



## The Effect of Internal Control and Compensation on the Trend of Accounting Fraud in Retail Companies in Ternate

Muhammad Hi Hasan

Universitas Nuku

Email: muhihasan1963@gmail.com

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### Abstract

This study aims to determine the effect of internal control, compliance with accounting rules, and unethical behavior on the tendency of accounting fraud. The population in this study is a state-owned company in Ternate City. The sampling technique uses total sampling. The data of this study were obtained from the leadership and accounting staff. The type of data used is primary data. The method of data collection is a survey, using a questionnaire. The analysis tool uses multiple linear regression. Statistical analysis found that: 1) the effectiveness of internal control has a significant negative effect on the tendency of accounting fraud, where the significance value is  $0.040 < \alpha 0.05$  and  $-0.295$  (H1 is accepted), 2) the adherence to accounting rules is negatively significant to the tendency of accounting fraud where the significance value is  $0.045 < \alpha 0.05$  and  $-0.253$  (H2 accepted), 3) unethical behavior has a significant positive effect on the tendency of accounting fraud, where the significance value is  $0.046 < \alpha 0.05$  and  $0.276$  (H3 is accepted). The results showed that the effectiveness of internal control and compliance with accounting rules was significantly negative on the tendency of accounting fraud, while unethical behavior was significantly positive on the tendency of accounting fraud.

**Keywords:** compensation, control, Retail company, internal

## INTRODUCTION

Indonesia is one of the countries with the highest corruption ranking in the world (*Transparency International*, 2010). In Indonesia, accounting fraud is evidenced by the liquidation of several banks, the submission of BUMN and private management to courts, cases of banking crimes, tax manipulation, corruption in the election management commission, and the DPRD. Although accounting fraud is suspected to be chronic, in Indonesia there has been no comprehensive theoretical and empirical study. Therefore, this phenomenon is not enough to be studied only by accounting science, but it is necessary to involve other disciplines.

The unequal desire between management and shareholders raises the possibility of management acting to the detriment of shareholders, among others, behaving unethically and tending to commit accounting fraud.

According to Shivdasani as quoted by Wilopo (2010) explains that principals can solve accounting fraud problems by providing appropriate compensation to agents, as well as incurring monitoring costs. To get good monitoring results, an effective company internal control is needed.

The Indonesian Institute of Accountants as quoted by Wilopo (2010) describes accounting fraud as:

1. Misstatements arising from fraudulent financial reporting are misstatements or intentional omission of amounts or disclosures in financial statements to deceive users of financial statements
2. Misstatements arising from improper treatment of assets (often referred to as misuse or embezzlement) are related to the theft of the entity's assets which result in financial statements not being presented in accordance with generally accepted accounting principles in Indonesia.

Improper treatment of entity assets can be carried out in various ways, including embezzlement of receipts of goods/money, theft of assets, or actions that cause the entity to pay for goods or services that are not received by the entity. Improper treatment of assets may be accompanied by false or misleading records or documents and may involve one or more individuals among management, employees or third parties. From a criminal perspective, accounting fraud is categorized as *white-collar crime*. White-collar crimes in the business world include misstatements of financial statements, manipulation in the capital market, commercial bribery, direct or indirect bribery and acceptance of bribes by public officials, tax fraud, and bankruptcy.

## **LITERATURE REVIEW**

### **Understanding Internal Control Structure Internal**

control structure as a type of supervision is needed because of the necessity to delegate authority and responsibility within an organization. A manager/company owner who feels that he does not have enough time and ability to manage all his company activities himself, will delegate his authority and responsibility to others. However, at the same time as or immediately after the owner of the company delegates authority and responsibility, at that time there is also a need to constantly monitor the implementation of activities and the results achieved by these functionaries.

According to the Professional Standards of Public Accountants (2011:319.2) internal control as a process carried out by the board of commissioners, management and other personnel of the entity designed to provide reasonable assurance about the achievement of the following three groups: (a) reliability of financial reporting, (b) effectiveness and operating efficiency, (c) compliance with applicable laws and regulations.

