Determinant of Fraudulent in Government: An Empirical Analysis in Situbondo Regency, East Java, Indonesia

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ABSTRACT

This study aims to explore the perception of employees at financial sector regarding the effect of Compliance Compensation, procedural fairness, law enforcement, effectiveness of internal control, ethical organizational culture, and commitment to organization on fraud in the government sector. The research involved 121 employees as samples of 26 SKPDs (local government work unit) in Situbondo Regency. Samples were taken by purposive sampling. Data were collected by questionnaires. The results showed that Compliance Compensation had no effect on fraud in the government sector, procedural fairness had a negative effect on fraud in the government sector, law enforcement had no effect on fraud in the government sector, effectiveness of internal control had no effect on fraud in the government sector, ethical organizational culture had a negative effect on fraud in the government sector, organizational commitment had a negative effect on fraud in the government sector.

Keywords: Fraud, Government Sector, Internal Control, Indonesia

JEL Classification: H83, M42.

INTRODUCTION

Fraud Triangle theory is one theory of fraud that is widely used by researchers as a guide in their research. This theory was developed by Donald Cressey. Cressey (1953) in Apriadi (2014) is a criminologist and sociologist from the United States who says that there are three causes of fraud, namely pressure, opportunity, and rationalization). This study refers to Fraud Triangle theory because the variables in this study are a proxy of pressure, opportunity and rationalization in accordance with the basis of Fraud Triangle theory.

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Pressure is a stress that causes someone to do fraud. Situational pressure is a condition caused by financial or non-financial factors faced by employees or management that is difficult to solve legally or ethically. There are several issues related to pressure based on several studies that already exist. The study projects a pressure by the presence of Compliance Compensation and procedural fairness.

Compliance Compensation highly influences employee action and performance; it is expected that the provision of compensation in accordance with the work performed by the employees make them feel satisfied which in turn will improve the employee performance and reduce the acts of fraud because an employee's feeling of unequal compensation received against what he has done for the company or institution will stimulate or push the employee to commit fraud for the sake of personal gain.

Procedural fairness is related to the procedure of providing salary or compensation to employees. Remuneration or compensation in accordance with procedures established through legislation is expected to provide a feeling of justice for the employees and reduce the levels of fraud.

Opportunity is a condition that is able to increase the possibility of fraud. It is usually due to the weak internal control of an organization or agency, lack of supervision, and abuse of authority. Of the three elements of fraud triangle, opportunity is an element that is most possibly minimized through the implementation of processes, procedures, controls and is the early detection effort over fraud. In this study, opportunity is proxied by the variables of law enforcement and effectiveness of internal control.

Law enforcement should be implemented and obeyed by all parties involved in order to promote the area, including in the management of APBD (local government budget). Regulation is one way of the local government control in order that the management of APBD run transparently in accordance with the public interest. The management which is not carried out in line with the regulation will enable fraud committed by those involved either directly or indirectly in the management.

The effectiveness of internal control is very important in the implementation of an activity in order to achieve the company or agency goals. The ineffectiveness of internal control will open an opportunity for employees to commit fraud because they will use the ineffectiveness of internal control as a weak point of the company or agency and to smooth their action in doing fraud.

Rationalization is an attitude or thinking process by moral considerations of an employee to rationalize acts of fraud. The actors of fraud are always trying to legitimize their actions by trying to make excuses. This is to calm the individual's feeling in order not to put fear in him. In this study rationalization is proxied by variables of ethical organizational culture and organizational commitment.

Organizational ethics will be a benchmark for an employee in taking an action because an individual will often follow the actions taken by most people in an organization, so that he feels what he did was right because most of his colleagues also did the same thing even though it is a form of fraud.

Organizational commitment can lead an individual to perform various actions. A high commitment to the organization will be able to reduce the levels of fraud.

This research was conducted by exploring the perception of officials who served as the Chief of SKPD, Financial Administration Officer, Expenditure Treasurer and/or Revenue Treasurer and Commitment-Making Officers in the government of Situbondo Regency.

