

The Effect of Effectiveness of Internal Control System, Leadership Style, Conformity Compensation, Culture and Ethical Organization, Organizational Commitment and Law Enforcement on Fraud in Regional Level Work Units of Pidie Jaya

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Abstract: This study aims to examine the effect of the effectiveness of internal control system, leadership style, conformity compensation, culture and ethnical organization, organizational commitment and law enforcement on fraud in the regional level work units of Pidie Jaya either simultaneously or partial. The unit of analysis of this research is the entire SKPD of Pidie Jaya, that is 34 SKPK. The respondents are PA (Budget Users), PPTK (Executive Officer of Technical Activities) and Expense Treasurer. The source data used is primary data through questionnaires that are delivered directly. The data analysis method used is multiple linear regression analysis. The results show that the effectiveness of the internal control system, leadership style, conformity compensation, culture and ethnical organization, organizational commitment and law enforcement on fraud is either simultaneous or partial on SKPD of Pidie Jaya. Thus, all the results of this study support the hypothesis.

Keywords: The effectiveness of the internal control system, leadership style, conformity compensation, culture and ethnical organization, organizational commitment and law enforcement on fraud

I. Introduction

Fraud is a latent danger that threatens the world. The results of research of Association of Certified Fraud Examiners (ACFE) Global show that the average 5% of the organization's income becoming victim of fraud every year (ACFE, 2016:3). Fraud happens to be corruption, misappropriation of assets or financial statement manipulation, and fraud which most commonly occurs in Indonesia is corruption. As many as 67% of cases of fraud in the form of corruption, 31% of misuse of assets / wealth cases of the country and the company, the remaining 2% of cases in the form of fraudulent financial statements (ACFE, 2016: 11). Similar case disclosed by Transparency International that measures the level of corruption in Indonesia. Based on the measurements of Perception on Corruption Index (CPI) in 2015, the level of corruption in Indonesia ranks is 88th out of 168 countries. Indonesia's score is the fourth highest in Southeast Asia after Singapore, Malaysia, and Thailand (Transparency International, 2016). The most disadvantaged sector of fraud case is the government sector. The result of the survey on Fraud in Indonesia conducted by ACFE in 2016 puts the government sector in the first position harmed by fraud with the percentage of 58.8%, finance and banking industry become the second place of most disadvantage industry by percentage of 15.9%.

Because of the existence of fraud, the government's aims in improving people's welfare and economic growth become constrained because fraud resulted in substantial losses. The received losses is not only the loss or damage of state funds, but also result in reduced public confidence in the government as well as reduced levels of investment (Indonesia Corruption Watch, 2014).

The cases of fraud in Indonesia almost always happen in every area; not least the government of Pidie Jaya as the governmental activities implementer is also not spared from the act of fraud. This is according to the findings of the BPK (Supreme Audit Board of the Republic of Indonesia) toward LKPD (Local Government Finance Report) of Pidie Jaya, Fiscal Year 2015 Number 15.C / LHP / XVI || .BAC / 06/2016 dated June 15, 2016. The BPK found their non-compliance, fraud and impropriety in testing compliance on the legislation in Pidie Jaya government. The principal findings are as follows:

1. Excessive payment of employee's salaries
2. Overpayment on advanced development work of Inpatient Hospital Building (Autonomy);
3. Overpayment on channel enhancement of Lueng Paya Comp. Office (D.I.Meureudu), the district of Meureudu
4. Accountability for travel expenses which is not in accordance with the actual conditions.

Based on the BPK's findings, it can be concluded that the Government of Pidie Jaya district was full of fraud.

The tendency of fraud can be identified through the elements of the Fraud Triangle Theory developed by Cressey (1953) in Zulkarnain (2013), namely: (1) pressure, (2) opportunity, and (3) rationalization. The first element is pressure. Pressure can cause a person to commit fraud. Situational pressure is a condition caused by financial factors or non-financial faced by employees / management that is difficult to resolve in a way either it is legal or ethical (Moeller, 2004: 222). Conformity compensation and leadership style is proxied as part of pressure. The second element is the opportunity that fraud can be occurred. Internal control is usually caused by a weak organization, lack of supervision, and abuse of authority. Among the three elements of the Fraud Triangle, opportunity is an element which is most likely to be minimized through the application process, procedure, control and early detection efforts for indications of fraud (Zulkarnain, 2013). The effectiveness of the internal control system and law enforcement is proxied as part of the opportunity. The third element is rationalization. Rationalization or justification is thought to justify actions as a normal behavior, which is morally unacceptable in a normal society. Perpetrators of fraud always try to justify actions by trying to make excuses. This is done to soothe the feelings of the pertinent in eliminating the fear when the action is performed (Zulkarnain, 2013). Ethical culture of organization and leadership style is proxied as part of the rationalization.

