

THE EFFECT OF INTERNAL CONTROL, ORGANIZATIONAL COMMITMENT AND COMPENSATION ON ACCOUNTING FRAUD POTENTIALS WITH INDIVIDUAL MORALITY AS A MODERATING VARIABLE

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Abstract. This research aims to examine the effect of internal control, organizational commitment and compensation on accounting fraud potentials with individual morality as a moderating variable. This research was conducted in the government of all villages of Lowokwaru and Kedungkandang districts, involving the samples of 27 village apparatus selected through non probability sampling. Data are obtained by questionnaires distributed to respondents. The research results exhibit that internal control and organizational commitment have a negative effect while compensation has a positive effect on the accounting fraud potentials. Individual morality moderates the effect of internal control and compensation on the accounting fraud potentials. However, individual morality does not moderate the effect of organizational commitment on the accounting fraud potentials.

Keywords: internal control; organizational commitment; compensation; accounting fraud potentials; individual morality.

I. INTRODUCTION

Accounting fraud potentials is often reported in the media, a person's actions in doing a fraud are intentionally to gain individual benefits (Rizky & Fitri, 2017). ACFE (2020) Association of Certified Fraud Examiners classifies fraud into three types known as the "Fraud Tree", namely asset misappropriation, fraudulent statements and corruption. Fraud occurs because of pressure from management and pressure to meet the economic needs of the employees themselves, because of the opportunity and organizational situation to commit fraud, and the rationalization of employees who justify these fraudulent and dishonest actions.

Ikatan Akuntansi Indonesia (2001) defines accounting fraud as: 1) misstatement arising from fraud in financial reporting, namely misstatement or intentional omission of amounts or disclosures in financial statements to deceive users of financial statements; and 2) misstatement 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.

A village is an area located in the administrative region of Indonesia and is under the sub-district and is led directly by a village head. The potentials for accounting fraud can occur in

government, even in small organizations such as villages are prone to accounting fraud. Fraud in villages that often occurs is misappropriation of village budget funds. To prevent fraud in the management of village budget funds, accounting is needed to present financial information to the public in the form of financial reports. The Financial Reports listed in the Government Regulation (PP) of the Republic of Indonesia Number 8 of 2006 concerning financial reporting and performance of government agencies, the Financial Report of the State/Regional General Treasurer consists of at least: Budget Realization Report; Balance Sheet; Cash Flow Report; and Notes to the Financial Report. In addition, the competence of village officials can be a reference for preventing fraud.

In its implementation, the regional government is required to provide transparent and accountable information regarding the management of budget funds, because the government is the trustee of the community where in its implementation it must be carried out properly. However, this trust is actually misused by government employees by committing violations, namely fraud. In the village of Malang City, there are cases of accounting fraud. In Lowokwaru District, Malang City, there was an abuse of assets. The former Head of Tunggulwulung for the 2002 to 2009 period abused his authority by renting assets belonging to the Malang City Government without rights in 3 locations in Tunggulwulung village, Lowokwaru District. All lease agreements began in 2008 and ended in 2019. As a result of this case, the Malang City Government is suspected of experiencing a loss of IDR 257 million.

In Malang Regency, there was a case of document falsification carried out by the former Head of Purwodadi Village, Lesanpuro Village, Kedungkandang District. Starting from the existence of land in the Jl. Kemirahan area, Purwodadi Village, Blimbing District from PT. Sapta Tunggal Surya Abadi (STSA) which had been sold, but was resold by involving the Head of Purwodadi regarding the Deed of Sale and Purchase (AJB) documents to the community, which were divided into 20 parts. It is suspected that document falsification occurred during the AJB process. Both phenomena are related to research by Anggara, et al (2020) which states that the accounting fraud potentials are a major problem in influencing the success of implementing village budget fund management, because village budget funds that should be entrusted to advance public order, balance village development, and economic development have been misused for individual benefits.

