

THE FACTORS AFFECTING TENDENCY OF FRAUD IN GOVERNMENT SECTOR

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Abstract; The purpose of this study is to explore perception of government officials in government agencies about the effects of morality of individuals, organizational culture, and leadership style on tendency of fraud. This study is a quantitative research using a survey which collected main data from the samples by using questionnaire. This research was analyzed with Multiple Linear Regression Analysis. The respondents of this research were the Subsection Head of Finance and Expenditure Treasurer. The findings indicate that morality of individuals has no significant effect on tendency of fraud, while organizational culture and leadership style have a significant negative effect on tendency of fraud.

Abstrak; Tujuan penelitian ini adalah untuk menggali persepsi para pegawai pemerintah di instansi pemerintahan mengenai pengaruh moralitas individu, budaya organisasi, dan gaya kepemimpinan terhadap kecenderungan fraud. Penelitian ini menggunakan metode kuantitatif dengan cara survei yakni mengumpulkan data pokok dari suatu sampel dengan memakai instrumen kuesioner. Penelitian ini dianalisis dengan menggunakan Analisis Regresi Linier Berganda. Responden penelitian adalah kepada Kasubbag Keuangan dan Bendahara Pengeluaran. Hasil penelitian menunjukkan bahwa moralitas individu tidak berpengaruh signifikan terhadap kecenderungan fraud, sedangkan budaya organisasi dan gaya kepemimpinan berpengaruh negatif signifikan terhadap kecenderungan fraud.

INTRODUCTION

Fraud is an international phenomenon that strikes all countries including Indonesia. Fraud committed by unscrupulous government is difficult to detect because the abuser is usually a trusted people to run a project. One form of fraud that often occurs in Indonesia is corruption. Corruption is no longer a culture of shame, all people can do it, young or old. Currently, Indonesia's ranking in corruption index issued by *Transparency International* in the year 2015 by the score of *Corruption Perceptions Index* (CPI) of Indonesia was by 36 and ranked 88 of 168 countries measured. Indonesia got a score of 36, up from last year, 34. Indonesia's score slowly rose 2 points, and rose high enough 19 rankings from the previous year (*Transparency International*, 2015).

Many officials in an organization are concerned about how their employee behave in the workplace, where an employee behaving towards the community can have a big impact. Negligence of moral (Ostas, 2007) and deterioration of morals can be attributed to fraud (Guttentaget *et al.*, 2008). Welton *et al.* (1994) argues that the ability of individuals in solving ethical dilemmas is affected by the level of reasoning of his moral. Research conducted by Puspasari and Suwardi (2016); Rest (1994) suggests that the morality of an individual affects the person's tendency to commit *Fraud*. The higher morality of an individual, the more he will strive to avoid the tendency of fraud. The higher moral reasoning is more affected than the lower moral reasoning with their attitude toward such behavior (Uddin and Gillett, 2002).

In addition, a successful work is rooted in the values held and behaviors that become habit. These values originate from the customs, religion, norms and rules that become a belief and a habit in the behavior of the work or the organization. The values that have become a habit is called culture. In preventing fraud is to improve the performance of government, it requires the implementation of an enhancement of organizational culture. Culture can help solve certain administrative problems (Tierney 1988). Research by Fontes (2015) suggests that organizational culture affects the propensity of corruption. Similarly, research by Fagbohungebe *et al.* (2012) finds the cultural effect on fraud. Culture needs to be seen, not as a variable that is measured, recorded and controlled, but as the context in which the interpretation of the organization's identity is formed and intentions to affect the image of the organization (Jo Hatch and Schultz, 1997). Organizational culture depends on the existence on the organization that can be defined, in the sense that a number of people interact with one another for the purpose of achieving some goals in the environment they define (Schein, 1983). For it takes the environment control, risk assessment, control activities, information and communication, and monitoring that is expected to prevent *Fraud* (Nisak, *et al.*, 2013)

One of the factors that are important for organizational success is effective leadership (Salahuddin, 2010). A leader has the ability to nurture and become exemplary role model for all employees with positive ways. Leadership can make a difference in creating an organizational culture that is ethical or not ethical (Sims and Brinkman, 2002). Leadership with expertise and experience can achieve positive organizational results (Chan, 2010). The appropriate leadership style can produce better performance (Turner & Muller, 2005). Leadership style is not directly related to performance but are not directly related (Ogbonna and Harris, 2000). Research by Akindele (2011) states that leadership style can be the cause or has a serious effect on the impact of to commit fraud. Meanwhile, study of Rusdi & Kumalasari (2015) shows that leadership style had no effect on the tendency of fraud (*Fraud*).

