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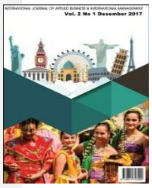

Analysis of Factors Influences Fraudulent Tendencies in Denpasar Rural Credit Institutions

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ABSTRACT

Accounting fraud often occurs and increases in several countries and organizations. The deviant action in financial statements is one of the accounting fraudulent actions. The impact and consequences of accounting fraud cannot be avoided and microfinance institution will suffer losses due to this action. This study aims to examine and obtain empirical evidence of the effectivity of internal control effectiveness, information asymmetry, compliance with accounting rules and management morality towards accounting fraudulent tendencies in Rural Credit Institutions (LPD) in Denpasar City. Data is obtained by giving questionnaires to the leadership and accounting staff at the Rural Credit Institution (LPD) in Denpasar City. Determination of the sample using purposive sampling method. The sample in this study were 70 respondents. The analytical tool used is multiple linear regression analysis. The data obtained were analyzed using the Statistical Package for Science (SPSS) program. The results showed that the effectiveness of internal control and management morality had a negative effect on accounting fraud tendencies. While information asymmetry and compliance with accounting rules do not affect the tendency of accounting fraud.

Keywords: Internal control, information asymmetry, accounting rules, management morality, fraud

I. INTRODUCTION

1.1 Background

Financial statements are the end of the accounting process designed to provide information to potential investors, prospective creditors, report users for business decision making. For management, financial statements can be used as material for consideration in setting plans for corporate activities for the future period and for carrying out daily operations. For investors, financial statements are one of the most important information to make a decision to invest their shares.

Given the importance of financial statements for a company, the financial statements must be prepared as well as possible in accordance with accurate data and in accordance with applicable accounting rules. According to Kusumastuti (2012) in reality there are still deviations in the financial statements of a company, so that the information in the financial statements becomes irrelevant and unreliable. This deviation in the financial statements is one of the accounting fraudulent actions. The actions taken can be in the form of elimination of amounts or disclosures in financial statements to fool the users of financial statements.

The tendency of accounting fraud (fraud) recently made headlines in frequent media coverage and become a research topic as examined by Ozili (2018) and Suryandari and Yuesti (2017) where fraudulent actions on financial statements can occur due to the low internal control within the company or lies in the low quality of audits by KAP. The Indonesian Accountants Association (IAI, 2001) in (Shintadevi, 2015) explains that accounting fraud can be divided into two, namely as misstatements caused by fraud in the process of producing financial statements and misstatements due to improper treatment carried out on assets. Misstatement caused by fraud in the process of producing financial statements means that the process of eliminating amounts in financial statements is done intentionally so that it can harm the users of financial statements. Meanwhile, misstatements due to improper treatment of parties who have authority on assets, can also be referred to as embezzlement or abuse. Cases that occur can be in the form of theft of assets of a business entity so that financial statements are not presented according to the General Applicable Accounting Principles (PABU) in Indonesia.

The definition of accounting fraud (fraud) according to the Republic of Indonesia Financial Audit Agency (BPK RI) (2007) is an action that is intentionally carried out must be contrary to the law in the form of fraud on the other party in order to obtain a certain outcome. The Association of Certified Fraud Examination (2014) classifies accounting fraud in the three main categories of financial statement fraud. Asset misappropriation and corruption. One form of accounting or fraud fraud that often occurs in Indonesia is corruption.

Accounting fraud trends have developed in various countries, including in Indonesia, where the corruption index ranks 96th out of 180 countries in the world (Transparency International, 2017). Evidence of accounting fraud in Indonesia includes the liquidation of several banks, embezzlement on cash receipts, theft of company assets, price mark-ups, informal transactions, corruption and so on. One of the disadvantages of accounting fraud is the decline in management accountability that makes shareholders increase monitoring costs for management. The tendency of accounting fraud to make the organization or institution managed becomes a loss. As the volume of organizational productivity weakens, the trust of the people served is shifted to other organizations and partners who are no longer willing to work together.

The impact and consequences of accounting fraud cannot be avoided. The company will suffer significant losses due to this. Accounting fraud is usually triggered by companies that want their financial statements to look good. In addition, the company also wants to reduce the perception in the eyes of potential investors that the company is at risk. The company's shares may be valued higher if investors consider that the company has a low level of risk, because they will not worry that the company will go bankrupt. To create a good perception, some companies use cunning strategies by committing fraud, such as the case of the 2001 Enron Company that went bankrupt because it manipulated financial statements by recording large profits even though the company suffered losses.

Bank Indonesia uses financial statements as a basis for determining the status of a bank (whether the bank is a healthy bank or not). To carry out its activities, banks must have high integrity so that the community has trust in order to establish working relationships. If the company is known to do automatic accounting fraud public or investor trust will be reduced and one by one or together will withdraw funds that have been deposited in the bank so that it can cause a rush and the bank may collapse and BI will close it. With these considerations and the increasing number of accounting fraud cases involving banking companies, it is important to conduct accounting fraud research to find out what factors influence the company to conduct accounting fraud.

The Transitional Decree of Banking Act Number 7 of 1992 as amended by Act Number 10 of 1998 Article 58 states that Rural Credit Institutions (LPDs) are given the status of Rural Banks (BPR) after fulfilling the requirements and procedures stipulated in the regulation's government. Rural Credit Institutions (LPDs) are economic institutions of traditional villages or *pakraman* that are used for rural safekeeping and exchange. Basically, the LPD serves as a fundraiser, giving credit and becoming a source of financing for development in the traditional village areas in Bali. According to Bali Provincial Government Regulation Number 3 of 2007, LPDs are village-owned financial enterprises that carry out business activities in the village environment and for village officials. The development of Rural Credit Institutions (LPD) in Pakraman village in Bali Province has been quite rapid. If examined from the 2014 Bali Regional Development Bank (BPD) report data, the development of LPDs in Bali is very encouraging.