Cases of accounting fraud tendencies can be influenced by internal control system, therefore the internal control system can be a tool to anticipate the occurrence of accounting fraud tendencies. Weak internal control built in the organization will provide opportunities for members of the organization to commit accounting fraud tendencies. Corruption cases can also be caused by weak internal control systems. Previous studies examining the effect of internal control on accounting fraud potentials have been widely conducted but the findings are still inconsistent. Some researchers found that internal control has an effect on the accounting fraud potentials (Natalia and Coryanata, 2019; Fernandhytia and Muslichah, 2020). This study is in contrast to the results of other studies (Sakti et al., 2022; Setiawan, 2018) which show that internal control has no effect on the accounting fraud potentials.

Another factor that can prevent accounting fraud tendencies is Organizational Commitment. According to Suarniti et al. (2020) Organizational Commitment is the desire of a worker from the agency where he works so that the worker can want to continue working in the agency or maintain his membership in order to help the agency achieve its goals. If organizational commitment is high, a supportive relationship will arise with each other (Manurung et al., 2015). High commitment will reduce the potentials of fraud because workers

will work in accordance with applicable regulations. Some researchers found that organizational commitment has an effect on the accounting fraud potentials Aryaningsih and Sumadi, 2022; Lyana and Sujana, 2021). This study is in contrast to the results of other studies (Natalia and Coryanata, 2019) which show that organizational commitment has no effect on the accounting fraud potentials.

Compensation provided by company also plays a role in preventing the potentials of accounting fraud. Compensation is an award given by someone for their efforts and dedication in the form of money or other awards given to employees as a means to achieve organizational goals (Sudiardhita, et al., 2018). Employees will easily commit accounting fraud if the company does not provide compensation according to the performance given by the employee, but it does not rule out the possibility that employees can commit accounting fraud for individual interests. Therefore, the appropriateness of compensation is expected to make employees feel fulfilled so as to minimize the desire to commit fraud (Putri and Sari, 2019). Some researchers have found that compensation has an effect on the accounting fraud potentials (Putri and Sari, 2019; Sunardi and Sania, 2023) this study is inversely proportional to the results of other studies (Indraswari et al., 2020; Rismayanti and Putra, 2023) which show that compensation does not affect the accounting fraud potentials.

Individual morality is a person's principle or character that can be good or bad. Good individual morality is reluctant to do unethical actions, so there is a possibility to reduce the potential for fraud. Udayani & Sari (2017) and Putri & Wahyono (2018) stated that an individual's ability to resolve ethical dilemmas is influenced by their level of moral reasoning. The results of various studies presented in Liyanarachchi and Newdick (2009) show that the level of moral reasoning of each individual affects their ethical behavior. Individuals with low levels of moral reasoning behave differently when faced with ethical dilemmas compared to individuals with high levels of moral reasoning. Wilopo (2006) found that a higher level of moral reasoning increases the likelihood of not committing accounting fraud.

Based on the explanation above, this research is conducted with the title "the effect of internal control, organizational commitment, and compensation on accounting fraud potentials with individual morality as a moderating variable". The result of this research is expected to provide insight regarding the funds obtained by the sub-district from the government can create a good governance so that the managed budget funds do not cause problems in the future. What distinguishes it from previous studies is that the researcher combines all variables from previous studies, namely internal control, organizational commitment, and compensation into one study. The researcher also added individual morality as a moderating variable in the government sector with the objects studied being the sub-districts in the Lowokwaru District and the Kedungkandang District of Malang City, East Java Province.

II. LITERATURE REVIEW

A. Variables

Fraud can be interpreted as an intentional act carried out by someone to the detriment of another party in order to gain profit (Rizky & Fitri, 2017). Shintadevi (2015) describes the tendency of accounting fraud as a desire to gain profit through dishonest means, such as concealing the truth, manipulation and fraud through inaccurate financial reporting, and corruption and misuse of assets. There are three components (fraud triangle) that lead to fraud,

namely: Pressure, Opportunity, and Rationalization. Fraud occurs because of pressure from management and pressure to meet the economic needs of the employees themselves, because of the opportunity and organizational situation to commit fraud, and the rationalization attitude of employees who justify these fraudulent and dishonest actions (Cressey, 1993).

