

CHAPTER I

INTRODUCTION

A. Research Background

In this era, which is full of progress and convenience, fraud is a word that is certainly very familiar, fraud is highlighted in various cases and issues in various media. fraud is of course clearly discussed and explained as written in the verses of the Al-Quran surah Al-Mutaffifin verses 1-2:

وَيْلٌ لِّلْمُطَفِّفِينَ
الَّذِينَ إِذَا أَكْتَالُوا عَلَى النَّاسِ يَسْتَوْفُونَ
وَإِذَا كَالُوهُمْ أَوْ وَزَنُوهُمْ يُخْسِرُونَ[۝]

“Woe to those who cheat (in measuring and weighing)! (Namely) people who when they receive a dose from someone else, they ask for it to be sufficient. and when they measure or weigh (for others), they subtract.”

Allah strictly forbids people who commit fraud by taking or reducing the dose of people's rights. They took something which was not his right by cheating. and they will be held accountable for what they did when everything they did was recorded in their sin record.

Fraud is a familiar thing because the information and news are very easy to find in any media. Cheating generally occurs because of pressure to commit fraud or the urge to take advantage of

opportunities that exist (Tarigan et al., 2016). One of the various types of fraud that is increasing in this modern era is fraud in accounting. Accounting Fraud Tendency (Kecenderungan Kecurangan Akuntansi - KKA) is the desire to do everything to gain profits in a dishonest way such as covering up the truth, fraud, manipulation, cunning or deception which can be in the form of misstatements of financial statements, corruption and misuse of assets (Pada et al., 2017). Accountability can be interpreted as a form of accountability for the implementation of the organization's mission in achieving predetermined goals and objectives, through an accountability medium that is carried out periodically (Nita and Supadmi, 2019). In practice, there is often abuse of rights by employees or even managers in data processing which results in accounting fraud. According to the Association of Certified Fraud Examiners (ACFE), accounting fraud can be classified into three types: fraud in financial statements, misappropriation of assets and corruption (Nita and Supadmi, 2019).

The accounting system is one of the most critical and important things in an organization or company, because it is used to process financial transactions by producing accurate financial information. In connection with this financial data, the accounting system is very vulnerable to fraud. Thus, the tendency of fraud in accounting is a crucial thing that every layer of organizations and companies must

be wary of. Financial report is a form of accountability from the government to the public regarding financial activities in government institutions (Nita and Supadmi, 2019). Accounting fraud tendency has a direct impact in the form of loss on the organization or institution that is managed, for example embezzlement of funds, non-disbursement of funds, low organizational productivity, hampered organizational social expenditures, low level of trust of the people it serves and partners who no longer want to work together. This tendency to fraud is generally the root of the growth of corruption cases.

According to Hall Singleton (2007), corruption is the act of an official or official who illegally and improperly uses his job or position to benefit himself or a certain party, by violating the obligations and rights of others (Pada et al., 2017). Common cases of Accounting Fraud Tendency are usually characterized by actions and policies to eliminate or withhold actual information for manipulation purposes (Pada et al., 2017). Opportunities to commit corruption are generally motivated by the existence of loopholes in committing fraud in matters relating to funds. This is related to accounting, namely in fund allocation reports, financial reports, and other important data related to the transparency of financial data processing of companies or related organizations.

In Indonesia, all forms of fraud cases, especially corruption,

have become one of the most difficult problems to overcome from year to year. Fraud is known as one of the biggest causes of state losses. To find out how severe the level of corruption in Indonesia is, we can look at various facts, one of which is based on the 2013 Corruption Perceptions Index in the ASEAN region, where Indonesia's position is in 6th position with a score of 114 with a score of 32 (Pada et al., 2017). In addition, a fairly recent research source in 2020 based on Indonesia Corruption Watch (ICW) there were 169 corruption cases during the first 6 months of 2020 based on monitoring conducted by the ICW from 1 January to 30 June 2020. The 169 corruption cases investigated by law enforcement, and 139 cases are new corruption cases. (Kompas.com, 2020 accessed on 29 June 2021). Based on the scores and the various results of this world research survey, it shows that actually Indonesia is still not out of the corruption situation.

Indonesia as a country consisting of several provinces is also inseparable from data and corruption cases in its regional government. Accounting fraud at the local government level is also a source that causes Indonesia to become a country with high corruption cases. Cases of accounting fraud that result in corruption in the layers of local government are even more difficult to investigate and uncover for various reasons, such as the limitations of the investigation, as well as dark cooperation in layers between

the apparatus and officials. Local governments have an important role in determining policies that are beneficial to the welfare of their people. It is the regional government that regulates and is responsible for the welfare of its people, including processing regional funds, and the transparency of regional financial accounting records. Therefore, this is inseparable from the opportunity for accounting fraud in local governments.

