

# The Effect of Internal Control System, Individual Morality, and Organizational Commitments to Accounting Fraud Tendencies

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**Abstract.** The purpose of this research is to examine the effect of internal control systems, individual morality and organizational commitment to the tendency of accounting fraud. The samples in this study were branch leaders, branch quality assurance, sales supervisors (marketing), leaders in service office development, general and administrative supervisors, cash service supervisors, customer service supervisors. The sampling method for this research was purposive sampling, and 60 samples were obtained. This study uses the questionnaire method in collecting data. Researchers used multiple linear regression data analysis techniques to test the effect between the independent variable and the dependent variable. The test results obtained results that the internal control system, individual morality, organizational commitment have a significant negative effect on accounting fraud.

**Keywords:** internal control system, individual morality, organizational commitment, fraud tendency (accounting)

## 1 Introduction

The increasingly massive development of accounting not only provides benefits for stakeholders, but also becomes a source of accounting fraud. Fraud according to The Association of Certified Fraud Examiners can be interpreted as intentionally breaking the law committed by internal or external parties of the organization for personal or group interests.

The tendency of accounting fraud has received attention from various parties, especially stakeholders associated with the company. Cases of fraud in Indonesia occur repeatedly, the mass media reported this much so that for the public fraud cases like this are no longer a secret. Cases of accounting fraud can occur in financial institutions in the government sector or in private sector financial institutions.

Based on the Statement of Auditing Standard, fraud is defined as an action taken intentionally to produce material misstatements in the financial statements. Guidelines for stakeholders in the decision making process are financial statements. This will certainly harm stakeholders in the decision making process because the information presented in the financial statements does not reflect the real state of the company.

Fraud/crime in the banking sector is a type of crime that is a crime that includes institutions, banking products or devices, which involve the banking sector or its customers as perpetrators or victims. The bank has activities and functions to raise funds from the public in the form of savings, current accounts, and deposits, and then channel it back to the public in the form of credit. The role of banks is very important for the Indonesian economy because banks have a role to control financial stability, control inflation, and regulate the payment system. Therefore, it is necessary to implement adequate risk management in an effort to overcome the increasing complexity of products and bank activities.

One function of the internal control system is to prevent accounting fraud, so that the financial statements presented are of higher quality. But in some cases, it turns out that the internal control system that has been implemented has not been able to function effectively. One example of a case that just happened in Indonesia is the case of the presentation of financial statements by Garuda Indonesia (Persero). Quoted from (<https://economy.okezone.com>, 2019) it was stated that Garuda Indonesia (Persero) had presented the financial statements for the 2018 fiscal year by presenting a net profit of USD 809.85 thousand or equivalent to 11.33 billion rupiah. This nominal value is far greater than the financial statements for fiscal year 2017 which recorded a loss of USD 216.5 million. Commissioners of Garuda Indonesia (Persero) namely Chairal Tanjung and Dony Oskaria assume that the company's financial

statements presented are not in accordance with Accounting Standard. On the other hand, Garuda Indonesia (Persero) refused to re-audit the financial statements for the 2018 financial year which were deemed inappropriate because it had included revenue from PT Mahata Aero Teknologi. The difference of opinion between the company and the company commissioner indicates that there is a potential for inappropriate governance and internal control systems. The existence of an internal control system is to prevent, control, and giving an early warning If there is a fraud in the company. But in reality the internal control system applied has not been able to doing their function effectively. The case then ended with sanctions imposed on Garuda Indonesia (Persero) and KAP Tanubrata Sutanto Fahmi Bambang and Partners (Member of BDO International).

Another case of accounting fraud is a case of embezzlement of funds that occurred in Bali by the Director of the People's Credit Bank KS Bali Agung Sedana in the Kerobokan area, Badung. The case of embezzlement of funds is related to granting loans that are not in accordance with procedures to a number of 54 debtors worth Rp.24,225 billion (<https://ekonomi.kompas.com>, 2018).

Researchers are also interested in examining the influence between individual morality and organizational commitment to the tendency of accounting fraud. The underlying reason is because of the inconsistency of the results of the study, so it can be concluded that the results of the previous studies are not conclusive yet.