Internal control is the process of overseeing an accounting system or accounting information system within an active company or organization. Its purpose is to protect the organization from risks and threats that could potentially cause harm or damage (Muslichah & Fernandhytia, 2020). Internal Control in Committee of Sponsoring Organization of The Treadway Commission (COSO) Perspective is a proses involving the board of commissioners, management, and other personnel, designed to provide reasonable assurance about the achievement of three objectives, namely: Effectiveness and efficiency of operations; Reliability of financial reporting; Compliance with applicable laws and regulations.

Organizational Commitment is a form of desire of an employee from the institution where he/she works so that the employee can want to continue working in the institution or maintain his/her membership in order to help the institution achieve its goals (Suarniti & Sari, 2020). Based on the goal setting theory discovered by Locke (1968), it can be explained that a commitment will be obtained when the goal has been set, besides that commitment will be formed when someone has an internal locus of control. Therefore, organizational commitment can be defined as behavior shown by employees that supports the goals and values of the company.

Compensation refers to all income received by an employee in the form of money, direct goods, or indirect goods in return for services rendered to the company. In accordance with company policy, all employees are given rewards that aim to improve their welfare, such as holiday allowances and pension funds, both in the form of financial and non-financial rewards (Mujanah, 2019:24). Compensation is a form of service reward or award given to someone because they have carried out and completed certain tasks that have been given to them or because they have achieved certain goals or objectives.

Kohlberg (1982) defines the theory of moral development which is divided into 3 levels. At the first stage, namely the pre-conventional stage, individuals are able to respond to social rules and expectations and can apply what is good, bad, right, and wrong. The next stage is the conventional stage, the right action becomes an action that can function as a tool to meet the needs of the individual himself or the needs of people who are cared for by the individual. Then at the last stage, namely the post-conventional stage, the individual no longer accepts the values and norms of his organization. Liyanarachchi (2009), stated that their individual level of moral reasoning will affect their ethical behavior. People with low levels of moral reasoning will behave differently from people with high levels of moral reasoning when facing ethical dilemmas.

B. Hypothesis Development

1. The Effect of Internal Control on Accounting Fraud Potentials

Having strong internal control within an organization can affect one of the components in the Fraud Triangle, namely Rationalization. Weak internal control built within an organization will rationalize individuals to commit accounting fraud tendencies, resulting in

misappropriation and abuse of power. Clear and consistent internal control, as well as a corporate culture that encourages integrity and accountability, can prevent individuals from rationalizing fraudulent actions as the right actions. Research conducted by Natalia and Coryanata (2019), Fernandhytia and Muslichah (2020) showed significant negative results on the effect of internal control on fraud.

H1: Internal Control Has a Negative Effect on the Accounting Fraud Potentials.

2. The Effect of Organizational Commitment on Accounting Fraud Potentials

People who have high organizational commitment tend not to be affected by the components of the Fraud triangle, one of which is opportunity. Organizational commitment to integrity and ethics can reduce opportunities that encourage individuals to commit fraud. Research conducted by Aryaningsih and Sumadi, (2022), Lyana and Sujana (2021) which shows a significant negative effect of Organizational Commitment on fraud.

H2: Organizational Commitment Has a Negative Effect on the Accounting Fraud Potentials.

3. The Effect of Compensation on Accounting Fraud Potentials

One component of the fraud triangle theory, namely pressure, also influences the potentials of accounting fraud. Pressure from management and pressure to meet the economic needs of employees are more likely to commit fraud, this is further strengthened because it involves economic pressure, so it is necessary to provide compensation that is in accordance with the workload and reduces the possibility of deviant actions, one of which is the tendency of accounting fraud so that it can be said that the opportunity for the occurrence of accounting fraud is getting smaller. Research conducted by Putri and Sari (2019), Sunardi and Sania (2023) which shows a significant negative effect of Compensation on fraud.