Cases of fraud that most common in Indonesia is the type of corruption. The number of cases of fraud in particular corruption indicates that the weak supervision performed by the agencies or institutions both in the government and private sector. As for case of fraud that happened in Bangkalan Regency was the corruption of funds for procurement of goods and services fiscal year 2014 in the General Section of the Regional Secretary, defined as a suspect by the State Judiciary (*Kejari*) for allegedly abusing state finances. The mode of corruption carried out by his subordinates was by falsifying accountability reports (LPJ), fake receipts, and a memorandum of completeness of the disbursement of which is not in accordance with the implementation in the field. Based on the results of the Report of Examination (LHP) of The Audit Board of Indonesia (BPK), the state suffered losses of Rp 3.2 billion due to the corruption. All the budget in the *mark-up* and a memorandum of expenditures was manipulated. Funds for the procurement of goods and services in the general section was like shopping for food and beverages, stationery office, as well as printing. The total budget for the procurement of goods and services in the general section in the year 2014 was amounted to Rp 5.8 billion. However, as much as Rp. 3.2 billion or more than half of the fund was abused by the suspect.

RESEARCH METHODS

This research was quantitative because it was through scientific calculation and was derived from a sample of people asked to answer a number of questions to a survey or questionnaire to determine the frequency and percentage of their responses. According to Creswell (2014: 5), quantitative research is methods to test certain theories by means of examining the relationship between variables. These variables are measured usually with the instruments of the research so that data consisting of the numbers can be analyzed based on the procedures of the statistics.

The population in this study was the whole of the Civil State Apparatus (ASN) which were in Regional Working Unit (SKPD) in Bangkalan Regency such as department, agency, office, and district, then part of the number and characteristics considered viable from the population taken into the sample in the study. Sampling in this study uses nonprobability sampling; it is a sampling technique that does not provide opportunities or equal opportunity for each element or member of the population to be selected into the sample (Sugiyono, 2013:95). As for the sampling technique used was purposive sampling; it was a sampling technique with particular consideration (Sugiyono, 2013:96).

Data sources in this study were primary data and secondary data. Primary Data is one of the techniques of data collection directly by using media, e.g. a questionnaire. The deployment and delivery of the questionnaires were done directly to 2 (two) parties i.e. the Subsection Head of Finance, and Expenditure Treasurer. While secondary data is data obtained indirectly or through intermediaries suppose the mass media, books and research journals. Data obtained from the questionnaires of this study should have been verified in advance using *likert scale*. This scale is a way of determining the score by giving the questions related to research related.

Operational Definition of Variables

Tendency of Fraud (Y)

The ACFE describes fraud in a broad sense as the one that can encompass any crime for gain using deception or deceit as the *modus operandi* of the main. Fraud is performed intentionally with false statements or concealment of material facts that can cause a person to commit acts of damage. The measurement of variables of tendency of fraud is in the emphasize on the attitude regarding the act of infringement, act of tunneling (*trespassing*) and violations in the context of the law and the rules of the organization. From these definitions, the measurement was performed by using an indicator (Indriani *et al.*, 2016), namely (1) misappropriation of assets, (2) manipulation of reports/ proof of transaction/ results of the work, (3) corruption, (4) to receive gratuities (*fee*), and (5) misuse of the budget.

Morality of Individuals (X1)

According to Puspasari and Suwardi (2012), morality is the overall principles and values with regard to the good or bad nature as a human being. Morality is indicated on the behavior and actions that are positive with the process of socializing individuals to the vicinity. The measurement of variables is conducted with three Stages of Development of Morals by Kohlberg (1969), namely, the stage of the lowest morals (*pre-conventional*), the stage of the second morals (*conventional*), and the highest (*post-conventional*).

Organizational Culture (X2)

According to Indriani *et al.* (2016), organizational culture or corporate culture is the values, norms, beliefs, attitudes and assumptions which are the form of how people in organizations behave and do things that can be done. Based on this, indicators that can be used in the measurement (Creemers and Reynolds, 1993) are (1) value, (2) norms, (3) beliefs, (4) attitudes, and (5) assumptions.

