory.

The results of this study are expected to provide several benefits. First, is to be useful as additional information in the development of accounting science and to provide a discourse for the development of accounting studies related to the causes of accounting fraud. Second, this study can provide practical contributions to implement a good action or activity in the public sector and make the rationale that is the importance of internal control, compensation, and individual morality to making the right decisions for decision-makers. So, the goals of the organizations can be achieved effectively, efficiently, and economically.
2. LITERATURE REVIEW

Agency Theory

Agency theory was initially developed from the efforts to understand and resolve incomplete information problems in the design of contracts between principal and agent. This contract explains the relationship between the principal and the agent, where the principal will involve the agent to do some work on behalf of the principal and delegate some of his authority in making decisions to the agent (Jensen and Meckling, 1976). However, agency theory assumes that there will be a conflict of goals between principal and agent because both parties want to prioritize their respective interests and make the agent not always act in accordance with the interests of the principal (Jensen and Meckling, 1976). This conflict can be overcome by the principal's actions to motivate the agent to act according to their wishes through monitoring and incentive adjustment.

One research that developed agency theory in the public sector is conducted by Halim and Abdullah (2006), this research explains within governmental circumstances executive acts as an agent and the legislative plays as a principal. Agency relations problem that often arises between executive and legislature in local governments is both sides prioritizing their interests (Johnson and Kaplan, 1987). In the context of budgeting, the proposals submitted by the executive have the charge to prioritize executive interests. Executives submit budgets that can enlarge the agency, both financially and non-financially. The budget is also used by the legislature to fulfill their self-interests. The superiority of information possessed by the executive used to draft the budget will be faced with the discretionary power held by the legislature (Halim and Abdullah, 2006).

Theory of Fraud Triangle

The Fraud Triangle Theory was first introduced by Clinard and Cressey (1954). According to Cressey (1986), the actor starts from a pressure that squeezes it. Every human being has urgent financial needs, which he cannot tell others. The emphasis that squeezes someone (in the form of money neediness), even could not share with another. Non-shareable financial need creates a motive for the crime. Perception of having opportunity to commit a crime secretly that makes no one notice engraved in the criminal mind. Every person entrusted with a financial position has a great opportunity to violate that trust. Before they can notice that such objective opportunities exist, they must have general information about the knowledge of how trust is violated and must be able to apply that general information to their circumstances.

Before committing a crime, they will seek rationalization. Rationalization is needed so that the perpetrator can digest his illegal behavior to maintain his identity as a trusted person. Cressey identified that fraudsters rationalized their crimes from seeing themselves as essentially non-criminal, justified, or part of the absence of a sense of responsibility that is not fully accounted for.
Kohlberg Moral Development Theory

The ethics research field can not escape from moral that somebody held. The theory of moral development is one that observes the base of the individual carrying out an action. One that is often used is a theory about the level of moral reasoning of the Kohlberg model. Kohlberg (1969) is interested in the moral dilemmas stories in his research, then people would justify their actions if they were on the same moral issue also being studied here. This theory states that moral reasoning is the basis of ethical behavior and has six stages of development grouped into three levels as follows:

1. Pre-conventional level
   a. The punishment and obedience orientation.
   b. The instrumental relativist orientation.
2. Conventional level
   a. The interpersonal concordance or "good boy-nice girl" orientation.
   b. The "law and order" orientation.
3. Post-conventional
   a. The social-contract legalistic orientation.
   b. The universal ethical-principle orientation.

Accounting Fraud

Accounting fraud is one of the fraud categories included in the title of Occupational Fraud and Abuse (Association of Certified Fraud Examiners, 2015). Meanwhile, financial statement fraud is defined as the deliberate misrepresentation of the achieved financial condition of the company through deliberate misstatement or elimination of amounts or disclosures in financial statements to deceive users of financial statements. From a criminal perspective, accounting fraud is categorized as the white-collar crime. White-collar crime in the business world includes forms of misstatement of financial statements, manipulation in the capital market, commercial bribery, bribery, and acceptance of bribes by public officials directly or indirectly, fraudulent taxation, and bankruptcy (Sutherland, 1940).