According to Alvin A.Arens, Radal J.Elder, Mark S.Beasley in a book entitled *Auditing and Verification Services* (2014:396) that an internal control system consists of policies and procedures designed to provide management with reasonable assurance that the company achieves its goals and objectives. the target. These policies and procedures are often called controls, and collectively they summarize the entity's internal control.

Mulyadi in his book "Accounting System" (2010:165) provides a definition of the internal control system including organizational structure, methods and coordinated measures

to maintain organizational wealth, check the accuracy and reliability of accounting data, encourage efficiency and encourage compliance with management policies.

### **Objectives and Constraints of Internal Control Structure**

According to Wing W. Winanrno quoted by Lisa S.Onggowarsito (2011: 21) that management designs an effective internal control structure with four main objectives, namely:

1. Maintain organizational assets and records.
2. Checking accuracy and organizational records.
3. Drive efficiency.
4. Encouraging compliance with management policies.

According to the purpose of internal control can be divided into 2 kinds, namely, accounting control (*internal accounting control*) and administrative control (*internal administrative control*). Accounting controls that are part of the internal control structure include policies and procedures primarily to safeguard the assets and records of the organization and to check the accuracy and reliability of accounting data.

## **RESEARCH METHODOLOGY**

### **Location and Time of Research**

This research was conducted during March 2015 to June 2015 where the object of this research is a retail company in the city of Ternate

### **Population and Sample**

Sugiyono (2014:55), population is a generalization area consisting of objects or subjects that have a certain quantity determined by the researcher to be studied and then drawn conclusions.

The population in this study are supermarket managers or employees of the finance department of a retail company in the city of Ternate. Based on the limitation of the problem in Chapter 1, the total population of retail companies in the city of Ternate is 12 companies, so the data collection method is using the population census method.

### **Data Types and Sources**

The types of data used in this study are:

1. Quantitative data: data that is presented and measured in the form of a numeric scale or in the form of numbers.
2. Qualitative data: descriptive data or in the form of descriptions or explanations and cannot be measured on a numerical scale.

### **Data Source**

1. Primary data: data obtained directly in this case by field surveys using all original data collection methods through questionnaires to supermarket managers and employees of the finance department of retail companies in the city of Manado, Tomohon city and Bitung city.
2. Secondary data: data that has been collected by data collection institutions published to the public using data, as well as data obtained from books and other information, as well as literature.

### **Data Collection Techniques**

In completing the results of this study, the authors collected data in the following ways:

1. Preliminary Survey, which is the first step activity to find thesis titles and problems that can be raised as research material by reading the Indonesian Accounting Research journal (JRAI), National Seminar on Accounting (SNA), or through other scientific papers. After determining the title of the thesis research and the problems raised in the research through the journal, the next step is to find the right research object and in accordance with the title of the thesis research.
2. Literature study, namely with a method to obtain information from theories by studying and taking notes from literature books, magazines, journals, and other information materials related to the material discussed by the author, all of which were obtained directly from Library
3. Field Survey, which is a data collection method in which the researcher makes direct observations to the object being studied, as well as distributing questionnaires to financial managers, accountants and directors/company owners for written questions posed by researchers.

## RESEARCH RESULTS AND DISCUSSION

Ternate City is an archipelagic city whose territory is surrounded by sea which is astronomically located at 0 posisi - 2° North Latitude and 126°-128° East Longitude. The land area of Ternate City is 250.85 km<sup>2</sup>. While the ocean area is 5.547 km<sup>2</sup>. The boundaries of Ternate City Area and land and sea area are as follows:

- North side is bordered by Maluku Sea
- South side is bordered by Maluku Sea
- East side is bordered by Halmahera Strait
- West side is bordered by Maluku Sea

Table 1. Ternate City Ternate

NO	District	AreaArea km2	%
1	Ternate Island	174.13	69.42
2	Moti	24.60	9.81
3			
4.	South Ternate North	28.96	11.54
	Ternate	23.16	9.23
	<b>Area</b>	250.85	100.00

Source: BPS Ternate City, 2012

The population of Ternate City based on population projections based on the results of the Intercensus Population Survey (Supas 2012) and the results of the National Socio-Economic Survey is 176,838 people, spread over four sub-districts. The level of population distribution by sub-district can be seen in the following table:

The population of Ternate City in 2012 amounted to 176,838 people, the details are as follows.