Leadership Style (X3)

According to Gibson *et al.* (1996), leadership styles are various patterns of behavior favored by leaders in the process of directing and influencing workers. Based on these definitions, the indicator that can be used (Wahjosumidjo, 1996), namely (1) instructive behavior, (2) consultative behavior, (3) participatory behavior, and (4) delegative behavior.

Techniques and Analysis of Data

Hypothesis testing of this study was Multiple Linear Regression Analysis, that was the linear relationship between two or more independent variables (X_1, X_2, \dots, X_n) with the dependent variable (Y). This analysis is to determine the direction of the relationship between independent variables and dependent variables, whether each independent variable associate positive or negatively and to predict the value of dependent variables when values of independent variables increase or decrease (Wijaya, 2009). The hypothesis test used was the Partial Hypothesis Test (t test). This was performed to test partially the effects of Morality of Individuals, Organizational Culture, and Leadership Style on Tendency of *Fraud*.

FINDINGS AND DISCUSSION

Data Quality Test

Validity Test

Based on the results of the validity test from 99 respondents in this study over the questions instrument, it is stated that everything is valid where *the corrected item-total correlation* (r-count) is higher than r-table, namely N=99 at the 5% significance it is found the value of r-table = 0.195, except question number three because r-count is smaller than r-table, where r-count is of 0.180. The value of r-table is obtained from the statistical table.

Reliability Test

Based on the data obtained in this research, Morality of Individuals (X1) is not reliable, while Organizational Culture (X2), Leadership Style (X3), and Tendency of Fraud (Y) are reliable if the *cronbach's alpha* is at least 0.5 and can be concluded all of the variables are proved to be reliable.

Classical Assumption Test

Normality Test

Based on the data obtained in this study, it indicates that the value of the *Kolmogorov-Smirnov Z* by 1,212 and the value of significance is higher than 0.05, so the variable of Morality of Individuals, Organizational Culture, Leadership Style, and Tendency of Fraud are distributed normally.

Multicollinearity Test

Based on the data obtained in this research, it shows that the value of tolerance of all the variables show the value of >0.1 and the *Variance Inflation Factor*(VIF) <10 . Therefore, it can be concluded that it does not occur multicollinearity among the variable of Morality of Individuals (X1), Organizational Culture (X2), and Leadership Style (X3).

Heteroscedasticity Test

Based on the data obtained in this study, it indicates that the significant value of the variable of Morality of Individuals (X1) and the variable of Organizational Culture (X2) shows a value of >0.05 is not the case of heteroscedasticity. For the variable of Leadership Style (X3) indicates value <0.05 , which means going heteroscedasticity.

Results of Multiple Linear Regression Analysis

Table 1
Results of Multiple Linear Regression Test

Variable	Coefficient Regression	t-count	Sig.	Description
(Constant)	4.907	5.634	0.000	
Morality of Individuals	0.000	-0.001	0.999	*Not Significant
Organizational Culture	-0.433	-2.161	0.033	*Significant
Leadership Style	-0.411	-2.545	0.013	*Significant
Model	R	Adjusted R Square		
1	0.424	0.279		

Description: *Sig. α 5% (0,05)

Coefficient of Determination

Based on Table 1, it can be seen that the value of the correlation coefficient (R) equal to 0,424 which means that the relationship between the independent variables (Morality of Individuals, Organizational Culture, and Leadership Style) with the dependent variable (Tendency of *Fraud*) is in the amount of 42.4 %. *Adjusted R Square* (R^2) has a value of 0,154, which means the ability of independent variables in explaining the variance of changes in the dependent variable by 15.4 %. The rest shows the results of 84,6 % (100%-15,4%) is explained by other factors that does not enter the regression model analyzed in this research such as the enforcement of regulations or commitment to the organization.

T test

The results of the t test that can be seen in table 1 shows the morality of the individuals has t-count -0.001 with probability from 0.999 whose value is above 0.05. Therefore, H1 is rejected, meaning that there is no significant effect between Morality of Individuals on Tendency of *Fraud*. Furthermore, the t test results of organizational culture show a t-count of -2.161 with a probability of 0.033, of which the value is under 0.05, then H2 is accepted, i.e. there is significant effect between the culture of organization on tendency of fraud. Next the results of the t test variable of Leadership Style has t-count -2,545 with a probability of 0,013, of which the value is under 0.05, therefore, H3 is accepted which means that there is significant effect between Leadership Style and Tendency of *Fraud*.

