

# Perception of student and alumni of accounting department toward fraudulent practices

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## ARTICLE INFO

### **Article history:**

Received 22 May 2013

Revised 23 June 2013

Accepted 1 July 2013

### **JEL Classification:**

A22

M41

### **Key words:**

Perception,

Fraudulent Practice.

### **DOI:**

10.14414/tiar.13.030203

## ABSTRACT

*Fraudulent practices are increasingly prevalent in our community, including among students. These practices happen because of the pressure from their surrounding environment. When these practices are done by students without any adequate sanction, these may be perceived by them as normal and will eventually being a habit. The purpose of this research is to observe whether there is different perception of fraudulent practices between students and alumni of accounting department at STIE Perbanas Surabaya. This research uses primary data collected using questionnaires. The respondents are students who have finished taking course in Business Ethics and Accounting Behavior and alumni who have worked in Surabaya. There are 112 questionnaires processed, consisting of seventy questionnaires from students and forty two questionnaires from alumni. The hypothesis is tested using independent sample t-test. The result of this research shows that there is no different in perception between accounting students and alumni regarding fraudulent practices. Both of them agree that fraudulent practices occur because of motivation, opportunity and lack of integrity.*

## 1. INTRODUCTION

Fraudulent practices are increasingly prevalent in our community, including among the students. Fraudulent practices happen to students because of the demands from their surrounding environment such as the necessity for timely submitting the assignments, having to pass in certain subjects and the desire to have a high grade point average (GPA). These reasons sometimes make students take shortcuts, such as cheating, entrusted presence, and changing the name of another student name as their own personal name, to achieve their goals. When these practices are done by students without any adequate penalties then these may be perceived by them as normal and eventually being a habit.

STIE Perbanas Surabaya has made various efforts to shape the student's perception that fraudulent practices are misconduct and should not be done by students. One of these efforts is the implementation of soft skill development program. This soft skill program is directed to form a qualified student. In addition to extra-curricular activities, this program is also embedded in some

courses, such Ethics and Personality Development, Professional Ethic and Accounting, and Fraud Audit. The institution also takes decisive action to students caught cheating in both assignment and exam in order to give deterrent effect to them.

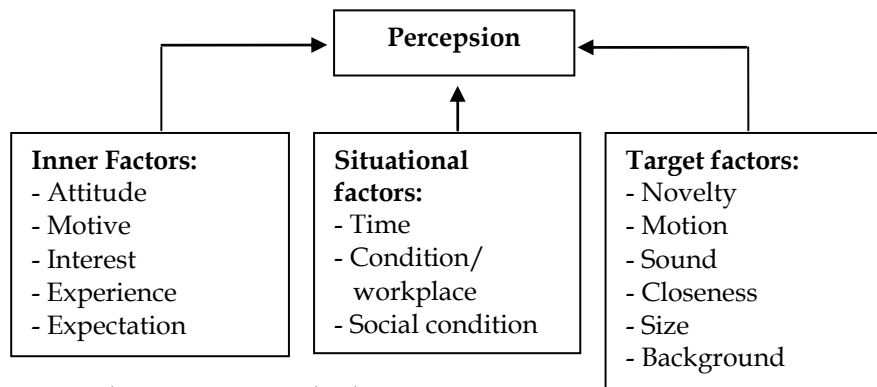
Perception is the final process of observation that begins by sensing process, i.e. the process of receiving stimulus by the sensory organs. With perception, individual can understand the state of the environment surrounding and about things that exist within that individual (Sunaryo 2004: 93).

Fraud is a form of human dishonesty. However, doing fraud sometimes is the only option for those who are in desperate condition because of the severity of obstacles faced. This kind of condition may happen in our surrounding especially when some people think honesty is a conditional matter. There are even people believe that fraud is necessity.