In Rural Credit Institutions (LPD) there have been many cases of accounting fraud (fraud) experienced, namely the occurrence of corruption cases and the default of customer deposit funds. It is suspected that customer funds of Rp. 600 million were taken away by the chairman of the LPD. The loss of customer funds has occurred since 2010, where customers who want to withdraw their savings have been refused by the LPD. This case occurred in the LPD of Pakraman Sega Village, Bunutan Village, Abang District, Karangasem Regency (www.nusabali.com). Then the corruption cases that occurred in the LPD of Banyupoh Village, Buleleng Regency related to the deviation of savings and deposits owned by customers amounting to Rp 80 million (bali.antaranews.com). In addition, there were also cases of financial capital fraud by the management of the LPD Village Pakraman Bontihing, Kubutambahan subdistrict, Buleleng Regency by issuing fictitious loans to the customer without recording (www.balipost.com).

A similar case also occurred in the Rural Credit Institution (LPD) of Sinabun Village, Sawan, Buleleng. Where the chairman of the LPD committed corruption amounting to Rp 1.5 billion. This case occurred in 2015 (bali.antaranews.com). Then cases of fraud that occurred in the Rural Credit Institution (LPD) of the Adat Kapal Village, Mengwi District, Badung Regency were related to cases of corruption. Former Chairman of the LPD Adat Desa allegedly committed corruption by misusing authority or power, against the law to enrich himself or others, commit embezzlement, and falsify documents in financial management. The alleged case of corruption has caused a loss of Rp. 15 billion. This case occurred in 2018 (bali.tribunnews.com). The number of fraud cases that occur because of the weak internal control system. The effective internal control system is expected to reduce and prevent fraud from occurring.

Village Educator Institutions (LPD) occupy a strategic position in the village development level to accelerate the growth and economic development of Pakraman village in order to improve the standard of living of rural communities. As a forum for village economic wealth, LPDs are expected to play a role in increasing village economic efficiency, encouraging community productivity and contributing to the development of Denpasar City in general. With the role of LPD in such a way, the general target of Denpasar City LPD is directed at increasing LPD productivity, increasing professionalism in LPD management, increasing productivity of the Pakraman village community, increasing LPD competitiveness, and increasing LPD institutional quality.

Rural Credit Institutions (LPD) have shown very rapid development, both in terms of number and in terms of business development. As one of the microfinance institutions, the LPD has played a role in encouraging economic development and creating opportunities for rural communities to carry out business activities, as well as playing a role in supporting government programs in poverty alleviation. In Denpasar City there are 35 Pakraman Villages and overall there are 35 LPDs which means that all Pakraman villages in Denpasar City have LPDs. The following table will be presented in the development of Denpasar LPD.

Table 1.1
Development of LPDs in Denpasar in the last 4 (four) years

No	Description	YEARS			
		2014	2015	2016	2017
1	Asset	1.179.967.305	1.383.869.375	1.625.610.986	1.922.469.836
2	Loans given	933.462.026	1.109.998.494	1.244.928.476	1.361.180.790
3	Profit	55.667.022	64.996.208	70.217.525	73.653.877
4	Employees	485	508	525	527

Source: LPLPD Denpasar (2017)

Seen from table 1.1 above that the development of LPD in Denpasar City in the last 4 years namely 2014-2017 has always experienced an increase both in terms of assets, loans channeled and profits earned. As well as the ever-increasing number of employees to support LPD operations. The results of the LPD business have been contributed in accordance with the functions of the LPD to develop Pakraman Village, namely through a contribution of 60% for capital reserves, while 20% for the development of Pakraman Village, 10% for production services, 5% for empowerment funds and 5% for social Fund. The real contribution of the LPD (in the form of money or funds) to support village development in the city of Denpasar is relatively large and the community has benefited. Loan disbursement from LPDs to the public helped drive the growth rate of small or micro industries so that the economic growth of rural communities is increasingly advanced, this also means that it can influence the increase in community income (multiplier effect). The development of LPD is of course followed by a variety of heavy tasks that must be completed that involve challenges, obstacles, and obstacles, not only from the LPD's internal factors themselves but also from external factors. In line with the economic development of the community, many LPDs experienced fraud. The number of frauds that occur because the internal control factor in an organization is weak.

Weak or loose internal control is one of the factors that most often causes this tendency to occur. Therefore, management is needed to monitor the implementation of internal controls so that fraud can be minimized. Internal control consists of policies and procedures that are implemented to provide adequate assurance that a particular entity's objectives will be achieved. Internal control indicators consist of five components, namely the control environment, risk assessment, control activities, information and communication, and monitoring. In cases where high information asymmetry occurs can cause fraud. The high information asymmetry also causes the opportunity to act fraud. It is expected that information asymmetry can be reduced so that fraudulent actions are also reduced.

Information asymmetry is a condition where the agent has access to information that is not owned by the principal. Information asymmetry affects accounting fraud because there is an imbalance of information between company managers and shareholders that can trigger fraud by manipulating financial statements (Zilmy, 2013). Indicators of information asymmetry include information on financial statements, exposure to financial statements, parties related to financial statements, person in charge of financial statements from the scope of financial statements. The occurrence of accounting fraud is also caused by disobedience to accounting rules in a company or organization itself.

Obedience rules are a way (provisions, standards, instructions, orders) that have been set so that they are obeyed. In addition, rules are also actions or actions that must be carried out. Accounting standards are made in such a way as a basis for preparing financial statements. In these accounting standards there are rules that must be used in the measurement and presentation of financial statements. Wolk and Tearney (1997) explained that failure to compile financial statements due to disobedience to accounting rules, would cause corporate fraud that cannot be detected by auditors and would cause losses to the company.

