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**THE EFFECT OF COMPENSATION SUITABILITY, INTERNAL CONTROLS,
ORGANIZATIONAL CULTURE AND ORGANIZATIONAL COMMITMENT ON
FRAUD
(CASE STUDY: TEBO REGENCY LOCAL GOVERNMENT EMPLOYEE)**

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ABSTRACT

[The purpose of this study is to analyze the influence of compensation suitability, internal control, organizational culture and organizational commitment on the tendency of fraud in Tebo Regency government employees. The research method used is a quantitative descriptive analysis method with multiple linear regression, a population of 15 regional organizations that have a sample of 60 respondents. Based on the results of the study, it is shown that simultaneously, namely the suitability of compensation, internal control, organizational culture and organizational commitment together have a significant effect on the tendency of fraud in Tebo Regency government employees. It partially shows that the suitability of compensation hurts the tendency of fraud in Tebo Regency government employees. Internal control hurts the tendency of fraud in Tebo Regency government employees. Organizational commitment hurts the tendency of fraud in Tebo Regency government employees. Meanwhile, organizational culture does not hurt the tendency of fraud in Tebo Regency government employees.]

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[*Keywords:*

compensation
conformity, internal
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1.0 INTRODUCTION

Accounting fraud (KKA) behavior in Indonesia is currently rampant and is in the spotlight of various media in Indonesia. The government as the subject of public trust has an obligation to carry out its functions efficiently and effectively, one of which is to ensure that state finances are managed properly and responsibly. However, many fraudulent practices can directly harm the state and society indirectly (Rizqia & Widajantie, 2022).

Fraud is fraud that is deliberately committed by certain parties that can cause losses. Basically, accounting fraud focuses more on the elimination or addition of a certain number of intentional behaviors, which leads to false statements in financial statements for intentional purposes, which leads to false statements in financial statements for specific purposes (Nainggolan, 2020).

The tendency to fraud can be identified through the elements contained in the Fraud Diamond Theory which includes four elements that cause fraud, namely: incentive/pressure, opportunity, rationalization, and capability. Based on the concept of fraud diamond theory (Wolfe and Hermanson, 2024).

Incentive/pressure is the pressure that encourages a person to cheat (Wolfe and Hermanson, 2024). A person's pressure on these needs is often not expressed, so to meet them must be solved in a hidden way which is ultimately taken by fraud (Albrecht, Hill, et al., 2016). There are many motives that encourage perpetrators to commit fraud. Financial pressures can motivate fraud such as greed, lifestyle demands, large expenses or personal debts, bad credit, personal financial losses, and the inability to meet financial forecasts. Proxies the incentive/pressure element as a compensation suitability variable.

Opportunity is when fraud occurs (Wolfe and Hermanson, 2024). According to Dellaportas (2016), a person who has sufficient motivation will not commit illegal behavior/fraud, but the existence of an opportunity allows a potential perpetrator to act fraudulently. Rae and Subramaniam (2018) stated that, if a person feels an opportunity due to weak internal control and he has the ability or strength to take advantage of the opportunity, then a person can commit fraud. Opportunities/opportunities for fraud are caused by, among others, a weak internal control system, and a weak internal supervision of the organization. The existence of a good internal control system is believed to narrow or reduce the opportunities and opportunities that exist to commit fraud.

Rationalization is assumed on a person's awareness that this fraudulent behavior is worth the risk (Wolfe and Hermanson, 2024). According to Skousen (2017) rationalization is an important component in many frauds, rationalization causes fraudsters to seek justification for their actions. Rationalization allows fraudsters to see themselves as morally responsible individuals being forced to act unethically (Ananda et al., 2020). The existence of a strong organizational culture and support high ethical standards, should have a strong and positive influence on employee behavior (Robbins, 2017). So that the stronger the organizational culture, the more minimizes fraud that may be committed by employees. Based on this, the author makes the organizational culture variable an important proxy of the rationalization element.

Capability is assumed to be the ability that a person needs and possesses to commit fraud (Wolfe and Hermanson 2024). Boyle, et al. (2015) stated that the ability reflects the characteristics/characteristics of potential fraudsters that allow a person to identify, understand, and exploit the weaknesses of the opportunity element such as the weakness of internal control, or from the element of rationalization of the thought process of the fraudster. Wolfe and Hermanson (2024) explain the traits related to the element of capability that are very important in the personality of fraudsters, including intelligence and creativity. With their intelligence, fraudsters can understand the weaknesses of work procedures and internal controls in general that can be used to commit fraudulent acts, and with their creativity, fraudsters can penetrate the internal control system to take personal advantage. Based on this, competency variables are an important proxy of the capability element.