**Table 1.** The Result of Previous Research

Researchers	Accounting Fraud Tendencies	Internal Control System	Individual Morality	Organizational Commitment
Indriastuti (2016), Widiutami (2017)	√	(-)		
Asrifah (2018)	√	(x)		
Sanuari (2014)	√		(-)	
Dewi (2017)	√		(x)	(x)
Natasya (2017), Widiutami (2017)	√			(-)

The purpose of this study was to examine the effect of the Internal Control System, Individual Morality, and Organizational Commitment on Accounting Fraud Tendencies.

## 2 Literature Review

### 2.1 Perception

Perception is defined as the process of a person's interpretation of the environment both visually, appreciation, feeling and smell. The thing that needs to get emphasis to gain an understanding of a perception is that the perception is a unique interpretation of the situation, and not a correct recording of the situation (Thoha, 2016: 141).

### 2.2 Attribution Theory

Attribution theory deals with the process of a person in understanding and interpreting an event, as well as explaining the reasons and causes of a person's behavior related to the event. Fritz Heider developed this theory and further explained that that one's behavior was determined by a combination of internal factors originating from in themselves such as ability and business, and external factors such as luck (Yusra, 2016: 9).

### 2.3 Fraud Triangel Theory

Theory developed by Dr. Donald Cressy, co-founder of the Association of Certified Fraud Examiner (ACFE). In the Fraud Triangle Theory explained that fraud is supported by three elements, namely pressure, opportunity, and justification. The statement was developed by the Association of Certified Fraud Examiners (ACFE) and adopted from Ardianingsih's book (2018: 75) which includes indicators (1) financial statement fraud, (2) asset misappropriation, and (3) corruption.

## 3 Research Methods

### 3.1 Place and Object of Research

The place or location in this study is conducted at XX Bank Branch Office in Badung Regency. The object of this research is the Internal Control Systems, Individual Morality, Organizational Commitment and Accounting Fraud Tendencies.

### 3.2 Population and Sample Determination Method

Population is a generalized area determined by researchers because it has certain qualities and characteristics (Sugiyono, 2018: 80). The population used in this study were all employees who worked at 5 (five) XX Bank Branch Offices of Badung Regency, amounting to 75 people. This study uses a Non probability sampling method with a purposive sampling technique, with the criteria that the respondents in this study are branch leaders, branch quality assurance, sales supervisors, marketing leaders in service office development, administrative and general supervisors, cash service supervisors, supervisors customer service, so that the number of respondents obtained as many as 60 respondents.

### 3.3 Data Types and Sources

This research was conducted with quantitative research methods. The independent variables in this study are the internal control system, individual morality, and organizational commitment. While the dependent variable is the tendency of accounting fraud.

### 3.4 Method of Collecting Data

Data collection methods that researchers use is a questionnaire method with a Likert scale of 1-5. Likert scale 1-5 is used with the aim to measure the response of respondents. The scale shows, namely: 1) strongly disagree (STS), 2) disagree (TS), 3) disagree (KS), 4) agree.

### 3.5 Data Analysis Technique

The data analysis technique used to test the effect between independent variables and the dependent variable in this study is multiple linear regression.

## 4 Results and Analysis

### 4.1 Test Research Instrument

The results of the validity test of internal control system variables, individual morality, and organizational commitment show the value of the correlation coefficient > 0.30, so it can be stated that the statement is valid. The reliability test results of the internal control system variables, individual morality, and organizational commitment indicate the Cronbach's Alpha value of each instrument is greater than 0.70. This result means that the research instrument meets to be declared reliable and can be used in this study.

### 4.2 Classic Assumption Test

The regression model is normally distributed as indicated by the normality test which obtains a significance value greater than 0.05. For the multicollinearity test, it was found that the tolerance value of each variable is greater than 10 percent, and the VIF value is less than 5 percent, so it can be concluded that the regression model is free from multicollinearity problems. Sig value for each variable is greater than 5 percent (0.05), which means this research model escapes the problem of heteroscedasticity.

