

The Influence of Internal Control Systems and Compensation on Fraud Tendencies in the Fraud Triangle Perspective

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ABSTRACT

This research aims to empirically test the influence of the internal control system on fraud tendencies, the effect of compensation on fraud tendencies empirically, and the influence of internal control and compensation simultaneously (together) on fraud tendencies in the fraud triangle perspective. This research uses a quantitative approach with data collection techniques using questionnaires. Based on the research, the population used in this study was 143 Serang Regency Agriculture Service employees. In contrast, the sample used a saturated sampling technique, which is when all population members are used as samples, so the sample taken in this study was 143 people. The results of this research are in hypothesis 1 that there is a significant influence between the internal control system and the tendency to fraud from a fraud triangle perspective. In hypothesis 2, a significant influence exists between compensation and the tendency to fraud from a fraud triangle perspective. In hypothesis 3, there is an influence between the internal control system and compensation on the tendency to fraud in the fraud triangle perspective.

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1. INTRODUCTION

Regional finances are not immune from the impact of accounting fraud in Indonesia. From a financial perspective, especially government institutions, reform has begun to be built with the issuance of several legal foundations, such as laws regarding autonomous regions, the introduction of technological tools to speed up organizational processes, and the introduction and obligations to implement an organizational system based on good governance in government institutions (Anthoni et al., 2023; Kuntadi, 2023).

Financial reports in government entities are closely related to the public interest. For this reason, financial reports should be presented fairly and not contain elements of fraud. Leaders and employees can commit frauding or fraud (Ardiyanti & Supriadi, 2018; Masitoh & Yusuf, 2021). Facing corruption today, the government needs efforts to prevent and detect fraud in the procurement of goods or services to minimize the occurrence of fraud. Government agencies procurement of goods and services is very important in supporting operational activities to realize development in Indonesia. Viewed from various perspectives, Indonesia's progress cannot be separated from the activities of procuring goods and services (Ramadhan & Arifin, 2019).

The many forms of fraud are, of course, due to various factors. Many experts have put forward the concept of causes of fraud. One of the concepts that causes fraud currently widely used in Public Accounting practice is the Fraud Triangle Concept (Arum Ardianingsih, 2021). Meanwhile,

the Fraud Triangle theory is a theory that must be included in the fraud audit plan. This theory states that fraud occurs due to pressure, opportunity, and justification. The three elements of fraud coexist at different organizational levels and affect each individual differently (Karyono, 2013).

Government financial management must be carried out by every member of the government organization, both central and regional, with high integrity. Apart from that, a good control system is also needed. Controls are carried out to prevent fraud. Fraud prevention is an action that can be taken to eliminate or minimize the causes of fraud (Puspa & Prasetyo, 2020). Therefore, to prevent the government from creating a monitoring and control system on government performance, this activity is named the Government Internal Control System (SPIP), stipulated in PP number 60 of 2008.

Fraud can be explained as an act of frauding, but in the context of etymology, fraud is an intentional act that aims to obtain benefits or rights from another person or other party (Edi et al., 2022). According to Tunggal (2012), fraud refers to deliberate fraud in the financial sector, intending to take assets or rights belonging to other people. Karyono (2013) defines fraud as fraud that involves breaking the law intentionally, with a specific purpose, such as deception or providing wrong information to other parties, both from within and outside an organization. This fraud is carried out to take advantage of opportunities in a dishonest way, which can harm other parties directly or indirectly. According to Tunggal (2012), three factors become the basis for someone to commit fraud, known as the "Fraud triangle," namely Pressure, Opportunity, and Rationalization.

Concerning internal control, internal control is a comprehensive process influenced by management to provide adequate confidence as a guide to increasing effectiveness and efficiency, the reliability of financial reports, and compliance with the law. An internal control system is a series of methods and steps that are prepared and regulated in a coordinated manner to maintain the security of company assets, ensure the accuracy and reliability of accounting data, increase operational efficiency, and ensure compliance with management policies. Thus, the internal control system is a series of steps to ensure the company operates effectively and follows applicable laws and regulations.