Besides the factors described above, morality is also one of the factors that influence the tendency of accounting fraud and unethical behavior. Organizations or agencies also have moral responsibility. The moral responsibility of organizational management influences the occurrence of unethical behavior and accounting fraud tendencies. The worse the morality of management, the greater the possibility of accounting fraud tendency to occur. Poor morale from management is assumed to encourage management to act unethically and cheat in accounting. So that there is a need for binding legal provisions as an effort to enforce individual morality standards so that the lives of all people can be maintained.

Based on the description of the background of the research above, the authors are interested in conducting research by taking the title **"Analysis of Factors Influences Fraudulent Tendencies in Denpasar Rural Credit Institutions"**

1.2 Research Problem

Based on the background described, the problem statement in this study is:

1. Does the effectiveness of internal control affect the accounting fraud tendency in the Denpasar City Credit Institution?
2. Does information asymmetry affect the accounting fraud tendency in the Denpasar City Credit Institution?
3. Does compliance with accounting rules affect the accounting fraud tendency in the Denpasar City Credit Institution?
4. Does management morality affect the accounting fraud tendency in the Denpasar City Credit Institution?

II. LITERATURE REVIEW AND HYPOTHESIS

2.1 Theoretical basis

2.1.1 Ageny Theory

Jensen and Meckling (1976) explain that agency theory is a contract between the manager (agent) and the owner (principal). In order for this contractual relationship to run smoothly, the owner will delegate the decision-making authority to the manager. The right contract planning to harmonize the interests of managers within the owner in terms of conflicts of interest is the core of the agency theory. But to create the right contract is difficult to realize. Therefore, investors are required to provide residual control rights, namely the right to make decisions in certain conditions previously seen in the contract.

Agency theory is based on several assumptions. These assumptions are divided into three types, namely assumptions about human nature, organizational assumptions and information assumptions. The assumption of human nature emphasizes that humans have selfishness (self-interest), humans have limited thinking about the perception of the future (bounded rationality), and humans always avoid risk (*riskadverse*). Organizational assumptions are the existence of conflict between members of the organization, efficiency as a criterion of effectiveness and the existence of information asymmetry between the principal and the agent. Information assumption is that information as a commodity that can be traded.

Based on the assumption of human nature it is explained that each individual prioritizes his own interests so that this can lead to a conflict of interest between the principal and the agent. The motivated owner (principal) enters into a contract to prosper him with always increasing profitability. While managers (agents) are motivated to maximize their economic and psychological fulfillment, among others in terms of obtaining investments, loans, and compensation contracts. Thus there are two different interests in the company, each of which wants to maintain and achieve the desired prosperity or profit.

The owner of the company (principal) can carry out policies that only prioritize the company and sacrifice the interests of the manager (agent). To reduce conflict, internal control and monitoring by the principal are needed to do what the agent does. Financial statements are one form of monitoring tool to reduce agency costs. To anticipate deviant actions that can be taken by the management (agent), the owner of the company (principal) must supervise the performance of management with an effective control system. The control system is expected to reduce the existence of deviant behavior in the reporting system, including the existence of accounting fraud.

Agency theory (Jensen and Meckling, 1976) is often used to explain accounting fraud. Agency theory intends to solve two problems that occur in the agency relationship. Problems arising from differences in interests between the principal and the agent are called agency problems. One of the causes of agency problems is the existence of information asymmetry. Information asymmetry is an imbalance of information held by the principal and agent. The existence of information asymmetry allows conflict to occur between the principal and agent to try to use other parties for their own interests and always maximize the utility function.

When the principal does not have enough information about the performance of the agent, the agent has more information about the capacity of himself, the work environment and the company as a whole. This causes the principal to find it difficult to trace what the agent actually does. In this condition the principal needs information that is owned by the agent regarding the condition of the company and the performance of the agent itself. So that as information makes management tend to cheat by providing information that is useful for principals for motivation to gain personal benefits.

2.1.2 Theory of Moral Development

The stages of moral development are a measure of a person's high and low morals based on the development of moral reasoning as expressed by Kohlberg (1969). This theory holds that moral reasoning, which is the basis of ethical behavior, has six developments that can be identified. He follows the development of moral decisions as the age increases which was originally studied by Piaget (1958), who stated that logic and morality develop through constructive stages. Kohlberg (1969) extends this basic view by determining that the process of moral development in principle relates to justice and its development continues throughout life.

Kohlberg (1969) used stories about moral dilemmas in his research and he was interested in how people would justify their actions if they were on the same moral issue. Kohlberg (1969) then categorizes and classifies responses that appear in six different stages. The six stages are divided into three levels: pre conventional, conventional, and post-conventional.

Six stages of moral development according to Kohlberg (1969), namely:

1. Level 1 (Pre-Conventional)
a. Compliance orientation and punishment
b. Personal interest orientation
2. Level 2 (Conventional)
a. Interpersonal harmony and conformity orientation
b. Authority orientation and maintenance of social rules
3. Level 3 (Post-Conventional)
a. Orientation of social contracts
b. The principle of universal ethics

Management is a collection of individuals who also have moral stages. In the conventional stage, moral considerations are based on understanding social rules, laws, justice, and obligations. Management at this stage began to shape the morality of its management by adhering to the regulations in this study that were accounting rules before finally forming a high moral maturity of management at the post-conventional stage. Management at the post-conventional stage shows high moral maturity of management.

Moral maturity is the basis and consideration of management in designing responses and attitudes towards ethical issues. The development of moral knowledge is an indication of making decisions that are ethically and positively related to social accountability behavior. Because of social responsibility, management with high morality is expected not to commit deviant and fraudulent behavior in its performance. Including the existence of unethical behavior from management and accounting fraud. High management morality is expected to reduce unethical behavior and accounting fraud committed by company management.