Research Discussion

Morality of Individuals does not have a significant effect on Tendency of Fraud

Based on Table 1, it can be seen that the value of regression coefficient of the variable of Morality of Individuals is equal to 0.000 with the value of t-count equal to -0.001 which is smaller than t-table of 1.661 ($0.000 < 1,661$) and a probability value of 0.999, which is higher than 0.05 ($0.999 > 0,05$). Therefore, the first hypothesis (H1) is rejected and it can be concluded that Morality of Individuals has no significant effect on Tendency of *Fraud*. It means that although Morality of Individuals can already be said to be high, but it does not affect tendency of fraud. This is due to tendency of fraud is not affected by the variable Morality of Individuals, but affected by other factors such as Organizational Culture and Leadership Style.

Based on the descriptive statistical data, it is known that the high morality of individuals can be seen from the participation of the respondents in the course/training/technical guidance in the field of accounting, so that they increasingly understand the rules or legislation that exists. In addition, they will be more careful in the act that it does not occur fraud. It can be said that the meaning of morality can be

seen from the way that individuals have a moral in obeying and in the run of rules. This research is in line with research by Aryani (2014) which stated that the morality of management has no effect on the tendency of accounting fraud. morality of individuals needs to be applied to employees in the agency.

The results of this study are not in line with research conducted by Puspasari and Suwardi (2012); Aliyudin (2015); and the Rest (1994) showing that the morality of an individual affects the person's tendency to commit fraud. This is in line with *Fraud Triangle Theory* by Cressey, morality of individuals relates to rationalization. The rationalization here is the action taken to perform the action of fraud. This is done in order to maintain themselves into people whom can be trusted. Rationalization is used only before the act of fraud occurs, if the fraud has been done then the rationalization is no longer needed (Tuanakotta, 2014).

The results of this study are also not in line with research conducted by Goddess (2014) showing that individuals with the level of high moral tend not to do the accounting fraud when compared to individuals with the level of low morals. Similarly, research conducted by Indriani *et al.* (2016) indicates that the variable level of moral reasoning has a significant negative effect on the tendency of the occurrence of the behavior of fraud. The same is the case with research conducted by Wilopo (2006) finding that the higher the level of moral reasoning of the individual would be more likely to not commit accounting fraud.

Organizational Culture Significantly Affects Tendency of Fraud

Based on Table 1, it can be known that the value of regression coefficient variable of Organizational Culture of -0,433 with the value of t-count equal to -2,161 smaller than t-table of 1,661 ($-2,161 < 1,661$) and probability value of 0.033 which is less than 0.05 ($0,033 < 0,05$). Therefore, the second hypothesis (H2) is accepted and can be concluded that Organizational Culture significantly affects Tendency of fraud. This means that the better the organizational culture adopted by the agency, the lower the tendency of fraud will be. It indicates that the cause of fraud tends to be reduced because it has implemented a system of Organizational Culture that is well-controlled and always put the factors of values, norms, beliefs, attitudes, and assumptions, so that it can be the social glue that binds employees to avoid fraud.

Based on the descriptive statistical data, it is known that an agency that adheres to the culture of organization to uphold the values of togetherness in the activity it works, then that agency will tend to be better and sturdy because individuals have a sense of belonging and pride as an employee in the organization. The formation of organizational culture that is ethical can be a very important role in preventing fraud and can also help detect if there is fraud. The implementation of a culture that is ethical, explicitly or implicitly will be followed by the actors of the organization so that the tendency to commit fraud will be reduced.

This research is in line with research conducted by Fontes (2015), stating that organizational culture affects the tendency of corruption. Fagbohunge *et al.* (2012) also find that culture effects on fraud. Someone in fraud is sometimes affected by the existence of opportunities to be a gap for the perpetrators of fraud to be freely doing acts of manipulation or deception that is called chance (Tuanakotta, 2014). This is in accordance with the chance (opportunity) referred to in the motivating factor based on *the Fraud Triangle Theory Cressey*. This can be connected with the variables of organizational culture because the chance or the opportunity of someone doing fraud can be affected by whether organizational culture is effective or not. The effective organizational culture can reduce a person to perform fraud. Soselisa and Mukhlisin (2008) also show the results of their research that the factor of organizational culture significantly has negative effect on the tendency of accounting *Fraud*. Similarly, research by Firdaus and Suryandari (2008) show that the views that organizational culture significantly affects the tendency of accounting fraud.