H3: Compensation has a negative effect on the Accounting Fraud Potentials.

4. Individual Morality Moderates the Effect of Internal Control on Accounting Fraud Potentials

Individual morality serves as a barrier or protector against fraud by influencing how a person responds to Rationalization in the Fraud Triangle. Individuals with high moral values will not justify reasons to rationalize fraud. Individual morality can create a very good internal control system so that it has an impact on minimizing the potential for fraud. This study is strengthened by Saputra et al., (2020) which provides evidence that the morality variable has a positive effect on fraud prevention. High individual morality also has a high impact on fraud prevention.

H4: Individual morality moderates the relationship between internal control and the Accounting Fraud Potentials.

5. Individual Morality Moderates The Effect of Organizational Commitment on Accounting Fraud Potentials

With strong individual morality, it can prevent someone from being trapped into taking advantage of the effects of the Fraud Triangle, namely Opportunity, because even though the individual's commitment to the organization is small, they will still not commit accounting fraud because of their moral values. This study is strengthened by Nurhayati (2022) who proves that individual morality strengthens the influence of organizational commitment on fraud.

H5: Individual morality moderates the relationship between organizational commitment and the Accounting Fraud Potentials.

6. Individual Morality Moderates The Effect of Compensation on Accounting Fraud Potential

Pressure will motivate employees to commit fraud caused by financial or non-financial pressure. Individuals with high morality will look for other, more ethical ways to overcome financial pressure, such as negotiating for better compensation or looking for additional work, rather than committing accounting fraud. Members who perceive that compensation suitability is high and have high morality will understand that the compensation given is in accordance with their service contribution, so there will be no fraudulent actions. This study is strengthened by Nurhayati (2022) who proves that individual morality strengthens the influence of compensation suitability on the tendency of accounting fraud positively and significantly.

H6: Individual morality moderates the relationship between compensation and the accounting fraud potentials.

III. RESEARCH METHODOLOGY

This study uses a quantitative research method. The population used in this study are all village heads, village secretaries and village treasurers in all villages in Lowokwaru and Kedungkandang sub-districts. The sampling technique used in this study is the saturated sampling technique and obtained 72 samples. The data source used in this study is primary data in the form of opinions and responses from village officials throughout the Lowokwaru and Kedungkandang sub-districts by answering the question points in the questionnaire that represent the variables to be measured.

IV. RESULTS AND DISCUSSION

A. Descriptive Statistics Result

Table 1 Descriptive Statistics

	Minimum	Maximum	Mean	Std.Deviation
X1 (Internal Control)	38.00	50.00	43.6667	3.77538
X2 (Organizational Commitment)	24.00	37.00	30.6111	3.57044
X3 (Compensation)	30.00	45.00	37.0000	3.89293
Y (Accounting Fraud Potentials)	5.00	20.00	8.6111	3.76999
Z (Individual Morality)	51.00	75.00	61.8056	5.64599

Sources, data processed 2023

Table 1 shows the descriptive statistical results of each research variable. The individual morality variable has the highest average value of 61.80, while the accounting fraud tendency variable has the lowest average value of 8.61. The highest standard deviation is in the individual morality variable with a value of 5.64 while compensation has the lowest standard deviation value of 3.57.

B. Validity Test

Table 2 Validity Test

Construct	Indicator	Loading Factors	Validity
Internal control	X1.1	0.704	Valid
	X1.2	0.871	Valid
	X1.3	0.868	Valid
	X1.4	0.762	Valid
	X1.5	0.893	Valid
	X1.7	0.742	Valid
	X1.8	0.806	Valid
Organizational commitment	X2.1	0.752	Valid
	X2.2	0.687	Valid
	X2.3	0.813	Valid
Construct	Indicator	Loading Factors	Validity
Organizational Commitment	X2.4	0.812	Valid
	X2.5	0.758	Valid
Compensation	X3.2	0.848	Valid
	X3.3	0.898	Valid
	X3.4	0.788	Valid
	X3.5	0.881	Valid
Accounting fraud potentials	Y.1	0.880	Valid
	Y.2	0.921	Valid
	Y.3	0.782	Valid
	Y.5	0.778	Valid
Individual Morality	Z.2	0.905	Valid
	Z.3	0.824	Valid
	Z.4	0.771	Valid
	Z.5	0.811	Valid
	Z.8	0.766	Valid
	Z.15	0.677	Valid

