

A Tendency to Fraud in Accounting: Compliance with Accounting Rules and Management Morality

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Abstract— This research begins with the phenomenon of financial statement manipulation by a Japanese company (Olympus) and the presentation of the annual financial statements of PT. Garuda Indonesia, Tbk which is not in accordance with the standards of the OJK Regulations and is not in accordance with the Statement of Financial Accounting Standards (PSAK). This study aims to examine and analyze the significant effect of compliance with accounting rules and management accounting morality on the tendency to fraud in accounting. This research is quantitative with a causal approach. The population of this is private companies in the Jakarta and Tangerang regions. The sample used consisted of 60 companies. Data were analyzed using the structure of the Equation Model (SEM) Second order confirmatory with the Partial Least Square (PLS) approach. The results showed that compliance with accounting rules did not have a significant effect on the tendency of accounting fraud. Conversely, Management Morality has a significant effect on the tendency of accounting fraud.

Index Terms— A Tendency To Fraud In Accounting, Compliance to Accounting Rules, Management Morality

I. INTRODUCTION

Fraud or (manipulation) of financial reports that occurred in Japan has lowered the confidence of global investors. The fraud itself was carried out by a Japanese camera manufacturer who claimed to have hidden losses from investment in securities companies for decades or since the 1980s. So far, Olympus has covered its losses by diverting acquisition funds. This case subjected the board of directors and their accountants to criminal charges for the article manipulation of the financial statements of their shareholders [1]. Switching from Japan. In Indonesia, a case of misrepresentation of financial statements which was quite eye-catching occurred in 2019. OJK Deputy Commissioner for Capital Market Supervision II, Fahri Hilmi revealed that PT. Garuda Indonesia, Tbk has made a mistake in the presentation of its financial statements which in the presentation of the annual financial statements of PT. Garuda Indonesia, Tbk is not in accordance with the standards of the OJK Regulations and is not in accordance with the Statement of Financial Accounting Standards (PSAK), which previously obtained a WTP opinion [2]. In line with this, Sri Mulyani (Minister of Finance of the Republic of Indonesia 2019) said that the title of Unqualified (WTP) in each financial report

does not guarantee that it is free from fraud. The WTP predicate given by the Supreme Audit Agency (BPK) on financial statements is only a sign that the process prepared is in accordance with the applicable standards [3]. Research conducted by Aswad et al., 2018 [4] explains that accounting regulatory compliance has an effect on the tendency of accounting fraud. Research by Wilopo, 2006 [5] shows that morality has a significant effect on the tendency of accounting fraud. The purpose of this study was to study and analyze: (1) The significant effect of compliance with accounting rules on the tendency to fraud in accounting. (2) The significant effect of Management Morality on Fraud in Accounting.

II. THEORETICAL REVIEW

A. Accounting Fraud

The Indonesian Institute of Accountants [6] describes fraud in accounting as: a) fraud in financial reporting, namely misstatement or deliberate omission of amounts or disclosures in financial statements to trick users of financial statements. b) Misstatement arising from improper treatment of assets (often referred to as misuse or embezzlement) related to the theft of an entity's assets which results in financial statements not being presented in accordance with Generally Accepted Accounting Principles (PABU) in Indonesia. From the results of writing by Donald Cressey in Surjandari, 2015 [7] there are 3 (three) important factors that cause fraud, namely pressure, rationalization (personal ethnic), knowledge and opportunity. Pressure can come from financial / financial factors or pressure from social factors. These two things can trigger or motivate the perpetrator to commit fraud. Rationalization (justification for committing fraud) is the most crucial component of cheating in which the perpetrator seeks justification for his actions. The actors usually possess knowledge and opportunity so that fraud is not easily detected. According to Donal, opportunity consists of two components, namely: a) General Information is the knowledge that a position containing trust can be violated without consequences. Knowledge can be obtained by the actor through what he hears or sees. b) Technical Skill / skills required to commit the fraud. Usually it is this skill that causes the perpetrator to have this position.

