



THE INFLUENCE OF THE EFFECTIVENESS OF INTERNAL CONTROL AND OBSERVANCE OF ACCOUNTING RULES ON ACCOUNTING FRAUD

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Abstract

This study aims to explain the influence of the effectiveness of internal control and observance of accounting rules on accounting fraud. The method used is quantitative. The data used is a data source by distributing the Google Form link to the Village Office in the Imogiri District via WhatsApp using a convenience sampling technique. Respondents who filled out as many as 111 respondents. The results of the study explain that the effectiveness of internal controls has no effect on accounting fraud, while compliance with accounting rules has an effect on accounting fraud. The higher the effectiveness of management control and compliance with accounting regulations, the lower the level of accounting fraud. Conversely, the weaker management's internal control and compliance with accounting rules, the greater the fraud that occurs.

Keywords: Internal Control Effectiveness, Compliance With Accounting Rules, Accounting Fraud

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INTRODUCTION

Accounting is the process of recording transactions in financial statements. Accounting is a tool for measuring and reporting information related to clear and definite decision assessments for the wearer (Soemarso, 2018).

Recently, attention has been focused on accounting fraud in business, particularly in Indonesia. Auditing Standard Statement No. 99 (2002) explains that accounting fraud is a deliberate action on the part of the audited financial statements. One of the cases of accounting fraud in Indonesia is corruption. In 2019, there was a financial scandal in Indonesia which involved manipulation of financial reports, such as the buying and selling case at the Ministry of Religion, the acquisition and smuggling of assets at PT Garuda Indonesia, and the PT Asuransi Jiwasraya (JS) case.

First, the effectiveness of internal control is the act of controlling various activities so that company goals are achieved. Organizational accounting fraud is influenced by the level of effectiveness of the organization's internal controls (Utari, 2019).

Second, compliance with accounting regulations is a guideline for agencies to follow applicable regulations so that financial reports accurately reflect the current situation. Accounting standards have rules to help employees follow these rules (Rizky, 2017).

The aim of this study is to further investigate internal control and compliance with accounting regulations in combating accounting fraud. This study will reform accounting compliance to combat accounting fraud.

LITERATURE REVIEW

Attribution theory

Attribution theory explains the reasons for the behaviour of a person or others. This theory is about human behaviour that can cause mistakes, both for himself and others (Morissan, 2013).

Agency Theory

Agency theory states the relationship between individuals with other individuals. This theory explains that each individual is motivated by his own interests and is not interested in the interests of others. This creates conflict between individuals and organizations (Laksmi, 2019).

Internal Control Effectiveness

Internal control is management's success in achieving institutional goals related to the presentation of reliable financial reports and compliance with laws and regulations (Suryani, 2020). Internal control is the starting point as far as possible the occurrence of fraud. When internal controls are weak and controls are unfair, efficiency is also weak, allowing criminals to commit fraud freely (Pratomo, 2016).

Compliance with Accounting Rules

According to KBBI (Big Indonesian Dictionary), obedience is an attitude of following existing orders, while rules are habits (standards, actions) that must be obeyed. Accounting rules are drawn up as the basis for the preparation of annual accounts. An institution must have criteria used by management to carry out all company activities (Prekanida, 2015). Accounting fraud can be caused by the absence of compelling rules to comply with (Tunggal, 2018). To prevent and reduce accounting fraud, rules or instructions can

be created for organizations, so that the more management follows the rules, the lower the tendency to commit fraud. Conversely, if management does not follow the rules then the tendency is to commit major accounting fraud (Wilopo, 2017).

RESEARCH METHODS

This research method is quantitative. The reason for using this method is because it can help determine the interrelationships between variables, associations with

phenomena, and data that is processed in the form of numbers and analysed using statistics (Sugiyono, 2017). The data used is primary data. The population in this study were village office employees in the Imogiri District. The data collection technique used was convenience sampling and data testing using multiple linear regression analysis. Questionnaires in the form of a google form were then distributed to respondents to be filled in as a tool for conducting research.

Table 1. Operational Definitions and Variable Indicators

Variable	Operational Definitions	Indicators	Question Items
Accounting Fraud (Y)	Accounting fraud is the desire to do whatever is necessary in order to generate profits dishonestly (Pramesti, 2021).	1. Financial statement fraud	1. I recorded financial expenses that were greater than they actually were. 2. At the time of purchasing the office equipment, I recorded a higher cost than the original cost.
		2. Misappropriation of assets	3. I include other needs that do not fit into the office supplies shopping. 4. I bought office equipment not according to the specifications that should have been purchased.
		3. Corruption	5. I use the rest of the budget for my personal interests. 6. I use office budget money only to buy necessities at the office.
		4. No proof of transaction	7. If I want to buy office supplies, I have to make a report accompanied by proof of existing transactions. 8. I falsified transaction receipts because I used little office money to buy my personal needs.

