

# The determinants of accounting fraud tendency

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## ABSTRACT

This study aims to retest the effect of internal control effectiveness, compensation system suitability, and information asymmetry, adherence to accounting rules, and management morality on accounting fraud tendency. This study uses agency theory and fraud triangle as a grand theory. This study was conducted in 19 companies in Surabaya with 79 managers as respondents. The data were analyzed using multiple linear regression models with SPSS software. The results show that internal control effectiveness, compensation system suitability, information asymmetry, adherence to accounting rules, and management morality have a significant effect on accounting fraud tendency.

## ABSTRAK

Penelitian ini bertujuan untuk menguji kembali pengaruh efektivitas pengendalian internal, kesesuaian sistem kompensasi, dan asimetri informasi, kepatuhan terhadap aturan akuntansi, dan moralitas manajemen terhadap kecenderungan kecurangan akuntansi. Penelitian ini menggunakan agency theory and fraud triangle sebagai grand theory. Penelitian ini dilakukan pada 19 perusahaan di Surabaya dengan 79 manajer sebagai responden. Analisis data menggunakan model regresi linear dengan software SPSS. Hasil penelitian menunjukkan bahwa efektivitas pengendalian internal, kesesuaian sistem kompensasi, asimetri informasi, kepatuhan terhadap aturan akuntansi, dan moralitas manajemen memiliki pengaruh yang signifikan terhadap kecenderungan kecurangan akuntansi.

## 1. INTRODUCTION

Accounting fraud is an act of deviation that often occurs and attracts attention of media and society. Accounting fraud has occurred in many countries, including in Indonesia (Wilopo 2006). This phenomenon fraud can actually be examined using agency theory because this theory as it is often used to explain the accounting fraud. Agency theory, according to Jensen dan Meckling (1976), is a theory which examines a contract in which one or more persons (the principal) govern other persons (the agent) to perform services on behalf of the principal and to authorize the agent to make the best decisions for the principal. Agency theory is intended to solve two problems that occur in the agency relationship. The problems arising from the differences of interest between the principal and the agent are called agency problems. One of the causes of agency problems is the existence of information asymmetry.

Scott (2009) stated that information asymmetry is a situation where some parties involved in a transaction may have more information than others. It can make the manager able to perform manipulation to increase the profits in order to obtain greater compensation or reward from the owner. The difference of interest makes each party try to increase the benefits for themselves.

To solve the agency problems, the company's management should carry out accounting rules properly. Adherence to accounting rules could also minimize the accounting fraud. The higher the adherence of the person to accounting rules is, the smaller the chances of the person to commit accounting fraud. In addition to information asymmetry and adherence to accounting rules, internal control effectiveness, compensation system suitability, and management morality also affect the tendency of accounting fraud.

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Weygandt et al. (2011) argued that there are three factors that lead to the emergence of accounting fraud, or called the fraud triangle, namely opportunity, financial pressure, and rationalization. Weak internal control system is one of the opportunities for accounting fraud (Priantara 2013). Effective internal control plays an important role in an organization to minimize the occurrence of fraud. Effective internal control will close the opportunity to cheat.

Compensation, frequently referred as an award, can be defined as any form of awards given to employees as remuneration for their contribution to the organization. With appropriate compensation, accounting fraud can be reduced. Individuals are expected to have satisfaction from such compensation and do not commit fraudulent action in accounting to maximize personal gain.

Wilopo (2006) stated that the tendency of accounting fraud committed by the company's management also depends on the morality of the management. The worse the morality of the management is, the greater the possibility to commit accounting fraud.

## 2. THEORETICAL FRAMEWORK AND HYPOTHESIS

### Agency Theory

Agency theory (Jensen dan Meckling 1976) is chosen as the basis for the development of a concept model in this study. It is deemed appropriate because the principal purpose of this study is to confirm a model of the factors that influence the tendency of accounting fraud.

The owner divides the organizational ownership to other parties such as shareholders. This can trigger a divergence of interests between the company's management and the investors as the outside shareholders. In such circumstances, the outside shareholders will try to spend the resources to limit the activities of the leaders or owner manager so as to remain on a contract with the aim to maximize the welfare of the outside owners. On the other hand, the leader himself also has certain characteristics, for example, trying to make his responsibility affordable and improve his own ability in order to be able to reduce the spending of costs and gain additional benefits for him (Jensen and Meckling 1976).

