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Perception of Village Financial Managers of Accounting Fraud Tendency (Empirical Study in Grobogan District)

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Abstract: *This study aims to find the perception of village financial managers to the influence of internal control effectiveness, compensation suitability, compliance to accounting regulation and ethical organization culture to accounting fraud tendency. Village financial managers is responsible to manage fund and prepare financial reporting of the village, and thus they are suitable to be taken as respondents. Research sample is obtained using cluster certified random sample. There are 15 villages with 91 respondents representing the population. A questionnaire is distributed to collect data. In addition, the data is analyzed multiple regression analysis with SPSS Version 21. The results show that internal control effectiveness and compliance to accounting regulation have significant and negative impact on accounting fraud tendency. In the other side, compensation suitability and ethical organization culture do not affect accounting fraud tendency. Nevertheless, it is empirically proven that simultaneously internal control effectiveness, compensation suitability, compliance to accounting regulation and ethical organization culture affect accounting fraud tendency.*

Keywords: *Accounting Fraud Tendency, Internal Control Effectiveness, Compensation Suitability, Compliance to Accounting Regulation, Ethical Organization Culture*

1. Introduction

Accounting fraud tendency or propensity of the accounting fraud has received special attention from various parties. The enactment of Law No. 6 of 2014 on Villages, granting autonomy rights for villages in the equitable distribution of development, developing the potential possessed, and prospering the village community. Noviyanti and Kiswanto (2016) stated that with the enactment of regional autonomy functioned so that each village can be more advanced, independent, prosperous, and can implement local government in order to prosper the people in the area.

Indonesia Corruption Watch (ICW) in mediaindonesia.com stated that in the first half 2016 the practice of corruption reached 210 cases in the central government to the regions, including the village government. Indonesia Corruption Watch (ICW) said that the crime of corruption involving village government is most common in East Java (36 cases) and Central Java and West Java (16 cases each). Cases of corruption also occur in Grobogan District of Central Java involving village heads in Pahesan and Tegalsumur villages.

Corruption by the village government tendency shows that accounting fraud can occur in the private sector or government, including village. Lou, et al. (2009) suggests that fraudulent financial statements may be affected by the following conditions: pressure given by the company or from supervisors, complex transaction percentages, doubts about the integrity of corporate managers, and the decline in relationships between firms and regulators.

This study uses a variable effectiveness of internal control, compensation suitability, adherence to accounting rules and the ethical culture of the organization to minimize the Accounting Fraud Tendency by the development of the theory of diamond. This theory was developed by Wolfe and Hermanson in 2004 a

refinement theory of *fraud triangle theory* by Cressey (1950). This research is done by exploring perception of village finance manager as the responsible of village finance manager and compilation of village financial report. Wilopo (2006) conducted a study that shows the internal controls and adherence to accounting rules negatively affect the *accounting fraud tendency*, but the appropriateness of compensation does not affect the *accounting fraud tendency*. Thoyibatun (2009) and Sulastrri (2014) showed that the internal control and compensation system negatively affect the *accounting fraud tendency*. Sulastrri (2014) shows the organization's ethics have no effect on *accounting fraud tendency*. Kusumastuti study (2012) showed that the suitability of compensation affect the *accounting fraud tendency*, the effectiveness of internal controls and adherence to accounting rules, the morality of management and information asymmetry does not affect the *accounting fraud tendency*.

Hypotheses testing in this research:

H1: The effectiveness of the internal control negatively affect the *accounting fraud tendency*.

H2: Compensation suitability negatively affect the *accounting fraud tendency*.

H3: Compliance to accounting regulation negatively affect the *accounting fraud tendency*.

H4: Ethical organization culture negatively affect the *accounting fraud tendency*.