Hypothesis Development

The Influence of Compensation Suitability on Tendency of Accounting Fraud

The reason people doing fraud based on fraud triangle theory explains that the perpetrator starts from a pressure that squeezes it (Cressey, 1986). The emphasis that squeezes someone (in the form of money neediness), even could not share with another. Nearly all fraud is motivated by some incentives, usually associated with performance bonuses (Singleton & Singleton, 2010). Incentive contracts and monitoring are ways to overcome problem’s between agents and principals (Jensen and Meckling, 1976). Reward and punishment is one compensation system and a good incentive to motivate agents to work on the principal's best interests (Abdul Halim and Syam Kusufi, 2014). In the Kohlberg Moral Development, this suitability of compensation could be grouped as a pre-conventional level that talks about cultural rules and labels right or wrong.
Punishment and obedience orientation give consequences of good or bad actions regardless of consequences value. The appropriate salaries and benefits must be given in order to attract effective, efficient and non-corrupt government employees (Prijono and Manurung, 2012). It is important to give appropriate compensation for an agent, not only affects productivity and quality of work but also reduces the tendency of civil servants to engage in corrupt practices. Then the first hypothesis that can be formulated to be tested in this study is as follows:

**H1**: Compensation Suitability Has a Negative Effect on Tendency of Accounting Fraud

The Influence of Internal Control Effectiveness on Tendency of Accounting Fraud

One another reason people doing fraud based on fraud triangle theory is the perception of having an opportunity to commit a crime secretly that makes no one notice engraved in the criminal mind (Cressey, 1986). Every person entrusted with a financial position actually has a great opportunity to violate that trust. Weakness or lack of internal controls provides opportunities for fraudsters to commit their crimes (Singleton and Singleton, 2010). Government Regulation Number 60 of 2008 concerning SPIP gives a brief explanation about the internal control system. The Internal control system is defined as an integral process that is continuously carried out by the leader and staff to achieve organizational goals through an effort to makes effective and efficient activities, financial reporting reliability, state assets safeguard, then laws and regulations compliance. In the Kohlberg Moral Development, this internal control could be categorized as the universal ethical-principle orientation. Moral guidelines are developed based on abstract reasoning using universal ethical principles. Internal control systems become a tool to evaluate and make sure that the ethical principles of the organization are fulfilled. This ethical principle of the organization is usually listed in the company rules that often exist against certain individual interests. Jensen and Meckling (1976), explained that incentive contracts and monitoring are ways to overcome problems between agents and principals. With an internal control system, the organization expected could reduce action deviation by management. The tendency of management to maximize personal gain often occurs. One aflied action that could be as example is the tendency to committing accounting fraud. The opportunity to do fraud increases tendency of a fraudster to do accounting fraud. Great opportunities make the tendency for accounting fraud to occur more frequently. An effective internal control could reduce opportunity fraudulent actions with strict monitoring and evaluating. Then the second hypothesis that can be formulated to be tested in this study is as follows:

**H2**: The Effectiveness of Internal Control Has a Negative Effect on Accounting Fraud Tendencies
The Influence of Individual Morality on Tendency of Accounting Fraud

Before committing a crime, they will seek rationalization is another reason why people commit fraud based on fraud triangle theory (Cressey, 1986). Rationalization is needed, so that the perpetrator can digest his unlawful behavior to maintain his identity as a trusted person. Individual judgments could be influenced by self-chosen principles and moral reasoning that can only come from individual rights and justice (Kohlberg, 1969). Fraudsters rationalized their crimes from seeing themselves as essentially non-criminal, justified, or part of the absence of a sense of responsibility that was not fully accounted for. White-collar criminals usually have a rationalization code. They justify crime based on their circumstances (Singleton and Singleton, 2010). Puspasari and Suwardi (2012), stated that accounting fraud is closely related to ethics, and it is an illegal act morales. Cheating in organizations is understood as multiple failures, one is in individual morality (Morales et al., 2014). The existence of bad behavior or bad morals can make someone or government officials commit fraud. Government officials with high morality are expected not to take deviant actions and commit accounting fraud in order to maximize personal gain. They were willing to accept approval or rejection from others because it reflects the community's approval of the role they have (Kohlberg, 1969). If someone has a good moral, then the level of occurrence of the action of fraud tendency will be low or fraudulent tendency will not occur. Then the third hypothesis can be formulated to be tested in this study is as follows:

\[ \text{H3: Individual Morality Has a Negative Effect on Accounting Fraud Tendencies} \]

3. METHODOLOGY

This research was conducted at the Office of Regional Apparatus Organizations (OPD) in Purbalingga Regency from January 17, 2019 until March 29, 2019. The data used in this study were primary data, obtained from the answers to the questionnaires distributed directly or indirectly by entrusting it to other employees of the organization's financial unit then taken later with a maximum of two weeks returned. This is because employees working for the financial sector have a greater opportunity to commit fraud.