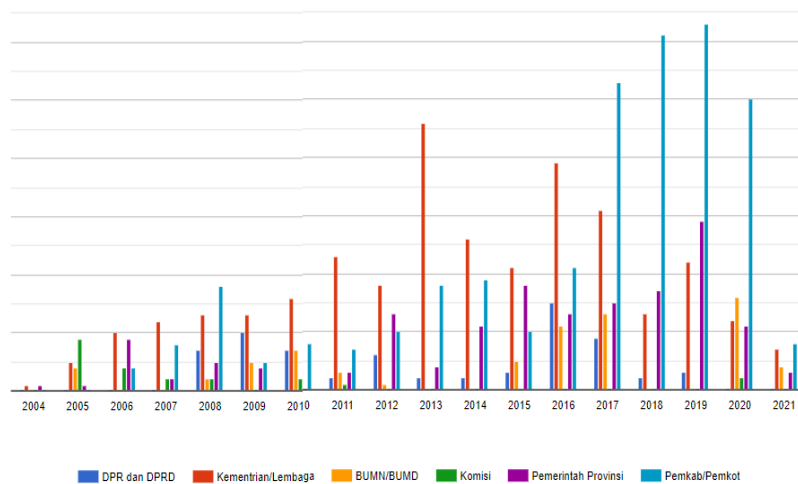


Figure 1.1 graph of the level of corruption in Indonesia

Based on data sources from the scope of fraud cases that have occurred in several local governments in Indonesia, KPK (Komisi Pemberantasan Korupsi) recorded that there were 1,064 corruption crimes from 2004 to 2019, the most corruption cases occurred in 2018 with a total of 260 cases. Members of the DPR and DPRD are the most frequently involved in corruption cases with a total of 103 cases. (tirto.id, accessed on 30 June 2021). From the kpk.go.id as can be seen in the graph above, it shows that the highest

data on corruption cases from 2004 to 2021 is in 2018. In addition, the results of a study by Indonesia Corruption Watch (ICW) also prove that local government employees, both at the provincial, district/city levels, are still the most corrupt perpetrators in 2018. ICW collects data on sentences on corruption cases issued by courts at the District Court Level, High Court, and Supreme Court. The data collection was carried out from January 1 to December 31 2018. In 2017, there were 456 local government employees and 224 private defendants who were involved in corruption cases. In 2016, there were 217 accused local government employees and 150 private parties involved in corruption cases. (Kompas.com, accessed on 30 June 2021).

The number of cases of fraud in the form of corruption found in regional agencies certainly has an impact on regional development, regional income, public benefits, and other big things. Regionally Owned Enterprises (BUMD – Badan Usaha Milik Daerah) is one of the organizations owned by the Regional Government and as a source of Regional Original Income (PAD – Pendapatan Asli daerah) which is an agency that plays an important role in regional development through services to the community, the implementation of public benefits and increasing local government revenues (Prawira, 2014).

One type of regional-owned enterprise (BUMD) Yogyakarta is

a business entity in the banking sector such as the DIY Regional Development Bank (BPD DIY Bank) which is owned by the DIY Provincial Government and Regency/City Regional Governments throughout DIY. As its function and purpose as a regionally-owned enterprise (BUMD), Bank BPD DIY helps and encourages economic growth and regional development in all fields as well as various sources of regional income in order to improve people's welfare (bpddiy.co.id, accessed on 4 July 2021). In addition to BPD Bank, there is also PD BPR Bank Jogja of Yogyakarta City which is also a regionally owned enterprise of Yogyakarta city government with the legal basis of the Yogyakarta City Regional Regulation (bankjogja.com, accessed on 4 July 2021).

However, there was a case involving PD BPR Bank Jogja around March 2021. PD BPR Bank Jogja allegedly disbursed fictitious loans to PT Indonusa Telemedia or Transvision. The DI Yogyakarta High Prosecutor's Office (Kejati) found preliminary evidence of alleged irregularities in credit provision of Rp 27,4 billion. These irregularities led to criminal acts in the form of falsifying documents or providing fictitious credit by BPR Bank Jogja to Transvision (jogja.tribunnews.com, accessed on 4 July 2021). The case that resulted in state loss through the Regional Company (PD – Perusahaan daerah) of the BPR (Bank Perkreditan Rakyat) Bank Jogja has two cases that are under investigation by the

DIY Attorney General's Office. First, he emphasized that there were indications of corruption, and the second case related to money laundering offenses. Jogja Corruption Watch (JCW) activist supported the move by the DIY Attorney General's Office to develop this case into the Crime of Money Laundering (TPPU) (jogja.tribunnews.com, accessed on 4 July 2021).

The last few months in 2021 there was also a case that hit the BPD DIY bank. this case was similar to the case that hit the Jogja Bank, corruption in the form of fictitious credit. The credit value at Bank BPD DIY was said to be worth Rp 48 billion. This amount is greater than the credit value at Bank Jogja, which is Rp 27.4 billion (rri.co.id, accessed on 9 August 2021).