The current indicator of regional financial performance assessment is the accountability of regional financial management and accountability. In this case, of course, the Reasonable Opinion Without Exception (WTP) is a goal to be achieved in public sector financial management as a demand for bureaucratic reform. The success of bureaucratic reform of a local government can be described, one of which is from the WTP opinion on the LHP (Audit Result Report) on the LKPD (Local Government Financial Statement). One form of government or public responsibility to the wider community is to realize accountability and transparency in the use of the state budget. An overview of transparency and accountability in the use of the budget from the state can be seen from the financial statements made by the central

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government and local governments, BPK will examine and provide an opinion on the financial statements (Firmanzah, 2017).

Based on research that has been conducted by previous researchers regarding factors that affect fraud tendencies, such as those conducted by Dasuki and Yudawati (2022) showing that the appropriateness of compensation affects accounting fraud behavior, this is in line with research from Sevyiolanita (2022) who argues that under the appropriateness of compensation has an influence on fraudulent acts. For the internal control variable from Didi & Kusuma (2018) resulting in internal control affecting fraud, coupled with Dasuki and Yudawati, (2022) also producing internal control affecting fraud. Didi & Kusuma (2018) argues that it does not affect fraudulent behavior, in contrast to research from I Putra Aditya (2018) showing that organizational culture has an effect on fraudulent behavior.

As one of the districts that obtained a WTP opinion on its local government financial statements (LKPD), the Tebo district government's efforts to continue to improve and maintain its financial performance, according to the Jambi Provincial Representative Regional Finance Agency, Tebo Regency has been appointed as having the quality of financial reporting with a WTP opinion from 2019 to 2023. As well as having an anti-corruption perception index by the Tebo District Court Class II which continues to increase from 2019 to 2023, but compared to the results obtained, there are still fraudulent behaviors or criminal acts of corruption cases that occurred in Tebo Regency committed by state officials and civil servants who abused their authority.

The reason for this research is because of the inconsistency of previous research results and the need for more understanding of the factors that affect the occurrence of fraudulent tendencies, especially in the government sector. In addition, the underlying thing for conducting this research is that issues regarding corruption cases in Tebo Regency still occur frequently. Based on the background of the problem, the purpose of the study is to find out and analyze the influence of compensation suitability, internal control, organizational culture and organizational commitment on fraud trends in Tebo Regency government employees.

2.0 LITERATURE REVIEW

Agency Theory

Agency theory was first proposed by Jensen and Meckling in 1976. This theory is one of the basic theories in accounting science by Halim & S (2016) which analyzes the relationship between the principal as the owner of the resource and the agent as the resource manager. The principal delegates authority to the agent in the hope that the agent will act in accordance with the principal's interests. The delegation of authority causes agency problems that start from information imbalances or asymmetric information that trigger conflicts.

Fraud Taxonomy

The Association of Certified Fraud Examiner (ACFE) classifies fraud into three major branches, namely asset misappropriation, fraudulent statement, and corruption (Priantara, 2015). Each branch can be broken down into branches that reflect various modes of fraud operations that are common in the work environment. This grouping based on the analogy of branches and branches is what causes this fraud classification to be called a fraud tree or fraud taxonomy. The fraud tree or fraud taxonomy itself was first introduced by ACFE in 2008 in the Report the Nations on Occupational Fraud and Abuse. In subsequent developments, the concept of fraud tree is widely used because it can identify fraud contextual.

Fraud Triangle Theory

The motivation for someone to commit fraud is relatively varied. One of the theories that explains the motivation for a person to commit fraud is the fraud triangle theory put forward by psychologist Donald R, in Gibson, et all (2018).

(Fraud Diamond Theory

The Fraud Diamond Theory put forward by Cressey in Wolfe & Hermanson (2024) is an updated theory, in this theory there is an addition of elements that are believed to have a significant relationship in the occurrence of fraud, namely the Capability/Capacity element.

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Fraud

According to the Association of Certified Fraud Examiners (ACFE) in Husnurrosyidah, (2018), cheating is unlawful acts that are carried out deliberately for a specific purpose (manipulation or giving false reports to other parties) carried out by people from inside or outside the organization to gain personal or group benefits that directly or indirectly harm other parties. The American Institute of Public Accountants and the Indonesian Institute of Certified Public Accountants do not clearly distinguish whether the fraud is a material misstatement if it is intentional. Therefore, incompetence and poor management do not include fraud. The desire to cheat for personal gain and losses for the relying party is a mistake that results in material misrepresentation or not, what needs to be considered is the underlying factor of the reason for fraud, namely the action that underlies the truth of the real evidence of the transaction is the most important element of fraud.

