

THE EFFECT OF THE EFFECTIVENESS OF INTERNAL CONTROL, COMPLIANCE WITH ACCOUNTING RULES AND THE SUITABILITY OF COMPENSATION ON THE TENDENCY OF ACCOUNTING FRAUD IN LPD IN UBUD DISTRICT, GIANYAR REGENCY

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Abstract: This research is entitled "The Effect of the Effectiveness of Internal Control, Compliance with Accounting Rules and Appropriateness of Compensation on the Trend of Accounting Fraud in LPD in Ubud District, Gianyar Regency". The reason for taking the title of this study is based on existing phenomena and many inconsistent research results. The purpose of this study is to prove the effect of the effectiveness of internal control, compliance with accounting rules and the suitability of compensation on the tendency of accounting fraud in LPD Ubud District, Gianyar Regency. This study uses the Purposive Sampling Technique with a sample of 96 respondents obtained from 378 populations. The data collection method was carried out by distributing questionnaires. The data analysis technique used is multiple linear regression analysis. The results of this study show that the variables of Internal Control Effectiveness, and Compensation Suitability have a negative and significant effect on the tendency of accounting fraud. Meanwhile, the Consistency of Accounting Rules variable has a negative effect and is non-significant or has no effect on the Tendency of Accounting Fraud.

Keywords: Effectiveness of Internal Control, Compliance with Accounting Rules, Appropriateness of Compensation and Tendency of Accounting Fraud

INTRODUCTION

In the era of globalization, the advancement of accounting science has two properties: it is beneficial to society and presents challenges such as corruption and misappropriation of assets. The accounting context defines fraud as any deviation from accounting practices and should not be established or applied in an entity (Mahartha, 2019).

Intentions that are deliberately carried out in an improper way or with false information to obtain unreasonable profits can be classified as fraud, which is an irregularity and an unlawful act. It is not possible to establish general rules that can be used to define fraud, as it involves factors such as fraud and fraudulent methods such as fraud.

The Village Credit Institution is regulated in Bali Regional Regulation Number 3 of 2017 which explains that this institution functions as a means of generating wealth in the form of money or other guarantees for villagers, as well as maintaining the growth and development of customary villages and creating jobs. The chairman, treasurer, and administrative officer of each LPD are part of a committee. Village Credit Institutions belong to all, which means that the implementation of LPD requires guidance and supervision from village officials to minimize fraudulent activities carried out by LPD administrators (Mahartha, 2019).

A phenomenon that emerged in 2021 was the Gianyar Regency LPLPD Report which identified LPDs in the Ubud Regency area that were involved in fraud related to corruption crimes, including the Kadewatan LPD. The Village Credit Institution (LPD) of Kadewatan Traditional Village, Ubud, Gianyar has employees who work as collectors who were found guilty of committing 'corruption crimes', according to the Kadesatn LPD. The employee was convicted by the judge for embezzling deposited customer funds of more than 5 billion, as

evidenced by the examination of financial statements that did not match the information available at the location. The phenomenon related to the lack of effective internal control and compliance with accounting rules in Ubud can be seen from the case that occurred in the LPD Kedewatan in Ubud, namely the cessation of LPD operational activities, because the LPD could not maintain its internal control and accounting rules. This is caused by the misappropriation of funds and acts of corruption committed by officials who are not responsible for personal interests, this LPD case began with fraudulent acts committed by officials that led to corruption crimes. Weak

Internal control, non-compliance with accounting rules and inappropriate remuneration can be the main triggers for acts of corruption.

Internal control is needed to anticipate accounting irregularities that may occur within an organization. Internal control refers to the company's plan and all actions to maintain assets, maintain the accuracy and reliability of accounting data, improve efficiency and comply with company management standards (Sari, 2022). Management has three general objectives in designing an effective internal control system, namely reliability of financial reporting, compliance with applicable laws and regulations, and operational effectiveness and efficiency. The effectiveness of internal control is a factor that affects the existence or absence of accounting fraud. Therefore, if internal controls are designed and implemented effectively, then they can be relied upon to protect against fraud, including when employees have an interest in committing accounting fraud tendencies. Weak and loose internal control can provide opportunities for a person to commit accounting fraud, which can harm the institution or agency (Mahartha, 2019).

Based on the background that has been explained above, and the differences in the results of previous research, I am interested in conducting a study with the title **"The Effect of the Effectiveness of Internal Control, Compliance with Accounting Rules and the Suitability of Compensation on the Trend of Accounting Fraud in LPD in Ubud District, Gianyar Regency"**.

LITERATURE REVIEW

Pentagon Fraud Theory

The fraud theory was first proposed by Donald R. Cressey (1953). Based on this theory, there are three factors that cause someone to commit fraud. These three factors are described in the Fraud Triangle. The Fraud Triangle consists of three conditions that usually exist when fraud occurs, namely pressure, opportunity, and rationalization, Wolfe and Hermanson (2004) developed

Fraud Triangle with one additional factor, namely capability/competence. According to Crowe (2011), the Fraud Pentagon Theory is a theory used to detect individual fraudulent behavior, and the Fraud Pentagon contains five elements that cause fraud, namely pressure, opportunity, rationalisation, arrogance, rationalisation, and pressure, opportunity, rationalisation, arrogance, and competence. These five elements are a refinement of the fraud triangle theory previously proposed by Cressey (1953) and the fraud diamond theory proposed by Wolfe and Hermansson (2004).