### 4.3 Multiple Linear Regression Analysis

**Table 2.** Summary of Multiple Linear Regression Analysis Results  
Coefficients<sup>a</sup>

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
			Beta		
	B	Std. Error			
(Constant)	5.744	.359		15.998	.000
1 Internal control system	-.325	.122	-.307	-2.674	.010
Individual morality	-.328	.105	-.333	-3.114	.003
Komiten Organisasi	-.294	.138	-.282	-2.129	.038

a. Dependent Variable: Accounting fraud tendencies

Source: Data processed 2019

Based on Table 2 can be written multiple linear regression equation as follows:  $Y = -0,307X1 - 0,333X2 - 0,282X3 + e$ . The multiple linear regression equation shows that the Internal Control System variable (X1) has a negative regression coefficient of -0.307, the Individual Morality variable (X2) has a negative regression coefficient of -0.333, the Organizational Commitment variable (X3) has a negative regression coefficient of - .282.

#### 4.4 Model Test

This model test consists of the determination test ( $R^2$ ) and the F test (F-test).

**Table 3. F Test Results**

ANOVA <sup>a</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	38.444	3	12.815	26.455	.000 <sup>b</sup>
	Residual	27.126	56	.484		
	Total	65.569	59			

a. Dependent Variable: Accounting fraud tendencies

b. Predictors: (Constant), Komite Organisasi, Individual morality, Internal control system

Source: Data processed 2019

The statistical test results above show that the significant value of the F test is 0,000 less than 5 percent. This means that the independent variables simultaneously affect the dependent variable.

**Table 4. Model Summary**

Model Summary <sup>b</sup>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.766 <sup>a</sup>	.586	.564	.69598

a. Predictors: (Constant), Organizational commitment, Individual morality, Internal control system

b. Dependent Variable: Accounting fraud tendencies

Source: Data processed 2019

Based on the table it can be seen that the adjusted r square value = 0.564 or which means that 56.4% of Accounting Fraud (Y) is influenced by the variable Internal Control System (X1), Individual Morality (X2), Organizational Commitment (X3), and the remaining 43.6% is influenced by other variables outside this study.

#### 4.5 Hypothesis Testing

**Table 5. T Test Results**

Variabel	Unstandardized Coefficients Beta	t hitung	Sig.
Internal control system	-0,325	-2,674	0,010
Individual morality	-0,328	-3,114	0,003
Organizational commitment	-0,294	-2,129	0,038

Source: Data processed 2019

T-test was conducted to determine the difference in mean values with standard errors of the two study samples (Ghozali, 2016: 64). Based on the t statistical test, the t-value obtained by the Internal Control System variable is -2,674 with a significant level of 0.010 < 0.05, which means that the Internal Control System has a significant negative effect on Accounting Fraud ( $H_1$  accepted). Through the

application of a good internal control system, it can reduce the tendency of accounting fraud committed by employees. This result is in accordance with research conducted by Ahriati (2015) and Maliawan (2017) where the test results obtained indicate that the internal control system has a significant negative effect on the tendency of accounting fraud.

Individual morality variable has a t-value of -3.114 with a significant level of  $0.003 < 0.05$ . This means that there is a negative and significant influence between Individual Morality and Accounting Fraud ( $H_2$  accepted). This means that the higher the level of morality of a person, then he will tend to care more about the public interest than his personal interests, so that more avoiding actions that lead to accounting fraud.

While the Organizational Commitment Variable has a t-value of -2.129 with a significant level of  $0.038 < 0.05$ , which means that the Organizational Commitment Variable has a significant negative effect on Accounting Fraud. ( $H_3$  received). This means that the higher the employee's commitment to an organization, then he will tend to avoid actions that hinder the achievement of the goals of a company where he works, including one that leads to accounting fraud.

## 5 Conclusions and Suggestions

### 5.1 Conclusions

The conclusions that can be drawn from this study are adjusted to the results obtained, namely the internal control system, individual morality, and organizational commitment have a significant negative effect on the tendency of accounting fraud.

### 5.2 Suggestion

Suggestions that can be given to further researchers are to use other variables such as compensation suitability variables, asymmetric information, unethical behavior variables, obedience variables of accounting rules, internal audit variables and integrity variables and research can also be done by expanding the place of research so that results can be generalized.

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