This study tends to use the theory of Fraud Triangle because the variables in this study are proxies of the existence of pressure, opportunity and rationalization in accordance with the basic theory of Fraud Triangle.

Based on the problems and description of previous theories, it can be determined that there are several factors in assessing the impact of the fraud namely; the effectiveness of the control system, leadership style, conformity compensation, ethical culture of the organization, organizational commitment and law enforcement.

The sixth of these factors can influence the fraud within the Regional Work Units in Pidie Jaya district, so that researcher is interested in conducting research to examine the effect of these factors. The researcher wants to know whether the effectiveness of the internal control system, leadership style, conformity compensation, ethical culture of the organization, organizational commitment and law enforcement impact against fraud in the regional working unit of Pidie Jaya that is either simultaneously or partially.

The results of this study are expected to provide awareness on the risk of fraud to be minimized and can contribute to advanced research in the field of scientific fraud and used by decision makers in determining the internal environment in the regional working unit of Pidie Jaya.

II. Literature Review

Fraud

According to Hall (2007: 135), fraud refers to the presentation of the material facts in the wrong done by one party to another, in order to deceive and influence others to rely on these facts, the facts that would be detrimental. The indicators or elements used which are developed by the Association of Certified Fraud Examiners (ACFE) or the Association of Certified Fraud Examiner (ACFE, 2014) that is Fraud Financial Statements, Misuse of Assets and Corruption.

The Effectiveness of the Internal Control System

According to Government Regulation No. 60 Year 2008 regarding the Internal Control System of Government Article 1 states that the system of internal control is a process that is integral to the actions and activities carried out continuously by the management and all employees to provide reasonable assurance for the achievement of organizational goals through effective and efficient activities, reliability of financial reports, the safeguarding of state assets, and compliance with laws and regulations. Indicator or measurement tool used is based on PP No. 60/2008 which are control environment, risk assessment, control activities, information and communication, and monitoring of internal control.

Leadership Styles

According Luthans (2006: 575), leadership style is how leaders influence others in a way that people want to do the will of the leader to achieve organizational goals although it may be dislike personally. Indicator or measurement tool used is based on the theory of Fiedler in Stoner et al. (1996), namely: the relationship with a subordinate leader, task structure, position of power, delegation of tasks, and ethical leader.

Conformity Compensation

According to Hasibuan (2003: 119), compensation is defined as the remuneration that is fair and reasonable given to the employee for services in achieving organizational goals. Indicator or a measuring tool used is designed in the study of Gibson (1997) in Wilopo (2006) namely; financial compensation, recognition for successful work organization, promotion, task completion, and equity compensation division.

Culture and Ethical Organization

According to Robbins (2009: 248), the organizational culture shared value system in an organization with which determines the extent of how employees conduct activities to achieve organizational goals. Indicator or a measuring tool used is designed by Robbins (2009) namely; innovation and risk-taking, attention to detail, outcome orientation, people orientation, team orientation, aggressiveness and stability.

Organizational Commitment

Robbins (2009: 100) defines the organization's commitment as a level of confidence in the impartiality of an employee of a particular organization whose purpose intends to nurture and maintain membership in the organization. Indicator or a measuring tool used is designed by Meyer and Allen (1997) namely; affective commitment, normative commitment and continuance commitment.

Law Enforcement

According to Asshiddiqie (2008: 11), the process of doing law enforcement efforts to the enforcement or the functioning of legal norms is significantly as a code of conduction in traffic or legal relations in society and state. Indicator or a measuring tool used is designed by Robbins (2009) namely: responsiveness of officials, law enforcement process, a legal ruling in accordance with the applicable rules, the rule of law within the agency and law compliance. Based on these descriptions, schematics research framework can be seen in Figure 2.1.



Figure 2.1 Schematic Framework

Hypothesis in this research is the effectiveness of SPI, Leadership Style, Conformity Compensation, Culture and Ethnical Organization, Organizational Commitment and Law Enforcement simultaneously or partially effect on Fraud in Regional Work Units of Pidie Jaya.

III. RESEARCH METHODS

Study Design

This study is kind of hypothesis testing which is to test the effect of independent variables on the dependent variable. The research hypothesis is a type of research that aims to explain the causal relationship between the variables through hypothesis testing (sekarana 2010: 162). The study setting is done in natural environments (research with situations that are not regulated).

The unit of analysis is the organization on regional working units of Pidie Jaya. The observation unit as the respondent in this study is the Budget User (PA), the Executive Officer of Technical Activities (PPTK), and Treasurer expenditure. The reasons for the selection of respondents are that they may have potential as fraud perpetrators who have the capacity and access to the assets or authority to regulate the

control procedures (Irphani: 2017). This study was conducted through cross-sectional study in which data is collected only in a certain time when questionnaires were distributed.