The Tendency of Accounting Fraud (Y)

According to (Abbas et al., 2014) the tendency is defined as more interested in. The Indonesian Institute of Accountants (IAI) (2001) described accounting fraud as a misstatement arising from fraud in financial reporting and misstatements arising from improper treatment of assets (often referred to as misuse or embezzlement) related to the theft of assets of an entity that results in financial statements not presented in accordance with accounting principles generally accepted in Indonesia. Accounting fraud is a deliberate misrepresentation of the company's financial condition achieved through deliberate misstatement or elimination of amounts or disclosures in financial statements to deceive users of financial statements (ACFE 2014). So, the intention of accounting
fraud can be perceived as one's interest in fraudulent acts in the field of accounting. The instrument used to measure the tendency of accounting fraud consists of five items of questions adopted from the Wilopo (2006), study using a 1 – 5 Likert scale.

Compensation (X1)
Mathis and Jackson (2010), argued that total rewards are all monetary and non-monetary awards given by companies to attract, motivate and retain employees. The reward is given for the purpose of providing stimulus and motivation to the workforce to improve employee performance, as well as the efficiency and effectiveness of financial statements. If compensation is given correctly and fairly, employees will be more satisfied and motivated to achieve organizational goals. Conversely, if employees feel their compensation is inadequate, their performance, motivation, and job satisfaction can dramatically decrease. The instrument used to measure the compensation system consists of six items of questions adopted from the Wilopo study (2006), study using a 1 – 5 Likert scale.

Internal Control (X2)
According to the Indonesian Accounting Association (2015), internal control is a process applied to provide adequate confidence, so that control objectives can be achieved. These control objectives are safeguarding assets, ensuring that existing reports record and report company assets accurately and fairly, providing accurate and reliable information, preparing financial reports based on established criteria, encouraging compliance with managerial policies, and compliance with applicable regulations and laws. The instrument used to measure the tendency of accounting fraud consists of five items of questions adopted from the Wilopo study (2006), study using a 1 – 5 Likert scale.

Individual Morality (X3)
According to Suseno (1991), morals always refer to the good and bad of human beings, so that the moral field is the field of human life in terms of its goodness as human beings. The morality possessed by government officials is the basis for carrying out their duties, so as not to commit fraud. Someone who has morals will take positive actions because of having an awareness of obligations and responsibilities as good attitude and good deeds. The measurement of management morality comes from a moral measurement model developed by Kohlberg (1969), in the form of a Defining Issues Test instrument. This instrument is in the form of an ethical dilemma. Management morality is measured through six instruments that measure each stage of management morality through a case of accounting ethics dilemma adopted from the Wilopo study (2006), study using a 1 – 5 Likert scale.

Population and Sample
The population of this study includes financial employees working for the Regional Apparatus Organization of Purbalingga Regency. This study takes respondents coming
from employees given the authority to manage finance. The number of population is 45 offices in Purbalingga Regency. The determination of the sample size was calculated using the Slovin formula which was obtained a minimum sample of 31 for respondents.

