What (why) does factor influence fraud tendency in public sector?

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Abstract
The purpose of this study is to prove that internal control, compliance in accounting rules, and unethical behavior are factors that influence fraud tendency. The city that has never been awarded the unqualified since 2013-2018 taken as a sample and used multiple linear regression in the data processing. The results show that internal control, compliance, and unethical behavior have a significant effect on fraud tendency. Internal control and compliance with positive influences in reducing fraud tendency; and unethical behavior with negative impacts. This finding also proves that there is no systematic intention in fraud.

Keywords: Fraud tendency; internal control; compliance; unethical behavior

Introduction
The main objective of the implementation of regional autonomy and fiscal decentralization is to create good governance (Faguet, 2014; Kyriacou, Muinelo-Gallo, & Roca-Sagalés, 2015). In the public sector, accounting fraud tendency is done in the form of leakage of the state budget and expenditure (Lisic, Silveri, Song, & Wang, 2015; Power, 2013). The most common type of fraud in government entities is corruption. Corruption is commonly done is to manipulate the recording, omission of documents, and markups that are detrimental to the country's finances or economy (Elbahnasawy, 2014; Lambsdorff, 2017). The trend of fraud can be said as a tendency for corruption in the definition of terminology because of the involvement of several elements consisting of misleading facts, violation of rules, and abuse of power (Heidenheimer, Johnston, & Huntington, 2019; Spicer, 2009).

To solve the problem of accounting fraud, an effective internal control system needs to be designed (Coso, 2013; Donelson, Ege, & McInnis, 2017). Internal control is a process designed to provide reasonable certainty regarding the achievement of management objectives regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable regulations. If a system of internal control is weak, the security of the government will not be guaranteed, the current accounting information is inaccurate and untrustworthy, inefficient, and

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ineffective in the company’s operational activities, and the management policies cannot be complied.

Researchers show that compliance with personal encouragement or through pressure from third parties is one factor in a person’s tendency to commit fraud. The study of business students in the Midwestern shows that financial statement fraud scenarios, partly supported by asset misuse scenarios, but not supported by scenarios that use corruption (Baird & Zelin Ii, 2009). Research on the leadership of the regional accounting unit and accounting staff in Tanah Datar, Indonesia, shows that obedience accounting has a significant negative effect on trends in accounting fraud (Ade, 2017). The findings of Ade (2017) and Baird & Zelin Ii (2009) show that compliance is a factor that can reduce accounting tendencies. Baird & Zelin Ii (2009) also revealed that the propensity to commit fraud would be higher when there is encouragement from other parties. Fraud will be more enormous when the environment is supportive. Therefore it is necessary to improve a systematic, massive, and measured compliance system to reduce the tendency of fraud.

In addition to compliance, another variable that can become Fraud’s tendency is unethical behavior. Studies show that natural behavior results in decisions to commit fraud and selfish actions in the workplace (Moore, Detert, Klebe Treviño, Baker, & Mayer, 2012). A study by Cohen, Ding, Lesage, & Stolowy (2010) shows that the behavior of managers or leaders influences the tendency of Fraud. The results of this study also suggest that auditors must also evaluate management ethics through components of attitude assessment, subjective norms, perceived behavioral control, and moral obligations. The findings of Cohen, Ding, Lesage, & Stolowy (2010), if related to Baird & Zelin Ii (2009), it can be concluded that the work environment is a factor in determining the level of unethical behavior.

This study takes the object of one of the cities in Central Java, which since 2013, the city has never been awarded an unqualified statement from the Indonesian National Audit Board. This study will look at the character of financial employees in the towns that are sampled. Theoretically, internal control and obedience will have a negative impact on the tendency of fraud, while unethical behavior will have a positive effect on fraud tendency. If the results of this study are in line with the theory, then regarding to Cohen, Ding, Lesage, & Stolowy (2010); Baird & Zelin Ii (2009) we conclude that there is no systematic and structured indications of fraud and vice versa.

The study aims to justify that internal control, compliance, and unethical behavior are some of the factors that can be optimized to improve the predicate of regional financial statements. This research contributes to the authority to strengthen internal control, compliance, and ethical behavior to avoid the potential for more fraudulent. The unqualified predicate directly or indirectly will increase public trust so that the potential income through taxes and levies will also increase. Furthermore, the region has more funds for development and welfare improvement.