Sources, data processed 2023

Research indicators are considered to have a good level of validity when they have a loading factor value of at least 0.6. If the indicator has a value below the provision, it should be removed from the model. All remaining indicators have values above 0.6, thus they are declared valid.

C. Reliability Test

Table 3 Reliability test

	Cronbach's Alpha	Composite Reliability	Reliability
Internal control	0.911	0.930	Reliable
Organizational commitment	0.824	0.876	Reliable
Compensation	0.877	0.915	Reliable
X1-Z	1.000	1.000	Reliable

	Cronbach's Alpha	Composite Reliability	Reliability
X2-Z	1.000	1.000	Reliable
X3-Z	1.000	1.000	Reliable

Sources, data processed 2023

Research Indicators of variables are distributed reliable or not when they have a composite reliability values (>0.7). The results of composite reliability of all variables produced values above 0.70.

D. R Square Test

Table 4 R Square Result

	<i>R square</i>	<i>R square adjusted</i>
Accounting fraud potentials	0.963	0.959

Sources, data processed 2023

From the table above, it can be seen that the R square value of the tendency for accounting fraud is 0.963, which means that this variable is included in the strong category.

E. Hypothesis Test

1. Direct Effect Test

Table 5 Hypothesis Test Results

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T statistics (O/STDEV)	P Values	Result
Internal Control → Accounting fraud potential	-0.613	-0.617	0.125	4.901	0.000	Accepted
Organizational commitment → Accounting fraud potential	-0.296	-0.288	0.096	3.098	0.002	Accepted
Compensation → Accounting fraud potential	-0.001	-0.004	0.080	0.015	0.988	Denied

Sources, data processed 2023

The path coefficient or inner model value shows the level of significance in hypothesis testing. This is done by comparing the P Values <0.05 or t-statistics of (>1.96). Based on the table above, the results obtained show that 2 hypothesis were accepted and 1 hypothesis was rejected.

2. Moderating Effect Test

Table 6 Hypothesis Test Results

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T statistics (O/STDEV)	P Values	Hasil
Morality x Internal Control → Accounting fraud potential	-0.764	-0.758	0.099	7.715	0.000	Accepted

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T statistics (O/STDEV)	P Values	Hasil
Morality x Organizational commitment → Accounting fraud potential	0.176	0.175	0.101	1.740	0.082	Denied
Morality x Compensation → Accounting fraud potential	0.424	0.421	0.091	4.641	0.000	Accepted

Sources, data processed 2023

In simultaneous hypothesis testing, the T-statistic value of the moderating variable must be more than or equal to 1.96. Based on the table above, the results obtained show that 2 hypothesis were accepted and 1 hypothesis was rejected.

F. Discussion

1. The Effect of Internal Control on Accounting Fraud Potentials

By increasing internal control, it means improving and strengthening the control environment, risk assessment, Control Activities, Information and Communication, Monitoring as a whole in the organization, it can potentially reduce the nature of individual rationalization in carrying out accounting fraud potentials in the organization. This study is supported by the results of the study by Fernandhytia and Muslichah (2020) which states that internal control has a negative effect on the accounting fraud potentials, then this study is also strengthened by Natalia and Coryanata (2019) which explains that the accounting fraud potentials will decrease with good and effective internal control.

2. The Effect of Organizational Commitment on Accounting Fraud Potentials

The higher the organizational commitment, the lower the accounting fraud. Commitment to individuals creates professional work behavior such as strictly checking financial records, verifying transactions, and assessing internal controls, encouraging transparency and accountability. Their presence prevents opportunities for fraud and provides protection against fraudulent activities in an organization. This study is supported by Aryaningsih and Sumadi (2023) who explain that organizational commitment created within a company can reduce the level of accounting fraud potentials. This study is also supported by Lyana and Sujana (2021) who explain that increasing commitment can result in a decrease in the level of accounting fraud.

