



## **EFFECTIVENESS OF INTERNAL CONTROLS AND COMPLIANCE WITH ACCOUNTING RULES AND ITS INFLUENCE ON THE TREND OF ACCOUNTING FRAUD**

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### **Abstract**

Cases of accounting fraud tendencies in Indonesia occur repeatedly. The mass media reported a lot about this, so that for the public, cases of accounting fraud tendencies were no longer a secret. Therefore, this research was conducted to determine and analyze the influence of the effectiveness of internal control and compliance with accounting rules on the tendency of accounting fraud. Primary data comes from the results of questionnaires that are distributed directly to the respondents. A total of 35 employees from several companies will be selected as research samples. The data will be analyzed using multiple linear regression with the SPSS 26 application for windows. The results of the research can be stated as follows: (1) the effectiveness of internal control has a significant and positive effect on the tendency of accounting fraud; (2) adherence to accounting rules has a significant and positive effect on the tendency of accounting fraud; (3) the effectiveness of internal control and compliance with accounting rules simultaneously have a significant and positive effect on the tendency of accounting fraud.

**Keywords:** effectiveness of internal control, adherence to accounting rules, tendency of accounting fraud.

## Introduction

In this day and age, crimes and violations are normal things that are often done by society. In Indonesia, its development has been increasing to date. Even though there are many laws or regulations that have been enforced, there are still people in Indonesia who violate and do not comply with applicable laws and regulations. Just like in accounting. Fraud that often occurs in the field of accounting in a company such as manipulating or committing fraud in terms of reporting financial or non-financial related data. Fraud is a deviation in the form of violating rules, obscuring facts in an effort to take advantage of certain parties (Soepardi, 2007). Indications of a tendency for accounting fraud can be seen in the form of intentional policies and actions aimed at committing fraud or manipulation that harm other parties (Sinambela & Darmawan, 2020). Even in Indonesia accounting fraud has become a habit from year to year. This statement was made by Cohen et al. (2011) and Abdullatif (2013) which stated that fraud in companies is caused by unethical behavior of managers and non-compliance with existing regulatory standards. Unethical behavior also affects the many irregularities that occur in Indonesia (Sinambela & Putra, 2021).

Accounting fraud places more emphasis on the intention to remove or add certain amounts, resulting in misstatements in the financial statements for certain purposes (Laughin, 2009; Habis & Rawashdeh, 2013). The high tendency of accounting fraud committed by employees is caused by the information received by management which is inaccurate, irrelevant, incomplete and not timely so that it becomes an obstacle for decision makers in taking the right policies for achieving company goals. According to Tunggal (2010) perpetrators of fraud are classified into two groups, namely management and employees or employees. Management commits fraud usually for the benefit of the company and employees commit fraud for individual gain. Spathis (2002) explains that accounting fraud causes huge losses in almost all industries. The disadvantage of accounting fraud in the capital market is that management accountability decreases, causing shareholders to increase management monitoring costs (Pritchard, 2009; Sinambela, 2021). By looking at the phenomenon of accounting fraud and the various losses it causes, it is necessary to have internal controls to direct, supervise, and report accounting. This internal control plays an important role in preventing and detecting fraud and protecting organizational resources, both tangible and intangible. It also requires adherence to accounting rules.

Control is an action or activity carried out by management to ensure (adequately, not absolutely) the achievement of company goals and objectives. If controls are not going well, procedures are not carried out as they should, this will open opportunities for employees involved in company operations to commit fraud (Arifin & Sinambela, 2021). One example of internal control is the existence of several procedures that must be followed when carrying out a transaction such as authorization from an authorized party. Effective internal control can achieve company goals, the results of company financial reports can be trusted, company activities will be in line with applicable laws and regulations (Sinambela & Darmawan, 2011). Therefore, every company must have effective internal controls so that all established policies and procedures are complied with by all employees (Djazilan, 2021; Mardikaningsih & Darmawan, 2020). Internal control is an integral process of actions and activities that are carried out continuously by leaders and all employees to provide adequate assurance of achieving internal control that is applied in every public and private institution (Darmawan, 2019). The achievement of effective internal control in a company proves a good performance.

