

The Effect of LPD Internal Control, Morality, Compensation Suitability, and Information a symmetry on Fraud Tendency



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ABSTRACT: Lembaga Perkreditan Desa (LPD) is one of the assets and sources of income of traditional villages so that it requires good management so that there is no fraud by the administrators, employees and supervisory bodies of an LPD. In general, LPD aims to improve the standard of living of villagers and preserve the existence of traditional villages in Bali Province. Fraud Institutions in the scope of accounting are deviations from accounting procedures that should not be applied in an entity. This study aims to determine the effect of LPD internal control, morality, compensation suitability and information asymmetry on accounting fraud. The population in this study were administrators and employees of 38 LPDs in Mengwi District. The sample in this study was determined by the Purposive Sampling method, namely the chairman and treasurer of the LPD, so that the number of respondents in this study was 76 people. The data in this study were obtained using a questionnaire. The data analysis technique used in this study was Multiple Linear Regression Analysis. From the analysis carried out, the results of the study were obtained, namely the Internal Control variable had a negative and significant effect on the Accounting Fraud variable. The Morality variable does not affect the Accounting Fraud variable and the Compensation Suitability variable does not affect the Accounting Fraud variable.

KEYWORDS: information asymmetry, information conformity, accounting fraud, morality, internal control

INTRODUCTION

Lembaga Perkreditan Desa (LPD) is a financial institution owned by Desa Pakraman which is domiciled in the jurisdiction of Desa Pakraman. According to the Regional Regulation (Perda) of Bali Province Number 3 of 2017, LPD is a financial institution whose scope of business activities is in the village environment and is intended for the village community. In an era like today, the tendency of accounting fraud is the hottest topic in media coverage. Where there are many cases of institutions going bankrupt due to fraudulent practices carried out by irresponsible parties. The concept of fraud in the scope of accounting is a deviation from accounting procedures that should not be applied in an entity and is currently receiving serious attention from the public. Many institutions carry out fraudulent practices both in the public and private sectors. Even in Bali in particular, fraud occurs at the lowest level, namely in the Lembaga Perkreditan Desa (LPD)). The emergence of cases of problematic or bankrupt Village Credit Institutions (LPD) is due to the uncertainty of the three supporting components of the LPD, namely administrators, village officials, and village community. Therefore, the role of the LPD supervisory body starting from the village head is expected to minimize fraudulent acts committed by LPD administrators in managing the LPD's operational activities (Saputra, Trisnadewi, et al., 2019).

There are many reasons why someone commits fraud. One theory that explains a person's motivation to commit fraud is the Fraud Triangle Theory (Tuanakotta, 2016:207). Where in this theory it is said that accounting fraud is caused by three factors, namely opportunity, pressure, and rationalization. The Fraud Triangle Theory is used in this study because this theory explains the importance of an agency minimizing the opportunities available to commit fraud, where opportunities can be minimized with a good internal control system (Saputra, Jayawarsa, et al., 2019).

According to Yuliana et al, (2017) internal control is a very important control system in an organization with applicable regulations. If a company has a low level of internal control, the possibility of committing fraud will be higher, conversely if the level of internal control in the organization or company is running well, the tendency to commit fraud will be lower. The internal control system includes organizational structures, methods and measures that are coordinated to safeguard organizational assets, check the accuracy and reliability of accounting data, encourage efficiency and encourage compliance with management policies (Mulyadi, 2016:129). In other words, internal control is a process, influenced by the board of directors, management and other personnel in the company, which is designed to provide adequate assurance of the achievement of operational objectives,

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reporting and compliance with applicable regulations. This is supported by research conducted by (Widyaswari, 2017) which states that if the effectiveness of internal control increases, it will result in a decreasing tendency for fraud.

Another factor is rationalization, which is closely related to the variable of morality where this mindset will have an impact on reducing the desire to commit fraud from within a person. Morality will affect a person's tendency to commit fraud, meaning that the higher the stage of individual morality, the more the individual pays attention to broader and universal interests than the interests of the organization alone, let alone for self-interest. Research on morality on the tendency to cheat was also conducted by (Ade, 2017) which stated that morality has a significant effect on the tendency to cheat. In addition to the factors above, the suitability of compensation also affects the tendency of accounting fraud.