3. The Effect of Compensation on Accounting Fraud Potentials

Compensation and the tendency of accounting fraud potential have a complex relationship, even though company gave efforts to provide high compensation will increase organizational commitment, it does not necessarily reduce unethical behavior in committing accounting fraud. This study is supported by Rismayanti and Putra (2023) who concluded that if the organization is able to provide maximum appropriate compensation, the tendency to commit

accounting fraud will actually increase. Indraswari et al. (2020) also showed the same results that compensation had no effect on the tendency of accounting fraud.

4. Individual Morality Moderates the Effect of Internal Control on Accounting Fraud Potentials

Individual morality can weaken the effect of internal control on the accounting fraud potentials, because unmoral people may ignore or manipulate the internal control system for personal gain or unethical interests. Although internal control is theoretically intended to prevent, detect, and reduce the risk of fraud, its effectiveness can be reduced if the morality of organizational members conflicts with the ethical standards of internal control. Violations of procedures, data manipulation, or other fraudulent acts that should not have occurred can occur. The results of this study are in accordance with the research of Isniawati et.al (2022) which found that individual morality is unable to strengthen the effect of the internal control system on preventing financial statement fraud.

5. Individual Morality Moderates The Effect of Organizational Commitment on Accounting Fraud Potentials

Individual morality does not moderate the effect of organizational commitment on accounting fraud potentials because a person's morality is not only determined by the values instilled by the organization. Factors such as personal background, life experiences, and social norms also influence individual morality. In addition, situational pressure and group norms can influence individual behavior beyond the direct influence of organizational commitment. Therefore, although organizational commitment can create an environment that supports ethical behavior, individual morality is still influenced by a number of complex factors that can interact with organizational commitment in a complex manner. This study is not in line with that conducted by Nurhayati (2022) who stated that individual morality strengthens the influence of organizational commitment on fraud. However, this study can be supported by Anisykurlillah and Wardianti (2019) who showed that individuals who perceive that they have a high level of commitment and moral reasoning does not guarantee that the individual will not commit fraud.

6. Individual Morality Moderates The Effect of Compensation on Accounting Fraud Potential

Individual morality can strengthen the effect of compensation on accounting fraud potentials because individuals with high morality tend to be more resistant to to commit unethical acts for personal gain. In the context of compensation, when the reward and incentive system is designed to encourage the achievement of certain performance targets, individuals with strong morality are more likely to choose to achieve these targets through legitimate and ethical means. On the other hand, individuals with low morality may be more tempted to commit fraud in order to meet or exceed their compensation expectations. Therefore, individual morality can strengthen the relationship between compensation and accounting fraud potentials by influencing how individuals respond to incentives and pressures associated with compensation. This study is in line with Nurhayati's (2022) research which states that individual morality strengthens the effect of compensation on accounting fraud tendencies.

V. CONCLUSION

This research aims to examine the influence of internal control, organizational commitment and compensation on the accounting fraud potentials with individual morality as a moderating variable. Based on the results of the tests that have been carried out, this research can be concluded; the higher the internal control, the lower the tendency of accounting fraud, the higher the organizational commitment, the lower the tendency of accounting fraud, the higher the compensation, the lower the accounting fraud. However, the quality of this influence is not significant, and individual morality that is contrary to the ethical standards of internal control will make the apparatus to commit fraud such as violations of procedures, data manipulation, or other fraudulent acts that should not occur can occur, village apparatus who have high organizational commitment but with low morale, will be influenced by factors outside organizational commitment such as pressure from colleagues or personal considerations in committing accounting fraud, the higher the individual morality, the higher the compensation so that the low tendency of accounting fraud and vice versa individuals with high morality will be more resistant to pressure and not easily influenced to commit fraud.

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