2.2 Hypotheses

1. Effect of Effectiveness of Internal Control on the Tendency of Accounting Fraud

The internal control system is a process that is carried out to provide adequate assurance about the achievement of the reliability of financial statements, compliance with the law, and the effectiveness and efficiency of operations. Effective control systems are expected to reduce the presence of unwanted behavior by management to maximize personal interests. In addition to reducing undesirable behavior, the effectiveness of internal control systems is expected to reduce the deviant actions taken by management. Management tends to take deviant actions to maximize personal gain, one example of aberrant action is the tendency to commit accounting fraud.

The tendency of accounting fraud can occur if there is an opportunity to do so. Great opportunities make the tendency for accounting fraud to occur more frequently. These opportunities can be reduced by a good and effective internal control system. Good internal control can reduce or even close the opportunity to do accounting fraud tendencies. With the effectiveness of internal control can prevent and reduce deviant actions in management, which means that the more effective internal control in management, the lower the accounting fraudulent actions.

The results of Wirana (2016) show that the effectiveness of internal control has a negative effect on the tendency of accounting fraud. This is in line with the research conducted by Agustini (2015) which shows that internal control has a negative effect on the tendency of accounting fraud. Darmawan (2016) shows that internal control negatively affects the tendency of accounting fraud. Shintadevi (2015) shows that the effectiveness of internal control has a negative and significant effect on accounting fraud tendencies. Eliza (2015) shows that internal control has a negative and significant effect on accounting fraud tendencies.

Ariani (2014) shows that the effectiveness of internal control has a significant negative effect on accounting fraud tendencies. Downida (2017) shows that internal control has a negative effect on the tendency of accounting fraud. Rahmaidha (2017) shows that internal control has a significant negative effect on accounting fraud tendencies. Lestari (2017) shows that internal control has a negative effect on accounting fraud tendencies. Najahningrum (2013) shows that the effectiveness of internal control negatively affects the tendency of accounting fraud. Prawira (2014) shows that the effectiveness of internal controls has a negative significant effect on accounting fraud tendencies. Adelin (2013) shows that internal control has a negative significant effect on accounting fraud tendencies. From the description above it can be concluded that the formulation of the hypothesis of this study is.

H1: The effectiveness of internal control negatively affects the tendency of accounting fraud.

2. Effect of Information Asymmetry on Accounting Fraud Trends

Agency theory focuses on the problem of information asymmetry where executives have more information about actual performance, motivation and goals, which has the potential to create moral hazard and adverce selection, information asymmetry occurs because the legislature does not have sufficient information about executive performance, the legislature can never be certain how executive efforts contribute to the actual results of a government organization. Management has more information about their production capabilities than principals (shareholders).

Agency theory is used to explain accounting fraud. Agency theory intends to solve two problems that occur if the principal and agent's desires or goals emerge or the management and shareholders' desires are conflicting, and also when the principal finds it difficult to trace what the agent actually does. If the agent and principal try to maximize their respective utilities, the agent (management) does not always act according to the wishes of the principal (shareholders). This information asymmetry makes management take advantage of information inconsistencies for their benefits and at the same time harm parties outside the company.

When information asymmetry occurs, company management will present financial statements that are beneficial to them, for motivation to obtain high bonus compensation, maintain positions and others. Similarly, if there is information asymmetry, the management of the company creates or manipulates financial statements so that it can improve compensation and reputation of management, as well as the company's financial ratios. If the information asymmetry is higher, the tendency for accounting fraud will also be higher.

The results of the research conducted by Darmawan (2016) show that information asymmetry has a positive effect on accounting fraud tendencies. Wirani (2016) shows that information asymmetry has a positive effect on accounting fraud tendencies. This is in line with the research of Zilmy (2013) which shows that information asymmetry has a significant positive effect on fraudulent tendencies. Ariani (2014) shows that information asymmetry has a significant positive effect on accounting fraud tendencies. Downida (2017) shows that information asymmetry has a positive effect on accounting fraud tendencies.

Lestari (2017) shows that information asymmetry has a positive effect on accounting fraud tendencies. Najahningrum (2013) shows that information asymmetry has a positive effect on accounting fraud tendencies. Prawira (2014) shows that information asymmetry has a significant positive effect on accounting fraud tendencies. Aranta (2013) shows that information asymmetry has a significant positive effect on accounting accounting fraud tendency. Indriastuti (2016) shows that information asymmetry has a positive and significant effect which means increasing the chance of accounting fraud. From the description above it can be concluded that the formulation of the hypothesis of this study are:

H2: Information asymmetry has a positive effect on accounting fraud tendencies

3. Effect of Compliance with Accounting Rules Against Accounting Fraud Trends

Adherence to accounting rules is seen as a level of conformity with the procedures for managing organizational assets, implementing accounting procedures and presenting financial statements along with all supporting evidence. Whereas Wolk and Tearney (1997: 93-95) explained that the failure of the preparation of financial statements caused by disobedience to accounting rules, where it would lead to fraud in agencies that could not be detected by auditors.

Thus an agency or institution will commit fraud because they are not guided by applicable accounting rules. Vice versa if an agency obeys the applicable accounting rules, the tendency of accounting fraud can be reduced. Management's obedience to accounting rules will also affect the implementation of activities in the company that relate to accounting properly and correctly so that later produce effective financial reports and are able to provide reliable and accurate information to interested parties.

The research results of Rahmawati (2012) show that compliance with accounting rules negatively affects fraudulent tendencies. The results of the Shintadevi study (2015) show that there is a negative and significant influence between compliance with accounting rules with accounting fraud tendencies. Downida (2017) shows that compliance with accounting rules has a negative effect on accounting fraud tendencies. Rahmaidha (2017) shows that compliance with accounting rules has a significant negative effect on accounting fraud tendencies. Adelin (2013) shows that compliance with accounting rules has a significant negative effect on accounting fraud tendencies. From the description above it can be concluded that the formulation of the hypothesis of this study is.

