

The Effectiveness of Internal Control as an Effort to Reduce the Tendency of Accounting Fraud in Village Credit Institutions in Gianyar Regency

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Abstract— This study aims to determine whether the effectiveness of internal control affects the tendency of accounting fraud, as well as the influence of organizational commitment as moderation on the tendency of accounting fraud in Village Credit Institutions in Gianyar Regency. The sample used in this study was 120 people. The method of determining the sample in this study is by method with purposive sampling technique. Data collection is carried out by questionnaire. The results of this study show that the variable effectiveness of internal control has a significant negative effect on the tendency of accounting fraud. While the organizational commitment variable as a moderating variable has no effect on the tendency of accounting fraud.

Keywords— Effectiveness of Internal Control, Organizational Commitment, Tendency to Accounting Fraud.

I. INTRODUCTION

Fraud is an action carried out by several parties that results in other parties suffering losses, while fraudsters benefit either directly or indirectly. The Indonesian Accounting Association (IAI) defines accounting fraud as a misstatement arising from fraud in financial reporting and a misstatement arising from improper treatment of assets (often referred to as misuse or embezzlement). According to Saputra (2015) in Aditya (2018), fraud can be in the form of omission of amounts or disclosures in financial statements to deceive users of financial statements. Accounting fraud is usually triggered by companies that want their financial statements to look good. In addition, the company also wants to reduce the perception in the eyes of potential investors that the company is risky.

Organizations engaged in finance or financial institutions are organizations that have the highest chance of fraud. One of the phenomena of accounting fraud tendencies that occur in developed countries of the United States is the case that befell Wells Fargo Bank. According to the CFPB, the illegal practice of secretly opening deposit accounts and credit cards without the knowledge of its customers, is estimated at more than two million accounts. Wells Fargo Bank in the United States was fined Rp185 million. This was triggered by the high sales target set by the bank for Wells Fargo Bank employees.

In developing countries like Indonesia, cheating seems to have become a habit from year to year. One of the latest cases is banking fraud in the case of investment default in the form of Medium Term Notes (MTN) by PT. Sunprima Nusantara

Financing (SNP Finance) which cost Bank NTT Rp50 billion (www.NTTonline.com). Fraud cases like this do not only affect large financial institutions, in Bali financial institutions managed by traditional villages are not spared from fraud. One of the financial institutions managed by customary villages is the Village Credit Institution.

Village Credit Institutions are financial institutions owned by Association villages that have developed, providing social, economic, and cultural benefits to their residents. The operational foundation of the Village Credit Institution is based on the traditional village that prioritizes family ties and mutual cooperation between indigenous villagers. Where, each traditional village is expected to have a Village Credit Institution which will later collect funds from the community and distribute them back to communities who need funds, and the profits obtained by the Village Credit Institution can be used to finance the customary needs in the village

According to Regional Regulation No. 3 of 2017 concerning Village Credit Institutions, the purpose of establishing a Village Credit Institution in each village is to support economic activities in rural areas through community activities by saving and providing credit for small businesses. Village Credit Institutions also create opportunities and equal employment for rural residents by working directly at Village Credit Institutions. In addition to supporting community activities, Village Credit Institutions also support Customary Village activities, namely by providing development funds. Based on this description, it can be said that Village Credit Institutions have a very important role for the people of Bali, therefore the management of Village Credit Institutions is very dependent on the system applied by each Village Credit Institution according to the rules that have been set. However, on the other hand, there are still many acts of fraud committed by managers who have been authorized to manage Village Credit Institutions.

Agency theory states that there is a difference in interests between principals (managers) and agents (shareholders). In agency theory, it is assumed that managers in a company know more internal information of the company than shareholders, so there will be a condition of information imbalance between managers and shareholders. This can certainly lead to agency conflicts where shareholders have an interest in earning profits, while managers also have the desire

to obtain satisfaction in the form of large financial compensation. In this agency theory, the manager is the management of the Village Credit Institution while the shareholder is Association Village where the Village Credit Institution was established. With the imbalance of information obtained, it will open up opportunities for fraud. Minimizing the occurrence of fraud can be done by implementing good internal control effectiveness. Good internal control is expected to reduce deviant behavior in the reporting system, including accounting fraud.

