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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 with multiple linear regression, with a population of 15 regional organizations and a sample of 60 respondents. Based on the results of the study, the combined effect of compensation, internal control, organizational culture and organizational commitment is significant on the tendency toward fraud among Tebo Regency government employees. It partially shows that the suitability of compensation reduces the tendency of fraud in Tebo Regency government employees. Internal control reduces the tendency of fraud among Tebo Regency government employees. Organizational commitment reduces the tendency of fraud in Tebo Regency government employees. Meanwhile, organizational culture does not increase the tendency of fraud in Tebo Regency government employees.

Keywords: *compensation conformity, internal control, organizational culture, organizational commitment and fraudulent behavior*

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1.0 INTRODUCTION

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

Fraud is the deliberate commission of acts by certain parties that cause losses. Basically, accounting fraud focuses on the intentional elimination or addition of numbers, leading to false statements in financial statements for specific purposes (Nainggolan, 2020).

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

Incentive/pressure is the pressure that encourages a person to cheat (Wolfe & Hermanson, 2024). A person's pressure on these needs is often unexpressed, so the means to meet them must be found in covert ways, ultimately resulting in 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, 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 & Hermanson, 2024). According to Dellaportas (2016), a person with sufficient motivation will not engage in illegal behavior/fraud, but the presence of an opportunity allows a potential perpetrator to act fraudulently. Rae and Subramaniam (2018) stated that if a person perceives an opportunity due to weak internal control and has the ability to take advantage of it, then the person can commit fraud. Opportunities for fraud are caused by, among others, a weak internal control system and weak internal supervision within the organization. The existence of a good internal control system is believed to reduce the opportunities to commit fraud.

Rationalization is assumed on a person's awareness that this fraudulent behavior is worth the risk (Wolfe & Hermanson, 2024). According to Skousen (2017), rationalization is an important component of many frauds; it leads 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 that supports high ethical standards should have a strong and positive influence on employee behavior (Robbins, 2017). So, the stronger the organizational culture, the less 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 & Hermanson, 2024). Boyle et al. (2015) stated that the ability reflects the characteristics of potential fraudsters that allow a person to identify, understand, and exploit the weaknesses of the opportunity element, such as weaknesses in internal control, or from the element of rationalization of the fraudster's thought process. 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 identify weaknesses in work procedures and internal controls that can be exploited to commit fraud, and with their creativity, they 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 for assessing regional financial performance is the accountability of regional financial management. 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 in local government can be described, one example of which is reflected in the WTP opinion on the LHP (Audit Result Report) of 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 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 the appropriateness of compensation has an influence on fraudulent acts. For the internal control variable from Didi & Kusuma (2018), which shows that internal control affects fraud, coupled with Dasuki and Yudawati (2022), which also shows the same. Didi & Kusuma (2018) argue that it does not affect fraudulent behavior, in contrast to research by I Putra Aditya (2018), which shows that organizational culture does affect 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 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 reason 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, as outlined 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 the principal's best 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 Examiners (ACFE) classifies fraud into three major branches: asset misappropriation, fraudulent statements, 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, is what gives this fraud classification its name: a fraud tree or fraud taxonomy. The fraud tree, or fraud taxonomy, was first introduced by ACFE in 2008 in the Report of the Nations on Occupational Fraud and Abuse. In subsequent developments, the concept of the fraud tree is widely used because it can identify fraud in context.

Fraud Triangle Theory

The motivations for committing fraud are varied. One theory that explains a person's motivation to commit fraud is the fraud triangle, proposed by psychologist Donald R. Gibson et al. (2018).

Fraud Diamond Theory

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

Fraud

According to the Association of Certified Fraud Examiners (ACFE) in Husnurrosyidah (2018), cheating is an unlawful act that is 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 between fraud involving a material misstatement and fraud that is intentional. Therefore, incompetence and poor management do not include fraud. The desire to cheat for personal gain and the losses incurred by the relying party are a mistake that results in material misrepresentation or not. What needs to be considered is the underlying reason for fraud: the action that underlies the truth of the real evidence of the transaction is the most important element of fraud.

Compensation Suitability

Compensation is an important factor for every employee working in a company. For an employee, compensation is an important outcome or reward because, with the compensation obtained, a person can meet their basic life needs (Adinda, 2015).