H3: Compliance with accounting rules has a negative effect on accounting fraud tendencies.

4. Effects of Management Morality on Accounting Fraud Trends The moral development theory Kohlberg (1969) states that moral develops through three stages, namely the pre-conventional stages, conventional stages, and post conventional stages. Management morality at the post conventional stage shows high moral maturity of management. In moral maturity this is the basis and consideration of management in designing responses and attitudes towards ethical issues. Morality is an important factor in the emergence of fraud. The tendency of accounting fraud is also influenced by the morality of the people involved in it.

In a company or management morality agency is very influential on accounting fraud trends that may arise in the company. Management morality influences the tendency of accounting fraud. That is, the higher the stage of management morality (post-conventional stage), the more management pays attention to broader and more universal interests than the interests of the company, especially their personal interests. Therefore, the higher the morality of management, the more management tries to avoid accounting fraud tendencies.

The results of Darmawan's (2016) study show that management morality has a negative effect on accounting fraud tendencies. Agustini (2015) shows that management morality has a negative effect on accounting fraud tendencies. Rahmawati (2012) shows that management morality has a negative effect on accounting fraud tendencies. Eliza (2015) shows that management morality has a negative and significant effect on accounting fraud tendencies.

Ariani (2014) shows that individual morality has a significant negative effect on accounting fraud tendencies. Prawira (2014) shows that individual morality has a significant negative effect on accounting fraud tendencies. Aranta (2013) shows that apparatus morality has a significant negative effect on accounting fraud tendencies. Indriastuti (2016) shows that individual morality has a negative and significant effect, this can reduce the chance of effective accounting fraud. From the description above it can be concluded that the formulation of the hypothesis of this study is.

H4: Management morality has a negative effect on accounting fraud tendencies

III. METHOD

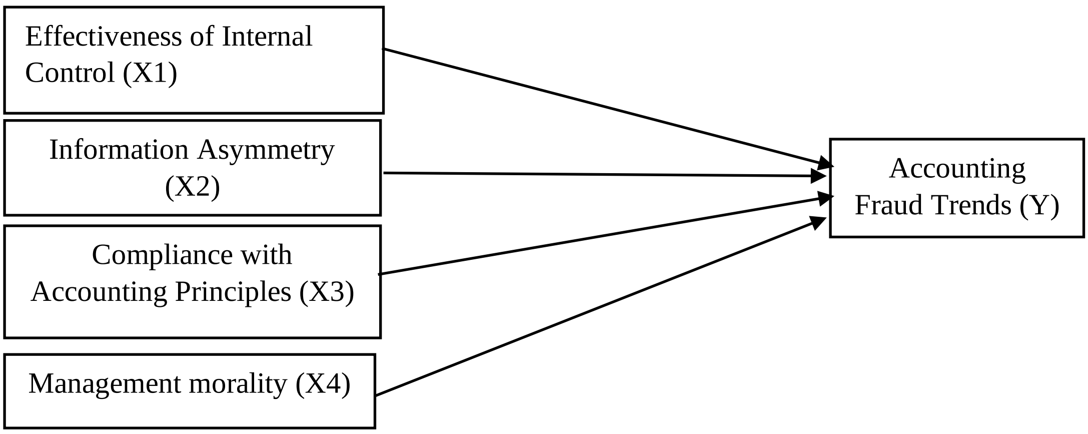
3.1 Location

This research was conducted at LPD in Denpasar City. There are 35 LPDs in 4 sub-districts in Denpasar City, namely North Denpasar Sub-District there are 10 LPDs, East Denpasar Districts there are 12 LPDs, South Denpasar Districts there are 11 LPDs, and West Denpasar Districts there are 2 LPDs.

3.2 Research framework

Accounting fraud is a false statement that can be addressed to parties outside the organization such as shareholders or creditors, or to the organization itself by covering or disguising money embezzlement, incompetence, misappropriation of funds or theft or improper use of organizational assets by officers, employees, and agents. Fraud can also be directed to organizations by outsiders. Factors that influence the fraud include internal control, information asymmetry, compliance with accounting rules and management morality. Internal control has a goal so that the company's operational activities run effectively and efficiently so that the company's goals can be achieved. Internal control is expected to reduce the deviant actions taken by management. Internal control is very important to provide protection for entities against human weaknesses and to reduce the possibility of errors and actions that are not in accordance with the rules. With the existence of adequate and effective internal controls, it is expected to reduce fraudulent tendencies that exist within the company and vice versa if internal controls are weak or ineffective then open opportunities for accounting fraud. Agency Theory Jensen and Meckling (1976) intends to solve two problems happens in the agency relationship. Problems arising from differences in interests between the principal and the agent are called agency problems or the existence of information asymmetry. When the agent and principal try to maximize their respective utilities. As well as having different desires and motivations, the agent (management) does not always act according to the wishes of the principal (shareholders). Desires, motivations and utilities that are not the same between management and shareholders give rise to management acting detrimental to shareholders. Asymmetry is an information imbalance between management and shareholders wherein the company or manager knows better information than outside parties or information users other than manager. In banks that are parties to the information user are shareholders. Because banking management is the party that manages funds mostly from shareholders. If these conditions occur, it will open opportunities for those who manage finances to commit fraud. If the shareholders do not know the transactions that affect the financial statements in detail, it is likely that the financial report presenter will manipulate the financial statements for the purpose of personal interest. Accounting rules contain accounting policies and procedures that must be applied in preparing and presenting financial statements in an agency. Adherence to accounting rules is seen as a level of conformity with the procedures for managing organizational assets, implementing accounting procedures and presenting financial statements along with all supporting evidence. The information available in financial statements is very important for investors and management so it must be reliable. In addition, a rule is needed to maintain the reliability of the information and avoid fraudulent actions that can harm the company or organization. The function of compliance with quality accounting rules will be an important factor in realizing transparency in the financial sector in an agency. LPD accounting rules are based on Bali Governor Regulation number 44 of 2017 concerning Implementation Guidelines for Bali Province Regional Regulation number 3 of 2017 concerning Rural Credit Institutions which state that LPDs must implement an administrative system capable of producing financial reports in a transparent and auditable manner. Morality is fundamental in the assessment of every action taken by humans. Besides that morality is an important universal law. Morality is related to things that are rational and in accordance with conscience. The organization or company also has moral responsibility. The moral responsibility of organizational management influences the occurrence of unethical behavior and accounting fraud tendencies. Someone is said to be moral if his actions and behavior reflect morality. The worse the morality of management, the greater the possibility of accounting fraud tendency to occur.