2. Research Methods

2.1 Types of Research, Samples, and Sampling Techniques

The type of this research is quantitative research and the data used are primary data collected by using questionnaire or questionnaire with likert scale as a measurement. This study was conducted to determine the perception of the village financial managers the *accounting fraud tendency*. Selection of village financial managers as respondents because the village financial manager is the manager and responsible for preparation of village financial reporting. The population of this study consists of all village financial managers consisting of 273 villages in 19 sub-districts. The sampling technique village using *certified cluster random sample* technique is to divide the cluster by region, grouping villages by districts, and villages determine the sample from each group were selected proportionally.

2.2 Data Analysis Technique

Data analysis techniques using SPSS tool 21 version and there are several stages of data analysis methods consisting of descriptive statistics, data quality test, classical assumption test, and hypothesis testing.

Similarity regression models in this study is

$$AFT = \alpha + \beta_1KPI + \beta_2KK + \beta_3KAA + \beta_4BEO + e.$$

3. Results and Discussion

3.1 Descriptive Statistics Analysis

The respondent's identity is shown in table 1 and the result of descriptive statistics is known that the number of respondents is 91 and the average agrees with the proposed statement.

Statement of *accounting fraud tendency* indicates that the respondents answered do not agree with nilain mean of 1.99.

TABLE I. Identity of Respondents

Information	Amount	Percentage
Gender		
1. Men		
2. Woman		
Total	9	
Age of Respondents		
1. 21 - 30 years	8	
2. 31 - 40 years		
Information		
3. 41 - 50 years		
4. 51 - 60 years		
5. > 60 years		
Total		
Working Period		
1. <1 year		
2. 1 - 5 years		
3. 5-10 years		
4. > 10 years		
Total		
Level of education		
1. D		
2. Junior High School		
3. High School		
4. D3		
5. Bachelor degree		
Total		

Source: Primary Data that is processed, 2017

TABLE II: DESCRIPTIVE STATISTICS

Variable			Std. Deviation
Internal Control Effectiveness	5	3,869	0.540
Compensation Suitability	5	4,075	0.382
Compliance to Accounting Regulation	5	3.973	0.376
Ethical Organization Culture	5	3,845	0.433
Accounting Fraud Tendency	4	1,999	0.638
Valid N (listwise)			

Source: Primary data processed, 2017

3.2 Data Quality Testing Results

Testing the validity of using *bivariate* analysis and shows that all the statements in each variable has a value significantly below 0.05 so declared invalid.

Reliability testing showed that each variable has a value above 0.7 *Cronbach's Alpha*, Nunnally (1994) states that the variable is declared reliable if the *Cronbach Alpha* has a value of more than 0.7 (Ghozali, 2013). This shows that all the variables are reliable.

3.3 Classical Assumption Testing Results

Classical assumption test shows that the data is normal which is indicated by significance value on kolmogorov-Sminrnov more than 0.05.

TABLE III. ormality Test Result Table

Information	Unstandardized Residual
Kolmogorov-Smirnov	1.152
Significance Value	0.141

Source: Primary data processed, 2017

Multicolloniarity test shows that the Tolerance value is more than 0.10 and the VIF value is less than 10, so there is no correlation between variables.

3.4 Hypothesis Testing Results

Fig:2. Hypothesis Testing Results

The result of multiple regression equation from this research are:

Variabel	Koefisien Regresi	Std. Error	Uji Sig
KPI	-,400	,107	,000
KK	,146	,169	,391
KAA	-,298	,122	,017
BEO	-,021	,148	,888

$\alpha = 0,05$

N = 91

Uji R² : Adj R² = 0,194

Uji F : Nilai F = 6,425 dan Nilai sig= 0,000

$$Y = 5,170 - 0,449X_1 + 0,183X_2 - 0,523 X_3 - 0,026 X_4$$

Hypothesis testing results show that the F test shows F value of 6.425 and a significance value of 0.000 which indicates the effectiveness of internal control, compensation suitability, adherence to accounting rules and the ethical culture of the organization together influence the *Accounting Fraud Tendency*.