In Indonesia, various cases of fraud outside the educational environment, known as corruption, were often found. One of these cases, as reported by the Indonesian Corruption Watch (ICW), is dealing with tax evasion committed by a company by

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**Figure 1**  
**The Determinants of Perception**



Sources: Robins P. Stephen: Organizational Behavior, 2008.

giving bribes to tax officials. Some members of parliament who are also well-known businessmen in Indonesia engaged in delinquent tax scandal. Moreover, the Supreme Audit Agency (BPK) Republic of Indonesia also found an abuse of state revenues that should be paid into the state treasury but instead put into personal accounts. Another fraud case found in Indonesia is the manipulation of financial statements. Financial statements are often misused by certain elements in order to achieve the desired objectives by the actors. Financial statements are often misused by unscrupulous people in order to achieve their desired goals.

The understanding and the degree of sensitivity of fraud may affect students and alumni perceptions regarding fraudulent practices occurring around them. Perceptions of student and alumni of accounting students for fraud be important to be able them to assist in combating fraud cases that happen around us. However, the degree of understanding and sensitivity of each individual can differ from one to another. As a result, the perception of fraud practices among accounting students may be different from that of alumni. Based on these problems, the purpose of this study is to analyze whether there are differences in perception between accounting students and alumni regarding fraud practices.

## 2. THEORETICAL FRAMEWORK AND HYPOTHESIS

### Maslow's Theory of Motivation

Humans as social beings and creatures have some needs that must be met. Maslow, as quoted by Robbins (2008:224) defines human needs into five categories. The first is the human psychological needs, namely the need for food, drink, shelter (home), and relief from distress. The second is the need for security, the human need to be free from

the threat, security incident or threatening environment. The third is the need for a sense of belonging and love, which include the need for friendship, unity and social interaction. The fourth is the human need for self-esteem, both for themselves and from others. The fifth is the need for self-actualization, the human needs to satisfy themselves by maximizing the use of their abilities, skills and potential.

Fraud sometimes is the only option for those who are in desperate condition because of the severity of obstacles faced. This kind of condition may happen in our surrounding especially when some people think honesty is a conditional matter. There are even people believe that fraud is necessity.

### Perception

Perception, according to Alwi Hasan in Big Indonesian Dictionary (2005), is a response (acceptance) directly from something or a process of someone knowing some of the things about the environment through the five senses. Fitriany and Yulianti (2007) define it as a process that involves prior knowledge in acquiring and interpreting the combination of factors of outside ourselves (visual stimulation) and our inner (prior knowledge).

Factors influencing perception lies in the self-perception maker, objects or targets being interpreted, or in the context of a situation in which the perception made. Robbins (2008:175) suggests that when an individual is looking at a target and attempt to interpret what he sees, the interpretation is influenced by a variety of personal characteristics of the perception-makers, such as attitudes, personality, motives, interests, past experiences and expectation. Besides, the observed characteristics of the target can also affect what is interpreted.

The phenomenon is caused by several factors which can be described as shown in Figure 1.

### **Fraud**

In Indonesia terms, Fraud is not only interpreted as cheating. In the financial world it could mean theft (Article 362 of the Criminal Code), extortion and threats (Article 368 of the Criminal Code), embezzlement (Article 372 of the Criminal Code), deception (section 378 of the Criminal Code), and so on.

Fraud according to Indonesian Institute of Accountants Public Accountants Compartment (IAI-KAP) (2011) is interpreted as deception. In relation to financial reporting, the auditors concerned to examine whether an action containing fraud can lead to misstatements of financial report.

There are many reason of someone committed in Fraud (Amin 2009: 4-5):

**Motivation.** It is the pressure experienced by someone who is not able to share with a friend or someone who can be trusted. For example, protecting one's work by modifying the financial statements so that they look better.

**Opportunities.** It is the chance to solve a problem that can not be shared with breach of trust. For example, financial managers have investment authority without review of their supervisors.

**Rationalization or lack of integrity.** For example: no one else is harmed, the company is strong enough to bail out the fraud or any person doing so.