Figure 3.1



3.3 Operational Definition of Variables

1. Dependent Variable (Y)

The dependent variable in this study is the tendency of accounting fraud. Accounting fraud can be in the form of misstatements arising from fraudulent financial reporting, namely misstatement or deliberate omission of amounts or disclosures in financial statements to deceive users of financial statements, in addition accounting fraud can also be a misstatement arising from improper treatment of assets which results in financial statements not being presented in accordance with accounting principles generally accepted in Indonesia. The instrument used to measure fraudulent tendencies consisted of twelve question items developed by Shintadevi (2015). The indicator used is a tendency to manipulate, falsify, or change accounting records or supporting documents. The tendency to misrepresent or eliminate significant events, transactions, or information from financial statements. The tendency to intentionally apply accounting principles. The tendency to make financial statements that are wrong due to theft or misuse of assets and the tendency to make financial statements that are wrong due to improper treatment of assets. Each question instrument represents an indicator used to measure accounting fraudulency.

2. Independent Variables (X)

a. Effectiveness of internal control (X1)

The effectiveness of internal control is a process designed to help organizations achieve a certain goal. The effectiveness of internal control is also a way to direct, measure and supervise the resources of an organization to prevent and detect fraud and to protect the organization's resources. Provide adequate confidence in achieving financial report reliability, compliance with the law and effectiveness and efficiency of operations. The effectiveness of internal control is measured by eleven question items developed by Shintadevi (2015). The indicators used are the control environment, risk assessment, control activities, information and communication, and supervision. Each question instrument represents an indicator which is an element of creating effective internal control.

b. Information asymmetry (X2)

Information asymmetry is a situation where there is a misalignment of information between parties who have or provide information with parties who need information. This information asymmetry makes management take advantage of information inconsistencies for their benefits and at the same time harm parties outside the company. The instrument used to measure information asymmetry consists of six question items developed by Najahningrum (2013). The indicators used are those who know all transaction information, those who understand the process of preparing financial statements, those who know about the contents and figures of financial statements, and those who know the factors for making financial statements. Each question instrument represents an indicator used to measure information asymmetry.

c. Compliance with accounting principles (X3)

Compliance with Accounting Rules is an obligation in an organization to comply with all accounting rules or regulations in carrying out financial management and financial statements making in order to create transparency and accountability in financial management and financial reports that are produced effective, reliable and accurate information. Compliance with accounting rules was measured by nine question items developed by Shintadevi (2015). The indicators used are disclosure requirements, present information that is useful for the public interest, objective, fulfill prudential requirements and fulfill the concept of consistency of presentation. Each question instrument represents an indicator that is used to measure compliance with accounting rules.

d. Management morality (X4)

Management morality is management's action to do the right thing and not related to profit or value. The higher the stage of management morality, the more management pays attention to broader and more universal interests than mere corporate interests, especially their personal interests. Therefore, the higher the morality of management, the more management tries to avoid accounting fraud tendencies. The measurement of management morality comes from the moral measurement model developed by Najahningrum (2013). Management morality is measured by three question items that measure each stage of management morality. Each question instrument represents an indicator used to measure management morality.

3.4 Sampling Method

The population in this study were all employees who worked in the LPD in Denpasar, which amounted to 527 employees. The method of determining the sample used in this study is the purposive sampling method. The criteria used in this study are employees related to financial statements, such as: LPD leaders, and administrative / accounting departments with 70 employees.

3.5 Data Analysis Techniques

Multiple linear regression analysis techniques are used to determine the effect of effectiveness of internal control, information asymmetry, accounting compliance and management morality on accounting fraud tendencies in the Rural Credit Institution (LPD) of the City of Denpasar.

IV. RESULTS AND FINDINGS

4.1 Description of Respondents

This research was conducted to examine the effect of internal control effectiveness, information asymmetry, compliance with accounting rules and management morality towards accounting fraudulent tendencies. Data collection is done by distributing questionnaires to leaders and employees in the field of finance working in Rural Credit Institutions (LPD) in Denpasar City. The researcher distributed 70 questionnaires for employees working at Rural Credit Institutions (LPD) in Denpasar City.

This research has distributed 70 questionnaires with a return rate of 100 percent and a usable response rate of 100 percent.

