Impact of Individual Morality and Internal Control on Accounting Fraud Trends
(Viewed From Literature Study)

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Abstract

This study aims to determine the significance of the impact of individual morality and internal control on the tendency of accounting fraud. To obtain the data used journal and library data collection methods, data analysis methods used are descriptive methods, literature, and literature studies. This article concludes that individual morality has a significant negative impact on accounting fraud and internal control has a significant adverse effect on the tendency of accounting fraud.

Keywords - Individual Morality, Internal Control, Accounting Fraud.

I. INTRODUCTION

At present, the development of the world of accounting has been very rapid. However, every situation has two sides. Advances in accounting that benefit society can also be a source of very complex fraud problems, such as the emergence of corruption, manipulation of financial statements, or misappropriation of assets. In Indonesia, in the case of accounting fraud tendencies have been ongoing. The trend of accounting fraud has attracted a lot of media attention and has become a fundamental problem for world businesses. Fraud is a form of deliberate deception that will cause losses without the injured party's notice by providing benefits for the perpetrators of fraud.

One form of fraud that often occurs in Indonesia is corruption. Unfortunately, there are still many corruption cases in Indonesia. This situation is very concerning. The reason is that officeholders who the people should trust take advantage of their positions for wrong actions. The number of cases in various parts of Indonesia has become an additional task for the government to overcome, considering that there is still a lack of anti-corruption education instilled from an early age.

Many factors influence the occurrence of fraud. One of the triggering factors for fraud is the opportunity factor. Opportunity is a situation that opens up opportunities for individuals to commit fraud who take advantage in detrimental ways. The opportunity can be in the form of weaknesses inherent in the internal control system contained in the company, namely the work process or organization (business process) with conditions, among others, the first is an inappropriate internal control design, thus leaving a "gap." The two practices deviate from the operational plan; the third is inconsistent monitoring (controlling) on implementing business processes, and finally, the evaluation that does not run on the applicable business processes.

Weaknesses in internal control are factors that cause fraud to occur. Internal control is one way that acts as prevention and detection of fraud caused by human resources and information technology systems in the company. Internal control is a process carried out by the board of directors, management, and employees designed to assure that who will achieve the organization's objectives through operational efficiency and effectiveness, the presentation of reliable financial statements, and compliance with applicable laws and regulations.

Many of the causes of fraud cases are due to the absence of an internal control system. There is weak supervision or control, lack of honesty, weak regulations, and work performance so that criminals can freely commit fraud. In addition, the cause of fraud can also be from the human character itself. Human character is...
their personality and mindset where honesty and fairness are fundamental and should not be eliminated and must be improved to fund ourselves not to commit fraud.

Along with advances in technology and the development of information, the modus operandi of fraud perpetrators is increasingly sophisticated and varied. Information is the basis of fraud perpetrators; it is in the interest of deciding what to do or not to do; perpetrators will tend to look for loopholes to commit fraud from their weaknesses—internal control system. As a result, companies or agencies have started to leave the manual method and switch to a computerized system that can help produce quality information for its users.

What can achieve internal control if the company continues to evaluate and review policies and procedures on an ongoing basis. Weak internal control will be one of the triggering factors that can lead to accounting fraud in the company environment. Therefore, supervision by management needs to be carried out in the application of internal control to minimize fraud. Internal control requires support from various parties and components representing them to prevent accounting fraud. Companies that have an internal audit function can detect accounting fraud.

One of the driving factors for accounting fraud is individual morality. Individual morality will affect a person's tendency to commit fraud. Personal morality is the ability to understand right and wrong, which means having a solid belief in acting based on these beliefs to act right and honorable. Understanding can include significant characters, such as the ability to understand the suffering of others, not to act maliciously. In addition, they must be able to control impulses, listen to various parties before making judgments, accept and respect differences, understand unethical decisions, empathize, fight for justice, show compassion and respect for others.