According to Sujarweni (2017), the main indicators in the internal control system, namely First, the internal control system covers various aspects, starting from creating conditions and culture in the company that support effective internal control to identifying potential risks that the company may face. Second, company management must have a good understanding of these risks in order to take preventive measures that can avoid major losses. Third, the supervision system includes various processes and efforts management makes to supervise and control company operations. Fourth, information and communication within the company must flow well and effectively. Fifth, monitoring plays an important role in ensuring that the accounting information system runs smoothly and that action can be taken immediately if any discrepancies or problems arise.

Furthermore, fraud is related to compensation. Compensation is remuneration an organization provides to employees, which can be financial or non-financial in a fixed period. A good compensation system will satisfy employees and enable companies to acquire, employ, and retain employees. For organizations, compensation has an important meaning because compensation reflects the organization's efforts to maintain and improve the welfare of its employees. Several experiences show that inadequate compensation can reduce employee work performance, motivation, and job satisfaction and even cause potential employees to leave the company. Compensation is a tool that binds a company to its employees, a pulling factor for prospective employees, and a motivating factor for someone to become an employee.

Someone tends to do something to get compensation. If compensation is given to management, management tends to act according to the company's wishes and avoid deviant actions to receive compensation. Compensation influences a person's actions and behavior in an organization. A person tends to behave unethically to maximize personal gain. This compensation aims to ensure that management can act according to the wishes of the company owner and not commit deviant actions such as unethical behavior. It is hoped that deviant acts can be reduced with the compensation system provided. Providing compensation following established procedures is expected to provide a sense of justice for employees and reduce fraud.

2. RESEARCH METHOD

This research uses quantitative research methods, which are based on the philosophy of positivism. This method investigates certain populations or samples, with sampling techniques generally carried out randomly. Data was collected using research instruments, and data analysis was carried out using a quantitative to test the established hypotheses. In this research, the hypothesis used is a causal relationship, which indicates the independent and the dependent variable. The population of this study was 143 employees of the Serang Regency Agriculture Service, who were also the research sample using a saturated sampling technique, namely a technique where all members of the population were used as samples.

The author used a Likert Scale to measure the variables in this research. The Likert scale measures variables by converting them into relevant indicators (Sugiyono, 2017). These indicators are then used to design instrument items, which can be statements or questions. The author used several techniques in the data collection process, such as interviews, observations, and questionnaires. Interviews are used to obtain data through verbal statements or direct interaction with respondents regarding the research topic. Observations are carried out by observing the research object directly. Questionnaires are used to collect data by giving written questionnaires to respondents to answer. Data collection also involves literature studies, reports, lecture notes, and other sources relevant to this research problem (Sugiyono, 2019).

3. RESULTS AND DISCUSSIONS

Using the help of the SPSS 21 program, the output of the multiple regression coefficient is produced as follows:

Table 1. Multiple Regression Test Coefficients^a

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|--------------------------------|-----------------------------|------------|---------------------------|-------|------|
| | B | Std. Error | Beta | | |
| (Constant) | 2.105 | 2.771 | | 1.044 | .230 |
| 1 Internal Control System (X1) | 1.211 | .206 | .217 | 3.126 | .012 |
| Compensation (X2) | 1.431 | .188 | .326 | 3.827 | .001 |

a. Dependent Variable: Fraud (Y)

Based on the table above, the following equation can be formed:

$$Y = 2.105 + 1.211X_1 + 1.431X_2 + e$$

Based on the regression line equation obtained, the regression model can be interpreted as follows:

1. The constant coefficient value = 2.105. This means that if the value of the internal control and compensation system is equal to zero, then the level or magnitude of the tendency for fraud from the fraud triangle perspective is 2.105.
2. The coefficient value $b_1 = 1.211$ means that if the value of the internal control system increases by 1 unit while the other independent variables are constant, then the level of the fraud tendency variable from the fraud triangle perspective will increase by 1.211.
3. Price coefficient $b_2 = 1.431$. This explains that if the compensation value increases by 1 unit while the other independent variables are constant, then the level of the fraud tendency variable from the fraud triangle perspective will increase by 1,431 units.