B. Compliance with Accounting Rules

According to Setiyawati, 2020 [8] compliance is following or carrying out commands or rules that have been set. In an institution or agency there are binding rules and must be

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implemented as a reference in carrying out company activities in order to regulate and discipline the elements of the company so that it runs in accordance with the objectives set out in the company implementation guidelines. Compliance with the Accounting Rules is seen as the level of conformity of the organization's asset management procedures, the application of accounting procedures and the presentation of financial statements as well as all supporting evidence, with predetermined rules [9]. Wilopo, 2006 [5] explains that failure in preparing financial statements is caused by non-compliance with accounting rules, which will result in fraud in institutions that cannot be detected by auditors. From the above explanation, It can be concluded that compliance with accounting rules is all accounting rules or regulations that organizations must comply with in financial management, financial reporting and financial management accountability, so that the resulting information is accurate. And compliance with quality accounting rules has a very important function in the preparation of financial reports, so as to create transparency in the financial sector in an agency.

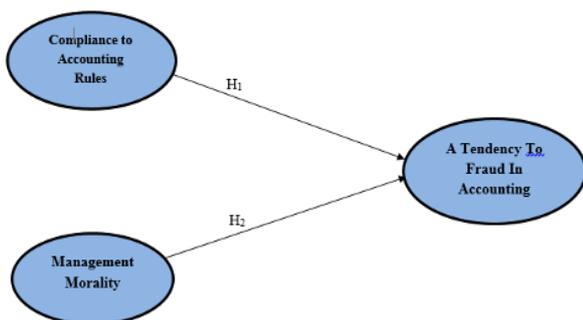
C. Management Morality

Morals are actions, attitudes or behavior carried out by humans in everyday life which are closely related to other people. In general, morality is the basic thing in evaluating every action taken by humans. Morality is about other people not only about self-interest. And morality is an objective and rational thought. Besides, morality is an important universal law [10]. In the theory of moral development, Kohlberg (1969) in Carpendale 2000 [11] states that morals develop through three stages, namely the pre-conventional stage, the conventional stage, and the post-conventional stage. Management morality at the post-conventional stage shows the high moral maturity of management.

D. Framework

Lack of oversight of the orderliness of accounting rules and low morality of management in the company is a factor in the occurrence of fraud. Therefore, to prevent or minimize fraud, it is important to monitor compliance with accounting rules and instill moral values. Thoyibatun, 2012 [9] explains that the tendency of fraud in accounting is influenced by compliance with accounting rules which have been determined by IAI, SAK, and PSAK. In addition, the higher the level of management morality in a company, management tries to avoid the tendency of accounting fraud. Wilopo, 2006 [5]

Figure 1. Framework



Based on the conceptual framework above, the hypotheses in this study are as follows:

- H1: Compliance with Accounting Rules has a significant effect on the tendency of fraud in accounting.
- H2: Management morality has a significant effect on the tendency of fraud in accounting

III. METHOD

The dependent variable in this study is the tendency of fraud in accounting. The dimension of this variable is the disclosure in financial statements to deceive users of financial statements where the indicators used to measure the tendency of accounting fraud consist of five question items that refer to research conducted by Wilopo [5] & Aswad, et al [4]. The compliance variable with accounting rules that uses the dimensions of the application of accounting procedures consists of 8 indicators which refer to previous studies by Thoyibatun, 2012 [9] and Wilopo, 2006 [5]. Management morality variable in this study uses the dimensions of moral development theory according to Kohlberg (1969) [11]. The measurement of management morality is derived from the moral measurement model in the form of the Defining Issues Test instrument. This instrument is a case of ethical dilemmas. consists of 6 indicators as a basis for questions. The population in this study were private companies in the Jakarta and Tangerang areas. The sample in this study were 60 companies. sampling using convenience sampling based on convenience (convenience sampling). Respondents in this study were employees of the accounting or finance department at the company. An interval scale of 1–5 is used to measure responses from respondents. The research hypothesis testing was carried out using the Structural Equation Model (SEM) approach. Data analysis using Partial Least Square (PLS) software. There are two things that must be done, namely: Assessing the Outer Model and Assessing the Inner Model. using the Warp PLS program and SEM-PLS Second-Order Construct analysis.

IV. RESULTS AND DISCUSSION

A. Description of Statistics Analysis

Table 1 presents an average description of the variables of Accounting Rules Compliance, Management Morality as measured by 1 reflective dimension and the tendency of accounting fraud as measured by 1 reflective dimension.