The factors that encourage companies to provide financial report information are market forces and regulatory forces (Foster, 1986; Sinambela et al., 2022). This regulation requires companies to submit financial reports prepared according to accounting rules or standards to parties who need them. In a company there are rules that form the basis of management behavior that are made to prevent the occurrence of deviant activities that can harm the company. Rules are actions or deeds that must be carried out. Accounting rules are made in such a way as the basis for preparing financial reports (Mardikaningsih & Darmawan, 2021). There are two needs that have an interest in the results of financial reports, namely the users and leaders as asset managers and financial report presenters (Thoyibatun, 2009). From external parties, users of financial statements consist of investors, employees, lenders, suppliers, creditors, customers, government, and the public. They have different information needs that must be met. In addition, in order to produce quality information, the presentation of financial statements must be in accordance with procedures and principles and work rules that are in accordance with accounting principles. Accounting principles are a number of rules that guide action in carrying out accounting in companies. Accounting rules regulate financial reporting which is guided by PSAK issued

by IAI. The information provided in financial reports is very important for investors and management, so it must be reliable. Therefore, we need a rule so that the reliability of information can be maintained and avoid deviant actions that can harm the company. Roberts & Bardley (2002) argues that work can be more organized if a code of ethics and compliance with accounting rules have been implemented so that it will influence and control the behavior of company management. Thoyibatun (2009) explains that the rules used in accounting activities are financial accounting standards, while compliance with accounting rules is the level of suitability of organizational asset management procedures, implementation of accounting procedures and presentation of financial reports as well as all supporting evidence, with the rules set by BPK or SAP. Based on the background of the problems that have been described, the researcher is interested in conducting research entitled the effectiveness of internal control and compliance with accounting rules and their influence on the tendency of accounting fraud.

## Method

The research method used in this study is explanatory research which will explain the causal relationship between the independent variables and the dependent variable through hypothesis testing. There are 35 employees from several companies who received delegation of authority and responsibility to be involved in the use of budgeted funds, accounting implementers, and people in charge of dealing with financial statements and accountability reports to be sampled in this study.

This study uses primary data obtained from the results of distributing questionnaires where each answer from employees will be measured with a Likert Scale 1-4. The questionnaire used includes three parts, namely a questionnaire to examine the effectiveness of internal controls, adherence to accounting rules and the tendency of accounting fraud. After the data from 35 employees has been collected through a questionnaire, the classical assumption test (normality test, multicollinearity test, heteroscedasticity test and autocorrelation test) can be carried out before carrying out multiple linear regression.

Internal control effectiveness (X1) is measured by five indicators where the indicators are based on the opinion of Arens et al. (2008) which consists of: (1) control environment which includes actions, policies, and

procedures that show the attitude of top management, directors, and owners of an entity regarding internal control and the importance of components for that entity; (2) risk assessment includes management identification and risk analysis relevant to financial reports that have been prepared based on generally accepted principles; (3) control activities include policies and procedures used to ensure that the guidelines made by management have been implemented properly and correctly; (4) information and communication, information systems that are relevant to the objectives of financial reports which include accounting systems; (5) monitoring is the process of assessing the quality of the performance of the internal control structure over time. Compliance with accounting rules (X2) is guided by the Indonesian Accounting Association, IAI (2001) which consists of: (1) implementation responsibility; (2) public interest; (3) integrity; (4) objectivity; (5) prudence; (6) confidentiality; (7) consistency; (8) technical standards. Wilopo (2006) mentions five indicators for accounting fraud tendencies (Y), namely: (1) the tendency to manipulate, falsify, or change accounting records or their supporting documents; (2) a tendency to misrepresent or omit significant events, transactions or information from the financial statements; (3) the tendency to deliberately misapply accounting principles; (4) the tendency to misrepresent financial statements due to theft (misuse/embezzlement) of assets that make entities pay for goods/services that do not receive improper treatment; (5) the tendency to present financial statements incorrectly as a result of inappropriate treatment of assets and accompanied by false notes or documents and may involve one or more individuals between management, employees or third parties.

## Result and Discussion

The classic assumptions used in this study include the normality test, multicollinearity test, heteroscedasticity test and autocorrelation test which can be explained in detail as follows.

In this study the method for detecting whether the residuals are normally distributed or not is by using Figure 1 below.