Based on Table 1, the t-test results on the hypothesis that the internal control system affects the tendency to fraud. The count test results are 3.126. The ttable on degrees of freedom ($dk = n - 2$) (143-2 = 141) is obtained at 1.977, so that counts > ttable (3.126 > 1.977) with a significance level of 0.01 (0.01 < 0.05) it can be concluded that H_0 is rejected and H_1 is accepted, so there is a significant influence of the internal control system on the tendency for fraud in the fraud triangle perspective.

Based on Table 1, the results of the t-test on the hypothesis that compensation affects the tendency to fraud, the count test results are 3.827. The ttable on degrees of freedom (dk) = $n-2$ ($143-2 = 141$) is obtained at 1.977, so that count > ttable ($3.827 > 1.977$) with a significance level of 0.00 ($0.00 < 0.05$) it can be concluded that H0 is rejected and H2 is accepted, so there is a significant influence of compensation on the tendency to fraud from a fraud triangle perspective.

Table 2. F Test ANOVA^a

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|----------------|----|-------------|-------|-------------------|
| 1 | Regression | 34.240 | 2 | 31.320 | 8.983 | .018 ^b |
| | Residual | 132.342 | 81 | 8.408 | | |
| | Total | 231.382 | 43 | | | |

a. Dependent Variable: Fraud (Y)

b. Predictors: (Constant), Compensation (X2), Internal Control System (X1)

Based on Table 2, the results of the t-test on the hypothesis that compensation affects the tendency to fraud obtained the Fcount test results of 8.983 and Ftable on Degrees of Freedom (dk) = $n-k-1$ or $143-2-1 = 140$ of 3.061 so that Fcount > Ftable ($8.983 > 3.061$) with a significance level of 0.02 ($0.02 < 0.05$) it can be concluded that H0 is rejected and H3 is accepted, so there is a significant influence of the internal control system and compensation on the tendency of fraud in the fraud triangle perspective.

Table 3. Coefficient of Determination Test Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|------|----------|-------------------|----------------------------|
| 1 | .711 | .506 | .811 | 3.21770 |

a. Predictors: (Constant), Compensation (X2), Internal Control System (X1)

Based on the table 3 , the coefficient of multiple determination (R^2) r Square is 0.506. It can be interpreted that the variables of the internal control system and compensation influence 50.6% of the tendency for fraud in the fraud triangle perspective. In comparison, the remaining 49.4% is influenced by other factors.

Discussions

The Influence of Internal Control Systems on Fraud Tendencies

The results of testing hypothesis 1 concluded that there is a significant influence of the internal control system on fraud tendencies in the fraud triangle perspective. According to Karyono (2013), establishing an internal control system in every organizational activity is the main prevention of fraud. For internal control to be effective in preventing fraud, it must be reliable in the design of its control structure and sound practices in its implementation.

The cause of fraud is called the fraud triangle, namely, first, management or other employees feel incentives or pressure to commit fraud (Arens et al., 2008). Employees may feel pressured to commit fraud due to necessity or financial problems; second, situations that open up opportunities for management or employees to commit fraud. Loose internal controls and lack of oversight within a company can trigger employees to commit fraud; third is attitude or rationalization, including organizational commitment. Dishonest actions or lack of commitment to the company, or they are in a stressful enough environment that makes them rationalize dishonest actions.

Securing state assets is an important issue that must receive attention from the government. If there is negligence in safeguarding state assets, it will easily result in embezzlement, theft, and other forms of manipulation. Efforts to secure these assets can be made through effective and efficient internal control. Weak or loose Internal Control is one of the factors that most often causes fraud to occur (Putri & Sari, 2019).

A good function of internal control is carried out in layers: internal control through systems and internal control through procedures. The internal control system is a policy and procedure designed to provide management with reasonable certainty that the company has achieved its goals

and objectives, namely the reliability of financial reporting, efficiency, and operational effectiveness. Ramadhany et al., (2021) It states that the factors that influence fraud are building an internal control structure with good results, making control activities more effective, and improving organizational culture, which can be done by implementing the principles of Good Corporate Governance and making the internal audit function more effective. The high level of implementation of an internal cash control system and good corporate governance will reduce the company's fraud level. Management designs an adequate internal control structure to achieve objectives. With internal control like this, control and supervision will occur automatically over someone's work by other people. This can prevent fraud and allocate errors.