Table 1. Descriptions of Compliance to Accounting Rules , Management Morality, A Tendency To Fraud In Accounting Variables

No	Variables	Average
1	Compliance to Accounting Rules	3,82
2	Management Morality	3,41
3	A Tendency To Fraud In Accounting	3,46

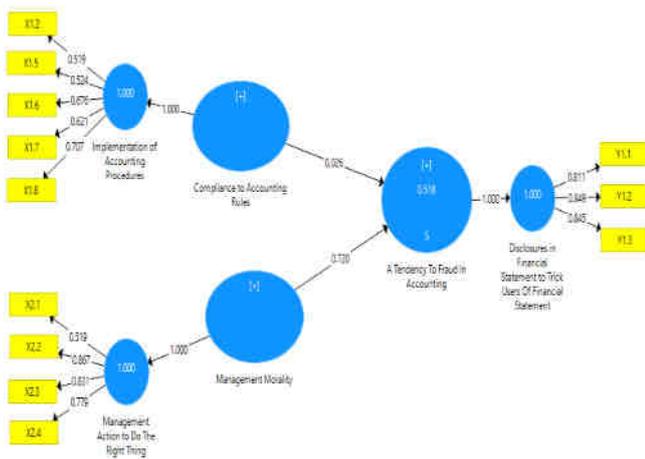
Source: Processed Primary Data, 2020

The accounting rule compliance variable shows an average value of 3.82 which means that private companies in the Jakarta and Tangerang areas are quite good at preparing financial reports in accordance with standard accounting rules. The management morality variable shows an average value of 3.41. This shows that the overall management morality on the research object is quite good. With good management morality, it can suppress fraud committed by leaders in the company. The tendency of the fraud variable in accounting shows an average value of 3.46. This shows that the tendency of accounting fraud in the company as a whole is quite low. However, employees and management must take steps to prevent any form of fraud.

B. Test of Validity and Reliability

The following figure 2.is the result of the output factor loading construct of Compliance with Accounting Rules, Management Morality, and the Tendency of Fraud in Accounting.

Figure 2. Output Loading



The results of loading the second order construct factor Compliance with Accounting Rules, Management Morality, and Tendency of Accounting Fraud in Smart PLS have met the convergent validity, namely the indicator value is above 0.5. All loading factors, both second and first place, are significant at the 5% level, so the indicators are declared valid.

Table 2. Reliability Test

Variables	Composite Reliability	Cronbach's Alpha	AVE	Remarks
Compliance to Accounting Rules	0,749	0,597	0,377	Reliable
Management Morality	0,842	0,746	0,580	Reliable
A Tendency To Fraud In Accounting	0,873	0,783	0,697	Reliable

Source: Primary Data Processed, 2020

The reliability results of the variable compliance with accounting rules, management morality, and the tendency of fraud in accounting have a composite reliability above 0.6. The indicators used for each variable have good reliability or are able to measure the construct.

C. Evaluation of Goodness of Fit Structural Model (Inner Model).

Table 3. R Square

Variables	Rsquare
A Tendency To Fraud In Accounting	0,522
Predictive-Relevance (Q^2)	0,478

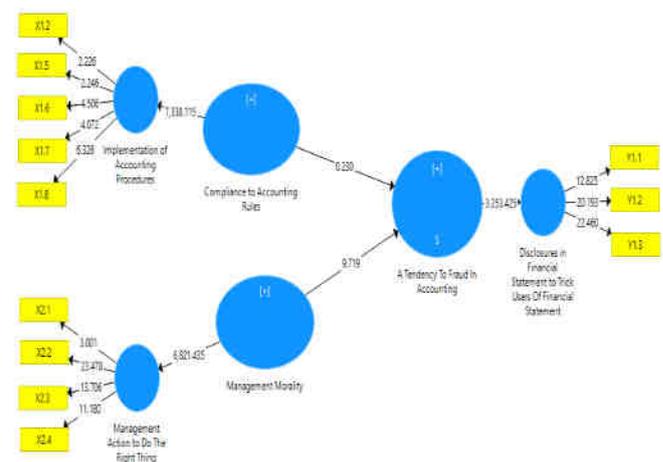
Source: Primary Data Processed, 2020

Based on the coefficient of determination in table 3, the variable value of the tendency to fraud in accounting is 0.522, meaning that this value indicates that the variable obedience to accounting rules, Management Morality is 52.2%, while the remaining 47.8% is influenced by other variables not in the model. research.

