

CHAPTER I

INTRODUCTION

1.1 Background of Final Report

Private and government agencies are two forms of agency that are distinguished by their ownership. Private agency is an organizational unit consisting of various individuals who work together to achieve organizational goal, namely to make a profit. According to previous explanation, organizations need funding that supports the achievement of its goal. Sources of funds obtained by private agencies to carry out their activities can come from internal and external sources. Owned capital and retained earnings are sources of funds that come from internal organization. Whereas, funds that come from external organization can be in the form of loan and the issuance of shares. The use of various sources of funds must be reported to the director or shareholder as a form of accountability. On the other hand, government agency is a government organizational unit where the purpose of carrying out activities in it is not for profit.

Tax, retribution, subsidy, and debt receipts are various sources of financing used by government agencies. The source of funding is dominated by public funds so that government agencies are required to report the use of funds to the community and the House of Representatives, both central and regional, as a form of accountability. Based on that, in this final report, the writer focuses on accounting frauds that occur in government agencies.

Accounting fraud is a violation of law that causes harm to other parties, both directly and indirectly. It can be committed not only by parties who are members of an organization such as employees and managers, but can also be committed by external parties. According to Indonesian Institute of Certified Public Accountants/IICPA (2013) in Auditing Standards 240, fraud is an unjust and unlawful act committed by individuals or groups both from within or outside the organization to obtain a number of benefits (p. 7). The action is carried out intentionally in which the benefits obtained are intended for the interests of the parties themselves (Ade, 2017, p. 2). According to the Association of Certified Fraud Examiners/ACFE (2004), there are three classifications of accounting fraud, namely fraudulent financial reporting, misappropriation of assets, and corruption (p. 11). The impact of these frauds is that the financial statements issued by the relevant agencies become unobjective so that it can mislead the users (Sholehah, Rahim & Muslim, 2018, pp. 40-41). In addition, accounting frauds also harm the financial of agency itself (Adi, Ardiyani & Ardianingsih, 2016, p. 1). Therefore, accounting fraud needs to be prevented.

Ade (2017) stated that there are two main factors that encourage individuals to commit accounting frauds (p. 2). The first one is external factors. External factors are originated from the agency itself such as weak internal control, non-independent internal auditors, poor leadership style, weak law enforcement, and others. The second one is internal factors. It is originated from within the individual such as low integrity for the agency, low individual's morality, low

individual's job satisfaction, etc. Therefore, in this final report the writer focuses only on the individual's factors.

The writer raises the title “**Individual's Factors Affecting the Tendency of Accounting Frauds in Government Agencies**” based on three considerations. First, individual's factors are the key to prevent accounting fraud. It is because chance of individuals to commit fraud is less if they realize that fraud is a crime, even if there is an opportunity. Next, the level of accounting frauds occur in various government agencies is higher compared to private agencies. Corruption is a form of fraud that often occurs in the government agencies (Paranoan, Tandingan & Sipi, 2018, p. 2). Budget misuse is the most corrupt mode with 154 cases causing state losses of up to Rp 1.2 trillion, followed by mark-ups with 77 cases, and illegal fees with 71 cases (Rodiah, Ardianni & Herlina, 2019, p. 100). The last is the large impacts of accounting frauds in government agencies. *Komisi Pemberantasan Korupsi/KPK*, an independent institution established to handle the problems of corruption in Indonesia, stated that the various effects of corruption include the country's economy, social and poverty, government bureaucracy, politics and democracy, law enforcement, national defence and security, and environmental damage. In conclusion, individual's factors need to be known to prevent the tendency of accounting frauds in government agencies.

1.2 Objectives of Final Report

The objective of this final report is to inform the government as the subject of discussion in this final report regarding various individual's factors that

influence the tendency of accounting fraud in government agencies. This report is also intended to inform readers about the correlation between various individual's factors such as anti-fraud awareness, integrity, individual morality, job satisfaction, and observance of accounting rules and the tendency of accounting fraud.

1.3 Significances of Final Report

This final report has two significances. First, it is expected that it can be used by the government as input in dealing with accounting fraud problems that often occur. Second, it is expected that this final report can increase knowledge regarding the factors that play a role in the tendency of accounting fraud in government agencies. In conclusion, the significances of this final report are expected to be useful for various interested parties regarding related matters.