

# Internal Control Toward Accounting Fraud Tendency At Whole Bmt

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**Abstract:** This study aims to determine the effect of internal control, individual morality to the fraud accounting tendencies in the BMT. This research is a field research with a quantitative approach. The data used are primary data with survey methods through questionnaires. There are two independent variables in this study, namely internal control and the dependent variable in this study is the tendency of fraud accounting. The population in this study were all BMT employees in Kudus District who were members of the BMT, totaling 302 employees. A sample of 173 respondents used the purposive sampling method. The results of this study indicate that internal control has a negative effect on the tendency of fraud accounting.

**Keywords:** Internal control, fraud accounting tendencies.

## 1. INTRODUCTION

Fraud cases at banking committed by its employees in 2015 – 2016 occurred at Bank Tabungan Pensiunan Nasional or National Retirement Saving Sharia Bank, suffering 169 million IDR loss, taken by its employee named Elisa. The mode was creating fictitious report and client's data. It was done when the perpetrator officiated as central builder at Sharia BTPN so the perpetrator was freely doing his action (Tribun Lampung, 2017). Even, recently, it has been revealed new fraud modes in banking: from credit distribution and implementation of digital banking. Based on fraud credit, frequently used mode is by self-bankrupting. Mandiri accounted that 17 cases of bankrupting are being handled. Besides credit fraud, there is also digital banking fraud. This crime is various by skimming – doubling magnetic tapes, and phishing – making clones and modifying website as its original. Besides that, swim swap modes – changing SIM card, also occurs. To execute this action, the perpetrator usually cooperates with cellular outlets or agents to gain access of victims' SIM cards. The latest fraud mode is indicated by Russian made devices which are capable of intervening signals of ATM machines to bring out the money (Yudistira, 2017). Financial institution is needed by whole societies of Indonesia. Moreover, Indonesia with the greatest population of Muslims in the world has greater potency to develop sharia financial institution. One of them is through Baitul Maal Wat Tamwil – Sharia Money and Finance, BMT. It does not matter when BMT is financial institution which initially developed in local regional. In another side, sharia banking must be aware of BMT business model and BMT should understand bank business model. Bank has strength points on its technology and system while BMT is good at humanism approach to its clients. Because of lower technology and system, accounting fraud may occur in moderate financial institutions, at several BMTs in Kudus. The modes may vary started from fictitious sales, fictitious funding, fictitious withdrawal, and many more committed by BMTs' employees. Thus, BMTs suffer huge losses until stopping its operation (Hunurrosyidah, 2018). Fraud as an intentional action to use sources of company abnormally and mistakenly, it is factually used to gain personal benefits. Fraud is an action breaching law as referred by article 278 criminal code and 268 criminal code (Priantara, 2013:4). Association of Indonesian Accountants (IAI) explains accounting fraud as: 1) mistakenly presenting

caused by financial statement fraud such as mis-presenting or intentional embezzlement the amount or statement of financial report to deceive its users, 2) mistakenly presenting caused by misappropriation to assets (embezzlement) related to stealing asset entity to have caused misappropriate financial report presentation to general accepted accounting principle in Indonesia (PABU) (IAI, 2018:316). Cressey states three conditions generally emerge when fraud occurs: pressure, opportunity, and rationalization. Pressure appears due to needs of financial problems but most of them are triggered by greed. An individual's greed gets higher when he has lower morality so he cannot act properly and morally (Priantara, 2013:44). The perpetrators believe or feel their actions are normal for humans whose love of money nature and it is not a mistake (Priantara, 2013:46-47). Agency theory is a theory explaining accounting fraud tendency (Jensendan Meckling in Udayani et al, 2017). This research was done at BMTs in Kudus since they are moderate sharia financial institutions and closed to societies and micro business people. However, based on observation on several BMTs suffering losses due to the fraud in which were caused by misappropriation of authority by managers or fictitious sales by employees. Based on the phenomenon, the raising question is how the influence of internal control to accounting fraud tendency is?

## LITERATURE REVIEW

### Agency Theory

The owner has interest to obtain maximal outcome of the already invested fund. Meanwhile, the management has personal interest to obtain incentives upon company's fund management (Jensen and Meckling in Udayani et al, 2017).

### Internal Control

Internal control within COSO framework is a process affected by board of directors, management, and employees which are designed to provide sufficient belief related to achievement of company's goals (IAI, 2015:99). Process affected by board of directors, management, and other employees provide normal belief which are in line to categories: effectiveness and efficiency of operation, reliability of financial reports, and adherence to law and current rules (Sawyer, 2005:144). Internal Control Components based on Committee of Sponsoring

Organization of the Treadway Commission (COSO) Version COSO Internal Control Integrated Framework has five components:

1. Control Environment
2. Control Activities
3. Risk Assessment
4. Information and Communication
5. Monitoring

Besides that, its internal control is purposed to make the organization to adhere the current rule and law (Mulyadi, 2013:234).