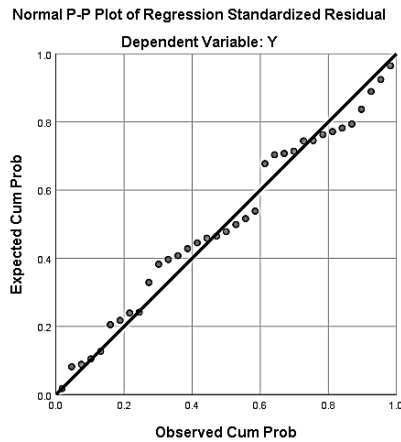


Figure 1. Normality Test  
Source: SPSS Output Results

The data is stated to be normally distributed because the results in Figure 1 plot the data still in the direction of the diagonal line.

The multicollinearity test results from the SPSS output show that each variable of internal control effectiveness and compliance with accounting rules has a VIF value  $< 10$  and a tolerance value  $> 0.1$ , namely 1,226 and 0,816. Thus, it means that it can be concluded that the independent variables do not contain multicollinearity.

The heteroscedasticity test aims to test whether the value in the regression model has an inequality of residual variance from one observation to another. These results can be observed in Figure 2 below

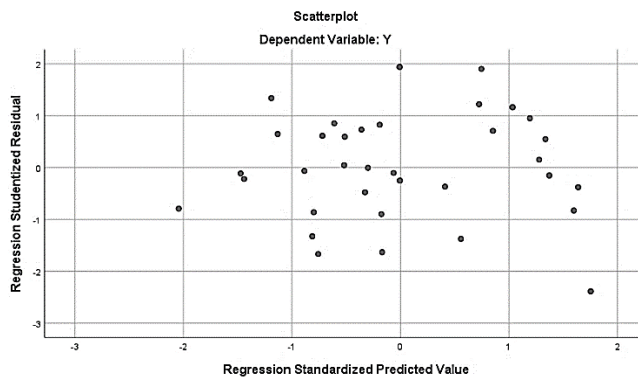


Figure 2. Heteroscedasticity Test  
Source: SPSS Output Results

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From Figure 2, there is no clear pattern and the points spread above and below the number 0 on the Y axis. Therefore, the regression model of this study does not have heteroscedasticity.

The autocorrelation test used in this study is the Durbin-Watson Test (DW Test). From the results of the SPSS output, it was found that the DW value was 1,050. Therefore, it can be concluded that there is no positive or negative autocorrelation. Thus, it can be concluded that there is no autocorrelation.

**Table 1. t-Test and Regression Model**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	19.211	6.326		3.037	.005
	X.1	2.946	.880	.405	3.348	.002
	X.2	3.811	.885	.521	4.308	.000

Source: SPSS Output Results

The influence of the independent variables on the dependent variable can be formulated into the following equation:  $Y = 19,211 + 2,946 X_1 + 3,811 X_2$ . The following is an explanation of the multiple linear regression equation formed: (1) a constant of 19,211 indicates that the effectiveness of internal control (X1) and compliance with accounting rules (X2) can affect the tendency of accounting fraud (Y) of 19,211; (2) the effectiveness of internal control (X1) has a t-count of 3.348 with a significance level of 0.002 which is still less than 0.05; (3) compliance with accounting rules (X2) has a t-count of 4.308 with a significance level of 0.000 which is still less than 0.05. From these results, the independent variables of internal control effectiveness (X1) and compliance with accounting rules (X2) partially have a significant and positive effect on the tendency of accounting fraud (Y).

**Table 2. ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	871.023	2	435.512	25.849	.000 <sup>b</sup>
	Residual	539.148	32	16.848		
	Total	1410.171	34			

Source: SPSS Output Results

Based on Table 2 regarding the variables of internal control effectiveness (X1) and compliance with accounting rules (X2) simultaneously the results show that F-count = 25,849 with a significance value of 0,000. Therefore, it is true that simultaneously the effectiveness of internal control (X1) and compliance with accounting rules (X2) can affect the tendency of accounting fraud (Y) because it is proven that the significance value of 0.000 is less than 0.05.

**Table 3. Coefficient of Determination**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.786 <sup>a</sup>	.618	.594	4.105	1.050

Source: SPSS Output Results

In Table 3 it shows that the value of the coefficient of determination to explain the variable tendency of accounting fraud (Y), so in this study it takes a contribution from the effectiveness of internal control (X1) and compliance with accounting rules (X2) of 61.8%. The remaining 38.2% is influenced by other variables that are not included in this research variable.