Significance testing of the effect of compensation suitability variables, the effectiveness of internal controls and individual morality variables on accounting fraud tendencies in this study was conducted using multiple regression analysis techniques using the regression equation as follow:

\[ Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e \]

Notes:
- \( Y \) = Tendency of accounting fraud
- \( \alpha \) = Constant
- \( \beta_1, \beta_2, \beta_3 \) = Regression Coefficient
- \( X_1 \) = Compensation
- \( X_2 \) = Internal control
- \( X_3 \) = Individual Morality
- \( e \) = Residual error

4. RESULTS AND DISCUSSION

Respondent Demographic

In this research there is characteristics of Purbalingga Regency’s Regional Apparatus could be obtained such as gender, age, and working period that show in table below:

<table>
<thead>
<tr>
<th>Information</th>
<th>Characteristic</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Male</td>
<td>13</td>
<td>42%</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>18</td>
<td>58%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>31</td>
<td>100%</td>
</tr>
<tr>
<td>Age</td>
<td>20-30 Years old</td>
<td>3</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>31-40 Years old</td>
<td>14</td>
<td>45%</td>
</tr>
<tr>
<td></td>
<td>41-50 Years old</td>
<td>12</td>
<td>39%</td>
</tr>
<tr>
<td></td>
<td>&gt; 50 Years old</td>
<td>2</td>
<td>6%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>31</td>
<td>100%</td>
</tr>
<tr>
<td>Working Period</td>
<td>1 - 5 Years</td>
<td>2</td>
<td>6%</td>
</tr>
<tr>
<td></td>
<td>5 - 10 Years</td>
<td>21</td>
<td>68%</td>
</tr>
<tr>
<td></td>
<td>&gt; 10 Years</td>
<td>8</td>
<td>26%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>31</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Data Processed SPSS v25 (2019)
Based on Table 1, it is known that the number of male respondents is 13 people or 42%, while the number of female respondents is 18 people or 58%. So, it can be concluded that the number of respondents is dominated by female. The majority of respondents are between 31-40 years old, amounting to 14 people or 45% and those who are between 41-50 years old are 12 people or 39%. Twenty-one of respondents or 68% had 5-10 years of work experience.

Multiple Regression Analysis
Based on the output of multiple regression analysis with the help of SPSS for Windows software, the results of calculations can be summarized as shown in Table 2.

<table>
<thead>
<tr>
<th>No.</th>
<th>Variable</th>
<th>Regression Coefficient</th>
<th>t-statistic</th>
<th>sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Compensation Suitability (X₁)</td>
<td>-0.210</td>
<td>-2.313</td>
<td>.000</td>
</tr>
<tr>
<td>2</td>
<td>Internal Control Effectiveness (X₂)</td>
<td>-0.102</td>
<td>-2.296</td>
<td>.029</td>
</tr>
<tr>
<td>3</td>
<td>Individual Morality (X₃)</td>
<td>-0.535</td>
<td>-6.344</td>
<td>.030</td>
</tr>
<tr>
<td>Constant</td>
<td></td>
<td>= 5.415</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coef.</td>
<td></td>
<td>= 0.751</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fₐₕₘ</td>
<td></td>
<td>=27.182</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Data Processed SPSS v25 (2019)

The constant of 5.415 means that if the variables of compensation suitability, the effectiveness of internal control, and individual morality are assumed to be unchanged or equal to zero, then the tendency of accounting fraud in Purbalingga Regency Regional Office employees is 5.415 units.

The regression coefficient of -0.210 means that the compensation suitability variable has a negative influence on accounting fraud tendencies. The regression coefficient of -0.102 means that the variable effectiveness of internal control has a negative influence on the tendency of accounting fraud. The regression coefficient of -0.535 means that individual morality variables have a negative influence on accounting fraud tendencies.

Based on the regression output in, the value of F-statistic of 27.182 is greater than the value of F-table with df = (k - 1) and (n - k) of 2.96 (Appendix 5). The results of the F test indicate that the compensation suitability variable, the effectiveness of internal controls, and individual morality jointly have a significant effect on the tendency of accounting fraud. This can also be stated that the regression model formed in this study is declared appropriate or compatible with the data research results (goodness of fit).

Coefficient of determination (Adjusted R²) is 0.751. The coefficient of determination shows evidence that 75.10 percent of the variation in changes in the accounting fraud tendency variable in employees of the Regional Apparatus Organization of Purbalingga Regency can be explained by changes in compensation suitability
variables, the effectiveness of internal controls and individual morality variables, while 24.90 percent can be explained by other variables which are not examined.