### Accounting Fraud Tendency

The motives are to enrich an individual's self/a group of people. The modes are similar, by using illegal ways (Priantara, 2013:44). Association of Certified Fraud Examiners (ACFE) arranges maps about fraud. This tree shape map has three main branches: corruption, asset misappropriation, and fraudulent statement. peta mengenai fraud. Delf (2004) added another one typology called as cybercrime fraud. It is the most frightening fraud in the future where technology will develop faster and be more advance (Priantara, 2013:66). Cressey (1953) found fraud triangle. It is three common conditions occurred when there is fraud. They are incentive/pressure, opportunity, and attitude/rationalization (Priantara, 2013:44) Fraud triangle theory is a notion investigating fraud causes. It was firstly created by Cressey (1953), named fraud triangle. It consists of three common conditions occurred during fraud: incentive/pressure, opportunity, and attitude/rationalization (Priantara, 2013:44).

### Indicators of Measuring Accounting Fraud Tendency

The instruments to measure the tendency consists of five items developed by the researchers from SPAP, section 316 IAPI, 2011 as following: (1) tendency to manipulate, falsify, and change accounting notes; (2) tendency to mistakenly present or removing transaction event and significant information upon financial statement; (3) tendency to intentionally commit a mistake in implementing accounting principles; (4) tendency to mistakenly present financial statement toward assets causing entity pays unaccepted good/service.

#### Thus, the hypothesis is:

H<sub>1</sub>: There is influence of internal control to accounting fraud tendency of whole BMTs in Kudus

## METHODOLOGY

This quantitative field research used primary data from survey done by questionnaire. There are two independent variables internal control and accounting fraud tendency. The population of the research is whole employees of BMTs in Kudus, joining PBMT, with total numbers of 302 employees. The sample involves 173 respondents taken by purposive sampling. Techniques of analyzing data are research instrument and hypothesis tests by using regressive statistic method technique.

## FINDING AND DISCUSSION

H<sub>1</sub> : There is influence of internal control to accounting fraud tendency

The result show that direct effect coefficient of internal control to the tendency (lane c) of model (1) is -0.22 and significant (0.03). It shows (H<sub>1</sub>) is accepted.

## DISCUSSION

Influence of Internal Control to Accounting Fraud Tendency Internal control negatively influences to the tendency at the whole BMTs in Kudus. Better internal control at BMTs leads to lower accounting fraud tendency. Internal control within COSO framework is a process influenced by board of directors, management, and other employees and is designed to provide sufficient belief dealing with achievements of company's purposes (IAI, 2015:99). Internal control of BMTs is a system consisting of specific policies and procedures to manage BMTs which must be adhered by each employee. The already determined purpose of internal control of each BMT allows everything done by the employees is in line with internal control and leads to BMTs' purposes. Internal control is promoted by each employee's action and not merely a guidance, procedure, or only a policy. Thus, it is expected to be capable of giving sufficient belief instead of absolute belief of managements of whole BMTs in Kudus. Then, it can be stated that more effective of internal control of whole BMTs in Kudus causes lower accounting fraud tendency level committed by BMTs' employees in Kudus. It is due to internal control allows managements of BMTs to be responsible in preparing financial statement so management parties may execute their obligation based on current rules and law. The findings are consistent to Eliza's research, stating that internal control negatively and is significant to accounting fraud level of regional work unit PADANG. It is shown by hypothesis test individually – the internal control system, with significant level  $0.011 < 0.05$ . Thus, the hypothesis is accepted (Eliza, 2015). It is also consistent to Udayani's research titled "Influences of Internal Control and Individual Morality to Accounting Fraud Tendency at Umalas Villa Resident". It states internal control negatively influences and is significant to accounting fraud tendency with level of calculated t on internal control variable is -1.836, significant level 0.40. Therefore, by using significant limit 0.05, its significance is less than 5%. It means H<sub>0</sub> is denied and H<sub>1</sub> is accepted. It shows internal control negatively influences accounting fraud tendency. (Udayani, 2017).

## CONCLUSION

Based on the findings, internal control negatively influences accounting fraud tendency of whole BMTs in Kudus. It is shown by direct effect coefficient test of internal control to the tendency (lane c) of model (1) is -0.22 and is significant (0.03). It means more effective internal control of the BMTs lowers the level of accounting fraud tendency. It is consistent to Eliza's study (2015), Novikasari et al (2017), and Udayani et al (2017).

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