Table 2. Population Distribution by Subdistrict

NO	Disctrics	L	P	Street Population (people)	%
1	Ternate Island	9651	9482	36430	10.82
2					
3	Moti	2374	2423	4.797	2.71
4					
	South Ternate	40411	38578	78,989	44.67
	North Ternate	37489	19.133	73.919	41.80
	<b>Total</b>	89925	86913	176,838	100.00

*Source:* Ternate City (Results of Economic Survey, 2012)

Along with the development of Ternate City which currently has an impact on the increasing population of this region. With a land area of 250.85 km<sup>2</sup> and a population of 176 838 inhabitants the population density of the city of Ternate in 2011 was 704 people per square km<sup>2</sup>, it had increased by 24 persons per km<sup>2</sup> or 3.53% when compared to 2010 which amounted to 680 people per km<sup>2</sup>. The comparison between-subdistricts within the Ternate City area shows that North Ternate District has a population density of 3,191 people per km<sup>2</sup> is the most densely populated sub-district. While the other three sub-districts if sorted are South Ternate, Moti and Ternate Island. So at this time, the development of retail companies, especially companies engaged in mini markets / supermarkets in the city of Ternate can be seen in the following table

The development of retail companies especially supermarkets / hypermarkets in the city of Ternate

Table 3. The development of retail companies

No	Company Name	Address	Year Established
	<i>City of Ternate</i>		
1	Hyper rmarket	Gamalama Village	2013
2	Jati land	Jl. Nukila	
3	Gloria mini mart	Jl. Raya Gamalama	2002
4	Muara	Jl Nukila	2000
5	Selekta	Market complex	2010
6	supermarket Trully		
5	supermarketsupermarket	Jalan Raya Toboko	2001
6	TobokoManggadua		
7	supermarketsupermarket	Ex. Manggadua	
8	Mary Mart		1999
9	Resky Mart	Ex. Malumata	
10	Dinda Mart		2000
11	Chi Cken Mart	Jalan Raya	
12	Kalumata Indah	Manggadua	1998
	Dua Sekawan mart		
		Jl Raya Kalumata	2005
			2004
		Jl Raya Jati	2001
			2002

*Source:* Ternate City Industry and Trade Office 2019

## Operational Activities

Special for supermarket companies through the “convenience store network providing various kinds of necessities such as

1. Food products (biscuits, cereals, instant noodles, candy, fruits and vegetables, etc.).
2. Beverage products (milk, various soft drinks, etc.).
3. Health and beauty products (soap, powder, shampoo, facial cleanser, medicine, etc.).
4. Household goods (cooking oil, sugar, flour, rice, etc.)

In a large shop there is also a food bazaar area with a variety of dishes.

For companies that have Dept. The store offers products that consist of 4 major groups, namely:

1. Fashion Products
  - Men's fashion collection
  - Women's fashion collection
  - Collection of children's and baby fashion
  - Collection of shoes, sandals and bags
2. Accessories and cosmetic products
3. Children's toy products
4. Household products
5. Stationary products

The types of goods that are marketed or sold can be grouped into several section areas, namely:

1. Section ladies world  
Consists of:
  - missy and junior women's clothing
  - Accessories and cosmetics
2. Section mens world  
Consists of:
  - Men's clothing
  - Bags and shoes
3. Section children world  
Consists of:
  - Children's clothes
  - Children's toys
  - Shoes and other accessories
4. Section Home and Leisure  
Consists of:
  - household appliances
  - Media, stationery and office supplies
  - Game place.

The choice of store location is one of the important decisions in the company's development efforts. The company conducted a thorough and thorough survey of the area before deciding to open a new store. A special team, namely the head office marketing research team, has been formed to monitor or conduct a feasibility study for opening a new store in the area or location. Therefore, it is necessary to consider several factors to facilitate its business, namely:

- a. Located in a shopping center area
- b. Near the traditional market
- c. Near a vehicle stop
- d. There are good communication facilities so as to facilitate relations with outside parties.

