

## The Effect of Opportunities, Internal Control and Commitment Management on Fraud Opportunities in State – Owned Companies In Palembang, Indonesia

Santi Eka<sup>1\*</sup>, Muhammad Adam<sup>2</sup>, Tertiaro Wahyudi<sup>3</sup>

<sup>1,2,3</sup>Sriwijaya University of Accounting Department, Palembang, Indonesia

### \*Corresponding author

Santi Eka

### Article History

Received: 01.11.2018

Accepted: 09.11.2018

Published: 15.11.2018

### DOI:

10.21276/sjhss.2018.3.11.1



**Abstract:** The objective of this study was to reveal the effects of opportunity, internal control, and management commitment on fraud opportunities. The samples were taken at some companies in Palembang, including PT. PLN UIP Sumbagsel, PT. PLN WS2JB, PT. Surveyor Indonesia and the Regional Mining and Energy Company totalling 154 respondents. Out of 154 questionnaires sent, 148 questionnaires were returned. The sampling was done using the purposive sampling technique. The data collected were the primary data which were first tested for their validity and reliability. The data analysis method used was the multiple regression analysis that had met the classical assumption testing requirements. The results of the study indicate that the opportunities have a significant effect on the fraudulent actions in the selected companies. Whereas the internal control and the management commitment have a negative effect on the fraudulent actions

**Keywords:** Opportunities, Internal Control, Management Commitment, Crowe's Pentagon Theory.

### INTRODUCTION

A financial crisis that make economic nations shall its poor all levels of society, consisting poverty, unemployment, occurrence of inflation and the crisis this is what be a home factor or a time bomb cause a variety of people to report crime acts that is cheating . All of cheating having meaning thrust in person to receive a crown of the purpose referred to as motivation.

Motivation is factors who directs and drive the behaviour or the wishes of someone [1] create motivation of several factors capable of effecting the behavior or desire an individual. Is one of the many needs maclelland theories of Motivation? According to this theory there are three that motivate a person, needs that are the needs will achievement, the needs of power, and the needs of the affiliation.

Association of certified fraud examiners (ACFE) are the largest in the world and a primary provider of education and training define cheating as an act of deception or fraud when they made by someone or body know that a complaint can result in benefits to be, to individuals entity or other parties. Fraudging include all kinds of ways that could be used by, by a single individual to profit from other parties with representation wrong [2].

ACFE, share in some form of corruption criteria, namely: conflict of interest, bribery, illegal gratuity and economic extortion. Types of fraud happens in every country there are different, this is because the practice of fraud, among others, is strongly influenced by the legal conditions in the countries concerned. In developed countries where law

enforcement is already well underway and the general economic conditions are solid enough that the practice of fraud less mode of operation [3].

The number of fraud cases of corruption in our country has got high appreciation from international agencies that Transparency International (TI) which is a non-partisan institution based in Berlin (Germany). Each year, Transparency International (TI) launched the Corruption Perception Index (CPI).

Based on the CPI data, Indonesia rank in the highest levels of corruption affairs. A feat that very embarrassing as a country that has a high religious value. In the Commission's annual report in 2016 stated that based on the corruption perception index, Indonesia is still listed as the most corrupt countries. The occurrence of acts of corruption in the country is due to the weakness of the corruption prevention system.

The research raises three main variables relating to fraudulent acts, namely the opportunity, internal control and management commitment. Opportunity is a situation that allows a person to commit fraud, a situation that is considered safe by the offender to cheat assuming the imposture action will not

be detected [4]. Other variables used in this study to memproksikan opportunity are effective monitoring. Supervision ineffectiveness is what makes the

opportunity to commit fraud managers become wide open.

**Table-1: Corruption Perceptions Index**

Rank	Country	CPI SCORE					
		2017	2016	2015	2014	2013	2012
1	New Zealand	89	90	91	91	91	90
2	Denmark	88	90	91	91	92	91
3	Finland	85	89	90	89	89	90
4	Switzerland	85	86	86	86	85	86
5	Singapore	84	84	85	84	86	87
6	Sweden	84	88	89	87	89	88
7	Canada	82	82	83	81	81	84
8	Luxembourg	82	81	85	82	80	80
9	Netherlands	82	83	84	83	83	84
10	United Kingdom	82	81	81	78	76	74
11	Germany	81	81	81	79	78	79
12	Australia	77	79	79	80	81	85
13	Hong Kong	77	77	75	74	75	77
14	Iceland	77	78	79	79	78	82
15	Austria	75	75	76	72	69	69
16	Belgium	75	77	77	76	75	75
17	US. Amerika	75	74	76	74	73	73
18	Ireland	74	73	75	74	72	69
19	Japan	73	72	75	76	74	74
20	Sri Lanka	38	36	37	38	37	40
94	Timor-Leste	38	35	28	28	30	33
95	Brazil	37	40	38	43	42	43
96	Colombia	37	37	37	37	36	36
97	Indonesia	37	37	36	34	32	32
98	Panama	37	38	39	37	35	38
99	Peru	37	35	36	38	38	38
100	Thailand	37	35	38	38	35	37
101	Zambia	37	38	38	38	38	37

