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# Determinants of Accounting Frauds: Perceptions of Indonesian Civil Servants

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## Abstract

*This study aimed to examine a number of factors that affect the accounting fraud. This study used the variables consisting of information asymmetry, organizational commitment and individual morality. Theauthors study surveyed the employees at the Office for Management of Regional Revenue, Finance and Assets (Dinas Pendapatan Pengelolaan Keuangan Aset), Yogyakarta Province. This study uses convenience sampling technique method. The data from 96 respondents revealed that the variables of information asymmetry and organizational commitment significantly enhanced the accounting fraud while the individual morality significantly diminished the accounting fraud.*

***Keywords***: *Information Asymmetry, Organizational Commitment, Individual Morality, Accounting Fraud*

***JEL Classification***: *M10 M40 M48*

## Introduction

Fraud is a deliberate act of fraud committed to incur losses to others and provides benefits of the perpetrator and/or his group (Saftarini, Yuniarta, & Sinarwati, 2015). Fraud indications can be seen from policies and actions deliberately targeted for fraud or manipulation, and can harm others. The type of fraud that often occurs to government entities is corruption. In recent years, there have been several cases of Frauds in Indonesia. For example, the chairman of Koperasi Rimba Mutiara involved manipulation of financial statements from 2003- 2014 (Donald, 2015). Another case of the accounting fraud is the case that occurs to Ikatan Karyawan Timah originating from the provinces of Bangka Belitung and Kepulauan Riau. The company employees held speeches inMinistry of State Owned Enterprises to protest the manipulation. The employee believes that the directors lie to the public through the media. According to the directors at the press release of the first semester of the 2015 financial report, the efficiency and strategy had been implemented and had given a positive performance. In fact in the first half of 2015, the operating profit of the company wasa loss of IDR 59 billion (Afrianto, 2016).

Previous research has been providing evidences for the factors that can affect the accounting fraud. The factors have included corporate governance (Saftarini et al., 2015), compensation (Delfi, Anugerah, A, & Desmiyati, 2015), internal control (Setiawan, Adi, Adiputra, & Yuniarta, 2015), *Earning Manipulation* (Agrawal & Cooper, 2015), In general, however, the results have been inconsistent.These inconsistent results open the opportunity for further investigations. In addition, Setiawan et al., (2015)and Luh, Ari, Adiputra, & Herawati, (2014) suggested a new developing research by adding and using other independent variables.

The purpose of this study is to examine a number of factors that may affect the accounting fraud. However, this study differs from prior research, particularly in the used variables. The variables chosen by the authors, in this study, are those inconsistent variables: the information asymmetry variable (Saftarini et al., 2015), individual morality (Yulina, 2015)and the variables suggested by the previous researchers of the organizational commitment variable (Setiawan et al., 2015). The rest of this article is structured as follows. We formulate and present the hypotheses in the section 2. Section 3 provides the conceptual model, the variables and empirical results and discussion. Finally, we summarize and recommend for future research in the last section.

## Literature Review

Fraud can be defined as a deliberate act of fraud to incur the loss of others and provide benefits of the perpetrator and/or his group (Saftarini et al., 2015). Another notion of the fraud according to Yulina, (2015) is any deliberate fraud attempts, which are purpos to take the property or the rights of the person or the rights of the other party. She categorizes fraud in three groups: corruption (conflict of interest, bribery, illegal granting, economic extortion), misuse of assets (cash fraud, and fraud over inventory and other assets), and false statements, or misstatements (timing differences, fictitious revenues, concealed liabilities and expenses, improper disclosure). These kinds of the fraud have gained much media attention as a frequent dynamic (Yulina, 2015) since policies and actions deliberately purposed for fraud or manipulation can harm others.

In terms of accounting fraud, there have been many scholars that investigated a number of factors that may affect companies committing to accounting frauds. For example, the effective internal controls can protect against theft, embezzlement, misuse of assets at inappropriate locations Delfi et al., (2015), Luh et al., (2014), and Saftarini et al., (2015). The organizational justice variables from research Saftarini et al., (2015) and Yendrawati & Paramitha, (2014) were also mentioned as a factor influencing the accounting fraud. In general, however, the results have been inconsistent. These inconsistent results open the opportunity for further investigations. In addition, (Setiawan et al., 2015) and Luh et al., (2014) suggested a new developing research by adding and using other independent variables. Therefore, the following model was based on the those inconsistent variables: the information asymmetry variable (Saftarini et al., 2015), individual morality (Yulina, 2015) and the variables suggested by the previous researchers of the organizational commitment variable (Setiawan Et al 2015). The frame of thought described in Figure 1.