Compensation Suitability

Compensation is one of the important things for every employee who works in a company, For an employee, compensation is an important outcome or reward because with the compensation obtained a person can meet his or her life needs (Adinda, 2015).

Internal Control

Based on the Committee of Sponsoring Organizations (COSO) in Husnurrosyidah (2019) states that all parties of an entity/organization influence internal control, and that internal control provides adequate (but not absolute) confidence regarding the achievement of organizational goals in aspects of operations, reporting, and compliance.

Organizational Culture

Organizational culture is defined as an important factor in shaping organizational procedures, integrating capabilities, creating solutions to deal with problems and creating obstacles or facilitating the achievement of organizational goals (Valmohammadi & Jarihi, 2019). According to Shaari et al (2019) Organizational culture is the setting of basic norms that have developed in the group when dealing with internal and external problems, and these norms have been seen as the right way to behave. Indicators of Organizational Culture are learning, decision-making, participation, support and collaboration.

Organizational Commitment

Steers and Richard in Maya Astria et al. (2021) define organizational commitment as a sense of identity (belief in organizational values), engagement (willingness to try their best for the benefit of the organization) and loyalty (the desire to remain a member of the organization in question) expressed by an employee towards his or her organization. Steers argues that organizational commitment is a condition in which employees are very interested in their organizational goals, values, and objectives |

3.0 METHODOLOGY

The data analysis method in this study uses quantitative descriptive primary data, namely the method used to analyze the data by multiple linear regression, which aims to influence the suitability of compensation, internal control, organizational culture and organizational commitment to the tendency of fraud in Tebo Regency government employees. Then explain the results of calculations carried out based on theory as a reference concept. This research is quantitative research, the data used in this study is primary data. The data collection method for this study is using a questionnaire. The questionnaire contains employee perceptions of factors that affect fraudulent behavior. The questionnaire was distributed directly to the Regional Apparatus Organizations, namely 15 OPD with a total of 60 respondents who work in the Tebo Regency Regional Government. To find the relationship between variables, the regression method is used. Multiple linear regression analysis can be illustrated by the following model (Ghozali, 2016).

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$$Y = \alpha + \beta_1 CS + \beta_2 IC + \beta_3 OC + \beta_4 OCT + e$$

Information:

- Y = Fraud Tendency
- α = Constant.
- CS = Compensation Suitability
- IC = Internal Control
- OC = Organizational Culture
- OCT = Organizational Commitment
- $\beta_1, \beta_2, \beta_3, \beta_4$ = Coefficients of Each Variable
- e = Error Term (Residual Error Value)

Hypothesis Test F Statistics

This test is basically to show whether all independent variables included in the model have a joint influence on the bound variable in a way (Ghozali, 2018). If the F calculation is greater than the F of the table, then H_0 is rejected, meaning that the free variables together affect the non-independent variables.

Hypothesis Test t Statistics

whether or not partially independent variables have a significant effect on dependent variables. The t-test steps are as follows according to (Ghozali, 2018).

Coefficient of determination

The determination coefficient essentially measures how far the model is able to explain the variation of dependent variables. The values of the determination coefficient are zero and one. A small R^2 value means that the ability of independent variables to explain the variation of bound variables is very limited (Ghozali, 2018).

4.0 FINDINGS AND DISCUSSION

This analysis was carried out to find out how much influence the suitability of compensation, internal control, organizational culture and organizational commitment on fraudulent behavior, then analyzed by multiple linear regression method. The data used by observation, namely with the number of frequency distributions of 60 respondents, the following estimation results are obtained:

Table 1 Results of multiple linear regression analysis

		Coefficients ^a				
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	12.792	5.654		2.263	.028
	Compensation Suitability	-.550	.156	-.307	-3.527	.001
	Internal Control	-.307	.109	-.329	-2.822	.007
	Organizational Culture	-.209	.138	-.176	-1.510	.137
	Organizational Commitment	-.171	.078	-.234	-2.184	.033

a. Dependent Variable: Fraud Tendency

Source : processed data, 2024

Based on Table 1, the results of the study are known as follows::

$$\text{Fraud} = 12,792 - 0,550 \text{ CS} - 0,307 \text{ IC} - 0,209 \text{ OC} - 0,171 \text{ OCT}$$

Based on the regression equation, it is explained as follows: The value of the coefficient of compensation (X1), internal control (X2), organizational culture (X3) and organizational commitment (X4) has the same constants as zero or