The R² value of 0.194 indicates that the regression model can only explain the effect on accounting fraud tendency of 19% and 81% explained by other factors not present in the model. TABLE IV. Recapitulation of Hypothesis Testing Results

Hypothesis	Hypothesis	Test t T count	T Table	Sig	Results
H1	Internal control effectiveness significant negative effect on <i>accounting fraud tendency</i>	3,721	1,988	0,000	Be accepted
H2	Compensation suitability does not affect the accounting fraud tendency	0,863	1,988	0,389	Not accepted
H3	Compliance to accounting regulation significant negative effect on <i>accounting fraud tendency</i>	2,442	1,988	0,016	Be accepted
H4	Ethical organization culture does not affect the <i>accounting fraud tendency</i>	0,141	1,988	0,887	Not accepted

Source: Primary data processed, 2017

Accounting Fraud Tendency, Internal Control Effectiveness, Compensation Suitability, Compliance to Accounting Regulation, Ethical Organization Culture

4. Discussion

4.1 Effect of Internal Control Effectiveness on Accounting Fraud Tendency

The result of the hypothesis test shows that the first hypothesis (H1) is accepted.

This shows that the Internal Control Effectiveness negatively affect the *accounting fraud tendency*.

The results of testing this hypothesis in accordance with *diamond fraud* theory stating that the chance or opportunity will encourage individuals to commit a fraud.

Monitoring and evaluation of internal control in the village in Grobogan can narrow down the possibility of *accounting fraud tendency*.

4.2 Effect of Compensation Suitability on Accounting Fraud Tendency

The second hypothesis of this study show the results that the compensation suitability does not affect the *accounting fraud tendency*. The results of this study are not consistent with the theory that describes the *diamond* that the pressure felt by an individual can encourage fraud (*fraud*).

This is supported by the perception of village finance managers who accept perceived financial compensation is considered sufficient.

The results of this study are in accordance with the results of research from Wilopo (2006) and Sulistiyowati (2007) which show that appropriate compensation does not significantly decrease the Accounting Fraud Tendency from company management.

4.3 Effect of Compliance to Accounting Regulation on Accounting Fraud Tendency

Results showed the third hypothesis is accepted, so that adherence to accounting rules had a negative effect on the *accounting fraud tendency*.

Results of testing the third hypothesis is consistent with the *diamond* theory which states that an individual can commit fraud (*fraud*) because the skills to commit *fraud*. The study's findings are consistent with research conducted by Wilopo (2006) and Thoyibatun (2012) which states that the management of the company adhere to the accounting rules, the lower the *tendency* company *accounting fraud*. **Effect of Ethical Organization Culture on Accounting Fraud Tendency**

The results of hypothesis testing hypothesis is not accepted four states indicating that an organization's ethical culture did not affect the *accounting fraud tendency*. The results of four research hypotheses showed results that are not in accordance with the theory of *diamond*. Ethical organization culture does not affect the *accounting fraud tendency*, so someone stated that the fraud committed is not a mistake or wrongdoing. The findings of this study in accordance with the results of research conducted by Najahningrum (2013) and Sulastri and Simanjuntak (2014) which states that there is no influence between ethical organization culture with *accounting fraud tendency*.

5. Conclusion

The test results and discussion that has been presented previously, it can be concluded that the effectiveness of internal controls and adherence to accounting rules significant negative effect on *accounting fraud tendency*, while the ethical appropriateness of compensation and organizational culture does not affect the *accounting fraud tendency*.

6. Suggestion

Suggestions for village government and subsequent research is expected that village finance managers in Grobogan District can still maintain the effectiveness of internal controls and compliance with accounting rules that have been established and pay more attention to village compensation by providing other compensation in the form of allowances, insurance and holidays.

Establish clear organizational ethical cultural rules and socialize to village finance managers to loyal.

Recommendations for future research can do research on *accounting fraud tendency* to determine other factors that affect the *accounting fraud tendency* other than *diamond fraud theory*, So it can be used for comparison with previous research.

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