Source: Transparency.org2017

Internal Audit variables can also be a barometer of the standards of behavior in the organization through monitoring activity on an ongoing basis, which encourages the creation of an efficient working climate. Internal audit into a function that plays an active role as a partner in the management of fraud prevention [5]. As disclosed Certifield American Institute of Public Accountants (AICPA) in 2009 which outlines the definition of internal control as follows: Internal control contained in the company includes not only finance and accounting activities alone but covers all aspects of activities company.

Internal audit and internal control is a unity that cannot be separated in preventing fraud action. If the internal audit of the company have quality resources qualified and competent, as well as internal controls implemented in the company run according to standard procedures in the set, then the possibility of fraud

prevention will occur can be prevented or minimized so as not to harm the company [6].

Furthermore, there are variable management commitment is a strong desire to cling to membership in certain management, the desire to strive in accordance with the wishes of management, as well as a certain confidence and acceptance of the values and goals of management. In other words, an attitude that reflects the employee loyalty management and continuous process in which members express concern for the organization's management and the success and continuous progress [7] states that there are three kinds of dimensions, namely management commitment: affective commitment, normative commitment, and sustained commitment. Affective commitment is an emotional feeling shared by members of management and a belief in its values. Normative commitment is a feeling of obligation to remain in a management, such action is the right thing to do. Ongoing commitment

perceived economic value of persisting in a management when compared to leaving the management environment.

Research on Internal Control against acts of fraud has been done by some researchers include Soleman and Rusman [8], Festi and Theresia [9] which shows that fraud growing rapidly due to the availability of the opportunity to commit fraud including weak environment control. Other research that explores the dimensions of cheating by such fraud theory perspective Gbegi [8]; Said *et al.* [10]; Sorunke [6]; Toth *et al.* [11] describes the development of the theory of fraud that Diamond Theory, which produces models fraud triangle Cressey and relating to the model Wolf and Hermanson propose a model called NAVSMICE models namely Navs means National Value System, M is Money, I of Ideology, C is coercion and E stands for ego.

### Literature review and hypothesis development

#### Crowe's Pentagon Theory

They discovered the theory known as the theory of diamond fraud. The theory is a refinement of diamond fraud fraud triangle theory. Fraud diamond theory capability of adding elements / capabilities as the fourth element in addition to the element of pressure opportunity, and rationalization which had previously been described in the fraud triangle theory. In 2011 the theory of fraud experienced improvement diamond theory is called the theory of Crowe's Fraud Pentagon. There are additional variables that is

arrogance by reason of the perpetrators of fraud at present considered to have a mindset that is more independent, more adequate information and broad access to assets in the company compared with the perpetrators of fraud at the time of the fraud triangle theory launched. Furthure More Marks [12] mentions that the company currently has a culture that emphasizes prosperity and popularity, which encourages employees to earn hefty salaries and greater recognition in any way. Competence and arrogance considered to play an important role in determining whether an employee currently has what it takes to commit fraud [13].

The element consists of a pressure, opportunities, rationalization, and capability and coupled with arrogance. In the analysis of fraud diamond theory, there is the addition of a factor in the detection of financial statement fraud is by using variable capabilities and arrogance with the reason the perpetrators of fraud at present considered to have a mindset that is more independent, more information is adequate and broad access to assets in companies compared with the perpetrators of fraud at the time of the fraud triangle theory launched. The Company currently has a culture that emphasizes prosperity and popularity, which encourages employees to earn hefty salaries and greater recognition in any way. Competence and arrogance considered to play an important role in determining whether an employee currently has what it takes to commit fraud.



Fig-2.1: Fraud Pentagon Theory by Crowe (2011)

- **Pressure**

There are four conditions that commonly occur in pressure resulting in fraud. The condition is financial stability, external pressure, personal financial need and financial targets. Indriani [14] explains that someone embezzled company money for their pressure on him in the form of an urgent need that must be resolved (financial pressure) and this cannot be shared with anyone else. The problem will be sealed by the person in question and a matter for the non-shareable him.

