

The Influence of The Effectiveness of The Internal Control System, Organizational Culture and Compliance with Legal Regulations on Fraud Detection

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Abstract

These results aim to make a scientific contribution to government accounting science, especially regarding fraud detection and efficiency levels which are influenced by the effectiveness of the internal control system, organizational culture and compliance with statutory regulations. It is hoped that the results of this research can be used as a reference for the Banten provincial government and school agencies as managers of budget funds in managing regional finances and can also make the Banten provincial government or school agencies more efficient than the previous year. The sample for this research was 36 high schools in the Tangerang City area. The research results show that the effectiveness of the internal control system has a positive and significant effect on fraud detection, the influence of organizational culture has a positive and significant effect on fraud detection, the influence of compliance with statutory regulations has a positive and significant effect on fraud detection, the effectiveness of the internal control system has a positive and significant effect on DEA, the influence of organizational culture has a negative and insignificant effect on DEA, and the influence of compliance with laws and regulations has a positive and significant effect on DEA.

Keywords internal control system effectiveness, organizational culture, compliance with legislation, fraud detection, efficiency.

INTRODUCTION

According to (Said et al., 2017) fraud is an act committed by an individual or group with the aim of individual or group interests which causes financial or non-financial losses to other parties. Fraud can occur anywhere without knowing the person, time or place, this can even happen in the academic world. The increasing public demand for good governance has encouraged the central government and regional governments to apply the value of public financial report information. The value of financial reports presented in government entities is slightly different from the financial reports presented in private entities. According to Government Accounting Standards (PP No. 24 of 2005) financial reports are prepared to provide relevant information regarding the financial position and all transactions carried out by a reporting entity. According to Law no. 12 of 2011, the definition of statutory regulations is written regulations that contain generally binding legal norms and are formed or specified by state institutions or authorized officials through procedures specified in statutory regulations.

Efficiency is a performance parameter which theoretically is one of the performances that underlies the entire performance of an organization. Basically, the principle of efficiency means avoiding all forms of waste, there is never any justification for allowing waste or inefficiency to occur. In simple terms, measurement is expressed by the ratio between output and input which is a unit of measurement of productivity which can be expressed partially



or totally which can help show what input factors have the most influence in producing an output.

Based on the conclusions above, the researcher suggests that fraud detection can be influenced by the effectiveness of the internal control system, organizational culture and compliance with statutory regulations, and efficiency can also be influenced by the effectiveness of the internal control system, organizational culture and compliance with statutory regulations.

METHOD

Research Design

This research uses primary data in the form of questionnaires and DEA. The quantitative research used is causal quantitative because it aims to test hypotheses about influence.

Population and Sample

The population in this study was 494 high schools in the Banten area. The sampling technique used was a purposive sampling method so that the number of samples from the population was 36, namely high schools in the Tangerang city area, where high schools were in the Tangerang city area.

Variable Operationalization

Effectiveness of the internal control system (X_1)

According to Mahmudi (2010: 21), internal control consists of 5 (five) interrelated components, namely:

1. Control Environment
2. risk assessment
3. control activities
4. information and communication
5. monitoring

Organizational culture (X_2)

Luthans (2002: 563) puts forward the characteristics of organizational culture into six elements, as follows:

1. Observed behavioral regularities.
2. Norms
3. Dominant values
4. Philosophy
5. Rules
6. Organizational climate

Compliance with statutory regulations (X_3)

Compliance with statutory regulations is an obligation for organizations to comply with all regulations in carrying out the preparation of financial reports in order to create accountability and transparency in financial management and quality financial reports. Meanwhile, according to Sunaryati Hartono (2013), there are 3 indicators used, namely:

1. Philosophical Foundations
2. Sociological Foundations
3. Juridical basis

Fraud Detection (Y)

Association of Certified Fraud Examinations (ACFE- 2000), one of the associations in the USA which dedicates its activities to preventing and eradicating fraud, categorizes fraud into three groups as follows:

1. *Financial Statement Fraud*
2. *Asset Misappropriation*
3. *Corruption*

This research was carried out using two software, namely Statistics Program for Social Science (SPSS) and DEA Solver (DEA). The reason researchers use SPSS software is to analyze data and carry out statistical calculations, both parametric and non-parametric. SPSS has quite high statistical analysis capabilities, because apart from providing convenience in calculations, it is also able to analyze research with more variables. Then for Dea Solver itself, it is to find the Dea Score which can later measure the level of efficiency in the school.