From the results of testing the first hypothesis it was found that the effectiveness of internal control had a significant and positive effect on the tendency of accounting fraud so that the first hypothesis was proven correct. The results of this study are in accordance with Thoyibatun (2009); Gustina (2018); If & Leksair (2020); Nazarah & Saleh (2021). This means that the more effective the internal control within the company, the less accounting fraud. The tendency for accounting fraud to occur is due to the opportunity to do so. The results of this study are consistent with the theory stated by Tuanakotta (2007) that opportunities for forms of fraud to occur such as illegal asset misappropriation or theft are forms of looting that have been known since the beginning of human civilization. This shows that with an internal control system that is implemented, it is used to protect agency property, check the accuracy and reliability of accounting data and improve performance efficiency in ways such as controlling, supervising work, monitoring, communicating and so on so that this can avoid mistakes. - mistakes or frauds that occur or even fraud and so on (Kemarauwana, 2020; Arifin et al., 2022). Where when the company implements a good internal control system when carrying out work, this

will make the work run according to the planned procedures (Darmawan, 2009). Therefore, internal control within the company must provide job satisfaction because the existence of job satisfaction will affect employee behavior. This behavior will be reflected positively or negatively. If employees have low job satisfaction, then they will behave negatively towards their work. Conversely, employees who have high job satisfaction will behave positively towards their work and are expected to avoid accounting fraud. In addition, having an internal audit in a company is believed to be useful in helping prevent fraud (Sinambela & Darmawan, 2022). However, internal audit is not responsible for the occurrence of fraud, even though internal audit is the party that has the greatest responsibility in matters of fraud prevention.

The results of testing the second hypothesis also found that adherence to accounting rules had a significant and positive effect on the tendency of accounting fraud so that the second hypothesis was also proven to be true. In line with the results of research from Thoyibatun (2009); Darmawan (2019). These results indicate that the increasing adherence to accounting rules in the preparation of financial statements will have an impact on the smaller the level of accounting fraud. Compliance with accounting rules is an obligation within the company to comply with all provisions or accounting rules in carrying out financial management and preparing financial reports in order to create transparency and accountability in financial management and financial reports that are produced in an effective, reliable and accurate manner (Khasanah et al., 2010). The results of this study are also consistent with the theory stated by Jensen & Meckling (1976), in agency theory which states that compliance with accounting rules can minimize fraudulent behavior. Accounting regulations that are not complied with will lead to failure in the preparation of financial statements, giving rise to fraud that cannot be detected by auditors. Kohlberg's theory of moral development (2009) states that high management morality is also supported by adherence to applicable rules. In this theory, at the conventional stage, management is oriented towards applicable regulations, so that compliance with accounting rules can establish high management morality and can reduce the tendency of accounting fraud committed by management. Therefore, there must be management morality. Leaders

apply good morality to staff, by giving good examples to their employees on how to behave in carrying out tasks in an agency, upholding honesty and loving work, and respecting leaders and respecting each other. Cheating can also be avoided by always being open to each other within the confines of agency secrecy (Darmawan, 2012). With well-maintained morality, it can reduce the tendency of accounting fraud committed by related parties.

## Conclusion

Based on the results of the data analysis that has been described, the following conclusions can be drawn: (1) the effectiveness of internal control has a partial effect with positive and significant results on the tendency of accounting fraud; (2) adherence to accounting rules has a partial effect with positive and significant results on the tendency of accounting fraud; (3) the effectiveness of internal control and compliance with accounting rules have a simultaneous positive and significant effect on the tendency of accounting fraud.

Based on the conclusions that have been mentioned, the research suggestions for interested parties are as follows: (1) internal control and accounting rules can be improved so that their implementation can be more effective so as to reduce the occurrence of continuing accounting fraudulent practices; (2) should pay more attention to employee job satisfaction so that accounting fraud committed by employees can be minimized, this can be done by implementing a work environment and providing direct and proper compensation in the form of cash in every activity (committee) that is outside working hours so that when employees will carry out work in accordance with the compensation they receive and no accounting fraud tendencies arise; (3) it is necessary for future researchers to carry out additional data collection techniques by conducting interviews with related companies so that the information obtained is much more complete and accurate; (4) a larger number of samples is needed by increasing the number of companies that are used as research objects so that the research results can be more diverse; (5) it is necessary to add independent variables other than those that have been studied because empirically there are still many factors that can actually influence the tendency of accounting fraud.

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