- **Opportunity**

Opportunity There is an opportunity or opportunities allow fraud. Opportunities created for

their internal control weaknesses, ineffective management oversight, or abuse of position or authority. Weak internal controls will provide an opportunity for people who intend to commit fraud. No chance if accompanied by confidence and confidence levels high perpetrators that their activities will not be detected. Therefore, the opportunity will allow someone to do an opportunity fraud.

- **Rationalization**

Rationalization of the essential elements of fraud, where perpetrators seek justification for his actions. Rationalization is a triangular section fraud (fraud triangle) is the most difficult to measure. For

those who are not accustomed to honest, probably easier to rationalize cheating. Perpetrators of fraud are always looking for a rational justification to justify their actions.

- **Capability**

Competence is the ability of employees to penetrate the internal controls in the company, developing advanced evasion strategy and able to control social situations that can bring her advantage by influencing others to work with him [12]. Wolfe and Hermanson found in the company a lot if there are people - people who likely and berkapabilitas particular, the level of fraud can be further enlarged. People who commit fraud must have the capability to realize the open door as a golden opportunity and to memanfaatkannya not just once but many times. Thus, it can be concluded that the capability is the power and ability to perform financial statement fraud propensity repeatedly.

- **Arrogance**

Arrogance is identified as an attitude of superiority and entitlement, or greed as part of someone who believes that internal controls did not apply to private. According to Crowe [7] arrogance is a characteristic lack of conscience which has properties supercilious superiority or the nature of a person who has high self-confidence so that they are confident that internal controls did not apply to her (personal). This arrogance arises from the belief that he is able to commit fraud and the controls in place cannot be happening to him so that the perpetrators of fraud usually think free to commit fraud without fear of sanctions trick.

### Definition Of Fraud

In accordance with Statement of Auditing Standards (PSA) No. 70, fraud translated as cheating. Association of Certified Fraud Examinations (ACFE) describes a type of fraud that is a wide range of human ingenuity means that planned and carried out individually or in groups for the benefit or advantage of another party is not the correct way to cause any harm to the other party. Cheating is done to obtain the advantage of money and wealth, or to avoid payment or loss of services, avoid taxes and secures personal or business interests. Arens *et al.* [9] previously explained in his book as follows: "As a broad legal concept, fraud illustrates deliberate trickery intended to deprive the other person or party of their properties or rights. In the context of audited financial statements, fraud is defined

as an intentional misstatement of the financial statements".

### METHODS AND HYPOTESIS

#### Research Methods

This study will be conducted at the company in Indonesia precisely in the city of Palembang. The data will be used in this research is the primary data in the form of a questionnaire distributed to respondents and interviews in the form of the phenomena occurring in the audit activities as well as secondary data obtained through research - previous research. Sampling was conducted on respondents by purposive sampling. Used came from sources that intentionally selected based on the criteria established researchers. The sample used in this study amounted to 148 by using a questionnaire with 1-4 votes. These assessments help respondents chose the alternative answers. Before the data analysis stage, is carried to show Kueisoner validity and reliability. After that will be the stage of implementation of the classic assumption test as a test of normality, heteroscedasticity and multicollinearity. Discussion hypothesis using multiple linear regression equation with the equation:

$$Y = \alpha + b_1X_1 + b_2X_2 + b_3X_3 + e...$$

Information:

Y = Chance of Fraud

$\alpha$  = Constants

$b_1 - b_3$  = Regression Coefficient

X1 = Opportunity

X2 = Internal Control

X3 = Management Commitment

E = error

### DISCUSSION

#### Affect Hypothesis opportunities (X1) to Chance of Fraud

Opportunity (X1) / opportunity is a chance in the circumstances that exist in every person or individual. Allowing a person can do or engage in activities that allow fraud. That's because an organization's internal controls are weak, lack of supervision, and or abuse of authority. Among all the elements of the pentagon fraud theory, the chance is an element that most underlying fraud. These opportunities may arise at any time, so that the supervision and internal control of the company is needed to anticipate possibility of a person's chances of cheating. Someone without even pressure to commit fraud with this opportunity, although at first there was no opportunity to do this.