		5. Budget abuse	9. The rest of the budget costs I use for shopping for personal needs. 10. I use the remaining budget costs according to office shopping needs.
Internal Control Effectiveness (X1)	Internal control effectiveness is an act of improving, controlling and supervising various activities with the aim that company goals can be achieved (Ratnadi, 2017).	1. Control environment	11. At the office, I have complied with employee rules regarding employee behaviour and code of ethics. 12. I behave according to the policies set in the office.
		2. Risk assessment	13. I carry out a complete and thorough risk analysis to prevent violations from occurring. 14. I don't care about risk assessment in the office because I think all employees can assess themselves.
		3. Control activity	15. I have arranged document authorization for each transaction in the office according to the applicable procedures. 16. In the office, I have adequately implemented segregation of duties.
		4. Information and communication	17. I reduce the communication channels in the office because I don't care about suggestions or input from other people. 18. I apply information and communication systems appropriately and accurately to the public so they can provide suggestions or input to employees and offices.
		5. Monitoring	19. I have to constantly check accounting records to make sure there are no mistakes.

			20. I always evaluate myself for the performance I do in the office.
Compliance with Accounting Rules (X2)	Accounting compliance adherence guidelines or standards that compel organizations to follow applicable regulations in order for financial reports to accurately reflect the current situation (Egita, 2018).	1. Disclosure requirements	21. I compile financial reports by disclosing all financial events and transactions in the office. 22. When I prepare financial reports, I always consider the importance of using the reports. 23. In compiling financial reports, I must act carefully to avoid mistakes.
		2. Present useful information to the public	24. I present the results of financial reports and performance reports in accordance with the actual situation without being changed. 25. I write financial reports according to actual conditions and based on accounting standards. 26. I present employee performance reports based on the direct performance of employees. 27. I don't submit performance reports to other employees because I don't think it's important.
		3. Principle objective	28. When I experience difficulties in performing my duties, I should not hesitate to ask other officers for help. 29. In compiling financial reports, I do not need to use financial accounting standards because I think my performance is correct 30. I must be brave and honest in disclosing an incident if fraud is indicated.

RESULTS AND DISCUSSION

Data Quality Test

Data quality testing is carried out based on these questions, all variables are declared valid and reliable so that previous tests can be carried out.

Descriptive Statistics Test

Table 2. Descriptive Statistical Test Results

	N	Range	Min	Max	Mean	Std. Deviation
TOTAL Y	111	22	28	50	40,33	3,927
TOTAL X1	111	24	23	47	40,57	4,058
TOTAL X2	111	23	24	47	40,46	4,074
Valid N (listwise)	111					

Source: Primary data processed (2022)

Based on the table above, the accounting fraud variable (Y) has a minimum value of 28 and a maximum value of 50 for 111 respondents and a standard deviation of 3.927. The internal control effectiveness variable (X1) for 111 respondents has a minimum value of 23 and a maximum value of 47 and a standard deviation of 4.058. The observance of accounting rules variable (X2) for 111 respondents has a minimum value of 24 and a maximum value of 47 and has a standard deviation of 4.074.

Classic Assumption Test

Table 3. Normality Test Results

		Unstandardized Residual
N		111
Normal Parameters ^{a,b}	Mean	,0000000
	Std. Deviation	2,70718528
Most Extreme Differences	Absolute	,046
	Positive	,045
	Negative	-,046
Test Statistic		,046
Asymp. Sig. (2-tailed) ^c		,200 ^d

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Monte Carlo Sig. (2-tailed) ^e	Sig.	,837
	99% Confidence Interval	Lower Bound ,827
		Upper Bound ,846

Source: Primary data processed (2022)

The results in the table show the Kolmogrov-Smirnov Z value using the Monte Carlo approach of 0.827 and 0.86 and a significance value of 0.837. This shows that it is greater than 0.05, which means that the residuals are normally distributed which strengthens the normality assumption of the regression model in this study.

Table 4. Multicollinearity Test Results

Model	Collinearity Statistics	
	Tolerance	VIF
1 (Constant)		
X1	,725	1,379
X2	,652	1,533

Source: Primary data processed (2022)

Based on the results of the multicollinearity test above, the tolerance value for each independent variable is > 0.10 and the variance inflation factor (VIF) for each independent variable is <0.10. It can be concluded that the multicollinearity-free regression model.

Table 5. Heteroscedasticity Test Results

Coefficients	
Model	Sig.
(Constant)	
Internal Control Effectiveness	,926
Compliance with Accounting Rules	,959

Source: Primary data processed (2022)

The results of the heteroscedasticity test above, obtained a significant value of the independent variable > 0.05, namely the effectiveness of internal control 0.926 and compliance with accounting rules 0.959. It

can be concluded that the regression model does not have heteroscedasticity.