Research Method

This research is a quantitative study with a survey method with a sample of all employees in the board of finance in the Regional Government of The City which have been taken as a sample, total respondent are 91. The questionnaire consists of
three variables, namely internal control, compliance of accounting rules, and unethical behavior. Before the questionnaire was distributed, the validity and reliability tests were carried out, and it was declared valid. This research used multiple linear regression.

**Result and Discussion**

Based on the results of multiple regression analysis using the SPSS program the regression equation is obtained regression model that show in equation 1. Based on equation 1, it can be concluded that if there are no internal control variables, compliance with accounting rules, and unethical behavior, the tendency of accounting fraud in the is 62.005 percent. Table 1 indicates that the partial test that was carried out also showed that each independent variable is significant.

\[ \hat{Y} = 62.005 - 0.306X_1 - 0.290X_2 + 0.588X_3 \]  

| Variables            | Unstandardized Coefficients | Standardized Coefficients | t    | Sig. |
|----------------------|-----------------------------|----------------------------|------|------|
| (Constant)           | 62.005                      | 11.065                     | 5.604| .000 |
| Internal control     | -.306                       | .151                       | .237 | -2.024| .046 |
| Compliance           | -.290                       | .126                       | .291 | -2.297| .024 |
| Unethical behaviour  | .588                        | .136                       | .372 | 4.333| .000 |

The coefficient of the internal control variable is 0.306. It has a negative sign, it means that if the internal control variable is increased and other variables are constant, it will cause a decrease in the tendency of accounting fraud by 0.306 percent. The results of the analysis show that proper internal control can reduce or even close the opportunity to commit accounting fraud. Several of literature showed that the more effective internal control, the less likely the occurrence of fraud (Coram, Ferguson, & Moroney, 2008; Coso, 2013; Donelson et al., 2017).

Internal Control System is an integral process of 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 of financial reporting, security of state assets, and adherence to laws and regulations (Chang, Yen, Chang, & Jan, 2014; Grabner & Moers, 2013). Therefore, it is very important the effectiveness of internal control implementation to avoid accounting trends. Internal control is a process aimed to improve the effectiveness of operational activity of the company, to increase reliability of financial statement and to achieve consistency of company's activity to exist laws and regulations. The implementation of the internal control are involved, board of directors, senior management and all staff in general (Committee of Sponsoring Organizations of the Treadway Commission Internal Control, 2013).
The coefficient of compliance variable is 0.290, and the negative sign. It means that if the compliance of accounting rules is increased and other variables are constant, it will decrease the tendency of accounting fraud by 0.290. Preparing financial statements due to non-compliance with accounting rules, it will lead to corporate fraud that cannot be detected by the auditors (Kusumastuti & Meiranto, 2012; Wilopo, 2006). This finding is in line with the previous research which also shows the results that compliance has a positive impact on reducing the tendency of fraud (Ade, 2017; Baird & Zelin Ii, 2009). However, there are other research which states that compliance with accounting rules does not significantly influence the tendency of fraud. This is very possible because the expansion system developed at the company or institution has been running well. This is in line with the literature which states that technology reduces the tendency of accounting fraud (Beasley, Carcello, Hermanson, & Lapides, 2000; Wang, 2010).

Furthermore, the coefficient of unethical behavior variable is 0.588, and it has a positive sign meaning that if the unethical behavior variable increases and other variables are constant it will cause an increase in the tendency of accounting fraud by 0.588 percent. Organizations may consider instituting various steps to reduce unethical behavior. For example, leaders can use formal and informal means to increase individual accountability, make transfers or diffusion of responsibilities (Moore et al., 2012). In addition, salary increases and incentives can also be done to reduce unethical behavior (Fleischman, Johnson, Walker, & Valentine, 2019; Murphy & Dacin, 2011).

This study shows that authority can still improve the performance of its financial statements by increasing internal control, compliance, and reducing unethical behavior. The results also thwarted the suspicion of systematic and structured fraud. Allegations of a systematic tendency to fraud can be indicated by the difference in theoretical results from the data conditions in the field. For example, internal control has an adverse impact, while unethical behavior has a good effect on the tendency of fraud. So, this research firmly proves that there is no tendency for structured and systematic fraud.

Conclusions

The results of this study indicate there is no tendency for systematic and structured fraud, therefore, to reduce the tendency of fraud, the authority needs to improve internal control, compliance with applicable rules and reduce unethical behavior. In addition, further steps such as providing incentives and also formal and informal approaches can be taken to reduce unethical behavior.

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