



Determinants of Factors that Affect Accounting Fraud in Local Government Financial Management

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ABSTRACT

This study aims to determine the effect of internal control systems, compliance with human resource regulations and competencies on accounting fraud in the regional financial management of the Gianyar Regency in Indonesia. The research method uses quantitative and data analysis techniques, including multiple regression and analysis of a questionnaire answered by the staff of the regional work unit in Gianyar Regency. Sampling in this study uses Non-Probability sampling with a Purposive Sampling technique, while the number of research samples is 144 questionnaires. The results of the study suggest that the internal control system has a negative effect on accounting fraud, regulatory compliance also negatively affects accounting fraud, and human resource competence has a negative effect on accounting fraud in the Regional Work Unit in Gianyar Regency.

Keywords: Accounting Fraud, Internal Control Systems, Regulation, Human Resources

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INTRODUCTION

A good government should implement clear and structured governance, including financial governance. Government financial management, which also includes local governments, has become the focus of many parties because it has often been published in the media about financial fraud, which led to corruption cases (Mohd Noor & Mansor, 2019). Regional autonomy, which should be a bridge for the realization of the decentralization of development, encourages the potential for corruption in the region (Ferry et al., 2018; Matei & Drumasu, 2015). Cheating in the private sector occurs in the inaccuracy in spending funds, while in the government sector, fraud occurs in the form of leakage of the State Budget (Bromley & Orchard, 2015; Majid et al., 2014).

Cases of corruption that occurred in the government sector were carried out by 14 civil servants within the Gianyar Regency Government, amounting to Rp.94,900,000. The civil servant commits corruption through a fictitious Official Travel Order at the Gianyar Regional Revenue Service (Saputra et al., 2020). Other corruption cases that occurred in the Gianyar Regency Government are corruption crimes in the tourism business licenses in 2017, valued at Rp. 14,450,000. This fraud was caught in an operation, carried out by the Head of the Investment Service and One-Stop Services of Gianyar Regency and the Head of Licensing and Non-Licensing in the same service (Saputra, Jayawarsa, et al., 2022). Corruption was done with the service head writing down the two front numbers of the amount of money that must be deposited on a small piece of paper. (Liao et al., 2019; Saputra & Sanjaya, 2019).

Based on the research conducted by Kachelmeier et al. (2014) on accounting fraud, the internal control system does not affect accounting fraud, while Ghazali et al. (2014) researches accounting fraud found that internal control systems were effective in lowering accounting and regulatory enforcement fraud. Aral et al. (2012) conducted a study of fraud, showing that the internal control system has a negative effect on accounting fraud, and compliance with accounting rules also negatively affects accounting fraud.

Another similar study that raised the theme of financial management fraud is Atmadja et al. (2019), which examines village fund management that human resource competencies and internal control systems have a strong influence on financial fraud. Saputra et al. (2020) suggested that accountability, which is supposed to be the main umbrella of fraud control, must be upheld and optimized so that it integrates with the existing control system to prevent fraud. Furthermore, Ekayani et al. (2020) also suggest that the tendency towards fraud can lead to prolonged conflicts that can cause financial management in an entity to be disrupted.

Various cases of accounting fraud that have occurred in the Gianyar district suggest that fraud will have a negative impact on employee performance as well as on local revenue (Sara & Saputra, 2021). The Gianyar Regency, one of the regencies in Bali, which has a very high regional income potential (as well as high local revenue), is the focus of this research. The importance of internal control systems, adherence to regulations and human resource competencies for government employees has an impact on preventing the occurrence of accounting fraud in the regional work unit in Gianyar Regency.

LITERATURE REVIEW

Agency Theory

From an agency theory standpoint, principals supervise agents to carry out efficient performance (Olson & Wu, 2015). This theory assumes efficient performance, and organizational performance is determined by effort and the influence of environmental conditions (Whipple, 2018). In general, this theory assumes that principals are neutral towards risk while agents act against business and risk (Donaldson & Davis, 1991; Jensen & Meckling,

1976; Rashid, 2016). Agency theory, developed by Watts and Zimmerman, is based on the assumption that individuals will act according to their interests (Tang et al., 2017). In agency theory, there is an agency relationship in the contractual form between the principal and the agent to carry out services on behalf of the principal, which involves delegating decision-making authority to the agent (Boučková, 2015). Conflicts between principal and agent often occur in regional financial management, namely frequent irregularities of information between local government and the community, leaders with other apparatus, and others (Dirsmith et al., 1997; Horton & Wanderley, 2018).