Operationalization of Variables

In this study, the variable consists of independent variables that are the effectiveness of the internal control system (X1), leadership (X2), the conformity compensation (X3), the culture and ethnic of organization (X4), organizational commitment (X5) and law enforcement (X6) while the dependent variable is fraud(Y).

Analysis Method and Design of Hypothesis Testing

Analysis model used is multiple linear regression analysis as this study has more than one independent variable. Mathematically, the model of multiple linear regression analysis can be formulated as follows:

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 + \varepsilon$$

Description:

Y	= Fraud;
α	= Constant;
$\beta_1,2,3,4,5,6$	= coefficient of regression;
X1	= Effectiveness of Systems Internal Control
X2	= Leadership Style
X3	= Compliance Compensation
X4	= Ethical Culture Organization
X5	= Organizational Commitment
X6	= Law Enforcement
ε	= error terms

Design of Hypothesis Testing

This study is a census, so there is no significant testing. Sugiyono (2009: 65) stated that the testing of research hypothesis does not use the sample. There is no term significance which means that the proven hypotheses in a sample can be applied on the population. Furthermore, the design of hypothesis testing was done through two stages, namely the design of hypothesis testing at the same time (simultaneously) and a separate design hypothesis testing (partial).

Simultaneous Testing

To test the effect of independent variables (X₁X₂ X₃ X₄,X₅, andX₆) simultaneously on the dependent variable (Y), the steps are as follows:

- a. Specifies the null hypothesis (H₀) and the alternative hypothesis (H_a) as follows:
 - H₀1 : $\beta_1 = \beta_2 = \beta_3 = \beta_4 = \beta_5 = \beta_6 = 0$, then the independent variable at the same time has no effect on the dependent variable.
 - H_a1: at least one β_i (i = 1,2,3,4,5,6) $\neq 0$:the independent variable at the same time affects the dependent variable.

- b. Specifies the criteria for acceptance and rejection of the hypothesis as follows:
- If $\beta_1 = \beta_2 = \beta_3 = \beta_4 = \beta_5 = \beta_6 = 0$: H_0 H_0 is not rejected
 - if at least one β_i ($i = 1, 2, 3, 4, 5, 6$) $\neq 0$: H_0 is rejected

Partial Testing

Furthermore, the partial testing of design hypothesis for the second hypothesis, third, and fourth is conducted as follows:

- a. Specifies the null hypothesis (H_0) and the alternative hypothesis (H_a) as follows:
- H_0 2,3,4,5,6,7: $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6 = 0$, the independent variable partially has no effect on the dependent variable
 - H_a 2,3,4,5,6,: $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6 \neq 0$: independent variable partially affects on the dependent variable
- b. Specifies the criteria for acceptance and rejection of the hypothesis as follows:
- If $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6 = 0$: H_0 is not rejected
 - If $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6 \neq 0$: H_0 is rejected

IV. RESULTS AND DISCUSSION

This research is a study using census or population. The analysis unit is the entire regional working unit of Pidie Jaya (SKPK) that is 34 SKPK. The respondents in this study are 84 people consisting of Budget Users (PA), the Executive Officer of Technical Activities (PPTK) and Treasurer Expenditure.

Test Validity

The test validity of this research data was conducted by using Pearson Product-Moment Correlation. A statement item is considered valid if the value of the correlation coefficient is greater than the critical value of product moment correlation. Based on the validity of the test, the correlation coefficient of the whole questionnaire items that amounted to 38 points is above the critical value of the product moment correlation (correlation coefficient > 0.215) so that the questionnaire used otherwise valid and can be used in the data collection.

Test Reliability

All statements have value of Cronbach alpha that are greater than 0.60, so the statements are reliable. It means that the questionnaires are relatively consistent when re-tested. Therefore, it can be concluded that the questionnaires used as the measuring instrument in this study are feasible.

Discussion

Based on the results of hypothesis testing, the multiple linear regression equation is as follows:

$$Y = 7.965 + (-0,131X_1) + (-0,643X_2) + 0,360X_3 + (-0,018X_4) + (-0,356X_5) + (-0,096X_6) + \epsilon$$

Based on this equation, it shows that the constants is 7.965 which means that if the independent variable in this study

are considered constant, then the value of the fraud on 34 SKPK in Pidie Jaya is 7.965.

Simultaneously Testing Effect

From the equation of multiple linear regression, it is known that all the regression coefficient (β) for each independent variable is not equal to zero ($\beta_i \neq 0$; $i = 1, 2, 3, 4, 5, 6$). It means that H_0 is rejected, in other words H_a is accepted, and it means that the independent variable at the same time affects the fraud.