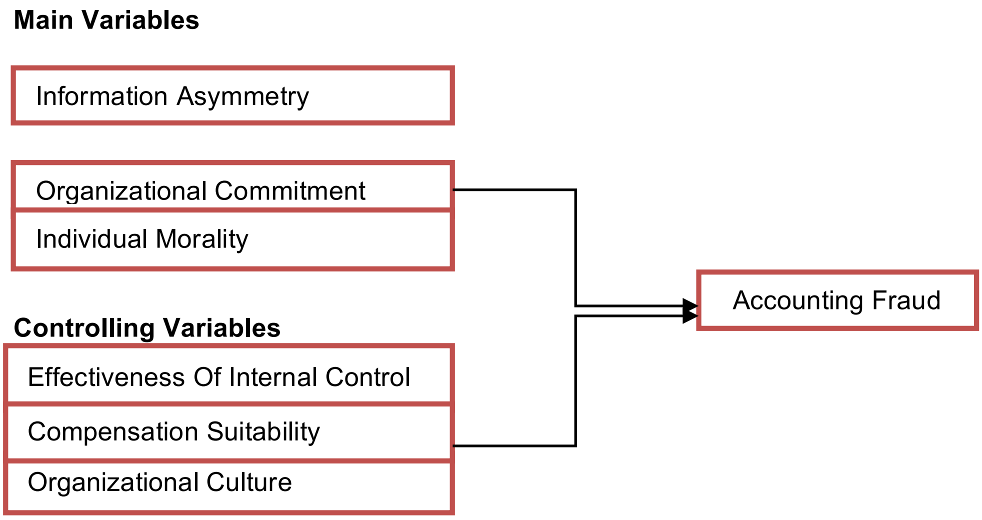


**Figure 1:**Research Model

According to Saftarini et al., (2015), information asymmetry is a condition in which one party in a transaction has more or better information than the other. If there is information gap between the user and the manager, it will open the opportunity for one party to commit to do the accounting fraud. Similarly, in the event of information asymmetry, agents may make bias or manipulate financial statements, thus improving compensation and reputation, and financial ratios (Saftarini et al., 2015).

According to agency theory, the agent (manager) performs the services of principal interests (investors). The principal may ask for good things and information transparency to improve the company performance. However, the agent or manager may bring the company to look good in any way in order to keep investors (Gudono, 2009). Therefore, the agent (manager) as the owner of more information than the principal (investor) can do many things without known the principal. The management can use the different information owned for the it's purpose, including to mislead accounting information. This can also trigger an agent (manager) to take actions in accordance with its wishes and interests to maximize the utility for him/herself. This statement was supported by a study conducted by Saftarini et al., (2015) which stated that information asymmetry positively affected accounting fraud. However, according to research from Setiawan et al., (2015), it was stated that information asymmetry variable had no significant influence on the accounting fraud. It can be interpreted that in this study, the information flowingfrom the management of the company to the outsider company should be balanced. Imbalances of information received by the agency's internal agency, and the agency's external parties, can enhance employees to perform the accounting fraud.

H1: Information asymmetry positively affects accounting fraud

An organizational commitment generally refers to the attitudes and feelings of employees associated with the value and the way the company runs the business (Pramuditya, 2013). An organizational commitment implies a something more than a passive loyalty to the organization. In other words, organizational commitment implies an active employee relationship to the company or organization. With organizational commitment, employees in an organization or company have a high organizational commitment to the organization and this can decrease the possibility of frauds.

According to the theory of the agency in the book "Theory of Organization" (Gudono, 2009), it mentions that there is a possibility problem of the principal with the agent: the principal-agent problem. The problem occurs since the agent can perform actions that benefit the it'sself and harm to the principal (Jensen & Meckling, 1976). Therefore, the agent having more information than the principal can do many things without known by the principal. This condition can be minimized when the employees have the organizational commitment since the core of organizational commitment emphasizes namely the process on the individual (employee) in identifying with the values, rules, and goals of the organization. In addition, an organizational commitment implies an active employee relationship to the company or organization.Thus, organizational commitment may decrease the possibility to commit to frauds by employees. The higher the commitment of employees to the organization, it will suppress fraud on the organization. The statement is consistent with the study result by previous research conducted by such as Pramuditya, (2013) and Rachmanta, (2014)stating that organizational commitment negatively affects accounting fraud.