Compensation is all income in the form of money, goods directly or indirectly received by employees as compensation for services provided to the company. The establishment of an effective compensation system is an important part of human resource management because it helps attract and retain talented jobs (Hasibuan, 2017:119).

A company's compensation system has an impact on strategic performance. Dissatisfaction or disappointment with results or pay drives individuals to commit fraud. Compensation is designed to ensure that management follows the wishes of the company's owners and refrains from engaging in unethical activities. With a compensation structure, the possibility of employee fraud will be reduced.

Another factor that causes the tendency of fraud is information asymmetry. According to Suwardjono (2017:584), information asymmetry is where management as the party that has more control over information than investors or creditors. Information asymmetry is a condition where there is an imbalance in the acquisition of information between management as the information provider and shareholders and stakeholders in general as information users. The information gap between the information provider and the information user will open up opportunities for fund managers to commit fraud. Information asymmetry is caused by agency problems that occur when the principal finds it difficult to trace what the agent is actually doing. (Sari, 2019) states that information asymmetry has a positive effect on the tendency of accounting fraud. This means that the more information asymmetry, the greater the tendency of accounting fraud.

THEORETICAL BASIS

Fraud Triangle Theory

Fraud triangle is a theory developed by Donald R Cressey in observing the causes of fraud. The stages in the fraud triangle theory are interrelated. This means that a worker will not have the opportunity if he does not get encouragement or pressure to cheat. Fraud is caused by three factors, namely pressure, opportunity, and rationalization. Pressure is related to a person's intention to commit fraud. A person who commits fraud must have their own motivation or drive. Opportunity is an opportunity for a worker to commit fraud. The opportunity to commit fraud is usually caused by weak company control and SOPs that are not running conductively, thus opening up opportunities for fraud. Rationalization is fraud that occurs because of local ethical values that encourage fraud (Tuankotta, 2016:207).

If the independent variable in this study is associated with the fraud triangle theory, then the pressure is compensation suitability. The opportunity is internal control, while rationalization is morality and information asymmetry.

Attribution Theory

Attribution Theory is a theory that was first put forward by Harold Kelley (1972-1973) in his theory explaining how people draw conclusions about "what causes" what is the basis for someone doing an action or deciding to act in a certain way (Robbins, 2017).

In this theory, it is applied by using the locus of control variable. The variable consists of two components, namely internal locus of control and external locus of control. Internal locus of control is the feeling experienced by a person that he is able to personally influence his performance and behavior through his abilities, skills, and efforts. While external locus of control is the feeling experienced by a person that his behavior is influenced by factors beyond his control.

Based on the description above, it can be concluded that basically in observing a person's behavior, it cannot be separated from the attribution theory. Therefore, the attribution theory is used in this study to determine the effect of internal control, morality, compensation suitability and information asymmetry on the tendency of accounting fraud.

Tendency of Accounting Fraud

According to Tuanakotta (2013), fraud is an intentional act by one or more members of management, or managers, or employees, or third parties, through deception to obtain illegitimate or unlawful benefits. Meanwhile, according to the Black Law Dictionary, fraud is an intentional or false statement of a truth or condition that is hidden from a material fact that can influence

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others to do actions or actions that are detrimental to them, usually a mistake but in some cases (especially done intentionally) it may be a crime.

The Indonesian Institute of Accountants (IAI) explains accounting fraud as follows:

Misstatements arising from fraud in financial reporting are misstatements or deliberate omissions of amounts or disclosures in financial reports to deceive users of financial reports.

Wrong misstatements arising from improper treatment of assets (often referred to as misuse or embezzlement) related to the theft of an entity's assets resulting in financial statements not being presented in accordance with generally accepted accounting principles in Indonesia.