Fraud Triangle Theory

In the fraud triangle theory explained by Abdullahi and Mansor (2018), three conditions generally arise at the time of the fraud. The first is the motivation of individuals to commit fraud due to financial and non-financial pressures. The second is an opportunity, which is the condition or situation that allows a person to act dishonestly. The third is rationalization, which is a consideration of cheating behavior due to a gap in the employee's personal integrity or other moral reasoning (Ariall & Crumbley, 2016; Gibson, 2018; Murphy & Dacin, 2011).

Influence of the Internal Control System on Accounting Fraud

Allegrini and D'Onza (2003) define control activities as policies and procedures that help ensure that management orders have been carried out. Control activities help ensure that the actions needed are related to the risks taken to achieve organizational goals (Jensen & Meckling, 1976). The definition of an internal control system according to Government Regulation No.60 of 2008 concerning the Government's Internal Control System is an internal control system that is an integral process for actions and activities carried out continuously by the leadership and all employees to provide adequate assurance for the achievement of organizational goals through activities that effective and efficient, reliability of financial reporting, safeguarding state assets, and compliance with laws and regulations (Afiah & Azwari, 2015; Ghazali et al., 2014; Sujana et al., 2020).

The Internal control system is an integral process for actions and activities carried out continuously by the leadership and all employees to provide adequate confidence in the achievement of organizational goals through effective and efficient activities, the reliability of financial reporting, safeguarding state assets, and compliance with laws and regulations (Fernandhytia & Muslichah, 2020; Zhang et al., 2007). Research conducted by Ghazali et al., (2014) and Yuniarti (2017) obtained the results of the Internal Control System affecting the tendency of accounting fraud. Based on the results of previous studies, the proposed hypothesis is as follows:

H1: The Internal Control System Influences Accounting Fraud in the Regional Work Unit of Gianyar Regency

Effect of Regulatory Compliance on Accounting Fraud

The government is encouraged to submit financial reports for various reasons. One of them is due to market forces and regulatory power (Berzins et al., 2019). In order to obtain uniformity in entity financial reporting, standards and regulations are formulated in Indonesia (Ackert et al., 2019; Bandura, 1977; Knechel, 2007). Accounting standards used for government entities are the Statement of Government Accounting Standards as regulated in Government Regulation No. 71 of the Year 2010 (Mccue, 2007). From the research conducted by Mobus (2005) and Paino et al. (2015), the results of the Accounting Compliance have a negative effect on the tendency of fraud. Based on previous research, the proposed hypothesis is as follows:

H2: Compliance with accounting regulations negatively affects accounting fraud in the Gianyar Regency Regional Work Unit

The Influence of Human Resource Competence on Accounting Fraud

Competence is defined as the basic ability and quality of work needed to do the job well (Enqvist et al., 2018). Competency of local government apparatus means the ability that must be possessed by an apparatus in the form of knowledge, skills, attitudes and behaviours needed in the execution of its duties (Atmadja & Saputra, 2018; Buszko & Mroziowski, 2009; Sara et al., 2021). The apparatus referred to in this study is the regional government, which consists of leaders who are assisted by other apparatus (Atmadja & Saputra, 2018). Local government is a formal symbol of community unity (Muisyo et al., 2021).

Research from Mironiuc and Robu (2012) states that the competence of apparatus has a positive effect on the quality of the financial statements of local governments through the application of internal control systems. The higher the competency of the government apparatus by increasing the application of the internal control system, the impact of improving the quality of local government financial reports and preventing fraud (Gibson, 2018; Saputra et al., 2020; Saputra, Mu'ah et al., 2022). Based on the description of the previous research above, the following hypothesis can be formulated:

H3: Competence of human resources influences accounting fraud in the Regional Work Unit of Gianyar Regency

METHODOLOGY

The design of this study uses quantitative research methods. The independent variable in this study is the internal control system, compliance with regulations and human resource competencies, while the dependent variable in this study is accounting fraud. Data collection techniques used in this study are questionnaire techniques (Baruch & Holtom, 2008). The scale used in the preparation of this research questionnaire is the Likert scale. The population in this study is SKPD in Gianyar Regency, amounting to 36 SKPD. The sampling technique uses purposive sampling. Samples that met the criteria in this study were 144 employees of the regional work unit in Gianyar Regency.