H2: Organizational commitment negatively affects accounting fraud

Morality is a moral character or an overall principle and value with respect to good and bad (Yulina, 2015). Welton, (1994) in Yulina, (2015) states that the individual's ability is to resolve ethical dilemmas might be influenced by the level of moral reasoning. The results of several studies are described in Liyanarachi, (2009) shows that individuals' moral reasoning level affected their ethical behavior. People with low levels of moral reasoning will behave differently than people that have a high level of moral reasoning, when facing with an ethical dilemma.

According to Liyanarachchi, (2009), the higher the level of a person's moral reasoning is, the more likely it is to do the 'right thing'. The higher the moral level of the individual, the more the individual tries to avoid unethical behavior and to avoid harming many parties. In other words, individual who have a high level of moral reasoning will be more sensitive to ethical issues, and therefore tend to do ethical deeds (Lahaya, 2013). In the context of frauds, the employees having high levels of moral reasoning are sensitive to this unethical conduct.

According to Gudono, (2009), one kind of agency problems found in the relationship between the principal and the agent is namely bad choice (negative selection). The bad choice occurs when the principal is unaware of the agent's capabilities. In this situation, principals (investors) do not know the ability of the agent (manager), they (the principals) can fall into a bad choice when recruiting the agent (manager). For example, the owner of the company might not know whether the manager employed properly had the necessary qualities. Therefore, the principals might be better to have a good individual morality because the individual may have ethical behavior and performance, expectedly not commit to unethical problems such as doing the accounting fraud.

The research by Lahaya, (2013) stated that the level of one's moral reasoning might be the basis of knowing the tendency towards individuals to perform a particular action, especially one that correlates with ethical dilemmas. The management of the company with a high morality might not commit deviant actions and perform such as accounting frauds to maximize personal gains. Therefore, the higher the level of a person's moral reasoning, the more likely it will be to do the 'right thing'. The statement is supported by research before Yulina, (2015), which states that individual morality negatively affects accounting frauds.

H3: Individual morality negatively affects accounting fraud

## Research and Methodology

The target population of this study was the employees of the Office for Management of Regional Revenue, Finance and Assets (Dinas Pendapatan Pengelolaan Keuangan Aset), Yogyakarta Province. The employees were those parties involved in the use of budgeted funds, accounting executives, and those in charge correlated with the preparation of financial statements and accountability reports in Yogyakarta Province. The sampling technique in this study used the convenience sampling technique. We distributed 96 questionnaires to the subject respondents and gave directly to the respondent's place of the. Number of questionnaires returned totaling 96 questionnaires. The data from all returned questionnaires met the expected conditions (100% response rate) and were processed to test the hypotheses.

This type of study was quantitative research. The used data collection technique in this study was a questionnaire. The source of data was primary data recorded through questionnaires. The questionnaire in this study adopted the question items from the prior research as in Table 1.

**Table 1:** Operational Definition and Main Variable Measurement

| Variables | References | Number of Question Items |
|---|---|---|
| Information Asymmetry | Najahningrum, (2013) | 6 |
| Organizational Commitment | Najahningrum, (2013) | 8 |
| Individual Morality | Aranta, (2013) | 5 |
| Accounting Fraud | Najahningrum, (2013) | 6 |

The hypotheses stated on the section 2, were examined by using a multiple linear regression technique. The regression analysis, also called multiple regression analysis, is eased analysis to test and understand the effect of two or more independent variables on the dependent variable (Luh et al., 2014). Multiple linear regression equation was used to understand 3 hypotheses, namely independent variables (information asymmetry, organizational commitment and individual morality) and the dependent variable (accounting fraud). Three controlling variables (Effectiveness of internal control and Compensation suitability, and Organizational culture) follow the three main variables as shown by equation 1.

$$Y = \alpha + \beta 1\ X1 + \beta 2\ X2 + \beta 3\ X3 + \beta 4\ X4 + \beta 5\ X5 + \beta 6\ X6 + e \quad \text{..........................} \quad 1$$