Discussions

Based on the results of multiple regression analysis, it can be seen that the t-statistic of compensation suitability variable of -2.313 is smaller than the value of t\(_{table}\) of -1.703. The result of this statistical test proves that the suitability of compensation has a negative and significant effect on the tendency of accounting fraud. Thus, the first hypothesis stating that compensation conformity has a negative effect on the tendency of accounting fraud is accepted. The finding of this study is in line with the Theory of Fraud Triangle proposed by (Clinard and Cresssey, 1954), that fraudulent behavior originates from stressful pressure. The pressure squeezes his life (in the form of a need for money), even though he or she cannot share it with others. Almost all fraud is motivated by some incentives, usually related to performance bonuses. Kohlberg Moral Development gives suitable compensation that could be as pre-conventional to implement cultural rules and labels right or wrong. Punishment will be given to those who do not comply with rules and reward will be given to those who obedient to the rules. Appropriate salaries and benefits must be given in order to attract effective, efficient, and non-corrupt government employees (Prijono and Manurung, 2012). The appropriate compensation not only affects productivity and quality of work but also reduces the tendency of civil servants to engage in corrupt practices. Empirically, the results of this study are in line with the findings of a previous study conducted by Conyon and He (2016), that there is a significant negative relationship between compensation and fraud. The results of this study identify evidence that the more it feels suitable compensation provided for civil servants who handling the financial matter, they will reduce motivation to do accounting fraud in the Regional Apparatus Organization of Purbalingga Regency.

The result of multiple regression analysis also indicates that the value of the t-statistic of the internal control effectiveness variable of -2.296 is smaller than the value of t\(_{table}\) of -1.703. The test result also shows evidence that the effectiveness of internal control has a negative and significant effect on accounting fraud tendencies. Thus, the second hypothesis stating that the effectiveness of internal control negatively affects the tendency of accounting fraud is accepted. The result of this study is in line with the Fraud Triangle Theory which states that perpetrators of crime must have the perception that there is an opportunity for them to commit a crime without being known by others. Weakness or lack of internal control provides an opportunity for fraudsters to commit their crimes. This also proves Kohlberg Moral Development that explains internal control as the universal ethical-principle orientation in an organization. Internal control systems become a tool to evaluate and make sure that the ethical principles of the organization are fulfilled. This system functions as a director of staff in carrying out their responsibilities as well as supervisors of what is being run by employees (Hall, 2011). The result of this study presents evidence that the effectiveness of internal control could
reduce the tendency of accounting fraud at the Regional Office of the regional apparatus of Purbalingga Regency.

Furthermore, the output of multiple regression analysis also shows that the $t$-statistic value of the individual morality variable (-6.344) is smaller than the $t_{table}$ (-1.703). The result of this statistical test also proves that individual morality variables have a negative and significant influence on accounting fraud tendencies. Thus, the third hypothesis stating that individual morality has a negative influence on the tendency of accounting fraud is accepted. The result of this study is in accordance with the Theory of Fraud Triangle proposed by Clinard and Cressey (1954), that before committing a crime, the perpetrator will seek rationalization. This rationalization rights and justice who committing a crime usually have deviate judgments of self-chosen principles and moral reasoning like Kohlberg (1969) said individual judgments based on self-chosen principles and moral reasoning. Rationalization is needed so that the perpetrator can digest his or her illegal behavior to maintain his or her identity as a trusted person. Wilopo (2006), identified that the tendency of accounting fraud can be reduced by increasing management morality. Welton and Lagrone (1994), stated that an individual's ability to resolve ethical dilemmas is influenced by the level of his/her moral reasoning. The result of the study provides evidence that with increasing individual morality, the level of the tendency of accounting fraud in the office of the Regional Organizations of Purbalingga is getting lower.

5. CONCLUSIONS, IMPLICATIONS, AND LIMITATIONS

Conclusions
The results of this study show evidence that the suitability of compensation has a negative and significant effect on the tendency of accounting fraud in employees of the Regional Apparatus Organization of Purbalingga Regency. The causal relationship proves that the better the suitability of compensation, the lower the level of the tendency for accounting fraud conducted by the employees of the Regional Apparatus of Purbalingga Regency. The effectiveness of internal control has a negative and significant influence on the tendency of accounting fraud of employees in the Regional Apparatus Organization of Purbalingga Regency. The causal relationship proves that the better the effectiveness of internal control, the lower the level of the tendency for accounting fraud of the employees of the regional apparatus organization in Purbalingga Regency. Individual morality has a negative and significant influence on the tendency of accounting fraud of employees in the Regional Apparatus Organization of Purbalingga Regency. The causal relationship shows evidence that the better the morality of individuals, the lower the level of the tendency for accounting fraud of the employees in the Regional Organizations of Purbalingga Regency.
Implications