4.2 Characteristic of Respondents

Based on the results of distributing questionnaires to leaders and employees in the field of finance working in Rural Credit Institutions (LPD) in Denpasar City, it can be seen gender, educational background and experience working in the banking industry. The results of testing the characteristics of respondents are shown in Table 4.2 below:

Table 4.2
Characteristic of Respondents

No	Characteristic based on	Jumlah	Presentase (%)
1	**Sex**		
	Man	44	62,9 %
	Woman	26	37,1%
	Total	**70**	**100%**
2	**Education background**		
	SMA/SMK (Senior High School)	19	27,1%
	D3 (Diploma 3)	8	11,4%
	S1 (Bachelor degree)	41	58,6%
	S2 (Master)	2	2,9%
	S3 (Doctor)	-	-
	Total	**70**	**100%**
3	**Working experience in Banking sector**		
	< 1 year	1	1,4
	1-3 years	5	7,1
	> 3 years	64	91,5
	Total	**70**	**100**

Source: Data processed (2018)

4.3 Statistic Descriptive Test Results

The standard deviation is the difference in data values with the average value. The results of the descriptive statistical test are shown in Table 4.3 below.

Table 4.3

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
X1	70	44.00	55.00	49.0571	4.33351
X2	70	12.00	30.00	24.8429	3.63811
X3	70	36.00	45.00	40.2714	3.48463
X4	70	9.00	15.00	13.4000	1.47835
Y	70	12.00	60.00	23.9000	12.07003
Valid N (listwise)	70				

4.4 Goodness of Fit Model

1) Determinant coefficient

The determinant coefficient (R2) essentially measures how far the model's ability to explain the ability of the variation of the dependent variable. The coefficient of determination is between zero and one. Small adjusted R2 means the ability of independent variables to explain variations in the dependent variable is very limited. A value close to one means that the independent variables provide almost all the information needed to predict variations in the dependent variable (Ghozali, 2016). The adjusted R2 test results can be seen in Table 4.4.1 below.

Table 4.4.1
Adjusted R^2 result

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.652[a]	.425	.389	9.43354

a. Predictors: (Constant), X4, X1, X2, X3

b. Dependent Variable: Y

Based on Table 4.4.1 it is known that the Adjusted R Square value is 0.389. This indicates that 38.9% of accounting fraud tendency can be explained by the effectiveness of internal control, information asymmetry, compliance with accounting rules and management morality. While the other 61.1% is determined by other factors not detected in this study.

2) t Test

Table 4.4.2
t Test

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	Collinearity Statistics VIF
1	(Constant)	56.847	15.106		3.763	.000		
	X1	-.775	.136	-.559	-5.678	.000	.914	1.094
	X2	.195	.379	.059	.515	.608	.679	1.473
	X3	.009	.397	.003	.023	.982	.674	1.484
	X4	-.021	.009	-.245	-2.292	.025	.774	1.291

a. Dependent Variable: Y

Based on the results of statistical tests t Table 4.4.2 can be explained as follows:

1. Variable effectiveness of internal control has a value of t of - 5,678 with a significant level of 0,000 which is smaller than 0.05. This means that the effectiveness of internal control negatively affects the tendency of accounting fraud, so that the first hypothesis is accepted.
2. Variable information asymmetry has a t value of 0.515 with a significant level of 0.608 which is greater than 0.05. This means that information asymmetry does not affect the tendency of accounting fraud, so the second hypothesis is rejected.
3. Variable compliance with accounting rules has a value of t equal to 0.023 with a significant level of 0.982 which is greater than 0.05. This means that compliance with accounting rules does not affect the tendency of accounting fraud, so the third hypothesis is rejected.
4. Variable management morality has a value of t of - 2,292 with a significant level of 0.025 which is smaller than 0.05. This means that management morality has a negative effect on the tendency of accounting fraud, so the fourth hypothesis is accepted.

4.5 Result of Multiple Linear Regression Analysis

Multiple linear regression analysis is generally used to test the effect of two or more independent variables on the dependent variable with an interval or ratio measurement scale in a linear equation. In this study regression analysis was conducted to determine whether there was an effect of the effectiveness of internal control, information asymmetry, compliance with accounting rules and management morality towards accounting fraud tendencies. The summary of the data processing results of multiple linear regression analysis using the SPSS program can be seen in Table 4.5 below:

Table 4.5
Result of Multiple Linear Regression Analysis

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	56.847	15.106		3.763	.000		
	X1	-.775	.136	-.559	-5.678	.000	.914	1.094
	X2	.195	.379	.059	.515	.608	.679	1.473
	X3	.009	.397	.003	.023	.982	.674	1.484
	X4	-.021	.009	-.245	-2.292	.025	.774	1.291

a. Dependent Variable: Y

The effect of the effectiveness of internal control, information asymmetry, compliance with accounting principles and management morality on accounting fraud tendencies can be known by using regression analysis, in this case multiple linear regression analysis is used.

Based on Table 4.5 above, the multiple linear regression equation is:

Y = 56,847 – 0,775 X1 + 0,195 X2 + 0,009 X3 – 0,021 X4 .... (1)

Description:

Y	= Accounting fraud trends
X_1	= Effectiveness of internal control
X_2	= Information asymmetry
X_3	= Compliance with accounting principles
X_4	= Management morality

4.6 Research Results

The discussion in this study is intended to explain the results of research in accordance with the objectives of the study. The results of further discussion will be described in the following points:

1. **Effect of the effectiveness of internal control on accounting fraud trends in Rural Credit Institutions (LPD) in Denpasar City.**

   The internal control effectiveness variable has a regression coefficient of -0.775 with a significance value of 0.000 which is smaller than 0.05. This shows that the effectiveness of internal control negatively affects the tendency of accounting fraud. The first hypothesis (H_1) which states the effectiveness variable of internal control negatively affects the tendency of accounting fraud to be accepted. Based on the results of the study it can be concluded that the effectiveness of internal control has a negative effect on the tendency of accounting fraud, meaning that if the effectiveness of internal control increases, the chances of accounting fraud will decrease, and vice versa. This shows that the effectiveness of internal control can reduce the presence of unwanted behavior by management to maximize personal interests. In addition to reducing unwanted behavior, the effectiveness of internal control can reduce the deviant actions taken by management in the Rural Credit Institutions (LPD) in Denpasar City.