Legend:

| | | |
|---|---|---|
| Y | = | Accounting fraud |
| A | = | Constants |
| β1- β6 | = | Regression coefficients |
| e | = | Standard error |
| X1 | = | Information asymmetry |
| X2 | = | Organizational commitment |
| X3 | = | Individual morality |
| X4 | = | Effectiveness of internal control |
| X5 | = | Compensation suitability |
| X6 | = | Organizational culture |

# Findings

## Description of Respondents

Table 2 shows the respondent's demographic data, consisting of data on the age, working period, position, and last education obtained from the research questionnaire. The demographic table 2 shows the data of respondents categorized by sex, age, position, duration of work, and last education. In terms of sex, most respondents were male respondents, 62.50% of the total respondents with the age of 31-40 years amounting to 39.58%. In addition, most respondents had a long working experience (21-30 years) and a higher education that amounts more than 44.79% of them having university degrees. Lastly, in terms of position, the most respondent was the category of staff of financial management, which is 84.37% of the total respondents.

## Validity and Reliability

Before testing the hypotheses, we run the tests whether data were valid and reliable. The study employed the discriminant validity of reflective indicators as indicated by cross loadings between indicators with the construct. The model has good discriminant validity if the average variance extracted (AVE) value is greater than 0.50(Najahningrum, 2013). Based on the PLS output in Table 3, it shows that all the average variance extracted (AVE) value of each construct was more than 0.50 and thus the research model has a good discriminant validity.

The test of reliability in this study employed Cronbach's alpha and composite test of reliability. As shown by table 4, all variables were reliable. The composite reliability and Cronbach's alpha of each variable had higher than the common standard value: 0.7 (Pramuditya, 2013).

**Table 2:** Demographics of Respondents

| Legend | Total | Percentage |
|---|---|---|
| 1. Gender: | | |
| a. Male | 60 | 62.50% |
| b. Female | 36 | 37.50% |
| | 96 | 100% |
| 1. Age of respondent: | | |
| a. 21-30 years old | 4 | 4.16% |
| b. 31-40 years old | 20 | 20.83% |
| c. 41-50 years old | 38 | 39.58% |
| d. > 50 years old | 34 | 35.41% |
| | 96 | 100% |
| 2. Occupation: | | |
| a. Head of Subdivision | 15 | 15.63% |
| b. Finance Manager Staff | 81 | 84.37% |
| | 96 | 100% |
| 3. Working experience: | | |
| a. 1-10 years | 15 | 15.63% |
| b. 11-20 years | 25 | 26.04% |
| c. 21-30 years | 37 | 38.54% |
| d. >31 years | 19 | 19.79% |
| | 96 | 100% |
| 4. Latest education: | | |
| a. SHS/equivalent | 25 | 26.04% |
| b. D3 | 12 | 12.50% |
| c. S1 | 43 | 44.79% |
| d. S2 | 16 | 16.67% |
| | 96 | 100% |

**Table 3:** Discriminant Validity

| Variables | Average Variance Extracted (AVE) |
|---|---|
| Information asymmetry | 0.602 |
| Organizational commitment | 0.544 |
| Individual morality | 0.500 |
| Effectiveness of internal control | 0.744 |
| Compensation suitability | 0.658 |
| Organizational culture | 0.533 |
| Accounting fraud | 0.674 |

**Table 4:** Reliability

| Variables | Cronbach's alpha | Composite Reliability |
|---|---|---|
| Information asymmetry | 0.899 | 0.899 |
| Organizational commitment | 0.904 | 0.904 |
| Individual morality | 0.827 | 0.827 |
| Effectiveness of internal control | 0.935 | 0.935 |
| Compensation suitability | 0.905 | 0.905 |
| Organizational culture | 0.849 | 0.849 |
| Accounting fraud | 0.924 | 0.924 |

### Descriptive Analysis

This descriptive data used the minimum, maximum, mean, median and standard deviation values from respondents' answers for each variable. Table 5 shows the descriptive analysis of the study variables.From the Table 5, it can be seen the value of three main variables. The mean value of the information asymmetry variable was 2.53 from a 4 scale with the standard deviation of 0.73 while the mean value for the organizational commitment variable was 3.20 its standard deviation of 0.53. The variable of the individual morality had a mean value of 3.05 and a 0.57 standard deviation. Table 5 also shows the value of controlling variables. The mean value for the effectiveness of internal control variables was 3.26 with a 0.47 standard deviation. While the mean value for the compensation suitability variable was 3.16, the organizational culture variable had a 3.14 average value and its standard deviation of 0.46. Lastly, the respondents gave an average value the accounting fraud variable is 1.81 with standard deviation of 0.64.

