

Management integrity, internal control, and organizational culture as accounting fraud predictors

Sri Hartini¹, Daniel Yusuf², Khairunnida³, Siti Asyraini⁴

^{1,3}Department Akuntansi, Universitas Amir Hamzah Medan, Indonesia

^{2,4}Department Management, Universitas Amir Hamzah Medan, Indonesia

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ABSTRACT

The purpose of this study is to ascertain whether management integrity, internal control, and organizational culture affect accounting fraud separately or all at once. This study used a quantitative associative research methodology. 150 employees of the Medan City BPPRD made up the study's sample population. This study used a purposive sampling method with a sample size of 100 participants. Multiple linear regression analysis is the data analysis method used, and simultaneous and partial tests are used to assess the hypothesis. The research's findings indicate that management integrity, internal control, and organizational culture all have a partial impact on accounting fraud. Management integrity, internal control, and organizational culture all have an impact on accounting fraud.

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Corresponding Author:

Sri Hartini,

Department of Accounting,

Universitas Amir Hamzah Medan,

Jalan Pancing Pasar V Barat, Medan Estate, Kenangan Baru, Percut Sei Tuan, Kenangan Baru, Kec. Percut Sei Tuan, Kabupaten Deli Serdang, Sumatera Utara 20219

Email: srihartini394@gmail.com

1. Introduction

Accounting fraud is the intention to utilize dishonest means to make money, including lying, manipulating, conniving, or deceiving others. This might take the form of falsifying financial statements, engaging in corruption, or misusing assets.

In Indonesia, accounting fraud has been reported frequently in both private institutions and governmental organizations, including the central government and provincial governments. This has garnered media attention from both domestic and international sources. Accounting fraud is an intentional act of deception done by an individual or group with the purpose to gain personal gain at the expense of others. Achieving the aspirations of the populace as well as the objectives and ideals of the country and state depend on effective government. To achieve good governance, a skilled and proficient Regional Apparatus Organization (OPD) is required. OPD is a regional government agency that receives funding and uses it to carry out its primary duties.

In 2018, fraud was discovered in many Pekanbaru City administrations, including three Civil Servants (PNS) of the Regional Revenue Agency (Bappeda) of Riau Province who are accused of conspiring to steal cash from the official trip budget, causing the state to suffer losses of IDR 1.2 billion (www.news.okezone.com). In addition, fraud was committed during the development of the UR campus building, which was done by the former Assistant Dean II of UR with the letters HS. A Commissioner of PT Usaha Kita Abadi who is engaged in a building construction project at UR with state losses of Rp. 950 million is another suspect with the initials R. (www.tribunnews.com).

There has been extensive research on accounting fraud, but some of the findings show that there are still gaps. For example, Kurnia (2017) claims that internal controls and compliance with accounting rules have a negative impact on fraud, but Ramadhany (2017) claims that internal controls have an impact, and Novikasari (2017) claims that compliance with accounting rules has a positive impact. According to Glifandi's study published in Made (2014), managerial morality has a big impact on accounting fraud. In contrast, management morality has little impact on accounting fraud, according to Defiany's research from 2017. In contrast to Adinda (2016), who claims that compliance with accounting regulations has a favorable impact on accounting fraud, Ardiana (2014) asserts that organizational culture has no impact on accounting fraud.

The development of this research also involved the addition of new variables, specifically organizational culture, which is a factor in accounting fraud. Organizational culture was the topic of study because it is a set of values and behaviors that all members of the organization have adopted as their own. So that it can be said, if an organization has a poor organizational culture, it will encourage its staff to engage in fraud or other illegal activity.

The purpose of this study is to ascertain how organizational culture, internal controls, and management ethics affect accounting fraud. According to Cressey's fraud triangle hypothesis, one reason people commit fraud is when they are facing financial difficulties that cannot be resolved amicably and are aware of or believe that a position or job can be used to cover up their troubles. that they possess and shift their perspective from one of individuals who are entrusted with holding assets to one of individuals who are using the assets entrusted to them. Additionally, Cressey noted that many of these trust violators attempted to convince themselves that what they were doing was rational despite knowing that their actions were unlawful.

According to the Fraud Triangle theory, three things—opportunity, pressure, and rationalization—are responsible for fraud. The opportunity element of the fraud triangle offers the best chance to prevent fraud of the three. Wilopo (2006) contends that for an agency to effectively control fraud, monitoring is required, and for effective monitoring results, effective internal controls are required.

The foundation of the internal control system is composed of five dimensions: control environment, risk assessment, control environment, information and communication, and supervision. A poor control environment has a significant negative impact on the effectiveness of other internal control system components.

A company's management can be monitored by internal controls, and it can be said that the better these controls are, the less fraud is likely to be committed. Morality has a significant role in the development of fraud. The morality of those who commit accounting fraud has an impact on its propensity. Morality has a significant impact on a company's or management institution's propensity for accounting fraud. The study also makes the case that management ethics affects the propensity for accounting fraud. In other words, management pays greater attention to broader and universal interests than only the company's interests, notably its own, the higher the management morality level (post-conventional stage). According to Syafitri's (2017) research, management morality has a negligible impact on the likelihood of accounting fraud. As a result, management works harder to resist impulses toward accounting fraud the higher their moral standards. A well-implemented management morality in an organization will promote a positive work environment and prevent accounting fraud.