SAS 82 (AU 316) makes a distinction between two types of misstatements: error and fraud). Both types of these misstatements may be material or immaterial. An error is a misstatement of the financial statements that are not intentional, while fraud is a deliberate misstatement. SAS 99 (AU 316) explained fraud in terms fraud triangle. Fraud triangle is the three fraud conditions stemming from fraudulent financial reporting and misappropriation of assets. The fraud triangle consists of: 1) Motivation, both in the form of incentive or pressure. Management or employees feel incentive or pressure to commit fraud; 2) Opportunity. It is a situation that opens a chance to management or employees to conduct fraud; and 3) Attitudes/rationalization. It is attitude, character, or set of ethical values that allow management or employees to commit dishonest acts, or they are in an environment that is quite pressing that makes them rationalize dishonest actions.

### **Fraudulent Practices**

Basically there are two types of fraudulent practices, namely external and the internal. External fraud is the practice of fraud committed by outsiders against entities such as fraud committed by

customers to companies, taxpayers against the government, or the policyholder to the insurance companies. The practice of internal fraud is illegal actions

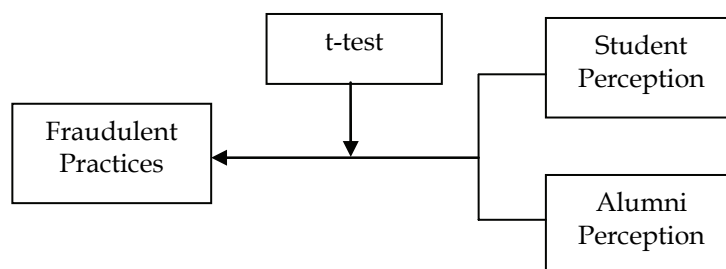
performed by employees, managers, and executives of the company. For example, theft of petty cash funds, falsification of cash balance, money laundering.

There are two types of misstatements that are relevant to the auditor's consideration regarding fraud in an audit of financial statements (IAI 2011: 316.2), namely misstatement arising from fraud in financial reporting and fraud arising from the improper treatment of the assets. Misstatement arising from fraud in financial reporting is misstatement or intentionally omission of number or disclosures of financial statements to deceive the financial statement users. Fraud in the financial statements may involve actions such as manipulation, falsification or alteration of accounting records or supporting documents that are the source of the presentation of financial statements; misrepresentation or omission of any of the financial statement events, transactions or significant information; and deliberate misapplication of accounting principles related to amount, classification, presentation or disclosure. Misstatements arising from improper treatment of the asset (often referred to as abuse or fraud) related to the theft of company's assets resulting in financial statements were not prepared in accordance with generally accepted accounting principles. Improper treatment of the assets of the entity can be done in various ways, including embezzlement of receipt of goods or money, theft of assets, or any action that causes the entity to pay the goods or services which are not received by the entity. Improper treatment of the assets may be accompanied by a false or misleading note or document and may involve one or more individuals among management, employees or third parties.

### **Student Perception of Fraudulent Practices**

Accounting students are students who could potentially be involved in the preparation of the financial statements when graduating. They have been equipped with an ample knowledge in accounting terms. Accounting students normally have only conceptual knowledge of accounting because most of them have no working experience. While the alumni have not only conceptual knowledge but also practical knowledge. This situation may lead to the difference in perception between students and alumni regarding fraudulent practices. The underlying research framework of this study can be

**Figure 2**  
**Research Framework**



described as shown in Figure 2.

Based on the background problem as well as the theoretical framework, the hypothesis of this research is:

$H_1$  : There are difference in perception between accounting student and accounting alumni regarding fraudulent practices.

### 3. RESEARCH METHOD

#### Research Design

This study is a quantitative research Sekaran (2006:161) states that a quantitative research focuses on hypothesis testing using measured data so that a conclusion can be drawn. The data collected using questionnaire distributed directly to accounting students and alumni of STIE Perbanas Surabaya. The Independent sample t-test is used to test the hypothesis.

#### Scope of Research

The respondents of this research cover only students and alumni of Accounting Department of STIE Perbanas Surabaya. This research focuses on the perceptual difference of students and alumni of accounting regarding fraudulent practices.