There is a level of moral reasoning for each individual. Individuals with a low level of moral reasoning tend to commit accounting fraud because they only care about personal interests. In contrast, people with high moral sense will avoid committing accounting fraud and prioritize the public interest rather than private interests. An organization or company requires an excellent honest or personality role and a strong commitment from the leadership. An example for employees in acting, with good morals and a strong commitment from the leadership, will enforce ethical behavior in a company. Positive concern from the work environment to build an ethical behavior and solid organizational culture will prevent accounting fraud in an organization or company.

Previous research on individual morality and internal control on the tendency of accounting fraud showed inconsistent results. Personal character, information asymmetry has a positive and significant relationship to accounting fraud through unethical behavior. The effectiveness of internal control has a negative and insignificant relationship to the tendency of accounting fraud through unethical behavior (Bestari, 2016). Internal control and information asymmetry have a significant effect on accounting fraud. Individual morality and compensation suitability have no significant impact on the tendency of accounting fraud (Fera, 2018). Information asymmetry, the effectiveness of internal control, and organizational justice positively affect the tendency of fraud. At the same time, the individual morality variable harms the trend of fraud (Eska Sari Putri (2018)). Personal morality has a positive but not significant effect on the tendency of accounting fraud. The effectiveness of internal control has a negative and significant impact on the trend of accounting fraud (Riskah Nur Rahma, Haryso (2018)). Internal control, compliance with accounting rules, and organizational culture have a significant negative effect on the tendency of accounting fraud. Meanwhile, management morality has no impact on the trend of accounting fraud in the SKPD of the West Halmahera district government Yustiana Djaelani (2019).

II. PROBLEM FORMULATION AND PROBLEM LIMITATION

The author in this article formulates the problem as follows: Does individual morality have a significant impact on the tendency of accounting fraud, whether internal control has a significant effect on the trend of accounting fraud.

The author limits this research to the section on individual morality and internal control to see its effect on accounting fraud.
III. LITERATURE REVIEW

Accounting fraud is a deliberate improper treatment of misstatements that arise in financial reporting as a form of fraud that results in financial statements not being presented by generally accepted accounting principles. Accounting fraud is defined as an unreasonable act, deceit, concealment, and disguise intentionally in proposing financial statements and managing organizational assets that lead to the goal of gaining profit for themselves and making other parties aggrieved parties (Predita Arie Ayu Putri, 2016).

The tendency of accounting fraud is an act of cunning and concealment that should not be done, namely in presenting financial statements and managing company or organizational assets that lead to the goal of achieving their benefits and harming other parties. The tendency of accounting fraud is the intentional or misrepresentation of truth or situation that can influence other people to take actions or actions that are detrimental to them. However, it is a harmful crime in some cases (especially done intentionally) (Garner, 2019).

Morality is a quality in human behavior that indicates that an action is right or wrong, good or bad. Individual morality is a moral trait related to good and bad decisions on the principles and values of life. Morality or morals means a way of life or habits.

Individual morality is one factor that influences the tendency of accounting fraud. Organizations or agencies also have a moral responsibility. The moral responsibility of organizational management affects unethical behavior and the trend of accounting fraud. As a result, the accounting will be even greater. Bad morals are assumed to encourage individuals to act unethically and act fraudulently in accounting.

Moral reasoning is an assessment of values, social judgments, and a review of the obligations that bind individuals to act. Moral reasoning is an anticipation of specific actions in situations that involve morals. Kohlberg's opinion is that moral reasoning is thinking about ethical problems. This thinking is a principle used in assessing and carrying out an action in a moral situation. Moral reasoning emphasizes more on the reasons for an action taken, not only from an effort, so that what can judge it good or bad the action (Crain, 1985).

Internal control is a policy or procedure carried out to guarantee the achievement of company goals and to reduce losses from possible security threats in information. If the internal control is weak, it will result in the company's wealth is not guaranteed; the information is not researched and cannot be trusted. In addition, the company's operational activities are not efficient and effective; management policies have not complied. For example, one way to prevent fraud is to prevent fraud. by designing a system equipped with adequate internal control so that copy is difficult to be carried out by outside and within the company.

Internal control is designed and implemented specifically for business risks that will threaten organizational goals. A weak internal control system will cause scandals, losses, and failures for the organization's continuity. The value of effective internal control is when individuals or groups of organizations can reduce the risk of loss of assets, prevent and detect errors, ensure the reliability of financial reports and compliance with laws.