### Fraud Triangle

Basically, fraud does not only happen in a company. Fraud can happen due to various causes and possibilities made as the reason for committing

accounting fraud. In this study, the theory of fraud triangle is used to find out how the accounting fraud occurs (see Figure 1).

Priantara (2013) explained that fraud triangle consists of three conditions that are generally present at the time of the accounting fraud case, namely the pressure to perform accounting fraud (pressure), the opportunity to perform accounting fraud (opportunity), and the pretext to justify the accounting fraud action (internal control effectiveness).

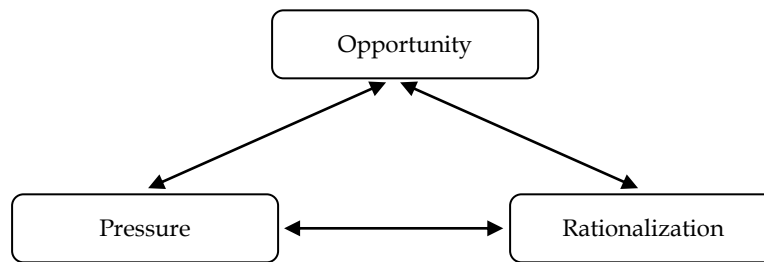
According to the Government Regulation (PP) No. 8 of 2006, internal control is a process influenced by the management and it is created to provide reasonable assurance in the achievement of effectiveness, efficiency, adherence to the applicable laws and regulations, and the reliability of financial statements. Meanwhile, according to COSO (1992) in Hermiyetti (2008), internal control is the representative of overall activities in the organization that should be implemented, in which the process run by a board of commissioners is intended to provide reasonable assurance in achieving the objectives of effective and efficient operational controls, financial reporting reliability, and compliance with applicable laws. Effective internal controls will be able to reduce the tendency of accounting fraud. If the internal control is weak, the tendency of accounting fraud will be getting greater.

### Compensation System Suitability

Compensation is a component of costs paid by organization to employees. For the employees, compensation is a factor that determines the level of prosperity. Meanwhile, for the organization, compensation is a component of costs that affect the level of efficiency and profitability. Therefore, the organization needs to be careful in controlling and designing compensation so that the two interests can be accommodated. It is a challenge for the organization to create a compensation system that is able to encourage employees to perform optimally (Leopold 2000).

### Information Asymmetry

Scott (2009) stated that information asymmetry is a situation where some of the parties involved in the transaction may have more information than the other. According to Prayogo (2009), information asymmetry between the manager (agent) and the owner (principal) may cause company's internal financial knowledge gaps so that the manager can perform manipulation to increase profits in order to get compensation or reward from the owner. Due



**Figure 1**  
**Fraud Triangle**

to the differences in interests, each party always tries to increase their own benefits. The owner wants maximum and quick returns on their investment, one of which is reflected by the increase in the portion of dividend for each share owned. Yet, the manager wants his interests to be accommodated with “adequate” or big compensation for his performance.

#### **Adherence to Accounting Rules**

Rahmawati (2012) said that rule is an act that should be run. Accounting rules are made in such away as the basis for preparing financial statements. In accounting standards there are rules that must be used in the measurement and presentation of financial statements which are based on the rules issued by Institute of Indonesia Chartered Accountants (IAI).

The information provided in the financial statements is needed by investors and management, so it must be reliable. Therefore, rules are needed to maintain the reliability of such information and to avoid any actions that could hurt the company or organization. There are two parties who take interest in the results of financial statements, namely the user (external party) and the management as the party who manages the assets and presents the financial statements (Thoyibatun 2009).

From external parties, the users of financial statements consist of investors, employees, lenders, suppliers, creditors, customers, governments, and society. They have different need of information that must be met. In order to produce high quality information, the presentation of financial statements must be in accordance with the procedures, principles, and work rules which are in lines with accounting principles. Accounting principles are a set of rules that becomes guidance in implementing accounting at the company.

#### **Management Morality**

Kohlberg (1969) stated that moral develops through three stages, namely pre-conventional stage, conventional stage, and post-conventional stage. Management morality at the post-conventional stage

shows high moral maturity of management. Bernardi and Richard (1994) explained that the moral maturity becomes the basis and consideration of the management in designing responses and attitudes towards ethical issues. The results of researches conducted by Trevino and Youngblood (1990) and Goolsby and Hunt (1992) showed that the development of moral knowledge is an indication of ethical and positive decision-making related to the behavior of social responsibility.