Objects were selected based on preliminary observations where as it has been known that in the year 2007 based on an audit of the Supreme Audit Agency (BPK), Situbondo obtained adverse opinion, and seven years later in 2014, it obtained modified unqualified opinion. This was a good achievement made by all government levels of Situbondo Regency that could not be separated from ongoing guidance and rules, so Situbondo Regency could improve itself. It is interesting to conduct research on fraud in Situbondo Regency. The one of possible reasons of the unqualified opinion was fraud, then it changed into modified unqualified with explanatory paragraph after 7 years since the shift of Regent. It was also the reason for selecting the object.

The research on fraud was carried out in Situbondo Regency because not many studies were found about fraud, so this study is expected to provide information on whether the implementation of policies and laws in Situbondo Regency went well or otherwise and to determine the factors causing the occurrence of fraud in the government sector, especially in Situbondo Regency.

RESEARCH METHODS

Types and Sources of Data

Data used in this study were data on subject. The data were collected by survey method. The technique used was written questions in the form of questionnaires as a tool for the data collection. The measurement applied instrument developed by Colquitt (2001) in Mustikasari (2013) which consists of seven items of questions. The questionnaire used Likert scale with 5 digit ratings

Data analysis applied statistical tool of Multiple Linear Regression with SPSS statistical software because it is esential to determine the relationship between the dependent and independent variables, where the number of independent variables used was 6. Each variable was weighted by multiplying the number of questions and the scores given by the respondents.

Based on the above, the research model regression equation can be formulated as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \varepsilon$$

Y = Fraud in the government sector
α = Constant
X_1 = Compliance Compensation
X_2 = Procedural Justice
X_3 = Law Enforcement / Regulations
X_4 = Effectiveness of Internal Control
X_5 = Ethical Organizational Culture
X_6 = Organizational Commitment
ε = error

RESULT AND DISCUSSION

The following are the results of statistical tests

Table 1 Multiple Regression Result of Fraudulent

Model	Unstandardized Coefficients		Standardized Coefficients
	B	Std. Error	Beta
(Constant)	11.519	7.795	
Compliance Compensation	-0.294	0.336	-0.100
Procedural fairness	-0.830	0.211	-0.416
Law enforcement	0.427	0.393	0.126
Effectiveness of Internal control	0.232	0.349	0.076
Organization and ethical culture	0.884	0.283	0.268
Organizational commitment	0.754	0.189	0.370

Based on the results of data processing as shown in Table 1, obtained by the linear regression equation as follows:

$$Y= 11,519 - 0,294X1 - 0,830X2 + 0,427X3 + 0,232X4 + 0,884X5 + 0,754X6 + 7,795$$

This is the result for hyphotesys testing in this study.

Table 2 Hypothesis Testing Result of Fraudulent in Situbondo

Model	t	Sig.	Result
1 (Constant)	1.478	0.142	
Compliance Compensation	-0.877	0.383	H1 Rejected
Procedural fairness	-3.931	0.000	H2 Accepted
Law enforcement	1.086	0.280	H3 Rejected
Effectiveness of Internal control	0.665	0.508	H4 Rejected
Ethical Organizational Culture	3.126	0.002	H5 Accepted
Organizational commitment	3.984	0.000	H6 Accepted

Table 3 Analysis of Varian Result of Fraudulent in Situbondo

Model	Sum of Squares	Df.	Mean Square	F	Sig.
Regression	1505.765	6	250.961	8.739	.000
Residual	3273.838	114	28.718		
Total	4779.603	120			

Table 4 Multiple Linear Regresion (R²) Result of Fraudulent in Situbondo

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.561a	0.315	0.279	5.359

DISCUSSION

Compliance Compensation

The first hypothesis proposed in this study was that the Compliance Compensation had a negative effect on fraud. In other words, the more appropriate the compensation provided, the lower the possibility of fraud occurred.

The results showed that the Compliance Compensation did not have an effect on the occurrence of fraud in the government sector, so H1 was rejected. This can be seen on Table 2 which shows that the Compliance Compensation (X1) has a significance value of 0.383; this means that the Compliance Compensation has a significance value higher than 0.05 and t-test shows the value of -0.877 which is smaller than t table (0.176). Thus, the Compliance Compensation in the public sector cannot suppress fraud.