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remain unchanged, then the tendency of fraud (Y) increases by 12.792 per unit. The value of the regression coefficient of the compensation conformity variable (X1) is 0.550 meaning, if the compensation suitability variable increases by 1 unit, the fraud tendency (Y) decreases by 0.550 per unit. The value of the regression coefficient of the internal control variable (X2) is 0.307, which means that if the internal control variable increases by 1 unit, the fraud tendency (Y) decreases by 0.307 per unit. The regression coefficient value of the organizational culture variable (X3) is 0.209, which means that if the organizational culture variable increases by 1 unit, the fraud tendency (Y) decreases by 0.209 per unit. The value of the regression coefficient of the commitment variable (X4) is 0.171, which means that if the organizational commitment variable increases by 1 unit, the fraud tendency (Y) decreases by 0.171 per unit.

Test F Statistics

In looking at the influence simultaneously, a hypothesis test is carried out with a statistical F with a total frequency distribution of 60, then the F value of the table is 2.54 with an alpha of 0.05 obtained from 60-4-1=55 respondents, the estimated results are as follows:

Table 2 Simultaneous tests

		ANOVA ^a				
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	908.527	4	227.132	23.182	.000 ^b
	Residual	538.873	55	9.798		
	Total	1447.400	59			

a. Dependent Variable: Fraud Tendency

b. Predictors: (Constant), Organizational Commitment, Compensation Suitability, Organizational Culture, Internal Control

Source : processed data, 2024

Based on Table 2, it shows that the F hypothesis test is statistically with a significance level of 95 percent, then it is known that the F value is statistically with F Table, then (23.182 > 2.54) or (0.000 < 0.05), then Ho is rejected and Ha is accepted. This means that all regression coefficients or all independent variables, namely compensation suitability (X1), internal control (X2), organizational culture (X3) and organizational commitment (X4) together affect the tendency to fraud (Y).

Test t Statistics

The statistical t test to determine the partial influence on each independent variable on the dependent variable, with the number of frequency distributions as much as 60, then the t-value of the table is 2.003 with an alpha of 0.05 obtained from 60-4=56 respondents, the estimated results are as follows:

Table 3 Statistical t-test

Variabel	t Statistic	t Table	Sig	Conclusion
Compensation Suitability	-3,527	2,003	0,001	Significant
Internal Control	-2,822	2,003	0,007	Significant
Organizational Culture	-1,510	2,003	0,137	Insignificant
Organizational Commitment	-2,184	2,003	0,033	Significant

Source : processed data, 2024

Based on Table 3, the estimate to see the partial test of each variable can be explained as follows: The compensation suitability variable (X1) against the fraud tendency (Y) has a sig value of 0.001 < 0.05, while the t value is calculated at -3.527 > t table 2.003, so ho is rejected and ha is accepted, meaning that at a significance level of 0.05 percent the compensation suitability variable has a negative and significant effect on fraud propensity. The internal control variable

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(X2) against the tendency to fraud (Y) has a sig value of $0.007 < 0.05$, while the calculated t value is $-2.822 > t$ table 2.003, so H_0 is rejected and H_a is accepted, This means that at a significance level of 0.05 percent, the internal control variable has a negative and significant effect on the tendency to fraud. The organizational culture variable (X3) against the tendency to fraud (Y) had a sig value of $0.137 > 0.05$, while the t-value was $-1.510 < t$ table 2.003, H_0 is accepted and H_a is rejected, meaning that at the significance level of 0.05 percent the organizational culture variable has a negative and insignificant effect on the fraud tendency. The organizational commitment variable (X4) towards the fraud tendency (Y) has a sig value of $0.033 < 0.05$, while the t value is calculated at $-2.184 > t$ table 2.003, then H_0 is rejected and H_a is accepted, meaning that at the significance level of 0.05 percent of the commitment variable Organizations have a negative and significant effect on fraud tendencies.

Coefficient of Determination Test

The magnitude of the influence explained by the independent variable on the dependent variable can be seen from the value of the determination coefficient (R²) as follows:

Table 4 Model summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.792 ^a	.628	.601	3.13013	1.339

a. Predictors: (Constant), Organizational Commitment, Compensation Suitability, Organizational Culture, Internal Control

b. Dependent Variable: Fraud Tendency

Source : processed data, 2024

Based on Table 4, the residual determination of 0.628 shows the magnitude of the influence of compensation suitability (X1), internal control (X2), organizational culture (X3) and organizational commitment (X4) on the tendency to fraud (Y) by 62.80 percent, while the remaining 37.20 percent is explained by other variables outside the study.