#### **Accounting Fraud Tendency**

The tendency is defined as 'more interested in ...' but not necessarily interested in ... (Daryanto 1997) which are concluded because the behaviors casted contains values directing to the things he was interested in. Institute of Indonesia Chartered Accountants (IAI) (2001) distinguishes between fraud and mistake. If the risk arises from an intentional act, it is referred to as a fraud. However, if the risk arises from unintentional act, it is referred to as a mistake.

Accounting fraud tendency is defined as any action, policies and measures, trickery, concealment and disguise undue intentionally in presenting the financial statements and in managing the organizational assets that lead to the goal of achieving profit for himself and makes others as the parties who are harmed.

The tendency of accounting fraud is a threat that continues to grow. In general, it happens for three reasons (as the fraud triangle), namely opportunity, incentive and pressure, rationalization and attitude (AICPA 2003).

#### **The Effect of Internal Control Effectiveness on Accounting Fraud Tendency**

Priantara (2013) explained that there are three causes of accounting fraud, namely opportunity, pressure, and justification. Accounting fraud tendency can occur if there is an opportunity to do so. In the agency theory, the manager (agent) has a great opportunity to commit fraud because the owner (principal) has handed over all authority to the agent. The opportunity can be reduced by good

internal control system. Good internal controls can reduce or even diminish the opportunity to commit accounting fraud. Smith et al. (1997) stated that effective internal control reduces the tendency of accounting fraud. The statement is supported by the results of the research conducted by Wilopo (2006) that internal control effectiveness has an effect on accounting fraud tendency.

Hypothesis 1: Internal control effectiveness has an effect on accounting fraud tendency.

### **The Effect of Compensation System Suitability on Accounting Fraud Tendency**

Priantara (2013) explained that there are three causes of accounting fraud, namely opportunity, pressure, and justification. The justification means that the perpetrator of fraud feels that his action is not a fraud but it is something indeed his right on the services provided to the organization. The compensation which is not appropriate with the employee performance has triggered the employee to find out justification on his actions that contain fraud. Accounting fraud can be minimized by the provision of appropriate award to individual for his performance. Appropriate compensation system is expected to make an individual feel fulfilled so that the individual will not perform an act that harms the organization, including accounting fraud. The statement is supported by the results of the research conducted by Thoyibatun (2009) that the compensation system suitability has an effect on the tendency of accounting fraud.

Hypothesis 2: Compensation system suitability has an effect on accounting fraud tendency

### **The Effect of Information Asymmetry on Accounting Fraud Tendency**

Agency theory (Jensen and Meckling 1976) is often used to explain accounting fraud. Agency theory is intended to solve two problems that occur in the agency relationship. One of them is a problem that appears when the desires or purposes of principal and agent are contradictory, and when the principal finds it difficult to discover what is actually done by the agent. When the agent and the principal seek to maximize their own utility and have different desire and motivation, the agent (management) do not always act according to the desire of the principal (shareholders).

The differences in the desire, motivation and utilities occurring between management and shareholder raise the possibility for the management to perform an action that could harm the shareholders. If there is information asymmetry,

the company's management makes biased or manipulates the financial statements so as to improve compensation and reputation of the management, and financial ratio (Scott 2006) in Wilopo (2006). The statement is supported by the results of the research conducted by Ratri and Wahyu (2012) that information asymmetry has an effect on the tendency of accounting fraud.

Hypothesis 3: Information Asymmetry has an effect on accounting fraud tendency

### **The Effect of Adherence to Accounting Rules on Accounting Fraud Tendency**

Wilopo (2006) said that to overcome the agency problems, the company's management should carry out the accounting rules properly. Communities need the credibility of information (IAI 2001b). If the company's management does not carry out the accounting rules properly, the credibility of the information in the financial statements cannot be achieved.

Adherence to accounting rules can also lead to accounting fraud. The greater the adherence of a person to the accounting rules is, the smaller the opportunity of the person to commit accounting fraud. The statement is supported by the results of the research conducted by Wilopo (2006) that the adherence to accounting rules has an effect on accounting fraud tendency.

Hypothesis 4: Adherence to accounting rules has an effect on accounting fraud tendency.