In the effort to continue minimizing the level of accounting fraudulent tendencies of its employees, the Regional Apparatus Organization of Purbalingga Regency needs to pay attention to various policies related to increasing compensation conformity, the effectiveness of internal controls, and individual employee morality. The approach that can be accomplished is by providing financial and non-financial compensation fairly in accordance with the needs and desires of employees. The other approach is by implementing an effective internal control system for organizational financial management supported by the use of accurate information technology to achieve targets and guarantee accountable financial reporting through obedience to accounting rules by employees, so that all activities carried out are in line with organizational goals.

Limitations

There are main limitations found in this study, the subject of this study is limited to 31 offices in Purbalingga Regency. Related to the limitations in this study, further researchers need to expand the scope of research so that the results of the study are more objective and can be generalized. Further work better adds other relatable variables that are theoretically and empirically indicated to be able to influence the tendency of accounting fraud does not rule out the possibility to develop a theoretical framework by adding moderating and mediating variables.

REFERENCES


Appendix 1. Questionnaire of Research

JENDERAL SOEDIRMAN UNIVERSITY
ACCOUNTING DEPARTEMENT OF ECONOMIC AND BUSSINESS FACULTY
Address : Prof. Dr. Boenyamin 708 Purwokerto (0281) 637970

KUESIONER PENELITIAN

A. Respondent Personal Data
1. Name ..................................................... (boleh tidak diisi)
2. Ages ........................................... Years Old
3. Sex ........................................................... Male / Female
4. Working Period : ..................................................

B. Questionnaire Questions
Directions: circle your answer

• Did you understand what is accounting fraud?
  a. Yes .................................................. b. No

• Did you ever get accounting fraud socialization before?
  a. Yes .................................................. b. No

• Did you ever do accounting fraud before?
  a. Yes .................................................. b. No

Directions:
• Put a check mark (√) on the circle on the scale that best describes your opinion / condition.
  STS = Strongly Disagree, TS = Disagree, N = Neutral, S = Agree, SS = Strongly Agree
• In making the assessment, please make sure you answer all the question / statement items and select only one answer for each question / statement.
• Some questions / statements may look similar. But each one has a different purpose. Please read any statements or questions carefully.

Compensation suitability (adopted from research by Wilopo (2006))

<table>
<thead>
<tr>
<th>No.</th>
<th>Compensation Suitability</th>
<th>1(STS)</th>
<th>2(TS)</th>
<th>3(N)</th>
<th>4(S)</th>
<th>5(SS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The financial compensation given is measured according to the work performance that has been done by the employee.</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>2</td>
<td>This organization creates conditions so that it is recognized that all of its employees really master the work for which they are each responsible</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>3</td>
<td>Promotion in this organization is given on the basis of work achievements that have been achieved by employees</td>
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<tr>
<td>4</td>
<td>The organization is managed by management in such a way that its employees start and finish job assignments well</td>
<td></td>
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<tr>
<td>5</td>
<td>The job as the person in charge of preparing financial statements in this organization is a challenging task that must be accomplished within a certain time</td>
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<tr>
<td>6</td>
<td>In this organization, the person in charge of preparing financial reports can maximize their abilities, knowledge and expertise in their field</td>
<td></td>
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</tr>
</tbody>
</table>
The Effectiveness of Internal Control (adopted from Wilopo’s research (2006))

<table>
<thead>
<tr>
<th>No.</th>
<th>Internal Control Effectiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>In the organization I work for, the exercise of authority and responsibility is of little importance</td>
</tr>
<tr>
<td>2</td>
<td>In the organization I work for, if financial reports need to be issued immediately, transaction authorizations and supporting evidence can be ignored</td>
</tr>
<tr>
<td>3</td>
<td>In the organization I work for, physical checks of the organization’s assets (cash, supplies, etc.) are only done when needed</td>
</tr>
<tr>
<td>4</td>
<td>In the organization where I work, the accounting system cannot record all information on the operational activities of the organization</td>
</tr>
<tr>
<td>5</td>
<td>In the organization where I work monitoring and evaluation of operational activities to assess the implementation of internal control (for example, degree of cash security, supplies etc.) is not carried out continuously</td>
</tr>
</tbody>
</table>