Analysis of the data used in this study used the Multiple Linear Regression OLS (Ordinary Least Square) test using SPSS for Windows Released 24.0 Programming software. Previously tested the validity and reliability of the instruments used. This study also used the classical assumption test, which includes the multicollinearity test, heteroscedasticity test, and normality test. A validity test using Pearson Correlation correlates the scores of each question item with a total score, which is the number of correlations (Sara et al., 2021). Variables are said to be valid if they have a significance or smaller than 0.05, while the variable is said to be reliable if it has a Cronbach alpha value greater than 0.70 (Ghozali, 2011: 47-48). The normality test was carried out using the Kolmogorov Smirnov with Asymp coefficient. Sig is greater than 0.05 (Ghozali, 2011: 160-163). To detect the presence of multicollinearity, tolerance = 0.10 and Variance Inflation Factor (VIF) = 10 (Ghozali, 2011) are used. Heteroscedasticity testing uses the Glejser test by regressing the absolute residual value with the independent variables used. If you have a significant value above 0.05, heteroscedasticity does not occur.

RESULTS AND DISCUSSION

The number of questionnaires distributed was 144, which were the samples in this study. To fulfil the requirement of validity, the minimum requirement of a questionnaire is that

the correlation coefficient is equal to 0.3 or more, and then the instrument item is declared valid. From the instrument validity test, it is found that the Pearson Correlation value for each statement item is greater than 0.3 so that it can be declared valid. The results of the instrument reliability test are seen from the Cronbach's Alpha value of each variable. Because all variables have a Cronbach's Alpha value > 0.70 , the data is declared reliable. In Table 1, the results of the data normality test using Kolmogorov-Smirnov statistics show the value of Asymp.Sig. (2-tailed) Of 0.550. This value is greater than 0.05, which indicates that the distribution of data is normally distributed. In Table 2, the results of multicollinearity testing value of tolerance value = 0.10 and Variance Inflation Factor (VIF) = 10 correlations among independent variables can be said that there is no multicollinearity in the linear regression model. Heteroscedasticity test results show that all variables are not significant at 0.01, so it can be concluded that heteroscedasticity does not occur.

Hypothesis testing uses the results of the t-test and the direction of its influence seen from multiple linear regression analysis. The influence of the internal control system, adherence to human resource regulations and competencies on accounting fraud (partial fraud) partially appear in the following section.

Table 1. Regression Equation Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig
	B	Std. Error	Beta		
(Constant)	85.848	6.353		13.513	.000
X1	-.139	.058	-.183	-2.416	.017
X2	-.224	.112	-.139	-2.005	.047
X3	-.454	.135	-.230	-3.351	.001

Based on the results of the t-test in the table above, it can be interpreted that the internal control system (X1) has a negative regression coefficient of -0.183 with a significant 0.017 < 0.05 indicates that if the internal control system variables increase, assuming other variables are considered constant, then accounting fraud has decreased. Regulatory compliance (X2) has a negative regression coefficient of -0.139 with a significance of 0.047 < 0.05 , indicating that if the regulatory compliance variable increases with the assumption that other variables are considered constant, then accounting fraud has decreased. Human resource competence (X3) has a negative regression coefficient of -0.230 with a significance of 0.001 < 0.05 , indicating that if the competence variable of human resources increases with the assumption that other variables are considered constant, then accounting fraud has decreased.

The results of the analysis of the effect of the internal control system, adherence to regulations and competencies of human resources on simultaneous fraud (fraud) are shown in the following table.

Table 2. Test Results F

Model	Sum of Squares	df	Mean Squares	F	Sig.
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Regression	686.676	8	85.835	12.085	.000 ^a
Residual	958.817	135	7.102		
Total	1645.493	143			
a. Predictors: (Constant), X ₂ , X ₁					
b. Dependent Variable: Y					

Based on the ANOVA test results in Table 2 above, the F value of 12.085 with a significance of 0.000b < 0.05 means that the regression model used is feasible and meets the Goodness of Fit.