### **The Effect of Management Morality on Accounting Fraud Tendency**

Priantara (2013) explained that there are three causes of accounting fraud, namely opportunity, pressure, and justification. One of the pressures is taking an action that is not in accordance with the norms. The morality of a manager in performing his duties should be in accordance with the norm. If the manager performs his duties according to the norm, the possibility of accounting fraud will be getting smaller. The statement is supported by the results of the research conducted by Wilopo (2006), that the management morality has an effect on the tendency of accounting fraud.

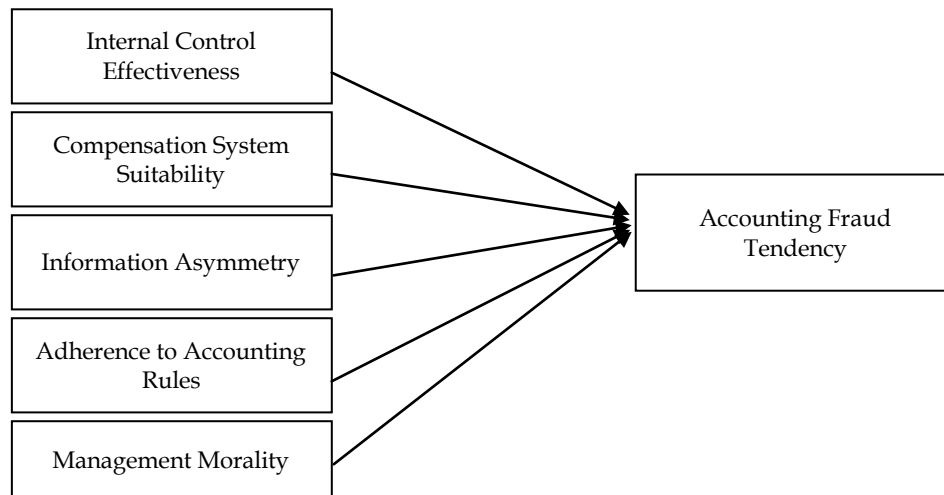
Hypothesis 5: Management morality has an effect on accounting fraud tendency.

The framework of this study is shown in Figure 2.

## **3. RESEARCH METHOD**

### **Sample Classification**

This study took the population consisting of the



**Figure 2**  
**Framework**

heads, accounting department staffs, and financial staffs of service companies in Surabaya. In addition, it used purposive sampling as a method to obtain samples as based on the following criteria: (1) Head of the branch, accounting staff and financial staff; (2) Working in a service company in Surabaya; (3) Minimum education is Diploma 3.

#### **Research Data**

This study took the sample of 19 service companies in Surabaya with 79 respondents including managers, heads of accounting staff, and accounting staff with minimum education criteria of Diploma 3 (Three-year diploma). Thus, these quantitative data were collected by means of questionnaires.

#### **Research Variables**

The research variables used in this study include dependent variable, consisting of accounting fraud tendency, and independent variables, consisting of internal control effectiveness, compensation system suitability, information asymmetry, adherence to accounting rules, and management morality.

#### **Operational Definition of Variables**

##### **Internal Control Effectiveness**

Wilopo (2006) stated that internal control effectiveness includes the application of appropriate authority and responsibility, the examination of transaction records, physical control, and accounting system, as well as the monitoring and evaluation of superiors to subordinates on the operational activities to assess the implementation of internal control. The instrument used to measure the effectiveness of internal control consists of five indicators including the application of authority and responsibility, transaction records, physical control, ac-

counting systems, and monitoring and evaluation developed by Wilopo (2006) from IAI (2001) concerning internal control. The responses of the respondents are measured using Likert scale 1-5, in which the higher the value indicated, the more effective the internal control.

##### **Compensation System Suitability**

Wilopo (2006) stated that the suitability of compensation systems is a condition where employees can complete their tasks well and can achieve the company's goals. And then the company provides suitable reward to the employees for their success in carrying out their tasks, in the form of either material or recognition. Compensation system is measured using the instrument developed by Wilopo (2006) concerning the reward that consists of six indicators, namely financial compensation, company recognition for the success in performing the work, promotion, task completion, attainment of objectives, and personal development. The responses of the respondents are measured using Likert scale 1-5, in which the higher the value indicated, the more suitable the compensation obtained.

##### **Information Asymmetry**

Wilopo (2006) explained that information asymmetry is a situation where management has better information on the company's activities, more familiar with the input-output relationship, better knowledge of the potential of company performance, more familiar with the technical work, more knowledge of the influence of external factors, and better understanding on what can be achieved than the parties outside the company.