Agency Theory

Application of agency theory as the theoretical basis in this study Agency theory is defined as a relationship in which the owner of the company (principal) hires another person (agent) to provide a service and delegates decision-making authority to the agent. Therefore, this relationship provides opportunities for agents when the company is unable to provide incentives commensurate with the delegated area of work. Cheating can be prevented by meeting the needs of agents, such as providing discipline-based incentives, salaries and discipline training, to increase the agent's sense of responsibility in carrying out each delegated task.

RESEARCH METHODS

This research place was carried out at the Village Credit Institution (LPD) in Ubud District, by taking LPD data at LPLPD Gianyar Regency and conducting research in every LPD that is still active in Ubud District. The objects used in this study are the effectiveness of internal control, compliance with accounting rules, and the suitability of compensation against the tendency of accounting fraud in the Ubud Village Credit Institution, Gianyar Regency. The population in this study is employees who work at the Village Credit Institution (LPD) of Ubud District, totaling 378 people who are registered at the Gianyar Regency LPLPD for the 2023 Period. Determination techniques

The sample in this study uses the purposive sampling technique where respondents are selected according to the criteria in the study.

RESULTS AND DISCUSSION OF RESULTS

Table 1. Normality Test Results

		Unstandardized Residual
N		96
Normal Parameters ^{a,b}	Mean	0,0000000
	Std. Deviation	2,56433467
Most Extreme Differences	Absolute	0,60
	Positive	0,60
	Negative	-0,036
Kolmogorov-Smirnov Z		0,584
Asymp. Sig. (2-tailed)		0,885

Source: Attachment

Table 2. Multicollinearity Test Results

Type		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Control effectiveness Internal	0,727	1,376
	Compliance with the Rules Accountancy	0.600	1,667
	Compensation Suitability	0,670	1,493

Source: Appendix 4

Table 3. Multiple Linear Regression Analysis Results

Type	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	23,213	2,009		11,557	0,000

Effectiveness Internal Control	-0,422	0,093	-0,433	-4,530	0,000
Compliance with the Rules Accountancy	-0,099	0,102	-0,102	-0,971	0,334
Conformity Compensation	-0,284	0,132	-0,214	-2,152	0,034
a. Dependent Variable: Y					

Source: Appendix 4

DISCUSSION

1. The results of hypothesis testing show that the effectiveness of internal control has a negative effect on the tendency of accounting fraud in LPD Ubud District, Gianyar Regency. This is indicated by a negative regression coefficient value of -0.433 and a significance level of 0.000 or less than alpha (0.05). The results of this study imply that the higher the effectiveness of internal control, the lower the tendency of accounting fraud, and vice versa, the lower the effectiveness of internal control, the higher the tendency of accounting fraud. Therefore, the hypothesis regarding the variables of internal control effectiveness is accepted.

2. The results of hypothesis testing show that compliance with accounting rules has a negative effect on the tendency of accounting fraud in LPD in Ubud District, Gianyar. This is shown by a negative regression coefficient value of -0.102, a significance level of 0.334 or above α (0.05). This shows that partial compliance with accounting rules has no effect on the tendency of accounting fraud in LPD in Ubud District, Gianyar Regency. This indicates that the higher the compliance with accounting rules does not reduce the tendency of accounting fraud.

3. The results of hypothesis testing show that the suitability of remuneration has a negative effect on the tendency of accounting fraud in LPD in Ubud district, Gianyar Regency. This is shown by a negative regression coefficient value of -0.214 and a significance level of 0.034 or less than alpha (0.05). The results of this study imply that the higher the aptitude reward tendency, the lower the accounting fraud tendency, and conversely, the lower the aptitude reward tendency, the higher the accounting fraud tendency. Therefore, the hypothesis regarding the aptitude reward variable is accepted.

CONCLUSION

1. The effectiveness of internal control has a negative effect on the tendency of accounting fraud in LPD in Ubud District, Gianyar Regency. This shows that the higher the effectiveness of internal control, the lower the tendency of accounting fraud. The hypothesis on the internal control effectiveness variable is accepted.

2. Compliance with accounting rules partially has no effect on the tendency of accounting fraud in LPD Ubud District, Gianyar Regency. This shows that the higher the compliance with accounting rules, the less able to reduce the tendency of accounting fraud. The hypothesis on the variable of compliance with accounting rules is

rejected.

3. The suitability of compensation has a negative effect on the tendency of accounting fraud in LPD Seke, Ubud District, Gianyar Regency. This shows that the higher the suitability of compensation, the lower the tendency of accounting fraud. The hypothesis of the variable of compensation suitability is accepted.

SUGGESTION

It is hoped that the LPD of Ubud District will continue to conduct periodic assessments to ensure that internal control has gone well. It is also expected to pay more attention to employees in terms of the suitability of their remuneration, since accounting irregularities begin when the salaries they receive do not correspond to the duties and work entrusted to them. Employees will work optimally if the salary they receive is appropriate. Employee welfare is the main key to suppressing accounting irregularities. Furthermore, it is also hoped that the competence and quality of employees at LPD Seke-Ubud District, Gianyar Regency will be paid more attention or improved. For the next researcher, it is recommended that the research area be expanded so that the results of this study can be developed by adding other research variables, such as HR competence, with the aim of finding out the influence of other influences caused when conducting tests with accounting fraud tendency variables.

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