The results of this research follow research by Sunaryo et al.(2019) and Randiza (2016), who stated that the results of his research on internal control systems influence the tendency to fraud.

The Effect of Compensation on Fraud Propensity

The test results on hypothesis 2 can conclude that compensation significantly influences the tendency to fraud from a fraud triangle perspective. According to Karyono (2013), the relationship between compensation and fraud is that for risk managers, there are efforts to improve behavior and minimize motivation to commit fraud, one of which is a fair compensation policy.

The suitability of compensation also follows the fraud triangle theory or fraud triangle, where the causes of fraud are pressure, opportunity, and rationalization (attitude), so the variables that follow this theory are the suitability of compensation. Incentives or pressure to commit fraud (pressure) is one of the incentives to commit fraud. The pressure in question is a situation of urgency or crushing where an individual is entangled in financial problems that he cannot tell anyone about. However, pressure can also take the form of acts of fraud based on greed (Priantara, 2022).

According to Delfi (2014), the suitability of compensation is a factor that influences the tendency for accounting fraud (fraud). The compensation received by employees must be following the contribution the employee makes to the organization. Appropriate compensation can provide satisfaction and motivation to employees at work, encouraging them to give their best for the company where they work. The results of this research follow the research of Ramadhan (2019), which states that compensation has a positive and significant effect on the tendency to fraud.

The Influence of Internal Control and Compensation Systems on Fraud Tendencies

The test results for hypothesis 3 show a significant influence between the internal control system and compensation on the tendency to cheat from a fraud triangle perspective. According to Arens et al. (2015), the internal control system consists of policies and procedures created to assure management that the company has achieved its goals and targets. This system must be implemented effectively and well following the initial design. This effectiveness depends on all parts of an organization's organizational structure. Ineffective internal control will create opportunities that employees can exploit to commit fraud, and this follows the fraud triangle theory, where opportunities can influence someone to commit fraud (Romney & Steinbart, 2015).

In the Fraud triangle theory, the causes are pressure due to urgent living needs, insufficient income, and inappropriate salary payments, leading to accounting fraud. An employee who receives a salary will try to attribute the increase to some underlying cause. Providing compensation aims to reduce the practice of committing accounting fraud. The higher the compensation, the lower the occurrence of accounting fraud

According to Rahmi & Sovia (2017), appropriate compensation is expected to motivate employees to improve their performance and prevent them from committing fraud. The level of employee satisfaction is related to the perception of each individual. With the appropriate level of compensation received by the employee, the employee will feel satisfied and appreciated by the agency where they work, creating a sense of loyalty to that agency.

This means that the tendency for fraud can occur if the costs recorded in the agency's books are reduced, as well as the effectiveness of internal control and the appropriateness of compensation if there is no monitoring and evaluation of operational activities to assess the implementation of internal control such as security of cash, inventory and so on. If others are not carried out continuously, they can influence the tendency for deficiencies from a Fraud Triangle perspective.

The results of this research are supported by Meliany and Hernawati (2013) that the effectiveness of internal control and suitability of compensation influence the tendency for accounting fraud.

4. CONCLUSION

Based on the research results, the author concludes that the internal control system significantly impacts fraud tendencies in the context of the fraud triangle. This means that the more effective the internal control system is, the smaller the possibility of fraud. Apart from that, compensation also significantly affects the tendency to cheat from a fraud triangle perspective. Therefore, organizations need to consider appropriate compensation levels as a form of reward for employee performance, which can help reduce the risk of fraud. Furthermore, this research shows that internal control systems and compensation are interconnected in reducing the tendency to cheat. Therefore, paying close attention to achieving an environment that is safer from fraud is necessary.

Based on the conclusions above, the author provides important suggestions for continuing to monitor and improve the effectiveness of internal control systems in organizations to prevent accounting fraud. Organizations should carefully consider employee compensation as a factor that can help reduce the potential for fraud. This could include increased facilities, perks, bonuses, or other incentives. Future research can broaden the scope by involving SKPD outside the Serang District Agriculture Service to provide a more comprehensive understanding of the factors influencing fraud tendencies.

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