#### Identification of Variables

The variables used in this study include accounting student perception, accounting alumni perception, and fraudulent practices.

#### Operational Definition and Measurement of Variables

This study defines the research variables as follows:

**Accounting student perception (X1)** is responses, attitudes or judgments of accounting students to fraudulent practices.

**Accounting alumni perception (X2)** is the response, attitude or judgment accounting alumni fraudulent practices.

Fraudulent practices cover two types of fraud, namely external and internal. External fraud is fraudulent practices committed by the outsiders of

a company. Yet, internal fraud is illegal practices committed by managers, employees, or executives of the company. This variable is measured using Likert Scale ranging from 1 (strongly disagree) to 5 (strongly agree)/

#### Research Instruments

This study uses the following research instruments as in Table 1.

#### Population, Sample, and Sampling Technique

The population of this study was students and alumni of accounting Department at STIE Perbanas Surabaya. This study uses primary data collecting through questionnaires. The sampling technique used in this study is the purposive sampling. The criteria used to select the respondents are: (1) the accounting students must have completed Business Ethics and Accounting Profession course, and (2) the accounting alumni must have been working in Surabaya.

### 4. DATA ANALYSIS AND DISCUSSION

#### The Description of Research Sampel

The population of this study was all students and alumni of Accounting Study Program at STIE Surabaya Perbanas. Questionnaires were distributed and collected starting on December 7, 2012 until December 24, 2012. Total of 120 questionnaires were distributed and 112 questionnaires were received and processed.

#### Descriptive Analysis of Respondent Characteristics

Descriptive analysis of data related to respondents includes gender, status of the respondent (student or alumnus), and the respondent's responses. Out of the total, 62.5 percent (70 respondents) are students and 37.5 percent (42 respondents) are alumni. In terms of incoming year, 61 students come from 2009, 8 students come from 2008, and 1 student comes from 2007. 74.3 percent of respondents (52) are female, and 25.7 percent (18) are male.

**Table 1**  
**Research Instrument**

Variable	Indicators	Statements	Scale
Fraudulent Practices	Motive	Statement No. 1, 2,3, 4, 5, 10,16	Likert scale: - 5 for strongly agree
	Opportunity	Statement No. 8, 9, 14, 15, 18, 19, 20	- 4 for agree - 3 for undecided
	Rationalization or lack of integrity	Statement No. 6, 7, 11, 12, 13, 17	- 2 for disagree
			- 1 for strongly disagree

**Table 2**  
**Reliability Test**

Variable	Cronbach's Alpha	Critical Value	Conclusion
Students' perception of fraudulent practices	0.817	0.70	Reliable
Alumni perception of fraudulent practices	0.781	0.70	Reliable

**Table 3**  
**Normality Test**

	Students' perception of fraudulent practices	Alumni perception of fraudulent practices
N	70	42
Kolmogorov-Smirnov Z	0.627	0.657
Significance	0.827	0.781

Most of alumni participating in this study are female (23 people or 54.8 percent), while only 19 of them are male (45.2). In terms of incoming year, 24 alumni come from 2008, 12 alumni come from 2007, 1 alumnus comes from 2005, 2 alumni come from 2004, and 2 alumni comes from 2003. The alumni come from various professions, such as accountant in financial department, auditor, lecturer, administrative staf, and bank employee.

#### Validity Test

The result of validity of test shows that all variabels related to students' perceptions of fraudulent practices have Pearson product moment correlation value greater than the r-table of 0.232 ( $n = 70$ ) and a significance value less than  $\alpha$  (0.05). It can be concluded that all the items in each variable regarding students' perceptions of fraudulent practices are valid.

The result of validity test on all variables related to alumni perceptions of fraudulent practices shows that the Pearson product moment correlation value of each item in the statement is greater than 0.297 ( $n = 42$ ) and a significance value less than  $\alpha$  (0.05). It can be concluded that all the items in each variable related to alumni perceptions of fraudulent practices are valid.