The Effect of Compensation Suitability on Fraud Trends

It is explained that the results in the study show that the appropriateness of compensation has a negative and significant effect on the tendency to fraud, if the suitability of compensation increases, the tendency of fraud decreases by 0.550, theoretically, it shows that the factor that determines the tendency to fraud is the suitability of compensation, in the Pentagon Fraud Theory that fraud can be influenced by rationalization and pressure. So the higher the compensation, the higher the position and authority that causes great responsibility for their work. Then, high compensation does not mean that it can meet the needs of a person's daily life so that pressure on needs and lifestyle can affect a person to cheat. In addition, rationalization is also a trigger for fraud even though the compensation given to employees is appropriate, but because the wages given are not in accordance with their hard work with the income obtained by the company, the employee will justify (rationalize) fraud. The results of this study are in line with those conducted by Febriani & Suryandari (2019) stating that the appropriateness of compensation has a significant effect on fraud, then research according to Kurrohman & Widyayanti (2018) states that the appropriateness of compensation has a significant effect on fraud. Furthermore, in contrast to research conducted by Miranda Prahadi (2022) states that the suitability of compensation does not have a significant effect on fraud.

The Effect of Internal Control on Fraud Trends

It was explained that the results in the study showed that internal control had a negative and significant effect on the tendency to fraud, if internal control increased, the tendency to fraud decreased by 0.307, theoretically showing that the factor that determines the tendency to fraud is internal control. Internal control has a negative influence on the tendency of fraud which means that there is a non-directional relationship between internal control and fraud tendencies. The better the level of internal control implemented, the lower the tendency to fraud. This means that the abilities or expertise possessed by individuals can sometimes be abused, which will then cause negative things if supported by the surrounding environmental situation. With internal control, at least all employees cannot take deviant actions because this internal

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control is a procedure that must be obeyed, so that fraud can be minimized. The results of this study are in line with those conducted by Didi & Kusuma, (2018) stating that internal control has a significant effect on fraud, Febriani & Suryandari (2019) explained that internal control has an influence on fraud. Furthermore, according to Kurrohman & Widyayanti (2018), it has a significant influence on fraud.

The Influence of Organizational Culture on Fraud Trends

It was explained that the results in the study showed that organizational culture had a negative and insignificant effect on the tendency to fraud, if the organizational culture increased, the tendency to fraud decreased by 0.209, theoretically it shows that the factor that determines the tendency to fraud is organizational culture, the more ethical or good the organizational culture of an organization, the lower the level of fraud tendency carried out by employees. conducted by Miranda Prahadi (2022) stated that organizational culture does not have a significant effect on fraud, then research conducted by Kristo Josep Manek (2022) stated that organizational culture does not have a significant effect on fraud. However, in contrast to the research conducted by I Putu Aditya Prastika Eka Putra (2018) stated that organizational culture has a significant effect on fraud.

The Effect of Organizational Commitment on Fraud Trends

It is explained that the results in the study show that organizational commitment has a negative and significant effect on the tendency to fraud, if the organizational commitment increases, the tendency to fraud decreases by 0.171, theoretically it shows that the factor that determines the tendency to fraud is that the organization's commitment is a loyalty or loyalty of employees to the company. Commitment can be realized if individuals in an organization carry out the rights and obligations of employees in accordance with their duties and functions in the organization. More than that, the organization's commitment focuses on employees performing in various actions. The findings of the research analysis explain that organizational commitment has a negative influence on fraud trends, which means that there is a non-directional relationship between organizational commitment and existing fraud tendencies. The results show that the higher the organization's commitment, the lower the tendency to fraud. This means that diverse personalities in an organization can cause conflicts that have an impact on changing the mindset that initially focuses on company goals instead focuses on personal goals. With the organization's commitment, it will be able to put aside personal affairs and stay focused on the organization's goals so that this will minimize fraudulent acts. The results of this study are in line with those conducted by Lidia Natalia and Isma Coryanata (2018) stating that organizational commitment has a significant effect on fraud, but in contrast to what was done by Didi & Kusuma, (2018) stated that organizational commitment does not have a significant effect on fraud. Furthermore, according to Febriani & Suryandari (2019), it is stated that organizational commitment does not have a significant effect on fraud.

5.0 CONCLUSION

The suitability of compensation, internal control, organizational culture and organizational commitment together have a significant effect on the tendency of fraud in Tebo Regency government employees. It partially shows that the suitability of compensation has a negative effect on the tendency of fraud in Tebo Regency government employees. Internal control has a negative effect on the tendency of fraud in Tebo Regency government employees. Organizational commitment has a negative effect on the tendency of fraud in Tebo Regency government employees. Meanwhile, organizational culture does not have a negative effect on the tendency of fraud in Tebo Regency government employees.

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