According to Karyono (2013), socio-cultural pathology that adheres to a culture of consumerism and materialism and justifies using any means necessary to achieve goals can be the root cause of crime in organizations or businesses. As a result, in addition to internal control, educating people about the possibility of fraud is another key concept in fraud prevention (Tuanakotta, 2012). An organizational culture can include awareness of the occurrence of fraud. In this scenario, the idea of an organizational culture is a system embraced by members of an organization or company and serves to set it apart from other organizations or firms. Therefore, organizational or corporate culture, according to Tuanakotta (2012), is a value that all members of the organization share and that shows itself in their behavior, attitudes, or loyalty to the organization or corporation.

A culture of honesty and strong ethics is one of the variables that, according to Arens (2014), can prevent fraud. By enhancing organizational culture, which can be done by putting good work practices into place such signing integrity pacts and establishing good work values within the organization, fraud can be avoided. analysis by Nadia (2017) The likelihood of accounting fraud is negatively and significantly impacted by organizational culture.

2. Research Method

The nature of this investigation is quantitative. Quantitative research is defined as an analysis or explanation of a problem with generalizable findings. As a result, the depth of the data or analysis is less significant. Researchers are particularly concerned with aspects of data breadth since these traits are required for research data and findings to be regarded as reflecting the complete population (Kriyantono, 2014). The study's focal point, the BPPRD office in Medan City, was selected because it serves as the gateway for outside money into this city, which has a history of fraud. The Medan City Regional Tax and Retribution Management Agency (BPPD) employed 150 daily laborers and public servants in total for this study. This population can also be used to represent all accounting work units, while the research sample consisted of 100 persons. The research hypothesis was tested using multiple linear analyses utilizing SPSS (Statistical Product and Service Solution) software for Windows version 25. The regression equation employed in this investigation is as follows.

3. Results And Discussions

3.1 Regression Analyst

To assess the impact of the independent variables Management Integrity (X1), Internal Control (X2), and Organizational Culture (X3) on the dependent variable, Accounting Fraud, multiple linear regression analysis was utilized (Y).

Table 1. Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients
	B	Std. Error	Beta
1 (Constant)	7.821	1.321	
Management Integrity	-.412	-.162	.581
Internal Control	-.583	-.244	.490
Organizational Culture	-.321	-.163	.261

Dependent Variable: Y – Accounting Fraud

$$Y = 7,821 - 412X_1 - 0,583X_2 - 0,321X_3$$

The above equation can be interpreted as follows: The constant value is 7.821 which means that if there are no independent variables consisting of the variables of Management Integrity, Internal Control, and Organizational Culture, then Accounting Fraud has a value of 7.821; The Management Integrity Variable has a negative effect on Accounting Fraud with a regression coefficient of -0.412, which means that if variable (X1) increases by 1 unit, accounting fraud decreases by 0.412 units assuming the other independent variables are constant; The Internal Control Variable (X2) has a negative effect on Accounting Fraud, with a regression coefficient of -0.583, which means that if the internal control variable (X2) increases by 1 unit, accounting fraud will decrease by 0.583 units assuming the other independent variables are constant; Organizational Culture Variable (X3) has a negative effect on Accounting Fraud, with a regression coefficient of -0.321, which means that if the organizational culture variable (X3) increases by 1 unit, then accounting fraud will decrease by 0.321 units assuming the other independent variables are constant.

3.2 t-test

Table 2. t-test

Model	t	Sig.	t table	result
1 (Constant)	7.821	.000		
Management Integrity	2.391	.001	1,67	Received
Internal Control	1.981	.015	1,67	Received
Organizational Culture	1,887	.010	1,67	

a. Dependent Variable: Y – Purchase Decision

The table above shows the calculated t value for the management integrity variable which is 2.391 with a significance of 0.001, where the t table value is 1.670, so the first hypothesis is accepted, which means

that the psychographic segmentation variable has a significant effect on accounting fraud. The results of this study are in line with research conducted by Waluya (2018) which states that the management integrity variable has an effect with a significance value of less than 0.005.

As for the internal control variable, the t count value is 1.981 which is greater than t table 1.670 and the significance value is less than 0.005, thus the second hypothesis can be accepted. The results of this study are in line with Mirnawati's research (2019) which states that internal control has a significant effect on accounting fraud.

As for the organizational culture variable, the t-value is 1.887, which is greater than the t-table, 1.670 and the significance value is less than 0.005, thus the third hypothesis can be accepted. The results of this study are in line with Anwar's research (2017) which states that organizational culture has a significant effect on accounting fraud.

3.3 f-test

Table 3. Anova

	Model	Sum of Squares	Df	Mean Square	F	Sig.
	Regression	198.092	2	122.135	22.821	.001 ^b
1	Residual	181.631	97	1.981		
	Total	379.723	99			

a. Dependent Variable: Keputusan Pembelian (Y)

b. Predictors: (Constant), (X2), Organizational Culture (X3), Internal Control (X3), Management Integrity (X1)

After processing the data with the help of SPSS software, the calculated f is 22.821 which is greater than 3.09, thus the third hypothesis is accepted. The results of this study are in line with research conducted by Gultom, (2021) which states that Management Integrity, Internal Control Organizational Culture have an effect on accounting fraud.

4. Conclusion

Based on the discussion above, it can be concluded that the independent variables consisting of Management Integrity, Internal Control and Organizational Culture have a partial effect on accounting fraud. Based on the results of data analysis, it was also found that simultaneously the variables of management integrity, internal control and organizational culture have a simultaneous effect on accounting fraud.

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