Procedural Fairness

The second hypothesis proposed in this study was that on the procedural fairness had a negative effect on fraud. In other words, the higher the procedural fairness in the government sector, the lower the possibility of fraud occurred.

The results of the data processing showed that procedural fairness had an effect on the occurrence of fraud in the government sector, so H2 was accepted. This can be seen on Table 2 which indicates that procedural fairness (X2) has a significantce value of 0.000, which means that the sig value of the procedural fairness variable is less than 0.05 and t-test shows the value of -3.931 which is smaller than t table (0.176). Thus, procedural fairness in the government sector can press fraud.

Law Enforcement

The third hypothesis proposed in this study was that the law enforcement had a negative affect on fraud. In other words, the higher the law enforcement, the lower the possibility of fraud occurred.

The result of data processing showed that law enforcement had a negative effect on fraud in the government sector, so H3 was rejected. This can be seen on Table 2 which shows that law enforcement (X3) has a significance value of 0.280, meaning that the sig value of law enforcement variable is greater than 0.05, and t-test represents the value of 1.086, which is greater than t table (0.176). Thus, law enforcement in the government sector cannot suppress fraud.

Effectiveness of Internal Control

The fourth hypothesis proposed in this study was that the effectiveness of internal control had a negative effect on fraud. In other words, the more effective the internal controls, the lower the possibility of fraud occurred.

The result of data processing showed that the effectiveness of internal control had no effect on fraud in the government sector, so H4 was rejected. This can be seen on Table 2 which shows that the effectiveness of internal control (X4) has a significance value of 0.508. This means that the sig value of the law enforcement variable is greater than 0.05 and t-test indicates the value of 0.665 which is greater than t table (0.176). Thus, the effectiveness of internal control in the government sector cannot suppress fraud.

Ethical Organizational Culture

The fifth hypothesis proposed in this study was that the ethical organizational culture had a negative effect on fraud. In other words, the more ethical the organizational culture, the lower the possibility of fraud occurred.

The results of data processing showed that the ethical organizational culture affected fraud in the public sector, so H5 was accepted. This can be seen on Table 2 which shows that the ethical organizational culture (X5) has a significance value of 0.002, meaning that the sig value of the variable of ethical organizational culture is less than 0.05, and t-test shows the value of 3.126 which is greater than t table (0.176). Thus, the ethical organizational culture in the public sector can press fraud. Thus, the ethical organizational culture can reduce fraud in the government sector.

Organizational commitment

The sixth hypothesis proposed in this study was that the organizational commitment had a negative effect on fraud. In other words, the higher the organizational commitment to the agency, the lower the possibility of fraud occurred.

The results of data processing showed that the organizational commitment affected fraud in the public sector, so H6 was accepted. This can be seen on Table 2 which shows that the organizational commitment (X6) has a significance value of 0.000, which means that the sig value of the organizational commitment variable was less than 0.05, and t-test showed the value of 3.984 which is greater than t table (0.176). Thus, the organizational commitment can press fraud in the government sector.

CONCLUSIONS AND LIMITATIONS

Based on the research results and the formulation of hypotheses described in previous chapters, it can be concluded that the factors of procedural fairness, ethical organizational culture, and organizational commitment affect the perception of fraud in the government agency. The

procedural fairness in the government sector of Situbondo Regency is included in category of fair tendency, the ethical organizational culture in public sector of Situbondo Regency is included in category of ethical tendency, and the organizational commitment in government sector of Situbondo Regency is included in the category of commitment tendency to the organization. Furthermore, Compliance Compensation, law enforcement, and effectiveness of internal control have no effect on the perception of fraud in the government agency of Situbondo Regency. This study has been carried out and implemented in accordance with scientific procedures; however, it still has some limitations: a. The research was focused only on the employee perception of fraud, so that the measurement of fraud could not certainly be made. b. The research still used questionnaires with measurement scale, so the respondents' answers did not reflect the reality.

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