Internal Control

SA Section 319 defines internal control as a process carried out by the board of commissioners, management, and other personnel of an entity that is designed to provide reasonable assurance regarding the achievement of three groups of objectives, namely the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Morality

Morality is a quality in actions carried out by humans that shows that the action is right or wrong, good or bad. According to (Udayani, 2017) morality is a moral nature or the whole principle and value concerning good and bad. Meanwhile, according to (Anggreni, 2020) morality is a quality regarding the good and bad of a person's behavior.

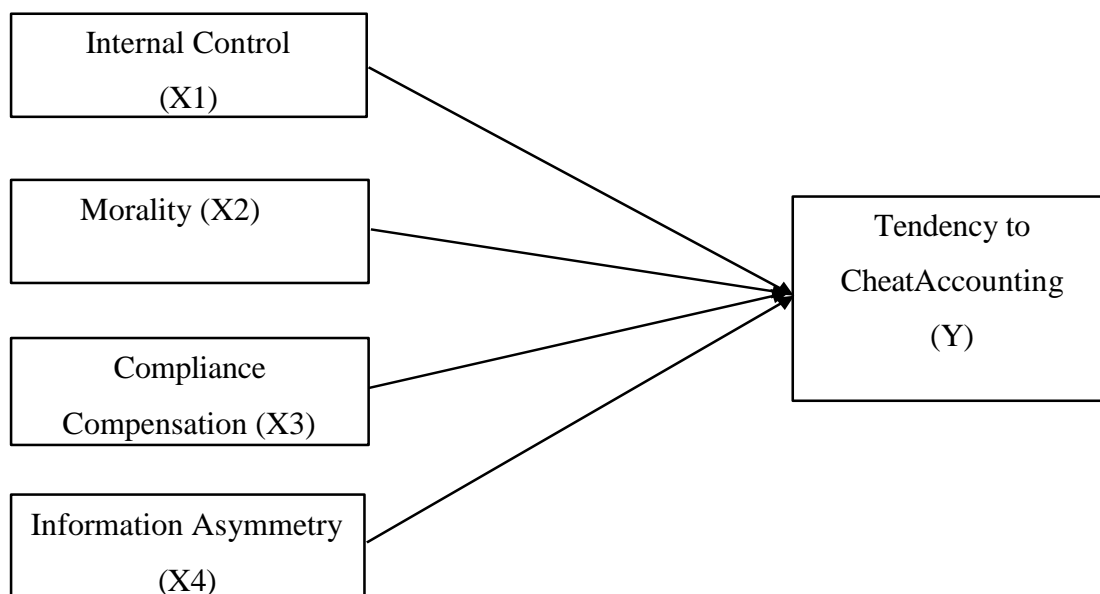
Compensation Suitability

According to Hasibuan (2017:119) compensation is all income in the form of money, goods directly or indirectly received by employees in return for services provided to the company. The establishment of an effective compensation system is an important part of human resource management because it helps attract and retain talented jobs. In addition, the company's compensation system has an impact on strategic performance.

Information Asymmetry

According to Jogiyanto (2010:387) Information asymmetry is a condition that shows that some investors have information and others do not. A situation where the misalignment of information between managers and shareholders is caused by the unequal distribution of information between the two parties, with the existence of information asymmetry causing a gap in the company's internal financial knowledge so that managers can engineer it to increase profits. This information asymmetry between managers and shareholders can provide opportunities for managers to commit fraudulent acts. Information asymmetry is information between the principal and the agent that they have that is not balanced where the principal does not have information about the agent while the agent has information about the principal, whether it is about their own capacity, work environment or about the company as a whole.

Conceptual Framework



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RESEARCH METHODS

This research was conducted on LPDs in Mengwi District with the objects of LPD internal control, morality, compensation suitability, information asymmetry, and fraudulent tendencies.

Population and Sampling Methods

The population of this study is as many as 38 LPDs obtained from all LPDs registered with the Badung Regency LPLPD in 2022.

The sampling technique used in this study was purposive sampling, which is a sampling technique based on certain criteria or considerations. The consideration of the criteria used in the sample selection process is the party most likely to commit fraud or who knows about the fraud, namely the head of LPD and the treasurer, so that the respondents in this study numbered 76 people.