Multiple Linear Regression Analysis

Table 6. F Value Test Results

Model	Sum of squares	df	Mean Squares	F
1 Regression	266,763	4	66,691	8,769
Residual	806,174	106	7,605	
Total	1072,937	110		

Source: Primary data processed (2022)

Based on the results of the F value test, a value of 8.769 was obtained and a significance level of 0.001. This means that the F value test is one of the independent variables that affects the dependent variable. F count > F table, namely 2.46, so this research model can be said to be appropriate.

Determination Coefficient Test

Table 7. Test Results for the Coefficient of Determination (R2)

Model	R	R square	adjusted R square	Std. error of the estimate
1	,499 ^a	,249	,220	2,758

Source: Primary data processed (2022)

Based on the results of the determination test, it shows that the Adjusted R-Square is 0.220, namely the effect of internal control and compliance with accounting rules is 22%, while the remaining 78% is influenced by other factors.

Hypothesis Testing

Table 8. T-Value Test Results

Model	Unstandardized coefficients			t	Sig
	B	Std. Error	Beta		
(Constant)	17,891	4,110		4,354	,001
Internal Control Effectiveness	,019	,079	,024	,243	,808

Compliance with Accounting Rules ,200 ,080 ,259 2,488 ,014

Source: Primary data processed (2022)

Based on the results of the significance test (t) it can be explained that the effectiveness of internal control (X1) has no effect on accounting fraud. It can be seen that the value of the standard coefficient (beta) t-counts from 0.243 to 0.024 with a significance level of 0.808. Therefore, it is determined that t-count is 0.243 > t-table 2.629 with a significance of 0.024. So, the effectiveness of internal control has no effect on accounting fraud. Compliance with accounting rules affects accounting fraud. It can be seen that the tcount value is 2.488 > table 2.269, the standard coefficient (beta) is 0.259 with a significance level of 0.014. Based on the results of data processing exceeds the significant level of 0.014 <0.05. So compliance with accounting rules has a positive effect on acceptable accounting fraud.

Effect of Internal Control Effectiveness on Accounting Fraud

Hypothesis 1 test states that internal control has a negative effect on accounting fraud. The t-count value is 0.243, the standardized coefficients (beta) are 0.024 and the significance level is 0.808. Therefore, H1 is not supported in this study. Attribution theory says that behavior greatly influences the actions they take, especially acts of fraud. When a person's internal control is good, it increases the welfare of the organization because fraud is kept to a minimum, allowing the organization to be more progressive and efficient. However, when the control within the individual is bad, the individual tends to commit fraud easily, with the biggest risk

being that the ability of the organization/company is greatly reduced (Nurhasanah, 2019). This research is supported by Dewi (2017) who says that when internal controls are weak, the level of fraud is higher, and conversely, when the level of internal control is high, accounting fraud can be minimized or even prevented.

Effect of Internal Control Effectiveness on Accounting Fraud

Hypothesis 1 test states that the effectiveness of internal control has a negative effect on accounting fraud. The t-count value is 0.243, the standard coefficient (beta) is 0.024 and the significance level is 0.808. Therefore, H1 is not supported in this study. Attribution theory says that behavior greatly influences the actions they take, especially fraudulent acts. When a person's internal control is good, it increases the welfare of the organization because fraud is kept to a minimum, allowing the organization to be more progressive and efficient. However, when the control within the individual is poor, the individual tends to commit fraud easily, with the biggest risk being that the ability of the organization/company is greatly reduced (Nurhasanah, 2019). This research is supported by Dewi (2017) who says that when internal controls are weak, the level of fraud is higher, and vice versa when the level of internal control is high, accounting fraud can be minimized or even prevented.

Effect of Observance of Accounting Rules on Accounting Fraud

Hypothesis 2 is carried out that compliance with accounting rules has a positive effect on accounting fraud. The t-count value is 2.488, the standard coefficient (beta) is 0.259 and the significance level is

0.014. Then H2 in this study is accepted. This research is in line with agency theory, where agency theory states that a person's low level of control puts a company at high risk of fraud. Prevention and reduction of fraudulent acts can be done by establishing rules relating to the organization (Wilopo, 2017). This research is supported by Gustina (2018) who says that the more management complies with regulations, the less fraudulent acts occur.

CONCLUSION AND SUGGESTIONS

Conclusion

There were 111 employees of the sub-district office of Imogiri Subdistrict who were used as respondents. After this research was conducted, it was found that the effectiveness of internal controls did not affect accounting fraud and compliance with accounting rules had an effect on accounting fraud. The results of research on the effectiveness of internal control have no effect on accounting fraud, meaning that the person still does not have the attitude and character of restraint when committing fraud, this must be assessed within the organization/office in terms of personnel management. Compliance with accounting rules affects accounting fraud. Discipline of employees against the rules in the office causes little or no acts of fraud that occur.

Suggestions

Suggestions for further research are to add other variables such as organizational culture, compensation, asymmetry and others that affect accounting fraud.

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