Based on the results of data analysis that has been carried out regarding the influence of the internal control system, compliance with human resource regulations and competencies on accounting fraud in the Regional Work Unit (SKPD) in Gianyar Regency, the results of the internal control system have a negative effect on accounting fraud, which is indicated by the t-count value for the internal control system variable of -2.416 with a significant value of 0.017 < 0.05. This states that the first hypothesis is accepted. The negative result on the internal control system coefficient (-2.416) shows the opposite effect, which means there is a negative influence between the internal control system and accounting fraud. (Kachelmeier et al., 2014; Omar & Bakar, 2012). The results of this study are in line with the results of Saputra et al. (2020) and Shafati et al. (2020), which state that the internal control system negatively affects accounting fraud. Government Regulation Number 60 of 2008 concerning the Internal Control System (SPI) states that SPI is an integral process for actions and activities carried out continuously by the leadership and all employees to provide adequate confidence in the achievement of organizational goals through effective and efficient activities, reliability financial reporting, safeguarding State assets and compliance with laws and regulations (Bauer et al., 2020; Demirović et al., 2021; Kurniawan & Azmi, 2019; Saputra, Jayawarsa, et al., 2022). With the existence of a kind, effective and efficient internal control system, the possibility of irregularities in the operational process of the agency can also be minimized (Chen et al., 2019). Thus, the more effective the internal control system implemented in an agency, the lower the accounting fraud that might occur (Sujana et al., 2020).

The results of the second hypothesis test state that regulatory compliance negatively affects accounting fraud, which is indicated by the t-count value of -2.005 with a significance of 0.047 < 0.05. Thus, the second hypothesis is accepted. A negative result (-2.005) indicates the opposite direction, which means that there is a negative influence between regulatory compliance and accounting fraud. Regulation is a bond, a rule that must be obeyed by all members of the organization during the operational process so that the process can run effectively and efficiently (Knechel, 2007). Enforcement of the regulation is interpreted as an effort to enforce specific regulations to ensure that the rule of law runs as it should (Norton, 2018; Thanitcul & Srinopnikom, 2019). Regulatory enforcement will not be able to be useful if commitment and consistency do not follow it. Violations often occur even though the regulations have been enforced (Fu & Geng, 2019). No organization is free from fraud because this problem originates and leads to human problems, "the man behind the gun" (Akbar et al., 2012; Kaplan & Ruland, 1991; Knechel, 2007).

Based on the results of statistical tests showed that human resource competencies negatively affect accounting fraud, which is indicated by the t-count value of -3.351 with a significance of 0.001 < 0.05. Thus, the third hypothesis in this study was accepted. A negative result (-3.351) indicates the competency coefficient of human resources show opposite effects, which means that there is a negative influence between human resource competencies and accounting fraud. This means supporting the research conducted by Atmadja et al. (2019), Majid et al., (2014), Saputra et al. (2020), Saputra, Jayawarsa et al. (2022); Saputra, Mu'ah et al. (2022), which states that the competence of its human resources influences the success of

organizational financial management. This means that regional financial managers in government have a role that significantly determines the overall success of government financial management (Bromley & Orchard, 2015). The human resource competencies refer to our capabilities and quality that are in line with the needs of government financial management (Power, 2013). The ability of financial managers to plan, manage/implement, supervise and account for finances (Saputra & Sanjaya, 2019). The ability of government leaders (SKPD) to manage finance, empowering employees and professionals in managing assets that trigger increased local revenue with the goal of regional independence (Hamshari et al., 2021). The measure of success in local government financial management is the use of funds in accordance with regulations and the ability to achieve goals. This can make local revenue a strong motivation to continue to develop regional potential and reduce poverty (Ainul et al., 2014; Ghazali et al., 2014; Purwanti, 2018).

CONCLUSION

Based on the results of the analysis of data that has been collected through questionnaires, it can be concluded from this study that: (1) the Internal Control System negatively affects accounting fraud (fraud) in the Regional Work Unit (SKPD) in Gianyar Regency. This means that the better the internal control system, the lower the level of accounting fraud that occurs. (2) Regulatory compliance negatively affects accounting fraud in the Regional Work Unit (SKPD) in Gianyar Regency. This means that the higher the regulatory compliance, the lower the level of accounting fraud that occurs. (3) The competence of human resources negatively affects accounting fraud in the Regional Work Unit (SKPD) in Gianyar Regency. This means that the better the competence of human resources in an agency, the lower the level of accounting fraud that occurs.

In accordance with the results of the above studies, suggestions can be given for further research that can be implemented in an organizational culture based on local culture in improving good governance. Also, variables can be added to the Balinese culture, which can be binding and as a guideline for organizing in Bali. The Tri Hita Karana Culture has three essential components, namely studying human relations with God, fellow human beings and the environment. Another thing that can be suggested is to raise the attitude of personal behavior to be confirmed through questionnaires such as locus of control, the attitude of love of money and similar issues.

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