## Hypothesis Results and Discussions

The hypothesis testing was done by considering the value of path coefficients showing parameter coefficients, t-statistic value and probability values of the t-value. The significance of the estimated parameters provides information on the relationship among the research variables (Najahningrum, 2013). Assessing the path of coefficients is to evaluate hidden constructs or variables that have been hypothesized as stated on section 2. Table 6 shows the inner weights of the equation 1. The following section explains the result of each hypothesis.

### Information Asymmetry

Table 6 shows that the variable of the information asymmetry had a coefficient of 0.149. The positive coefficients implied that this variable enhanced the occurrence of the accounting fraud. The table 6 also shows that the coefficient of the information asymmetry had a p-value of t-statistics of 0.0000. This result indicated that the information asymmetry significantly influences accounting fraud. It can be concluded that the hypothesis expecting a positive relationship between information asymmetry and the accounting fraud was supported by the data. As information asymmetry increases, it enhances the accounting fraud.

The prior research shows similar result: there is a positive influence information asymmetry on the accounting fraud. This result supports the results by Saftarini et al., (2015) and Najahningrum, (2013) showing a significance and positive influence the information asymmetry on the accounting fraud. Therefore, the higher level of information asymmetry is, the more likely the accounting fraud occurs.

This result also supports the agency theory. As explained in the previous section, the agent (manager or employee) must perform the services for interest of and on behalf of principals (investors). However, the agent or manager might need the company to look good in any way to keep investors from leaving the firms (Gudono, 2009). This asymmetry information can enhance the agent to take benefits of this different information, harm external parties of the firms, and make the information bias for the investors.If this information asymmetry can be minimized or deleted totally, information received by each party is the same and it will be difficult to commit to do a deviant behavior such as the accounting fraud. Therefore, the principals may require and information transparency for further advancement of the company as well for reducing the information asymmetry.

**Table 5:** Descriptive Statistics

| | Mean | Median | Minimum | Maximum | Std. Deviation |
|---|---|---|---|---|---|
| Information asymmetry | 2.53 | 3.00 | 1 | 4 | 0.73 |
| Organizational commitment | 3.20 | 3.00 | 1 | 4 | 0.53 |
| Individual morality | 3.05 | 3.00 | 1 | 4 | 0.57 |
| Internal control | 3.26 | 3.00 | 2 | 4 | 0.47 |
| Compensation suitability | 3.16 | 3.00 | 2 | 4 | 0.46 |
| Organizational culture | 3.14 | 3.00 | 1 | 4 | 0.53 |
| Accounting fraud) | 1.81 | 2.00 | 1 | 4 | 0.64 |

**Table 6:** Results of Inner Weights

| | **Estimated Coefficients** | **Standard deviation** | **t-statistic** | **p-value** |
|---|---|---|---|---|
| Asymmetry Information | 0.149 | 0.026 | 5.774 | 0.000 |
| Organizational commitment | 0.068 | 0.021 | 3.297 | 0.000 |
| Individual morality | -0.174 | 0.019 | 9.027 | 0.000 |
| Effectiveness internal control | -0.316 | 0.016 | 19.549 | 0.000 |
| Compensation suitability | -0.039 | 0.014 | 2.765 | 0.003 |
| Organizational culture | 0.052 | 0.026 | 2.029 | 0.023 |
| R-square | 0.177 | | | |

## Organizational Commitment

Table 6 also obtains result that the variable of the organizational commitment had positive effect on the accounting fraud. The original sample of the estimate was positive 0.068. The variable also had p-value of 0.0007 for t-statistics of the variable coefficient. This shows that organizational commitment significantly had a positive impact on the accounting fraud. This result can also be interpreted if the organizational commitment increases, it will tend to enhance the accounting fraud. Therefore, this result fails to support a negative relationship between the organizational commitment and the accounting fraud denied.

This result is also in contrast to research conducted by Rachmanta, (2014), Pramuditya, (2013) and Najahningrum, (2013)who shows that the organizational commitment negatively affects the accounting fraud. Employees who had a high commitment to the organization imply they had understood working goals and at the interests of the organization instead of self-interest. This result however fails to support this expectation.