The increasing number of corruption cases that occur in companies, organizations, institutions belonging to the central and local government makes researchers to be increasingly motivated to examine several factors that influence the tendency of accounting fraud. The indicators used were the tendency to manipulate, falsify, or change accounting records or supporting documents, the tendency to misrepresent or omit significant events, transactions, or information from the financial statements, the tendency to intentionally misapply accounting principles, the tendency to misrepresent financial statements due to theft (misuse / embezzlement) of assets that makes the entity pay for

goods/services that it does not receive and the tendency to misrepresent financial statements due to improper treatment of assets and accompanied by false records or documents and may involve one or more individuals among management, employees, or third parties (Pada et al., 2017).

Given the importance of the role of BUMD in local government, therefore, this research is entitled “The Influence of Individual Morality, Information Asymmetry, Effectiveness of Internal Control, and Organizational Commitment to the Tendency of Accounting Fraud in BUMD in Yogyakarta City”. It was conducted in 2 Regional Owned Enterprises (BUMD) in the city of Yogyakarta which focused on banking, including: DIY Regional Development Bank (BPD DIY Bank), and PD BPR Bank Jogja Yogyakarta City. This research is a development of research conducted by Prawira, Herawati and Darmawan (2014) with the research title "The Influence of Individual Morality, Information Asymmetry and Effectiveness of Internal Control Against Accounting Fraud Trends (Empirical Study on Regional Owned Enterprises in Buleleng Regency).” This research was developed by modifying different research scopes; Buleleng Regency and Yogyakarta City, SPSS and PLS and added one of the factors that could influence the tendency of accounting fraud, namely organizational commitment. The organizational committee variable was chosen based on the advice

of previous researchers and to find out whether the organizational commitment at the BPR Jogja and BPD DIY was high or low so that it could affect the tendency of accounting fraud which resulted in corruption cases in each of these banks. In addition to several modifications from previous studies, there are many differences in results between previous studies on the variables studied, making this study more motivated to prove the results on the influence of individual morality, information asymmetry, effectiveness of internal control, and organizational commitment to the tendency of accounting fraud in BUMD in the Yogyakarta City.

Table 1.1

Research GAP

Research GAP	Result	Journals
there are differences on research results on the influence of individual morality on the tendency of accounting fraud	has a negative effect	(Tarigan et al., 2016), (Komala et al., 2019), and (Apriani, 2017)
	has no negative effect	(Khoiriyah et al., 2019) and (Fadhli et al., n.d.)
there are differences on research results on the influence of information asymmetry on the tendency of accounting fraud	has a positive effect	(Aswad, H., Hasan, A., 2018), (Nita and Supadmi, 2019), and (Bestari et al., 2016)
	has no positive effect	(Ahriati et al., 2015), and (Riandani and Rahmawati, 2019)

Research GAP	Result	Journals
there are differences on research results on the influence of effectiveness of internal control on the tendency of accounting fraud	has a negative effect	(Tarigan et al., 2016), (Komala et al., 2019), (Dewi, 2017), and (Fadhli et al., n.d.)
	has no negative effect	(Padhilah & Burhany, 2020), (Mufidah and Sari, 2018), and (Hayati and Amalia, 2021)
there are differences on research results on the influence of organizational commitment on the tendency of accounting fraud	has a negative effect	(Virmayani et al., 2017), and (Natalia et al., 2020)
	has no negative effect	(Pramudita, 2013), (Wiranti and Mayangsari, 2016), and (Natasya et al., 2017)

Source: data created 2022

B. Research Problem Formulation

There are several problems that can be examined in this study.

The problems are as follows:

1. Does individual morality has a negative effect on the tendency of accounting fraud?
2. Does information asymmetry has a positive effect on the tendency of accounting fraud?
3. Does effectiveness of internal control has a negative effect on the tendency of accounting fraud?
4. Does organizational commitment has a negative effect on the tendency of accounting fraud?

C. Research Objectives

There are some research purposes that we want to achieve of solving those problem in this paper. The objectives of the research are:

1. To determine the negative effect of individual morality on the tendency of accounting fraud in BPD DIY Bank and PD BPR Bank Jogja (BUMD) in Yogyakarta.
2. To determine the positive effect of information asymmetry on the tendency of accounting fraud in BPD DIY Bank and PD BPR Bank Jogja (BUMD) in Yogyakarta.
3. To determine the negative effect of the effectiveness of internal control on the tendency of accounting fraud in BPD DIY Bank and PD BPR Bank Jogja (BUMD) in Yogyakarta.
4. To determine the negative effect of organizational commitment on the tendency of accounting fraud in BUMD Yogyakarta.

D. Research Benefits

This research is expected to provide benefits as follows:

1. Theoretical Benefits
 - This research provides additional knowledge and analysis of the development of the problems researched.
 - This research is one of the sources for proving lies and supporting the truth in related problems.
 - This research is a tool to build knowledge and facilitate

learning related to the problem.

2. Practical Benefits

- This research can be an answer, solution, and information for the development of BUMD progress, especially in the city of Yogyakarta and other areas.
- This research is one of the sources of understanding various problems related to and increasing public awareness of accounting fraud.
- This research can be a source in finding, measuring, and it function as a reference for future research opportunities.