Partial Testing Effect

Based on the test results of multiple linear regression, it is known that the regression coefficient $\beta_1 = (-0.131)$, $\beta_2 = (-0.643)$, $\beta_3 = 0.360$, $\beta_4 = (-0.018)$, $\beta_5 = (-0.356)$, and $\beta_6 = (-0.096)$ is $\neq 0$. Determining hypotheses state that if $\beta_i \neq 0$; ($i = 1, 2, 3, 4, 5, 6$): H_a 2,3,4,5,6,7 is received, so it can be concluded that the independent variable is partially against fraud.

Influence of Effectiveness of Internal Control Systems on Fraud

The results show that the effectiveness of the SPI affects on fraud. The regression coefficient (β_1) by -0.131 indicates that each escalation on the effectiveness of SPI by 1 unit scale interval will be followed by degradation of fraud by (-0.131) unit scale interval assuming other independent variables (X) are considered constant. There is negative relationship between the effectiveness of SPI and fraud. It means that the better effectiveness of SPI owned by each SKPK, then the lower the level of fraud happens to SKPK.

The results are accordance with the theory that the effective internal control would reduce the tendency of fraud (Arens 2006: 370).

Influence of Leadership Styles on Fraud

The results show that the leadership style has effect on fraud. The regression coefficient (β_2) obtained by (-0.643) indicates that each escalation of 1 unit, the scale interval of leadership style will be followed by a degradation of fraud by (-0.643) unit scale interval assuming other independent variables (X) are assumed to be constant. There is negative relationship between leadership style and fraud. It means that the better the leadership styles on SKPK, then the lower the level of fraud happens on SKPK.

The results are accordance with the theory of Fraud Triangle which explains that a pressure will make employees tend to commit fraud, whether it is a factor of the financial pressure on the individual or the problem of non-financial related stress factors of the work itself such as from the leadership of a boss, the pressure of the leader will make an employee will act not in accordance with what is desired by the leaders. The phenomenon can trigger fraud in an agency.

Influence of Conformity Compensation on Fraud

The results show that the conformity compensation has effect on fraud. The regression coefficient (β_3) is positive.

There is positive relationship between the conformity compensation and fraud. It means that the conformity compensation received by the apparatus SKPK has no degradation of fraud on SKPK, in other words, the compensation received by personnel agencies cannot fully prevent the apparatus to commit fraud.

The results are accordance with the research study of Faisal (2013), which proves that the compensation does not affect the conformity of Fraud in the government sector. This is because the main purpose of the work of the government is to serve the public, although they admit that they are less satisfied with the salary. In addition, they also understand that the rules of the basic salary for civil servants are influenced by the type and length of service. They are fully aware of all powers related to the absolute basic salary in the hands of the Central Government, as set on PP 9 Year 2007 renewing PP 11 of 2003 of the Amendment on the PP 98 Year 2000 about the Provision of Civil Servants.

Influence of Culture and Ethnical Organization on Fraud

The results show that the culture and ethnical organization has effect on fraud. The regression coefficient (β_4) obtained by -0.018 indicates that each escalation of one interval scale unit of organization's ethical culture will be followed by degradation of fraud by 0.018 units interval scale. There is negative relationship between organization's ethical culture and fraud. It means that the better culture applied to SKPK, then the lower the level of fraud happens on SKPK.

Influence of Organizational Commitment on Fraud

The results show that organizational commitment has effect on fraud. The regression coefficient (β_5) obtained by -0.356 indicates that each escalation of 1 unit scale interval of organizational commitment will be followed by degradation of fraud by 0.356 units interval scale. There is negative relationship between organizational commitment and fraud. It means that the better commitment applied to SKPK, then the lower the level of fraud happens on SKPK.

Effect of Law Enforcement on Fraud

The results show that law enforcement has effect on fraud. The regression coefficient (β_6) obtained by -0.096 indicates that each escalation of 1 unit interval scale of law enforcement will be followed by escalation in of fraud by 0.096 units interval scale. There is negative relationship between law enforcement and fraud. It means that the better enforcement on a SKPK, then the lower the level of fraud happens on SKPK.

V. CONCLUSION AND RECOMMENDATION

Conclusion

The conclusion that can be given after testing and data analysis as well as compatibility with previous hypotheses that have been formulated in this study is that the

effectiveness of the internal control system, leadership style, conformity compensation, culture and ethnical organization, organizational commitment, and law enforcement affect on fraud in SKPD of Pidie Jaya either it is simultaneous or partial.

Recommendation

Based on several limitations to this study, the researcher gives some suggestions for further research as follows:

Firstly, for further research, researchers there should increase the number of study population that are bigger as the whole SKPK in Aceh province or whole of Indonesia in order to provide broader overview of the research results.

Secondly, researchers should use qualitative approach in order to get clearer details of studied variables.

Thirdly, it is also recommended for the further researchers to add or replace the existing independent variable in this study with other independent variables which can influence the fraud such as government occupation, adherence to accounting rules, asymmetric information, and procedural fairness.

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