#### Reliability Test

Table 2 shows the results of reliability test. The re-

sults of the reliability test show that the Cronbach's alpha values are 0.817 for students' perceptions and 0.781 for alumni perceptions. Therefore, it can be concluded the questionnaires of each research variable are reliable and trustworthy as a measurement tool that produces a relatively consistent answer.

#### Descriptive Analysis of Respondent Responses

The descriptive analysis of respondents' responses show that both students and alumni agree that fraudulent practices may occur in their environment. This condition is caused by motivation, either incentive or pressure, such as fraud practices. It is also caused by the lack of morals in the face of temptation. Temptation in question is the existence of the offer that they will be given incentives such as bonuses, salary increases or promotions if they do work in the interest of certain groups, even though it is a fraud. Moreover, the nature of human greed makes people do fraudulent practices. Opportunity is a situation that provides an open chance for management or employees to conduct fraud, such as weak internal control systems of an organization, weak supervision from relevant institutions, non-independent regulatory agencies, and the absence of monitoring mechanisms. These opportunities may trigger fraudulent practices.

Fraudulent practices may also due to rationalization or lack of integrity. Improper implementa-

tion of religion may cause someone to dare to practice fraud. Non-transparent management practices that tend to cover up fraud within an organization, lack of integrity and inconsistent application of sanctions may also cause a person to commit fraudulent practices.

### Normality Test

Table 3 shows the results of normality test using *one sample Kolmogorov-Smirnov test*. The results of *one sample Kolmogorov-Smirnov* show that the p-values are 0.827 for the students' perception 0.781 for alumni perception. Both values are higher than the value  $\alpha$  of 0.05. Therefore, it can be concluded that both the students' and alumni perception of fraudulent practices meet the normal distribution assumption.

### Hypothesis Testing

This research uses Independent-sample t-test to test the hypothesis. The hypothesis testing is intended to determine the average difference perception of fraud practices between students and alumni. Independent-sample t-test is based on the results of Levene's Test.

The average value of the students' perceptions of fraud practices is 3.7464 with a standard deviation of 0.40605. Whereas, the average perception of the alumni of the fraud practices is 3.8393 with a standard deviation of 0.39456. It is obvious that there is no difference in perception between students and alumni regarding fraud practices. To see whether this difference is statistically significant, we should look at the output of the second part, namely the independent sample t-test (Imam Ghazali 2011:66)

The t-value on equal variance is not assumed is -1.193 with a significance of 0.236. Because the probability is greater than 0.05 ( $0.236 > 0.05$ ) then  $H_1$  is rejected, meaning that there is no difference of perception between accounting students and accounting alumni regarding fraud practices. It can be concluded that the average perception of students and alumni on fraud practices are insignificant.

Respondents essentially have a tendency to agree that fraud practices can not be justified. However, there are also respondents who consider that fraud practices are still allowed with specific reasons. In certain circumstances, the practices are allowed as long as they not harm others too much, within the tolerance limits, and well below the materiality assumption set.

Based on the results of the hypothesis test, it

can be concluded that there is no difference in perception of fraudulent fraud between accounting student and accounting alumni of Undergraduate Accounting Study Program at STIE Perbanas Surabaya This may occur for several reasons.

The rate of absorption of theoretical and conceptual knowledge about the causes and consequences of an individual committed in fraud during in college is equally well between students and alumni. During study at STIE Pebanas Surabaya, students are educated and nurtured both in terms of soft skills and hard skills. STIE Perbanas Surabaya develops Super Softskill Mentoring (SSM) program to support soft skills education to students. This program aimed to shape the personality and behavior of students in accordance with the norms and ethics. The existence of this program is expected to protect students from fraudulent practices in the future when they enter the workforce.

In addition, students also gain knowledge and insights associated with efforts to minimize fraudulent practices (fraud), as well as how to detect such practices. The development of student knowledge and insight obtained through some courses offered at STIE Perbanas Surabaya such as Ethics and Personality Development, Auditing, Business Ethics and Professional Accounting, Audit Management, and Fraud Audit.