Table 4. results of calculations using the SPSS version 12.0 program

**Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	13.244	6.176		2.144	.045		
	Pengendalian Internal	.264	.163	.363	1.621	.122	.863	1.158
	Kesesuaian Kompensasi	-.115	.220	-.117	-.523	.607	.863	1.158

Source: Processed Data 2016

Based on the results of calculations using the SPSS version 12.0 program as shown in table 4.9, it can be seen in the Coefficients section<sup>a</sup> that the regression model obtained is:

$$Y = +_1X_1 +_2X_2 +$$

$$Y = 13,244 + 0,264X_1 + (-0,115X_2)$$

$$Y = 13,244 + 0,264X_1 - 0,115X_2$$

constant of 13,244 gives an understanding that if internal control and compensation suitability for directors/owners and employees of the finance department who work in retail companies in Manado city, Tomohon city and Bitung city constant or equal to zero (0), then the magnitude of the tendency of accounting fraud in finance employees working in retail companies is 13,244 units.

The regression coefficient  $X_1$  of +0.264 can be interpreted, if internal control ( $X_1$ ) increased by 1 unit, then the tendency of the accounting fraud will increase by 0.264 units. In other words, the existing internal control system will not be able to suppress the practice of accounting fraud.

The regression coefficient  $X_2$  of -0.115 can be interpreted, if the appropriateness of compensation ( $X_2$ ) increased by 1 unit, then the tendency of the accounting fraud would be reduced by 0,115 units. In other words, if the compensation received is appropriate, it will suppress the tendency for accounting fraud to occur, and vice versa if the compensation received is not appropriate, it will provide opportunities to tend to practice accounting fraud.

Based on the value of the regression coefficient, it can be seen that if the compensation given is appropriate, it will have a dominant influence in suppressing the tendency of accounting fraud, and conversely the internal control system is not able to suppress the practice of accounting fraud in retail companies, especially in the city of Ternate.

**Correlation Coefficient (R)**

This analysis is used to measure the level of relationship between the independent variable (X) and the dependent variable (Y). In this case, to measure the strength or weakness of the relationship between internal control and the suitability of compensation with accounting fraud tendencies

Table 5. Correlation Coefficient

		Correlations		
		Kecurangan Akuntansi	Pengendalian Internal	Kesesuaian Kompensasi
Pearson Correlation	Kecurangan Akuntansi	1.000	.406	-.251
	Pengendalian Internal	.406	1.000	-.369
	Kesesuaian Kompensasi	-.251	-.369	1.000
Sig. (1-tailed)	Kecurangan Akuntansi	.	.030	.130
	Pengendalian Internal	.030	.	.045
	Kesesuaian Kompensasi	.130	.045	.
N	Kecurangan Akuntansi	22	22	22
	Pengendalian Internal	22	22	22
	Kesesuaian Kompensasi	22	22	22

Source: Processed Data 2016

## CONCLUSION

1. Based on the results of testing the F test hypothesis, it can be seen that the results of  $F_{arithmetic} = 2.043$  and  $F_{table} = 2.86$ . With probability value (significance) = 0.157. so it can be seen that  $F_{count} < F_{table}$  with a significant value  $> 0.05$  means  $H_{0is}$  accepted and  $H_a$  is rejected. Thus, the results of the F test state that  $H_{0is}$  accepted and  $H_a$  is rejected. This means that internal control variables and compensation suitability have no effect on the tendency of accounting fraud.
2. Based on the results of the t test, it can be seen that the results of the t test for the variable  $X_1$  (internal control),  $t_{count} = 1.621$  and  $t_{table} = 1.717$ . with probability value (significance) = 0.122. so it can be seen that  $< t_{table}$  with a significant value  $> 0.05$  means that  $H_0$  is accepted and  $H_a$  rejected. it means that the internal control variable has no effect on the tendency of accounting fraud.  
The results of the t test for the variable  $X_2$  (compensation suitability),  $t_{count} = -0.523$  and  $t_{table} = 1.717$ . with probability value (significance) = 0.607. so it can be seen that  $< t_{table}$  with a significant value  $> 0.05$  means that  $H_0$  is accepted and  $H_a$  rejected. This means that the compensation suitability variable has no effect on the tendency of accounting fraud.

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