Table-2: Analysis Statistic

Variabel	Indicator	T Tabel	T	Regretion Coeficient	Mean
Opportunity	Social Motivation	1,987	1,235	0,137	24,57
	Reward				
	Gratification				
	Self Actualized				
Internal Control	Control Environment	1,987	2,434	0,72	27,52
	The Effectiveness Internal Control				
	Control Activities				
Management Commitment	Moral Standard	1,987	7,073	0,958	19,97
	Politics In Company				
	Transparant and Reliabel Complain Centre				

Source: Process Data, 2018

In the first hypothesis states that occasion affect the chances of fraud, can be seen in the value of the original sample showed no positive effect. Based on estimates in Table 2 shows that the known value of t for variable Opportunity (X1) of 1,235 while the value t table amounted to 1.987 so  $t(1.235) < t\text{ table}(1.987)$  with a significant value opportunity (X1) of 0.219, because  $\text{sig} > \alpha = 0.219 > 0.05$ . Hypothesis test results showed that the variables opportunity (X1) has a significant influence on the chances of fraud (Y).

This is supported also by the results of descriptive statistics which show that the variable opportunity (X1) has a Mean 24.57. So that the results of the study received the first hypothesis. (H1) through 4 (four) indicators of social motivation, reward, gratification and self-actualization. It can be concluded that  $H_a$  is accepted. The study's findings support the results of previous studies on the effect of chance against fraud opportunities, such as Mackevicius and Lucas [8], Tifani, and Marfuah [15], where the research results shows the effect on the chances of Fraud opportunities.

### Effect of Internal Control (X2) to chance of fraud H2: Internal Control negatively affects the action of fraud

Internal control as a system includes organizational structure and all the methods and measures are applied within an organization that has a goal in achieving the objectives of the organization. Internal controls are expected to provide reasonable assurance to management and entities related to the organization and will be able to prevent accounting fraud in an organization.

In the second hypothesis states that internal controls affect the chances of fraud, can be seen in the value of the original sample showed no negative effect. Based on estimates in Table 2 shows that the known value of t- for internal control variables (X2) is 2.434 while the value t table amounted to 1.987 Thus t value  $(2.434) > t\text{ table}(1.987)$  with a significance value (sig) X2 amounted to 0.16, because  $\text{sig} > \alpha = 0.16 > 0.05$

means that the hypothesis  $H_a$  accepted that internal controls affect the chances of fraud.

From the results of hypothesis testing, it was found that the evidence indicates that there is significant influence between internal control with cheating opportunities and negative relationship through three (3) indicators, namely the control environment, the effectiveness of internal control and oversight activities. Influence of internal control with the higher chance of fraud is internal control, the smaller the chance of fraud.

These results also support the results of research on internal control on the chances of fraud has been done by some researchers include Sufiati [16], Yuniarti [17] which shows that fraud growing rapidly due to the availability of the opportunity to commit fraud included weak control environment. And then they explains that in the evaluation of internal control functions in addition to the prevention and detection of fraud, internal controls should reflect the overall strength of the accounting environment within an organization and also the accuracy of financial records and operations.

### Effect of Management Commitment (X3) to chance of fraud

#### H3: management commitment negatively affect the action of fraud

Based on the theory Crowe's Pentagon declared that capability, in this case assumed to be the ability of management to organize everything the company can be one factor in the emergence of fraud opportunities. Research conducted by Marks [12] concluded that the capabilities of the employee's ability to penetrate existing internal controls in the company, developed a sophisticated evasion strategies, and be able to control social situations that can bring her advantage by influencing others to work with him.

In the third hypothesis states that the commitment of management affect the chances of fraud, can be seen in the value of the original sample

showed no negative effect Based on estimates in Table 2 shows that the known value of t for variable management commitment (X3) of 7.073 while the value t table is amounted to 1,987. So  $t(7.073) > t$  table (1.987) with significant value management commitment (X3) of 0.00, because  $\text{sig} < \alpha = 0.000 < 0.05$ .

Then Ha accepted that hypothesis test results showed that the variables of management commitment (X3) negatively affect the chances of fraud (Y).

The acceptance of this hypothesis is due to the commitment of management in a company can affect the chances of fraud. Management commitment is an engagement and maintenance of behaviors that help others achieve goals. Management commitment is an important prerequisite for the success of the management to minimize the chance of fraud. Besides a contributing factor to motivate employees to work to improve the quality of a continuous process. Besides the commitment of management must also be involved and maintaining another performance to help achieve the goal of avoiding the chances of fraud.

## CONCLUSION

The findings of this study on the factors that affect the chances of fraud in Indonesia is largely consistent with the findings in the same study. It states that the theory referenced in this research that Crowe's Pentagon Theory expected to represent as well as limit the gap in fraud opportunities especially in the government sector.