Individual morality will affect a person's tendency to commit accounting fraud. The higher the level of personal character, the more the individual pays attention to broader interests; thus, the higher the individual's morality, the more he will try to avoid accounting fraud tendencies. Therefore, individuals with a high level of moral reasoning in their actions will pay attention to people's interests. Thus, around him and base his actions on ethical principles to not commit accounting fraud that will harm the organization and society.

The moral is by the general beliefs accepted by society, related to assessing the norms of human action. Individual morality will connect to a person's tendency to commit accounting fraud. Therefore, the personal character of the employees who work in it will affect accounting fraud in an institution. A company certainly has many individuals who work in each of its parts. Each of these individuals certainly has various levels of morality and will significantly affect the tendency of accounting fraud that may arise. The individual character will influence their ethical behavior. People with low levels of moral reasoning have behavior that is different from those with a high level of moral reasoning when facing ethical dilemmas (Wilopo, 2006).
People with a low level of moral reasoning tend to do things that benefit their interests and avoid things that can lead to legal sanctions. organization, let alone personal interests (Liyanarachi, 2009).

Internal control can reduce accounting fraud. With adequate internal control, it will be able to mitigate deviant actions that are often in an agency usually caused by personal interests. These abnormal actions will lead to a desire to commit accounting fraud.

Organizations with an internal audit function will be better able to detect accounting fraud. The internal control system provides a mechanism to detect the occurrence of a scam, both when the fraud occurs and before it occurs (Paul Coram, 2008).

IV. METHODOLOGY

Research design
This research design uses a qualitative approach whose design is general, flexible, or develops according to the situation in the field. Qualitative research designs are usually global, not detailed, uncertain, and flexible. This method relates to interpreting previous researchers' data found in the area. Qualitative research designs are typically international, not complex, uncertain, and flexible.

Data Type
The type of data in this study is in the form of textual or concepts. Therefore, this research is a type of literature study. In conducting the investigation, the researcher used a literature study. Researchers can use literature sources, including abstracts of research results, journals, theses, and relevant reference books from various sources.

Method of collecting data
Qualitative research is a process of inquiry. Then, from a similar investigation, what will collect the primary and additional data. Data collection techniques are used by setting from various sources.

Research is also a literature study research. Therefore, the researchers carried out the process of collecting data in journals related to individual morality and internal control against the tendency of accounting fraud.

V. RESEARCH RESULTS AND DISCUSSION

Accounting fraud is a presentation of financial statements that are intentionally misrepresented or contain misstatements. Types of accounting fraud are fraudulent financial reports and misappropriation of assets. Fraudulent financial reporting is a misstatement, omission of a certain amount, or the intentional disclosure of misstatements to deceive so that the information presented is misleading for users of financial reporting. Meanwhile, misappropriation of assets is fraud involving the theft of assets or corporate entities. Relatively small employees generally carry out this theft.

Internal control is an integral process in the actions and activities carried out continuously by the leadership and all employees to provide adequate assurance on achieving organizational goals through effective and efficient workouts, reliability of financial reporting, safeguarding assets, and compliance with laws and regulations. With reasonable internal control, operational activities can also run effectively and efficiently to minimize the possibility of deviations in the agency's working processes. Thus, the more influential the internal control applied in an entity, the lower the tendency for accounting fraud.

The theory of individual moral development suggests that their level of moral reasoning will influence their unethical behavior. People with low levels of moral reasoning behave differently from people with high levels of moral reasoning when faced with ethical dilemmas. The higher the status of a person's moral sense, the individual tends not to commit accounting fraud, and vice versa if the lower the level of a person's moral reasoning, the individual is more likely to commit fraud.
From the search results of researchers from various sources conducted by researchers, the researchers found research related to individual morality and internal control towards accounting fraud. Several multiple studies deal with the tendency of accounting fraud. However, the researcher has adjusted the sources for the researcher discussing the significance of individual morality and internal control on accounting fraud.