D. Hypothesis Testing

The following is an image of the model output in the Smart PLS Version 3.2.8 software. The following is an image that explains the path diagram for hypothesis testing:

Figure 3. Hypothesis Testing Path Diagram



Based on the test results above, it can be seen that the statistical value of each variable is greater than T table. This means that the dimensions of each variable are able to measure each construct. To find out the significance of each variable by looking at the value of the parameter coefficient and the value of statistical significance can be seen in table 4. as follows

Table 4. Path Coefficients

Relationship Between Variables	Coefficient of Parameters	T Statistic	P Value	Description
Compliance to Accounting Rules → A Tendency To Fraud In Accounting	0,026	0,230	0,818	Not significant effect
Management Morality → A Tendency To Fraud In Accounting	0,720	9.719	0,000	Significant effect *

Information: 5% significance level

E. Discussion

Compliance with Accounting Rules has a significant effect on Fraud Tendency in Accounting. This shows that the application of compliance with accounting rules in accordance with applicable regulations does not necessarily reduce the chance of fraud. The rejection of this hypothesis is presumably due to other factors such as pressure factors in a corporate organization. Pressure to achieve profit targets that have been determined by company management can make managers do everything such as manipulate and falsify documents to achieve these targets. The financial statements will be prepared as best as possible in accordance with accounting rules so that the financial statements can describe the company's financial condition as intended. This argumentation is reinforced by the existence of a raised phenomenon. This means that companies like Olympus have smoothly manipulated their financial reports for decades and there is a phenomenon that the presentation of financial statements by the best airline Garuda Indonesia is not in accordance with PSAK. However, instead of obtaining a WTP opinion from the auditor, it can be concluded that financial statements that are in accordance with accounting rules are not necessarily free from fraud as expressed by the Minister of Finance Sri Mulyani who stated that the predicate of Unqualified (WTP) in each report does not guarantee freedom. . from fraud. The WTP predicate given by the Supreme Audit Agency (BPK) on the financial statements of an institution is only a sign that the process that has been prepared is in accordance with applicable accounting standards. The results of this study are not in line with (Wilopo, 2006) [5] which shows that there is a significant effect of accounting rule compliance on the tendency of accounting fraud. The results of this study are in line with research conducted by (Kusumastuti & Meiranto, 2012) [10] which shows that compliance with accounting rules does not have a significant effect on the tendency of accounting fraud.

Management Morality has a significant effect on the Tendency of Fraud in Accounting. This means that the higher the morality of management in a company, the higher the

awareness of management not to commit fraud in accounting. The results of this study are in line with Kohlberg's theory of moral development [11] which states that morals develop through three stages, namely the pre-conventional stage, the conventional stage, and the post-conventional stage. Management morality at the post-conventional stage shows the high moral maturity of management. The results of this study are in line with previous research (Wilopo, 2006) [5] which explains that the higher the level of management morality in a company, the management tries to avoid the tendency of accounting fraud. The results of this study are not in line with the results of previous studies conducted by (Alou, et al 2017) [12] Management morality has no effect on the tendency of accounting fraud.

V. CONCLUSIONS AND SUGGESTIONS

Compliance with Accounting Rules does not have a significant effect on the tendency to fraud in accounting. Morality. This shows that compliance with accounting rules in accordance with regulations does not necessarily reduce the chance of fraud. Management morality has a significant effect on the tendency of fraud in accounting. The higher the morality of the management in a company, the higher the awareness of the management not to commit fraud in the accounting sector.

Private companies in the Jakarta & Tangerang area in order to maintain and improve employee morale and individual management. In addition, company management is expected to exercise tighter supervision of compliance with accounting rules in all financial transaction recording processes in the company in order to minimize the tendency of fraud in accounting. Further research should be able to be carried out with a wider coverage area, not only Jakarta and Tangerang areas and increase the number of sample companies used as research objects. In addition, further research must be able to take samples of government agencies.

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