The instrument used to measure the informa-

tion asymmetry consists of six indicators of instrument developed by Wilopo (2006). The six indicators include: (1) a situation in which the management has better information on the activities under their responsibility than the parties outside the company, (2) a situation in which the management is more familiar with the input-output relationship of the part of their responsibility than the parties outside the company, (3) a situation in which the management has better knowledge of the potential performance of his responsibility than that the parties outside the company, (4) a situation in which the management is more familiar with the technical work of their responsibility than that the parties outside the company, (5) a situation in which the management has more knowledge of the influence of external factors in area that becomes part of their responsibility than the parties outside the company, (6) a situation in which the management has better understanding on what can be accomplished in the area that becomes part of their responsibility than the parties outside the company. Likert scale 1-5 is used to measure the response of the respondents. The lower the value indicated, the more the information asymmetry shown.

### Adherence to Accounting Rules

Wilopo (2006) stated that adherence to accounting rules is the act of someone who is doing his duties in accordance with the eight principles of the code of conduct issued by IAI. The adherence to accounting rules is measured using eight indicators consisting of responsibility to apply, public interest, integrity, objectivity, prudence, confidentiality, consistency, and technical standards. This instrument is developed by Wilopo (2006) from IAI (1998) concerning the code of conduct of accountants. Likert scale 1-5 is used to measure the response of the respondents, in which the higher the value, the more adherence to accounting rules shown.

### Management Morality

Management morality is the act of management to do the right thing and not related to personal profits or values. The measurement of management morality is derived from moral measurement model developed by Kohlberg (1969) and Rest (1979) in the form of *Defining Issues Test* instrument. This instrument is in the case of ethical dilemmas developed by Wilopo (2006). Management morality is measured through six (6) items of instrument that measures each phase of management morality through the case of accounting ethical dilemmas. Each phase of management morality is indicated by

scale of one to five. Then, the results of the scale of the six instruments are summed up. The results of the measurement of the accounting ethical dilemma are the reflection of the morality of the company's management. In this study, the variable of management morality is an observed variable.

### Accounting Fraud Tendency

Institute of Indonesia Chartered Accountants (IAI) (2001 c) describes accounting fraud tendency as misstatements arising from fraudulent financial reporting and misstatements arising from improper treatment on the asset (often referred to the misuse or embezzlement) relating to the theft of assets of the entity resulting the financial statements are not presented in accordance with generally accepted accounting principles in Indonesia. The instrument used to measure the tendency of accounting fraud consists of five indicators developed by Wilopo (2006) from Professional Standard of Public Accountant (SPAP), section 316 of IAI 2001.

The instruments of questions include: (1) the tendency to perform manipulation, falsification or alteration of accounting records or supporting documents, (2) the tendency to make incorrect presentation or removal of events, transactions or significant information from the financial statements, (3) the tendency to do improper accounting principles intentionally, (4) the tendency to make the incorrect presentation of financial statements due to theft (misuse/embezzlement) of the assets that make the entity pay for goods/services that are not received, (5) the tendency to do incorrect presentation of financial statements due to improper treatment of the assets and accompanied by forged notes or documents and may involve one or more individuals among management, employees, or third parties.

Likert scale of 1-5 was used to measure the response of the respondents, in which the higher the value, the greater the fraud committed.

### Analysis Tools

Multiple linear regression models are used to examine the effect of internal control effectiveness, compensation system suitability, information asymmetry, adherence to accounting rules, and management morality on the tendency of accounting fraud.

Multiple linear regression models are chosen to test the effect of multiple independent variables on the dependent variable. The regression equation to determine the relationship is as follow:

$$Y = a + b_1.X_1 + b_2.X_2 + b_3.X_3 + b_4.X_4 + b_5.X_5 + e. \quad (1)$$

**Table 1**  
**Results of Descriptive Analysis**

Variable	Value	Min.	Max.	Mean	Std. Deviation
Internal Control Effectiveness	79	1	5	4.33	0.653
Compensation System Suitability	79	1	5	4.40	0.601
Information Asymmetry	79	1	4	1.56	0.605
Adherence to Accounting Rules	79	1	5	4.41	0.597
Management of Morality	79	1	5	4.40	0.598
Tendency of Accounting Fraud	79	1	5	1.60	0.607

Description:

Y : Accounting Fraud Tendency

A : Constants

$b_1, b_n$  : Regression Direction Coefficient

$X_1$  : Internal Control Effectiveness

$X_2$  : Compensation System Suitability

$X_3$  : Information Asymmetry

$X_4$  : Adherence to Accounting Rules

$X_5$  : Management Morality.