   The results in this study are in line with the results of research conducted by Wirani (2016), Agustini (2015), Darmawan (2016), Downida (2017), Lestari (2017) and Najahningrum (2013) which states that effectiveness of internal control has a negative effect on trends accounting fraud.

2. **The effect of information asymmetry on the tendency of accounting fraud in Rural Credit Institutions (LPD) in Denpasar City.**

   Information asymmetry variable has a regression coefficient of 0.195 with a significance value of 0.608 which is greater than 0.05. This shows that information asymmetry does not affect the tendency of accounting fraud. So that the second hypothesis (H2) which states the information asymmetry variable has a positive effect on the tendency of accounting fraud to be rejected. Based on the results of the study it can be concluded that the existence of information asymmetry does not guarantee the occurrence of accounting fraud. This is suspected because the regulation in management governance (agent) does not want to take risks in financial reporting. An internal party or company manager who knows all information compared to outside parties or information users will not influence the manager to commit accounting fraud. According to Kusumastuti (2012) the existence of information asymmetry does not guarantee accounting fraud. This is because asymmetry does not affect information about financial statements made by management, because management's goal is to prioritize and make financial reports to assess the company's actual performance.

   The results in this study are in line with the results of research conducted by Rahmawati (2012), Agustini (2015), Ananjani (2016) which states that information asymmetry has no effect on accounting fraud tendencies.

3. **Effect of accounting principles compliance on accounting fraud tendencies in Rural Credit Institutions (LPD) in Denpasar City.**

   The variable obedience to accounting rules has a regression coefficient of 0.009 with a significance value of 0.982 which is greater than 0.05. This shows that compliance with accounting rules does not affect the tendency of accounting fraud. So that the third hypothesis (H3) which states the variable compliance with accounting rules has a negative effect on the tendency of accounting fraud to be rejected. Based on the results of the study it can be concluded that disobedience to accounting rules does not guarantee the occurrence of accounting fraud. Wolk and Tearney (1997) explained that failure to compile financial statements due to disobedience to accounting rules, would cause corporate fraud that cannot be detected by auditors. Because this cannot be detected, compliance with accounting rules does not affect accounting fraud.

The results in this study are in line with the results of research conducted by Kusumastuti (2012), Indriastuti (2016), Azmi (2017) which states that compliance with accounting rules does not affect the tendency of accounting fraud.

4. The influence of management morality on the tendency of accounting fraud in Rural Credit Institutions (LPD) in Denpasar City.

Management morality variable has a regression coefficient of - 0.021 with a significance value of 0.025 which is smaller than 0.05. This shows that management morality has a negative effect on accounting fraud tendencies. So that the fourth hypothesis (H4) which states the variable management morality has a negative effect on the tendency for accounting fraud to be accepted. Based on the results of the study it can be concluded that management morality has a negative effect on the tendency of accounting fraud, meaning that the higher the stage of management morality, the more management pays attention to broader and more universal interests than the interests of the company, especially their personal interests. Therefore, the higher the morality of management, the more management tries to avoid accounting fraud tendencies. Management morality in the post conventional shows the moral maturity of management is high. In this moral maturity management becomes the basis for consideration in designing responses and attitudes towards ethical issues. Morality is an important factor in the emergence of fraud. In a company or management morality agency is very influential on the tendency of accounting fraud that may arise from the company.

The results in this study are in line with the results of research conducted by Darmawan (2016), Agustini (2015), Rahmawati (2012), Ariani (2014) which states that management morality has a negative effect on accounting fraud tendencies.

V. CONCLUSION AND SUGGESTION

5.1 Conclusion

This study examines whether the effectiveness of internal control, information asymmetry, compliance with accounting rules and management morality influences the tendency of accounting fraud. Based on the results of the analysis and description in the previous chapter, conclusions can be taken as follows:

1. The effectiveness of internal control has a negative effect on the tendency of accounting fraud, which means that the effectiveness of internal control is expected to reduce the deviant actions taken by management so that the more effective the implementation of controls in an entity, it will reduce or close opportunities and opportunities to commit accounting fraud .
2. Information asymmetry does not affect the tendency of accounting fraud, which means that information imbalances that occur in management (agents) and owners (principals) do not affect accounting fraud.
3. Compliance with accounting rules does not affect the tendency of accounting fraud, which means that the disobedience of accounting rules does not guarantee the occurrence of accounting fraud. Wolk and Tearney (1997) explained that failure to compile financial statements due to disobedience to accounting rules, would cause corporate fraud that cannot be detected by auditors. Because this cannot be detected, compliance with rules does not affect accounting fraud.
4. Management morality has a negative effect on the tendency of accounting fraud, which means that with the higher morality of management, the more attention to broader and more universal interests than the interests of the company alone, especially personal interests. Therefore, the higher the morality of management, the smaller the chance for accounting fraud.

5.2 Limitations and Suggestion

5.2.1 Limitations

This research cannot be separated from various limitations. From these various limitations, it is expected to be improved in future studies. The limitations are as follows:

1. The number of respondents used as samples is relatively small so that more numbers are needed to improve the accuracy and accuracy of research results in the future.
2. This study only uses the effectiveness variable of internal control, information asymmetry, compliance with accounting rules and management morality in knowing its relationship to accounting fraud tendencies.

5.2.2 Suggestion

Suggestions that can be given based on conclusions and limitations that have been conveyed are as follows:

1. For further research it is recommended to increase the sample used so that the sample will get closer to the population and the results will better describe the actual conditions.
2. For researchers who want to conduct further research, it is recommended to add variables that influence accounting fraud such as compensation systems, unethical behavior, leadership style, organizational commitment.

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