This study analyzes 20 journals that the author has compiled. Research results show that individual morality and internal control have a significantly negative impact on the tendency of accounting fraud, which is greater than research that shows that personal character and internal control have a significant positive effect on the trend of accounting fraud.

The Impact of Individual Morality on the Trend of Accounting Fraud

One of the motivations for individuals to commit accounting fraud is the desire for personal gain. Therefore, there is a level of individual moral reasoning in committing accounting fraud. Individuals with a low level of moral reasoning tend to take advantage of the condition that there is no internal control element in the organization for their interests (self-interest). Components of internal control in a company or organization will not commit accounting fraud that will harm the organization, company, and society.

Individual morality has a positive and significant relationship to the tendency of accounting fraud through unethical behavior (Bestari, Delima Suma, 2016). Therefore, if the individual's character increases, the accounting tendency will be lower.

Individual morality hurts the tendency of accounting fraud at villas in the Umalas area (Anak Agung K. Finty Udayani, 2017). Individual morality hurts the tendency to fraud (Putri, 2018). The personal character has a negative and significant effect; this can reduce the opportunity for accounting fraud to occur effectively (Devy Ervina Indriastuti, 2016). Individual morality hurts fraud prevention (Putu Santi Putri Laksmi, 2019).

The higher the individual morality, the lower the preference for accounting fraud, and the lower the personal character, the higher the direction. And there are differences in the moral level of each individual in committing accounting fraud tendencies. For example, individuals with a moral reasoning group tend to commit accounting fraud, while individuals with a high ethical level will avoid fraud.

The Impact of Internal Control on the Trend of Accounting Fraud

The internal control contained in the company covers accounting activities. It includes all aspects of the company's activities—internal control to maintain the security of ownership of company assets. Internal control can ensure that the reports submitted to the leadership are correct. The policies that the administration has set have been carried out properly through internal control. Effective internal control allows fraud and waste to be detected and handled early to avoid company losses.

Internal control has a positive effect on the tendency of fraud (Putri, 2018)). The more robust and higher the internal control system, the more influential it is on detecting fraud in the company.

Internal Control hurts the tendency of accounting fraud at villas in the Umalas area (Anak Agung K. Finty Udayani, 2017). The effectiveness of internal control has a negative and insignificant relationship to the tendency of accounting fraud through unethical behavior (Bestari, 2016). Internal control hurts the trend of accounting fraud (Khoiriyah, Asyik, & Amanah, 2019). Internal control has a negative and significant impact; this can effectively reduce the opportunity for accounting fraud to occur.

VI. CONCLUSIONS AND SUGGESTIONS

Conclusion

Of the 20 studies reviewed, the results obtained show that morals positively affect the tendency of accounting fraud, namely seven studies or 35%. In contrast, those who say that morals hurt the trend of accounting fraud are 13 studies or 65%. Then it is concluded that individual morality has a significant negative effect on the tendency of accounting fraud.
Of the 20 studies which show that internal control has a positive effect on the tendency of accounting fraud as many as six studies or 30% of all journals, while those that show the results of research that internal control has a negative effect on the tendency of accounting fraud are 14 studies or 70%. Then what can conclude that internal control has a significant negative impact on accounting fraud.

Individual morality has a significant negative impact on the tendency of accounting fraud, and there is where the level of moral reasoning possessed by each individual will affect their behavior. People with low moral reasoning levels behave differently from those who have high levels of moral reasoning when faced with ethical dilemmas. The higher the status of a person's moral sense, the individual tends not to commit accounting fraud, and vice versa if the lower the level of a person's moral reasoning, the individual is more likely to commit fraud.

Internal control has a significant negative impact on the tendency of accounting fraud. The more effective the internal control implemented in an entity, the lower the level of accounting fraud and vice versa; the lower the internal control system applied, the higher the level of accounting fraud.

Suggestion
Further research suggests using independent variables, such as compensation systems, strict accounting rules, unethical behavior, or other variables that affect a person's tendency to commit accounting fraud. In addition, further research can include variables related to participants (gender, position in the organization, work experience, age, and education) to see the impact of these variables on accounting trends.

REFERENCES

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