#### 4. DATA ANALYSIS AND DISCUSSION

##### Descriptive Test

Descriptive analysis is used to provide an overview of the variables in this study consisting of the variables of internal control effectiveness, compensation system suitability, information asymmetry, adherence to accounting rules, management morality, and accounting fraud tendency. Table 1 is the results of descriptive test. Based on Table 1, it can be seen that the mean value of the variable of internal control effectiveness is 4.33. The figure explains that the average response of the respondents shows a high value. This explains that the average internal control in the company they work has been carried out effectively.

The mean value of the variable of compensation system suitability is 4.40. The figure explains that the average employee feels that the reward or award given to the employee on the employee's performance has been suitable. The mean value of the variable of information asymmetry is 1.56. The figure explains the absence of information asymmetry in the company. The mean value of the variable of adherence to accounting rules is 4.41. That is because the financial statements presented by the service companies in Surabaya have been in accordance with the eight principles of accounting. This result explains that the respondents have obeyed the accounting rules.

The mean value of the variable of management morality is 4.40. That is because when the respondents encounter a problem in preparing the financial statements, they prefer using moral to taking personal or company interest. The mean value of

the variable of accounting fraud tendency is 1.60. That is because the respondents did not want to commit accounting fraud in the preparation of financial statements in any situation even in a state that requires the respondents to perform accounting fraud. It can be concluded that the level of fraud occurring in the service companies in Surabaya is quite low.

##### Discussion

Table 2 is the result of multiple linear regression analysis. The coefficient value of internal control effectiveness for the variable of  $X_1$  is 0.137 with negative sign. It shows that the effectiveness of internal control has a contradictory relationship with the tendency of accounting fraud. This implies that any increase of one unit in internal control effectiveness, the beta variable (Y) will decrease by 0.137, assuming that the independent variable other than the regression model is fixed.

The coefficient value of compensation system suitability for the variable of  $X_2$  is 0.189 with negative sign. It shows that the compensation system suitability has a contradictory relationship with the tendency of accounting fraud. This implies that any increase of in unit in the compensation system suitability, the beta variable (Y) will decrease by 0.189, assuming that the independent variable other than the regression model is fixed.

The coefficient value of information asymmetry for the variable  $X_3$  is 0.057. This implies that any increase of one unit of the information asymmetry, the beta variable (Y) will increase by 0.057, assuming that the independent variable other than the regression model is fixed.

The coefficient value of adherence to accounting rules for the variable of  $X_4$  is 0.088 with negative sign. It shows that the adherence to accounting rules has a contradictory relationship with the tendency of accounting fraud. This implies that any increase of one unit in adherence to accounting, the beta variable (Y) will decrease by 0.088, assuming that the independent variable other than the regression model is fixed.

**Table 2**  
**Results of Multiple Linear Regression Analysis**

Variable	Regression Coefficient	Standard Error	t <sub>Count</sub>	sig.
Constant	29.503	.724	40.753	.000
Internal Control Effectiveness	-.137	.029	-4.678	.000
Compensation System Suitability	-.189	.037	-5.112	.000
Information Asymmetry	.057	.020	2.833	.006
Adherence to Accounting Rules	-.088	.028	-3.100	.003
Management Morality	-.419	.048	-8.727	.000
R <sup>2</sup>	0.968			
Adjusted R <sup>2</sup>	0.966			
F <sub>Count</sub>	437.717			
Sig. F	0.000			

The coefficient value of management morality for the variable of X5 is 0.419 with negative sign. It shows that management morality has a contradictory relationship with the tendency of accounting fraud. This implies that any increase of one unit in the management morality, the beta variable (Y) will decrease by 0.419, assuming that the independent variable other than the regression model is fixed.

#### **The Effect of Internal Control Effectiveness on Accounting Fraud Tendency**

The test result of the effect of the variable of internal control effectiveness on accounting fraud tendency shows that internal control effectiveness has negative effect on accounting fraud tendency, which means that the more effective the internal control in a company, the smaller the tendency to commit accounting fraud. It is shown by the results of hypothesis test indicating that the significance value of the internal control effectiveness on the accounting fraud tendency is  $0.000 < 0.05$ . It can be concluded that the first hypothesis is accepted that there is a significant effect on the accounting fraud tendency. An effective internal control in a company can minimize the tendency of accounting fraud. The result is consistent with the research conducted by Wilopo (2006) which shows that the internal control effectiveness has a significant effect on the tendency of accounting fraud.