There may be two possible explanations of these interesting and contrasting results. It is not enough the employees having high commitment if at the same time they are facing with the financial pressure. This incentive will encourage them to do unethical behavior, such as the accounting fraud, with high lifestyle demands, helplessness in financial matters and because of the encouragement of greed. This kind of motivation can strongly enhance the employees to ignoring their commitment.

The second explanation may be the opportunity, a condition or situation allowing employee to make or cover up dishonest acts. As mentioned in the previous section, by having a high organizational commitment, employees will favor the organization and the purpose and desire to maintain membership within the organization. However, this kind of high commitment may open an opportunity for them to commit to unethical conducts. It can happen due to the weak internal control, lack of supervision, and abuse of authority (Lahaya, 2013). Such an opportunity can be used by the perpetrator to freely perform the unethical actions, such as the accounting fraud.

## Individual Morality

The last hypothesis stating that a negative relationship between individual moralities and the accounting fraud fail to reject. Table 6 shows that the variable of individual morality had a negative original sample of estimate, -0.174 The coefficient variable also had a p-value of t-statistics as much as 0.000. This result indicates that the individual morality negatively and significantly affects the accounting fraud. This can be interpreted when the individual morality is high; it will suppress the accounting fraud.

A negative relationship between individual morality and the accounting fraud implies that low morality employees tended to commit to the accounting fraud compared to high morality employees. This result also supports the morality theory by (Kohlberg, 1969). According to this theory, the higher level of individual morality is, the individuals will consider more for general interests and benefits than their organizations or themselves. In other words, the employees with higher morality level will try to avoid them from the unethical actions such as the accounting fraud that harms many parties. Further, the result of this study is in line with research conducted by Yulina, (2015) and Lahaya, (2013) who argues that the better individual morality, the level of accounting fraud can be reduced.

The fraud triangle theory stated that the factors of pressure and opportunity can enhance employees to enter the trap of unethical behaviors (Cressey, 1953). If high pressure and opportunity together with the low individual integrity occur, this situation will push the existence of the accounting fraud. Liyanarachchi, (2009), Welton, R. & LaGroune, (1994) and Moroney & McDevitt, (2008) argue that employees with a lower level of morality reasoning behave different from those with a higher level when facing ethical dilemma. The employee having a lower level of the morality tends to have behaviors for the benefits themselves and to avoid possible actions causing legal sanctions.

### Additional Results

Table 6 also shows the amount of the R-square value. The R-square value of 0.177 indicates that the construct variability of information asymmetry, organizational commitment, individual morality, internal control effectiveness, organizational commitment and organizational culture explained about 17.7% of the construct variability of the accounting fraud, while other individual variables outside of the study accounted for about 0.82, 3%. In addition, table 6 shows that the three controlling variables (Effectiveness of internal control and Compensation suitability, and Organizational culture) significantly influence the accounting fraud.

## Conclusions

This study aimed to examine the influence of information asymmetry, organizational commitment and individual morality on the accounting fraud. The study surveyed the government employees of the Office for Management of Regional Revenue, Finance and Assets (Dinas Pendapatan Pengelolaan Keuangan Aset), Yogyakarta Province. There were 96 returned questionnaires and were be processed statistically. In general, the study concludes that the independent variable of information asymmetry and organizational commitment have a significant positive effect on the accounting fraud, while the individual morality variable negatively affect the accounting fraud.

The results of this study may have empirical and practical implications. Empirically, the results of this study are complemented to the previous research. Many previous studies on the accounting fraud have examined the accounting fraud based on the secondary data, namely financial statements. This study used primary data and employ the perception of the employees. This study may also add insight into a number of factors affecting the accounting fraud in an institution or organization or company by adding empirical evidences of the information asymmetry, organizational commitment and individual morality. Furthermore, companies or organization should improve the provision of information that is not excessive in order to avoid information asymmetry or information gap among stakeholders. A good corporate governance and high transparency or openness can minimize information asymmetry, improve employee morality and be better organizational commitment. Effectiveness of internal control may also be seen as a good mechanism in the accounting system to avoid employees from harming other parties.

In this study there may have limitations. The method of data collection of this study was by distributing questionnaires to the government employees. It was possible that the respondents in filling the questionnaire of this study were not focusing. In addition, in answering questionnaires of respondents,the employees might not be objective because the topic of this studywas sensitive. Consequently, the data in this study may not represent actual conditions. Further studies may complement this study through qualitative approach.

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