Data Analysis Techniques

Data analysis techniques are a process of processing data into new information. This process is carried out with the aim of making the characteristics of the data easier to understand and useful as a solution to a problem, especially those related to research. (Ghozali, 2018:115). The data analysis technique used in this study is Multiple Linear Regression. The multiple linear regression test aims to determine the dependence of a dependent variable with two or more independent variables.

To test the hypothesis in this study the following model was used;

$$Y = \alpha + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + e$$

RESEARCH RESULT

Multiple Linear Regression Analysis

Multiple linear regression analysis was used to determine whether or not there was an influence of internal control, morality, compensation suitability, and information asymmetry on accounting fraud at the LPD Office, Mengwi District.

Multiple Linear Regression Analysis Results

Coefficients a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	13,650	3,544		3,851	0.000
X1	-0.366	0.159	-0.251	-2.299	0.024
X2	0.025	0.063	0.050	0.392	0.696
X3	-0.108	0.098	-0.123	-1.102	0.274
X4	0.186	0.070	0.334	2,648	0.010

a. Dependent Variable: Y

Based on the results of the regression analysis as presented in the table above, the following structural equation can be created:

$$Y = -0.251 X_1 + 0.050 X_2 - 0.123 X_3 + 0.334$$

Based on the table above, it can be explained as follows:

1. Based on the results of testing the effect of internal control on accounting fraud, the regression coefficient value is -0.251 and the significance is 0.024. It can be seen that the significance value is smaller than 0.05. This means that internal control has a negative and significant effect on accounting fraud. So it can be concluded that H0 is rejected or H1 is accepted.
2. Based on the results of testing the influence of morality on accounting fraud, the regression coefficient value is 0.050 and the significance is 0.696. which is greater than 0.05. This means that morality has no effect on accounting fraud. So it can be concluded that H0 is accepted or H2 is rejected.
3. Based on the test results of the effect of compensation suitability on accounting fraud, the regression coefficient value is -0.123 and the significance is 0.274, where this value is greater than 0.05. This means that compensation suitability has no

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effect on accounting fraud. So it can be concluded that H0 is accepted or H3 is rejected.

4. Based on the results of testing the effect of information asymmetry on accounting fraud, the regression coefficient value is 0.334 and the significance is 0.010. It can be seen that the significance value is smaller than 0.05. This means that information asymmetry has a positive and significant effect on accounting fraud. So it can be concluded that H0 is rejected or H4 is accepted.

Coefficient of Determination Test (R2)

This analysis is used to determine the percentage of the influence of the variables studied, namely between the internal control variables (X1), morality (X2), compensation suitability (X3) and information asymmetry (X4) with the formula $D = AdjR^2 \times 100\%$.

Results of Determination Coefficient Test

Model Summary b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.461a	0.212	0.168	2,523

a. Predictors: (Constant), X4, X3, X1, X2

b. Dependent Variable: Y

Based on the data obtained, the coefficient of determination is 0.168 or 16.8%. Of the four variables studied, it influences the variable of accounting fraud tendency and the remaining 83.2% is influenced by other factors not studied in this study.

CONCLUSION

Based on the results of the analysis and discussion that have been carried out previously regarding the influence of internal control, morality, compensation suitability, and information asymmetry on accounting fraud, the following conclusions can be drawn:

1. Internal control has been proven to have a negative and significant effect on accounting fraud. Which means that the higher the internal control, the lower the level of accounting fraud that occurs in the LPD offices in Mengwi District.
2. Morality is not proven to have a negative and significant effect on accounting fraud. Which means that the lower or higher morality of the LPD chairman and treasurer does not affect the level of accounting fraud in the management of LPD funds.
3. Compensation suitability is not proven to have a negative and significant effect on accounting fraud. Which means that the lower or higher the compensation suitability of the LPD chairman and treasurer does not affect the level of accounting fraud in LPD fund management.
4. Information asymmetry has a positive and significant effect on accounting fraud, which means that the higher the information symmetry that occurs in LPD, the higher the occurrence of accounting fraud.

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