#### **The Effect of Compensation System Suitability on Accounting Fraud Tendency**

The test result of the effect of the variable of compensation system suitability on accounting fraud tendency shows that compensation system suitability has negative effect on accounting fraud tendency, which means that the more suitable the compensation given by the company on the employee's performance, the lower the intention to commit

accounting fraud. It is shown by the result of hypothesis test indicating that the significance value of the compensation system suitability on the accounting fraud tendency is  $0.000 < 0.05$ . It can be concluded that the second hypothesis is accepted that there is a significant effect on the tendency of accounting fraud. This means that suitable compensation system in service companies in Surabaya significantly reduces the tendency of accounting fraud. This indicates that the service companies in Surabaya, the award of compensation in the form of financial compensation and promotion can reduce the tendency of accounting fraud, mainly in the form of tendency for manipulation, falsification or alteration of accounting and supporting documents. This result is consistent with the research conducted by Thoyibatun (2009) stating that the compensation system suitability has significant effect on the tendency of accounting fraud

#### **The Effect of Information Asymmetry on Accounting Fraud Tendency**

The test result of the effect of the variable of information asymmetry on the accounting fraud tendency shows that information asymmetry has positive effect on accounting fraud tendency, which means that the lower the level of information asymmetry in the company, the lower the opportunity to commit accounting fraud. It is shown by the result of hypothesis test indicating that the significance value of information asymmetry on accounting fraud tendency is  $0.006 < 0.05$ . It can be concluded that the third hypothesis is accepted that there is a significant effect on the tendency of accounting fraud. Low level of information asymmetry in a company can reduce the tendency to commit accounting fraud. This result is consistent with the research conducted by Ratri and Wahyu (2012) stating that the information asymmetry has significant effect on



the tendency of accounting fraud.

#### **The Effect of Adherence to Accounting Rules on Accounting Fraud Tendency**

The test result of the effect of the variable of adherence to accounting rules on accounting fraud tendency shows that the adherence to accounting rules as an independent variable has negative effect on the tendency of accounting fraud as a dependent variable, which means that the more obedient the employees to the accounting rules in the financial reporting, the lower the level of the accounting fraud. It is shown by the result of hypothesis test indicating that the significance value of adherence to accounting rules on the tendency of accounting fraud is  $0.003 < 0.05$ .

It can be concluded that the fourth hypothesis is accepted that there is a significant effect on the tendency of accounting fraud. This result is consistent with the research conducted by Wilopo (2006) stating that the adherence to accounting rules has significant effect on the tendency of accounting fraud.

#### **The Effect of Management Morality on Accounting Fraud Tendency**

The test result of the effect of the variable of management morality on accounting fraud tendency shows that the management morality has negative effect on the tendency of accounting fraud, which means that the better the moral of management, the lower the intention to commit accounting fraud. It is shown by the result of hypothesis test indicating that the significance value of management morality on accounting fraud tendency is  $0.000 < 0.05$ .

It can be concluded that the fifth hypothesis is accepted that there is a significant effect on the tendency of accounting fraud. This means that good management morality significantly reduces the tendency of accounting fraud. This finding suggests that considering the moral of managers in preparing the financial statements can reduce the occurrence of accounting fraud. This result is consistent with research conducted by Wilopo (2006) stating that management morality has a significant effect on the tendency of accounting fraud.

#### **5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS**

The results of hypothesis testing show that all independent variables, namely internal control effectiveness, compensation system suitability, information asymmetry, adherence to accounting rules, and management morality partially and simultaneously

affect the tendency of accounting fraud.

The limitation of this study is (1) the number of questionnaires returned is not optimal, so the research samples that can be processed less represent the responds of the respondents as the samples, (2) the selection of the sample of services companies, having very strict confidentiality, makes the distribution of questionnaires not optimal, because there are some companies that are not willing to fill out the questionnaires.

Based on the results and limitations of the study, the researchers suggest, for the further research, as the following: (1) further research should be done by extending the sample to expand the number of companies made as the objects of the research; (2) this study was conducted in service companies. There are still some possibilities to conduct the research with different populations, such as government agencies, trading companies, and manufacturing companies that are prone to accounting fraud.

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