TABLE 1. Data Of Bali Village Credit Institution Province Regarding The Number Of Village Credit Institutions In Bali With Unhealthy Category

No	Regency	Sum
1	Denpasar	3
2	Gianyar	18
3	Jembrana	1
4	Bangli	5
5	Buleleng	6
6	Karangasem	7
7	Klungkung	1
8	Badung	7
9	Tabanan	7
Total		55

Source: Village Credit Institution Bali Province, 2019

Internal control is a set of policies and procedures to protect company assets or assets from all forms of misuse, ensure the availability of accurate company accounting information, and ensure that all provisions (regulations) of the law/law and management policies have been complied with or implemented properly by all company employees (Hery, 2016: 13). Internal control is carried out to monitor whether the company's operational and financial activities have run in accordance with procedures and policies set by management.

A low control system and low employee compliance with internal control can be a trigger for fraud. While good internal control can reduce the opportunity to commit fraud tendencies. This is supported by research conducted by Ni Putu Sri Widiutami et al. (2017) showing that the effectiveness of internal control has a negative and significant effect on the tendency of accounting fraud. The same results were also obtained from research conducted by Nengah Wiwik Parmini et al. (2017), showing that there is a negative and significant influence between the internal control system on the tendency of accounting fraud. Similarly, research conducted by I Putu Aditya Prastika Eka Putra et al. (2018) and Ni Komang Nitimiani et al (2020), stated that internal control has a negative effect on fraud tendencies. This means that better the effectiveness of internal control will reduce the level of accounting fraud in an organization. However, in contrast to research conducted by Novrita Aulia Rahmi et al. (2019) and Reni Anggriani (2019), internal control does not have a significant effect on the tendency of accounting fraud.

In the fraud triangle theory, it is explained that accounting fraud is caused by three factors, namely; Pressure, Opportunity, and Rationalization. Of the three factors, the opportunity is the most likely to be minimized with good internal control. According to Dorminey (2011) in Aditya (2018), rationalization and pressure factors are characteristics of accounting fraudsters that cannot be observed because it is

impossible to know what the perpetrators think when they will commit accounting fraud. Thus, it is important for an organization to minimize fraud by increasing the organizational commitment of each individual, so that even though there is a wide-open opportunity to commit fraud, it will not be able to influence someone to cheat. With the increasing sense of organizational commitment of each individual, the effectiveness of internal control is also maintained, so that fraud can be minimized.

Based on the explanation above, organizational commitment is used as a moderating variable to reduce opportunistic behavior carried out by the management of VILLAGE CREDIT INSTITUTIONS. Organizational commitment is defined as the attitude or form of behavior given by employees to the company related to employee loyalty to achieve the goals of the company where he works. Organizational commitment is the degree to which an employee takes sides in an organization and intends to maintain its membership to achieve the goals of the organization (Lubis, 2017: 83). Based on this definition, members who have a commitment to their organization will be more able to survive as part of the organization than members who do not have a commitment to the organization. High organizational commitment can minimize fraud because employees will try to work in accordance with the rules that apply in the organization and continue to survive in the organization.

This study was used to obtain evidence on the effect of the effectiveness of internal control on the tendency of accounting fraud with organizational commitment as a moderating variable. The moderating variable is used because previous research still has inconsistencies in results where research on the effect of the effectiveness of internal control on the tendency of accounting fraud has been carried out by many previous studies but has mixed results, therefore in this study moderation variables are used to see other variables that can strengthen or weaken the results of the variables studied. The results of research by Reni Anggriani et al. (2019) stated that the organization's commitment to moderating (strengthening) the effectiveness of internal control over fraud behavior, the study was conducted on Sukabumi Government Employees. In contrast to research conducted by I Gusti Ngurah Siwambudi (2017) which states the organization's commitment not to moderate internal control. The current research was conducted on Village Credit Institutions because village credit institutions have their own uniqueness, which is only found in Bali. This research took the village credit institution in Gianyar Regency because the village credit institution in Gianyar is quite developed but on the one hand, there are also many cases of fraud in the village credit institution Gianyar Regency. In addition, based on data from plumbago perkreditan desa in 2019, village credit institutions in Gianyar Regency are the most categorized as unhealthy, namely 18 village credit institutions out of a total of 55 village credit institutions classified as unhealthy categories in Bali Province. This study uses fraud triangle measurement where every factor that causes accounting fraud can be minimized with the effectiveness of internal control and good organizational

commitment from each individual. The measurement was carried out using primary data in the form of a questionnaire with a Likert scale with five alternative answers. The use of the Likert scale in this study is because the reliability of the Likert scale is considered the most relatively high and can contain several alternative responses, besides that the use of the Likert scale aims to avoid hesitant answers from respondents. Based on the explanation above, research was conducted on the effect of the effectiveness of internal control on the tendency of accounting fraud with organizational commitment as a moderating variable in Village Credit Institutions in Gianyar Regency.