Internal Control

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

Organizational Culture

Organizational culture is defined as an important factor in shaping organizational procedures, integrating capabilities, developing solutions to address problems, and creating obstacles or facilitating the achievement of organizational goals (Valmohammadi & Jarihi, 2019). According to Shaari et al. (2019), organizational culture is the set of basic norms that have developed within the group when dealing with internal and external problems, and these norms are 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 multiple linear regression, to assess the influence of compensation, internal control, organizational culture and organizational commitment on the tendency toward fraud among Tebo Regency government employees. Then explain the results of calculations performed using the theory as the reference. This is quantitative research; the data used in this study are primary. The data collection method for this study is a questionnaire. The questionnaire includes employees' perceptions of factors that influence fraudulent behavior. The questionnaire was distributed directly to the Regional Apparatus Organizations, namely 15 OPDs, with a total of 60 respondents working 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).

$$Y = \alpha + \beta 1\ CS + \beta 2\ IC + \beta 3\ OC + \beta 4\ OCT + e$$

Information:
Y = Fraud Tendency
α = Constant.
CS = Compensation Suitability
IC = Internal Control
OC = Organizational Culture
OCT = Organizational Commitment
β1,2,3,4 = Coefficients of Each Variable
e = Error Therm (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 dependent variable in a way (Ghozali, 2018). If the F calculation is greater than the F of the table, then Ho is rejected, meaning that the free variables together affect the non-independent variables.

Hypothesis Test t Statistics

whether partially independent variables have a significant effect on the dependent variables. The steps for the t-test 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 coefficient of determination are 0 and 1. A small R2 value indicates that the independent variables explain very little of the variation in the dependent variable (s) (Ghozali, 2018).

4.0 FINDINGS AND DISCUSSION

This analysis was carried out to determine the extent to which the suitability of compensation, internal control, organizational culture and organizational commitment influences fraudulent behavior and was then analyzed using the 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 B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
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:

Fraud = 12,792 – 0,550 CS – 0,307 IC – 0,209 OC – 0,171 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 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 that 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, the F hypothesis test is statistically significant with a significance level of 95 percent, then it is known that the F value is statistically significant with the 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 of each independent variable on the dependent variable, with the number of frequency distributions as many 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 (X2) against the tendency to fraud (Y) has a significant value of 0.007 < 0.05, while the calculated t value is -2.822 > t table 2.003, so Ho is rejected, and H1 is accepted, which 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 significant value of 0.137 > 0.05, while the t-value was -1.510 < t table 2.003, ho is accepted, and ha 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 significant value of 0.033 < 0.05, while the t value is calculated at -2.184 > t table 2.003, then ho is rejected and H1 is accepted, meaning that at the significance level of 0.05 percent, 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

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, which causes great responsibility for their work. Then, high compensation does not mean it can meet a person's daily needs, so the pressure on needs and lifestyle can lead 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 and the income obtained by the company, the employee will justify (rationalize) fraud. The results of this study are in line with those of Febriani & Suryandari (2019), who found that the appropriateness of compensation has a significant effect on fraud. According to Kurrohman & Widyayanti (2018), the appropriateness of compensation has a significant effect on fraud. Furthermore, in contrast to research by Miranda Prahadi (2022), the suitability of compensation does not significantly affect fraud.

The Effect of Internal Control on Fraud Trends

It was explained that the study's results showed that internal control had a significant negative effect on the tendency to commit fraud. If internal control increased, the tendency to fraud decreased by 0.307, theoretically indicating that internal control determines the tendency to fraud. Internal control negatively influences the tendency toward fraud, indicating 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 can then cause negative things if supported by the surrounding environmental situation. With internal control, at least all employees cannot engage in deviant actions because this control is a procedure that must be followed, thereby minimizing fraud. The results of this study are in line with those of Didi & Kusuma (2018), who found that internal control has a significant effect on fraud. Febriani & Suryandari (2019) explained that internal control influences 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. Research by Miranda Prahadi (2022) found that organizational culture does not have a significant effect on fraud, and research by Kristo Josep Manek (2022) reached the same conclusion. However, in contrast to the research conducted by I Putu Aditya Prastika Eka Putra (2018), which stated that organizational culture has a significant effect on fraud.

The Effect of Organizational Commitment on Fraud Trends

The study shows that organizational commitment has a negative and significant effect on the tendency to commit fraud. If the organizational commitment increases, the tendency to commit fraud decreases by 0.171. Theoretically, it shows that the factor that determines the tendency to fraud is the organization's commitment, or the loyalty of employees to the company. Commitment can be realized if individuals in an organization fulfill their rights and obligations in accordance with their duties and functions. Beyond that, the organization's commitment focuses on employees taking various actions. The research findings indicate that organizational commitment negatively influences fraud trends, suggesting 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 of focusing 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, which 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), who 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 combined effect of compensation, internal control, organizational culture and organizational commitment has a significant effect on the tendency toward fraud among Tebo Regency government employees. It partially shows that the suitability of compensation negatively affects the tendency toward fraud among 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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