Individual Morality (adopted from the research of Wilopo (2006))

Ethical Dilemmas

Three months ago Drs. Amir Mandala, Ak, moved to the PT XYZ company and was appointed as the accounting manager. During these three years, PT XYZ’s financial statements were audited by KAP ABC and Rekan. The audit results always provide an unqualified opinion. After three months of working at PT XYZ, Drs. Amir Mandala, Ak found that PT XYZ’s financial statements did not show a true description of the company’s activities. There are various accounting engineering, so that it shows that the company is always profitable and liquid. Knowing this, Drs. Amir Mandala, Ak conveyed the problem to the Directors of PT XYZ. However, the board of directors asked Drs. Amir Mandala, Ak, not to change the ongoing process of preparing financial statements. Drs. Amir Mandala, Ak was asked to compile this year’s financial report while still showing that the company is in good shape, in terms of profitability and liquidity. The Board of Directors also stated that Drs Amir Mandala, Ak’s salary and benefits would be increased, because he had been working for more than three months. Drs Amir Mandala, Ak suggested that the Board of Directors of PT XYZ consider showing a picture of the company’s actual activities for the benefit of the company itself, and not to be subject to legal sanctions, including to consider the principle of welfare for all parties who have an interest in the company, and not to harm the accounting profession as a whole.

Assess the decision of the Board of Directors where you work if the conditions faced by Drs. Amir Mandala, Ak happened at the company you work for

<table>
<thead>
<tr>
<th>No.</th>
<th>Individual Morality</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The Board of Directors of PT XYZ is determined to continue to prepare financial reports as in the previous period, because if they submit the actual position financial statements, they will be dismissed by the shareholders</td>
</tr>
<tr>
<td>2</td>
<td>The Directors of PT XYZ still want to prepare financial reports like the previous period, because if they submit the actual financial reports, they will not get a bonus like the previous period.</td>
</tr>
<tr>
<td>3</td>
<td>The Board of Directors of PT XYZ is determined to prepare financial reports like the previous period, because by describing the current financial statements so that the company’s performance looks good</td>
</tr>
<tr>
<td>4</td>
<td>The Board of Directors of PT XYZ intends to keep compiling financial reports as in the previous period, because this has become the company’s custom</td>
</tr>
</tbody>
</table>
The Board of Directors of PT XYZ is considering preparing a financial report that describes the actual condition of the company, because this will not harm the company as a whole in the future, and will not be subject to legal sanctions.

The Board of Directors of PT. XYZ will reconsider its previous decision and will make a decision to compile the actual financial report, for the sake of considering the welfare principle for all parties who have an interest in the company, and not detrimental to the accounting profession as a whole.

Kecenderungan Kecurangan Akuntansi (diadopsi dari penelitian Wilopo (2006))

<table>
<thead>
<tr>
<th>No.</th>
<th>Kecenderungan Kecurangan Akuntansi</th>
<th>1(STS)</th>
<th>2(TS)</th>
<th>3(N)</th>
<th>4(S)</th>
<th>5(SS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>In order for this organizational report to appear efficient, it is only natural that the head of the accounting department in this organization increases or reduces the costs recorded in the books.</td>
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<tr>
<td>2</td>
<td>For the head of the accounting department in this organization, in order to secure a position, it is natural that bribery records and documents to government officials are removed from the books.</td>
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<tr>
<td>3</td>
<td>If you want to show greater organizational efficiency than it really is, the person in charge of preparing financial reports in this organization is allowed to equate it with the budget</td>
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<tr>
<td>4</td>
<td>The head of the accounting department in this organization should try not to accept various fictitious payments in the organization</td>
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<tr>
<td>5</td>
<td>The head of finance in this organization, should have the courage to refuse the head of the organization's request to buy a house at a cheap price (below market price)</td>
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</tbody>
</table>

Thank you for your help in filling out this questionnaire.