II. GRAND THEORY

Fraud Triangle Theory

According to SAS 99 (AU 316) in Amin Widjaya Tunggal (2014: 9) there are three factors for someone to commit fraud known as the fraud triangle, namely; Pressure One of the factors that encourage someone to dare to commit fraud is economic pressure. This factor comes from the individual, a person feels that the pressure of life is so heavy that it forces the perpetrator to cheat for his personal gain. This happens usually because the welfare guarantees offered by the company or organization where work is lacking or a luxurious lifestyle so that the perpetrator constantly feels lacking. But pressure can also come from the environment where they work, such as: an unpleasant work environment, employees feel that they are not treated fairly, there is an unfair employee recruitment process. Opportunity or opportunity is a factor that entirely comes from outside the individual, namely from the organization as a victim of fraud. The opportunity to cheat is always in every position. With the position possessed, the perpetrator feels he has the opportunity to take advantage. Coupled with the control system of the organization is inadequate. Rationalization is an action when the perpetrator feels that he has a strong reason that is the basis for justifying what he did. As well as influencing the other party to agree to what he did.

Hypothesis

Agency theory states that there is a difference in interests between principals (managers) and agents (shareholders). In agency theory, it is assumed that managers in a company know more internal information about the company than shareholders, so there will be a condition of information imbalance between managers and shareholders. This can certainly lead to agency conflicts where shareholders have an interest in making profits, while managers also have the desire to obtain satisfaction in the form of large financial compensation. In this agency theory, the manager is the management of the Village Credit Institution while the shareholder is Association Village where the Village Credit Institution was established. With the imbalance of information obtained, it will open up opportunities for fraud. Minimizing the occurrence of fraud can be done by implementing good internal control effectiveness. Good internal control is expected to reduce deviant behavior in the reporting system, including accounting fraud.

Internal control is carried out to monitor whether the company's operational and financial activities have been running in accordance with the procedures and policies set by management. Research by Ni Putu Sri Widiutami et al (2017) shows that the effectiveness of internal control has a negative and significant effect on the tendency of accounting fraud. The direction of the negative coefficient shows that the more effective the internal control, the lower the chance of fraud in the Village Credit Institution. The same results were also obtained from research conducted by Nengah Wiwik Parmini et al (2017), showing that there is a negative and significant influence between the internal control system on the tendency of accounting fraud. Similarly, research conducted by I Putu Aditya Prastika Eka Putra et al (2018), stated that internal control has a negative effect on the tendency of fraud.

According to research conducted by Ni Komang Nitimiani et al (2020), stated that the effectiveness of internal control negatively affects the tendency of accounting fraud. This means that the better the effectiveness of internal control will reduce the level of accounting fraud in an organization. Based on the explanation above, the first hypothesis in this study is. H1: The effectiveness of internal control negatively affects the tendency of accounting fraud.

Organizational commitment is defined as a psychological construct that is characteristic of the relationship between organizational members and their organizations and has implications for individual decisions to continue their membership in the organization (Meyer and Allen in Mardiana, Syarif, 2018). So it can be interpreted, a member who has a commitment to the organization will be more able to survive as part of the organization.

Organizational commitment can be realized if individuals in the organization carry out rights and obligations in accordance with their duties and functions in the organization. Individuals who have a commitment to work, then they will view the performance given will have a positive influence both on the individual itself and on the organization.

The results of research by Reni Anggriani et al. (2019) stated that the organization's commitment to moderating (strengthening) the effectiveness of internal control over fraud behavior, the study was conducted on Sukabumi Government Employees. In contrast to research conducted by I Gusti Ngurah Siwambudi (2017) which states the organization's commitment not to moderate internal control.

This study uses organizational commitment as a variable that moderates the relationship between internal control effectiveness to accounting fraud tendencies. Because the more committed someone is to the organization, the better someone in organization works. By having a high organizational commitment, someone will more easily understand the vision, mission, and goals of the organization, it will minimize the possibility of deviations in the organization. Based on the explanation above, the second hypothesis in this study is.