This study found that the opportunity is the strongest predictor of acts of fraud. In this research also proved that occasion, internal control and management's commitment has an influence on the actions of fraud. By using this insight, the government must be able to anticipate the population to understand the opportunities take any action even cheating may develop into as the development of the times. So that in the future Crowe's pentagon theory can undergo further development.

However, the current study has certain limitations. The main limitation in conducting this research is a matter of achieving the desired sample to a questionnaire-based survey. In addition, the independent variables used in this research is still limited that fraud measures so that if the study is used as a reference for further research, other variables must be added to get optimal results. And future studies, can broaden the research object of all ministries and all state enterprises in Indonesia.

## REFERENCES

1. Adam, Mohammad. (2015). 'national seminar and the results of research', Proceedings Sriwijaya and Business Conference. (November), pp. 27-28.

2. Permana, B. A., Perdana, H. D., & Kurniasih, L. (2017). Determinant of fraud in government agency: empirical study at the finance and development supervisory agency (bpkp) of jakarta representative office. *Asia Pacific Fraud Journal*, 2(1), 93-108.
3. Zahara, A. (2017). 'Effect of Pressure, Opportunity and Rationalization Measures against Fraud (Survey on Corruption Convicts in Penitentiary Class II A Pekanbaru City)' *Journal of the Faculty of Economics, University of Padang*, p.21.
4. Arens, A. A., Elder, R. J., & Mark, B. (2012). *Auditing and assurance services: an integrated approach*. Boston: Prentice Hall.
5. Natasya, T.N., Herman Karamoy & Robert Lambey. (2017). 'Influence of Organizational Commitment And the risk of occurrence of the Internal Control Against Fraud (Fraud) In Implementation of Health Insurance in kindergarten Police Hospitals. North Sulawesi Police IV ', *Journal of*
6. Puspasari, N. (2015). Fraud theory evolution and its relevance to Fraud prevention in the village government in Indonesia. *Asia Pacific Fraud Journal*, 1(2), 177-188.
7. Sukma Krishnoe Danuta. (2017). 'Crowe's theory in the prevention of fraud pentagon fraud in the procurement process through e-procurement', *Journal of Accounting Research*. 1 (2), pp. 161-171
8. Gbegi, D. O., & Adebisi, J. F. (2013). The New Fraud Diamond Model-How can it help forensic accountants in fraud investigation in Nigeria. *European Journal of Accounting Auditing and Fiancé Research*, 1(4), 129-138.
9. Alvin, A., Arens., Mark, S. Beasley, D.A.N, Randal, J. Elder. (2014). *Auditing and Assurance Services: An Integrated Approach*, 1.3th Edition, Pearson Prentice Hall.
10. Said, J., Asry, S., Rafidi, M., Obaid, R. R., & Alam, M. M. (2018). Integrating Religiosity into Fraud Triangle Theory: Empirical Findings from Enforcement Officers. *Global Journal Al-Thaqafah*, 8(1), 131-143.
11. Tóth, B., Fazekas, M., Czibik, Á., & Tóth, I. J. (2014). Toolkit for detecting collusive bidding in public procurement. *With examples from Hungary*.
12. Fisher, R., Salanova, V., Witt, T., Worth, R., Henry, T., Gross, R., ... & Kaplitt, M. (2010). Electrical stimulation of the anterior nucleus of thalamus for treatment of refractory epilepsy. *Epilepsia*, 51(5), 899-908.
13. Ziesak, A. K. (1999). *Walter de Gruyter Publishers 1749-1999*. Walter de Gruyter.
14. Indriani, P & Terzaghi., M.T. (2017) 'Financial, Diamond In Detecting Fraud Fraud Report', *I-Finance*. 3 (2), pp. 161-172.
15. Tiffani, L. Marfuah.(2015). *Deteksi Financial Statement Fraud dengan Analisis Fraud Triangle pada Perusahaan Manufaktur yang Terdaftar di*

- Bursa Efek Indonesia*". *Simposium Nasional Akuntansi*, 18.
16. SUFIATI, S., & MARWAH, Y. (2016). Effect of internal control, compliance with accounting rules and trends not cheating on ethical behavior. *Qualitative and Quantitative Research Review*, 1(2).
17. Ariandi, I. (2017). The effect of internal control and anti-fraud awareness on fraud prevention (A survey on inter-governmental organizations). *Journal of Economics, Business & Accountancy Ventura*, 20(1), 113-124.