Multiple Linear Regression Analysis

Multiple linear regression analysis is actually the same as simple linear regression analysis, only there is more than one independent variable. The general equation is:

$$Y = a + b_1 X_1 + b_2 X_2 + \dots + b_n X_n.$$

Information:

Y = Dependent Variable

a = Predictor coefficient

$b_1 b_2$ = Independent variable regression coefficient

$X_1 X_2$ = Subject to the independent variable that has a value

K = Constant number

Where Y is the independent variable, and X is the independent variables, a is the constant (intercept) and b is the regression coefficient for each independent variable. Multiple linear regression analysis requires simultaneous testing using calculated F. Significance is determined by comparing the calculated F with the F table or looking at the significance.



RESULTS AND DISCUSSION

Results of Multiple Regression Analysis

Table 1. Fraud Detection

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	17,591	4,013		4,384	,000
	X1	,087	,037	,316	2,387	.023
	X2	,229	,050	,673	4,560	,000
	X3	-.328	.114	-.426	-2,878	,007

a. Dependent Variable: FRAUD DETECTION

- Based on the first hypothesis proposed by the researcher, the Internal Control System Effectiveness variable influences Fraud Detection. Regression analysis also explains that the Internal Control System Effectiveness variable has a t value of 2,387 which is greater than the t table of 2,034 and a significance value of $0.023 < 0.05$ is obtained. Therefore, it can be concluded that the first hypothesis is accepted.
- The Organizational Culture variable has a t-value of 4,560 which is greater than the t-table of 2,034 and a significance value of $0.000 < 0.05$ is obtained. Therefore, it can be concluded that Organizational Culture influences Fraud Detection. The second hypothesis is accepted.
- The results of the third hypothesis show that Compliance with Legislative Regulations has a t-calculated value of -2.878 which is greater than the t-table of 2.034 and a significance value of $0.007 < 0.05$ is obtained. Therefore, it can be concluded that Compliance with Legislative Regulations influences Fraud Detection. The third hypothesis is accepted.

Table 2. DEA (Data Envelopment Analysis)

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	186,236	28,238		6,595	,000
	X1	-.642	,257	-.362	-2,498	.018
	X2	,039	,354	.018	,110	,913
	X3	-2,153	,801	-.435	-2,687	.011

a. Dependent Variable: DEA SCORE

- a. Based on the fourth hypothesis proposed by the researcher, the Internal Control System Effectiveness variable influences the DEA Score. Regression analysis also explains that the Internal Control System Effectiveness variable has a t value of -2,498 which is greater than the t table of 2,034 and a significance value of $0.018 < 0.05$ is obtained. Therefore it can be concluded that the fourth hypothesis is accepted.
- b. The results of the fifth hypothesis show that Organizational Culture has a t-value of 110 which is smaller than the t-table of 2.034 and a significance value of $0.913 > 0.05$ is obtained. Therefore it can be concluded that Organizational Culture does not affect DEA Score. The fifth hypothesis is rejected
- c. The results of the sixth hypothesis show that Compliance with Legislative Regulations has a t-value of -2.687 which is greater than the t-table of 2.034 and a significance value of $0.011 > 0.05$ is obtained. Therefore, it can be concluded that compliance with laws and regulations affects DEA Score. The sixth hypothesis is accepted.

CONCLUSION

Based on the background, problem formulation, objectives, theoretical basis, empirical evidence, hypothesis, and test results, it can be concluded as follows:

- a. The effectiveness of the internal control system has a positive effect on fraud detection. This proves that having a good internal control system can allegedly help detect fraud or eradicate acts of fraud in an agency.
- b. Organizational culture has a positive and significant effect on fraud detection. states that if an agency has a low organizational culture, it will encourage its employees to commit acts of fraud, so it can be concluded that the better the organizational culture of an agency, the lower the detection rate of employees committing accounting fraud.
- c. Compliance with statutory regulations has a positive and significant effect on fraud detection. This means that compliance with statutory regulations can help detect the occurrence of fraud or fraudulent acts in an agency.
- d. The effectiveness of the internal control system has a positive effect on efficiency. The effectiveness of a good internal control system can help increase efficiency in each agency.
- e. Organizational culture does not affect efficiency. This means that the existence of organizational culture still cannot help an agency to increase their efficiency.
- f. Compliance with statutory regulations has a positive effect on efficiency. Therefore, compliance with statutory regulations can help increase the level of efficiency of an agency.

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