H2: Organizational commitment can moderate the effectiveness of internal control against accounting fraud tendencies

III. RESEARCH DESIGN

This research was conducted at Village Credit Institutions in Gianyar Regency which are registered with the Village Credit Institution Empowerment Institute in Gianyar Regency. The number of data in this study was 89 respondents from employees of Village Credit Institutions.

The data collection method in this study used the questionnaire method. Questionnaire is a data collection technique carried out by giving a set of questions or written statements to respondents to answer (Sugiyono, 2016: 193). The questionnaire used in this study used a Likert scale with five alternative answers, each of which was scored, namely: strongly agree answers (SS) were given a weight of 5, agree answers (S) were given a weight of 4, quite agree answers (CS) were given a weight of 3, disagree answers (TS) were given a weight of 2 and strongly disagree answers (STS) were given a weight of 1.

Data analysis in this study uses an analysis test with the Partial Least Squares model by going through several test stages, namely Measurement Model Assessment, Structural Model Assessment and hypothesis testing by looking at significant values below 5%

IV. RESULT

The effect of the effectiveness of internal control on the tendency of accounting fraud. Based on the results of the hypothesis test, shows that the relationship between the internal control effectiveness variable and the tendency of accounting fraud is -0.471 and the t-statistic value of 6.947 is greater than the t-table (1.96). It can be concluded that the constructed variable of internal control effectiveness has a significant negative effect on the tendency of accounting fraud in Village Credit Institutions sampled in the study. Thus hypothesis 1 in the study is accepted. This result can also be interpreted that the higher the effectiveness of internal control, the lower the tendency of accounting fraud in Village Credit Institutions in Gianyar Regency.

The results of the study have significant results because the average Village Credit Institution in Gianyar Regency has implemented the effectiveness of internal control very well. And the effectiveness of internal control can contribute to the reduction of accounting fraud tendencies. Effective internal control is able to make employees work according to their main duties so that a clear will reduce the occurrence of accounting fraud that can be committed by employees. The effect of the effectiveness of internal control on the tendency of accounting fraud shows that the objectives of the Village Credit Institution in Gianyar Regency have been running well so that accounting fraud can be minimized. This is also supported by the agency's theory which presents that the higher the internal control in the company, the lower the tendency of accounting fraud will occur.

The results of this study are in line with the results of research conducted by Ni Putu Sri Widiutami et al (2017) showing that the effectiveness of internal control has a negative and significant effect on the tendency of accounting fraud. The same results were also obtained from research conducted by Nengah Wiwik Parmini et al (2017), I Putu

Aditya Prastika Eka Putra et al. (2018), Ni Komang Nitimiani et al. (2020).

The effect of the effectiveness of internal control on the tendency of accounting fraud with organizational commitment as a moderating variable. Based on statistical calculations, it can be concluded that the organizational commitment variable is unable to moderate the effectiveness of internal control against the tendency of accounting fraud in Village Credit Institutions sampled in the study. It can be seen that the t-statistic of 1.447 is smaller than the t-table (1.96). Thus hypothesis 2 in the study was rejected. This result can also be interpreted that organizational commitment is unable to strengthen or weaken the effect of the effectiveness of internal control on the tendency of accounting fraud.

The level of organizational commitment to Village Credit Institutions in Gianyar Regency does not affect the effectiveness of internal control on the tendency of accounting fraud, perhaps because there are other factors that can strengthen the effectiveness of internal control such as individual morality. In addition, the effectiveness of internal control is a series of actions and activities that occur in all LPD activities and run continuously. The effectiveness of internal control is not a separate system in an organization but must be considered as an integral part that is built within and becomes an integral part of every system used by management to regulate and direct its activities so that the tendency of accounting fraud can be detected and avoided. So that whether or not there is an organizational commitment, the effectiveness of internal control is always part of the process and integrated with LPD's operational activities and becomes the basis for the implementation of activities. While a person's organizational commitment can change depending on the situation and conditions within a person. The results of this study are in line with the results of research conducted by I Gusti Ngurah Siwambudi (2017)

V. CONCLUSION

This study aims to examine the effect of the effectiveness of internal control on the tendency of accounting fraud with organizational commitment as a moderating variable. Based on the results of research analysis and the results of the discussion in the previous chapter, the conclusions of this study are as follows: The effectiveness of internal control has a significant negative effect on the tendency of accounting fraud in Village Credit Institutions in Gianyar Regency. The organization's commitment does not moderate the effectiveness of internal control against the tendency of accounting fraud at Village Credit Institutions in Gianyar Regency.

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