This study is not in accordance with research conducted by Supriyo *et al.* (2015) indicating organizational culture did not affect the tendency of fraud (*Fraud*). Similarly, the research Indriani *et al.* (2016) signified that organizational culture did not significantly affect the tendency of the behavior of *Fraud* of employees. In this case,

usually fraud can occur due to the internal controls of an organization are weak, lack of supervision, and/or abuse of authority in carrying out his job duties as an employee.

Effect of Leadership Style on Tendency of Fraud

Based on Table 1, the results of hypothesis testing can be known that the value of the regression coefficient of the variable of leadership style by -0.411 with the value of t-count equal -2.545 smaller than t-table of 1,661 ($-2.545 < 1.661$) and the value of the probability of 0,013, which is smaller than 0.05 ($0.013 < 0.05$). Therefore, the third hypothesis (H3) is accepted and can be concluded that leadership style significantly affects tendency of fraud. It means that if a leader can implement a good leadership style, it will be able to lower tendency of fraud. This indicates that leadership style can be said to be effective because the leader can nurture and direct employees with an instructive, consultative, participative, and delegative leadership behavior patterns, which tend to affect employees to avoid fraud and make a positive contribution in carrying out daily tasks.

Based on the descriptive statistical data, it is known that leadership style of a leader can affect the behavior of employees, so it can reduce the tendency of fraud and create the organizational climate to be conducive. A leader has been able to involve all layers of the organization to play an active role in achieving the goals of the organization. This condition is due to a leader can master division of the structure of the task and the responsibility of each employee, so the operational tasks between employees of the agency do not occur spill overlap, and fraud can be prevented as small as possible. It is shown based on the average of is the highest answers of the respondents', that a leader has a good relationship by using two-way communication between superiors and subordinates as well as always providing support to subordinates in carrying out its operational activities, so that *Fraud* tends to decrease.

This research is in line with research conducted by Pramudita (2013) stating that there is a negative effect between leadership style on Tendency of *Fraud* in the government sector. Research conducted by Yudianto and Novianti (2016) also shows that leadership style has a dominant effect in affecting tendency of fraud. Failure can also be affected by pressures that can lead to a person fraud (Tuanakotta, 2014). This is in line with Fraud Triangle Theory Cressey; this pressure can be derived from the employee's desire to commit fraud due to internal and external pressure, so as not to have a strong defense in resisting the pressure encourages to commit fraud. Therefore, pressure is related to the driving factor, that is leadership style. Research conducted by Akindele (2011) also stated that leadership style can be the cause or has a serious effect on the impact of to commit fraud. In contrast, the results of this study are not in line with a research conducted by Rusdi and Kumalasari (2015) showing that leadership style has no effect on tendency of fraud.

CONCLUSION AND SUGGESTIONS

Conclusion

Based on the results of testing and discussion that have been performed, it can be concluded that morality of individuals has no significant effect on tendency of fraud, while organizational culture and leadership style have a significant negative effect on tendency of fraud. It can be interpreted that the high or low level of morality of individuals does not affect tendency of fraud. The better the fabric of the culture of an organization, the more individuals will pay attention to the values, norms, beliefs, attitudes, and assumptions so that it can reduce tendency to commit fraud. The better application of the style of leadership by behaving in an instructively, consultatively, participatively, and delegatively, the lower the tendency of fraud.

Research Limitations

1. The transition period changes in Organizational Structure and Work (SOTK), which today has been converted into the Regional Working Unit (OPD), so the

questionnaires distribution is still pending because they wait for new officials who have been sworn to occupy the new position.

2. Some questionnaires are not returned due to the various constraints of the respondents such as incomprehension, or visiting the respondents for taking time to fill out a questionnaire on the limits that have been set by the researcher.
3. Researchers cannot control when respondents do not answer honestly in answering the questions, because they are only in the form of written questions.
4. The research model that connects the variables X (independent) and Y (dependent) is not necessarily the guarantee of adjusted R square value increases, and it is possible there are other factors that can affect the variables of Tendency of fraud, for example law enforcement or organizational commitment.

Suggestions

The suggestions and recommendations of this research are as follows:

1. For SKPD in Bangkalan Regency, they are expected to increase morality of individuals of the employees, organizational culture, and the quality of leadership style in order to become a better organization and can avoid the tendency of fraud.
2. For the more effective data collecting and can be answered honestly, it can be performed by direct interview to the respondents.
3. Further research is expected to extend the object of study, by adding other variables that can affect the tendency of fraud, such as the enforcement of regulations, or organizational commitment.

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