The Surrounding environment that is full of ethics and strict discipline, both for students and alumni, are expected to not allow them to commit fraud practices. All students in STIE Perbanas Surabaya know that when students caught of cheating in both assignment and exam, they will be subject to severe disciplinary sanctions by STIE Perbanas Surabaya.

While the alumni, most of whom work at companies that already have a good internal control system. It is also supported by the role of the internal auditor to monitor and evaluate the performance of each unit in the companies where alumni work. High demands adherence to the norms and rules of alumni working environment seems to be part of the alumni themselves. The behavior formed during college and reinforced by a strong organizational culture will shape their personal development. This condition certainly strengthens the alumni spirit to avoid the practices of fraud.

The number of corruption cases in which the perpetrators are state officials or company officials that only benefits the perpetrators and their group but detrimental to the state and society influence the perception of students and alumni. They believe that fraudulent practices are misconduct and

harm others. Students and alumni agree that the practices of fraud occur because of the motivation. Both incentives and pressures trigger or encourage someone to try to violate ethics. It is shown by the existence of the lack of morals in the face of temptation, the avaricious nature in a person, the pressure from the surrounding environment, the desire for personal gain, the nature of hedonism, as well as the fulfillment of luxury lifestyle. Motivation beyond mentioned above is also able to encourage someone to commit fraud practices, such weak supervision from relevant institutions, non independent oversight, no monitoring mechanism, and the lack of an organizational control system. In addition, rationalization or lack of integrity of such as the discontent over the income received, thinking of fraudulent practices will not harm others and improper application of religious dogma, may cause someone to commit to fraud.

Religious education taught in the family, which is the basis for the perception to think, behave, and act, also affects how the respondents' perception of the fraudulent practices. Most likely, religious education given to the majority of students and alumni is equally well, so that their perceptions of the fraudulent practices are not much different. Another question posed in this study is whether the high salaries can push someone to commit fraud actions, for example corruption. Students and alumni state that increasing the salaries of the employees or the management may be able to suppress the occurrence of corruption.

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

This study aimed to determine whether there is difference in perception between accounting students and alumni of the practices of fraud through a direct survey. This study uses a sample of students and alumni of Accounting Study Program at STIE Perbanas Surabaya, with a total of 112 respondents. Statistical test results show that there is no difference in the perception of fraudulent practice between students and alumni of the Undergraduate Accounting Study Program.

Some of the reasons behind this result are: 1) the rate of knowledge absorption during in college between students and alumni is equally well, 2) the environment around students and alumni that is the full ethics and has strict rules and discipline does not allow them to practice fraud, 3) the number of corruption cases affects the perception of students and alumni that the practices are wrong and harmful to others, 4) good religious education

given since religious education given to the majority of students and alumni is equally well.

Students and alumni basically have a tendency to agree that fraudulent practices are not justifiable, but it is allowed in certain circumstances as long as they are not harm others too much, within the limits of tolerance that are justified by others and well below the materiality assumptions set. Fraudulent practices occur because of the motivation, opportunity and rationalization or lack of integrity.

This study has some limitations, especially in the aspect of generalization because the respondents in this study only students and alumni of STIE Perbanas Surabaya. This happens due to the limited research time making it impossible for researchers to take a sample of accounting students and alumni of public universities and the private sector in Surabaya. The determination of student and alumni of Undergraduate Accounting Study Program at STIE Perbanas Surabaya as the object of this study is not only because of the ease in research but rather on the quality of knowledge related to the object of study in this research. The results may be different if the students and alumni are from various universities.

Suggestions for subsequent researches are: 1) They should add the group and number of respondents from other universities. 2) The use of research instruments not only through the questionnaire, but also conduct a direct interview with his sources in order to obtain more accurate information. 3) Number of new variables need to be added to covers more perceptions of fraud practices. 4) Research instruments should also include negative statements

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