

# **Analysis of the Effect of Internal Control Effectiveness, Appropriateness of Compensation, and Apparatus Morality toward Unethical Behavior and Tendency of Accounting Fraud**

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## **Abstract**

This study aims to analyze the effect of internal control effectiveness, the appropriateness of compensation and apparatus morality toward unethical behavior and tendency of accounting fraud. The sample of this study is the civil servants who work at the Badan Pendapatan Pengelolaan Keuangan dan Aset Daerah (BPPKAD) of the Central Java Province. The sampling method employed is purposive sampling method. The data of this study was collected using questionnaires that were submitted directly to the respondents. The total respondents of this study were 146 respondents. The data collected was analyzed using IBM SPSS 23. The results show that internal control effectiveness, the appropriateness of compensation and apparatus morality negatively affect unethical behavior and accounting fraud tendencies.

Keywords: internal control effectiveness, appropriateness of compensation, apparatus morality, unethical behavior, and accounting fraud tendencies.

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## **Introduction**

During the past 10 years, the problem of Accounting Fraud Tendency (AFT) has been developing widely and has become a focus in the mass media. As a result, it is very detrimental to various parties. Fraud is defined as an act of forgery that benefits the culprit, but harms others (Hall, 2019). The possibility of a AFT can be observed from policies that aim to manipulate and disadvantage other parties. Forms of AFT include corruption, misuse of assets, and presenting accountability reports that are not in accordance with reality. Indonesia is one of the countries with the highest predicate of corruption in the world. Based on data from Transparency International (2017) Indonesia scored 37 points from 100 points in 2017. Indonesia's corruption index averaged 25.79 points from 1995 to 2017, reaching an all-time high of 37 points in 2016, and a record low of 17 points in 1999.

In Indonesia, AFT cases occur in the public and private sectors. AFT objects in the public sector are in the form of budget misuse, whereas in the private sector they are inaccurate in spending resources (Shintadevi, 2015). Kimia Farma and Bank Lippo are large companies in Indonesia that have experienced AFT cases, even though the companies have high audit quality.

The Law No. 23 of 2014 explains that the central government gives authority to local governments to manage and utilize the potential of the region, provided that the local government can be held accountable. According to the agency theory, in the aforementioned case the local government acts as an agent, while the Regional People's Representative Assembly acts as a principle.

The policy set out in Law No.23 of 2014 provides changes between the regional government (executive) and the Regional House of Representatives (DPRD) or the legislature. The DPRD plays an active role in preparing and determining the budget. As a legislative body the DPRD has a role in managing regional finances. The position of the regional government (executive) makes it more difficult for executives to reject legislative recommendations in budget allocations. This causes the service to experience changes that are detrimental to the public. Such behavior has the opportunity to seek personal gain in the implementation of projects that come from the government budget (Amalia, 2015).

The Central Java Province received received the title of corruption emergency area which must be responded firmly. Bambang Widjojanto in the Anti-Corruption Seminar with the theme "Clean Government Towards Acceleration of Development" Sunday, April 15, 2018 said that almost all Regencies/Cities in Central Java were corrupt. This was seen from data from various institutions such as KP2KKN, ICW, to law enforcement agencies (jatengpos.co.id, April 16, 2018).

The cases that occurred in the public sector on regional budget deviations (APBD) in several districts/cities in Central Java Province, involved the Former Mayor of Magelang (Fahriyanto), who served for two periods between 2000-2005 and 2005-2010. He was ensnared by four corruption cases at once, including the misappropriation of the Magelang Regional Budget (DTT) and the disbursement of the fictitious insurance claims of the Magelang City DPRD in 1994-2004. Cilacap District Head for the period 2002-2007 and 2007-2009 (Probo Yulastro) with a case of misuse of operational funds for coordinating excavations and increasing regional income in 2005 of Rp 1.3 billion. In addition, the latest case is still warm namely, the Regent of Klaten (Sri Hartini) related to bribery and gratification cases, and the Mayor of Tegal (Siti Masitha Soeparno) related to the case of physical development of Intensive Care Unit in Kardinah Tegal Regional Hospital.

## Literature Review

### Attribution Theory

Kelley (1967) developed attribution theory which was then continued by Green and Mitchell (1979) explaining that leadership behavior is caused by attributes that explain the causes of leadership behavior (Adelin, 2013). Green and Mitchell consider that attribution theory cannot be separated from the behavior of leaders and those led (Waworuntu, 2003). The behavior of leaders in an organization greatly affects the mindsets, feelings, actions, attitudes, and behavior of subordinates. Decisions taken by leaders due to causal attributes, such as internal control, compensation, and morality are factors that cause accounting fraud (Adelin, 2013).

### Agency Theory

Agency theory is useful for explaining accounting fraud (Jensen & Meckling, 1976). Agency theory is the relationship or contract between principal and agent. Agency theory assumes that each individual is merely motivated by his own interests, causing a conflict of interest between the principal and agent. According to the assumptions of the theory that the accounting fraud factor committed by individuals is solely motivated by their own interests which raises the problem of interests between the principal and agent.

Agency theory in the Regional Government certainly cannot be separated from the making of public policies, including the preparation and determination of regional budgets. This encourages individuals who play an active role to behave unethically and tend to commit accounting fraud. Jensen and Meckling (1976), Brickley and James (1987), and Shivdasani (1993) explain that this problem can be prevented by providing appropriate compensation by the principal to the agent, as well as the cost of monitoring. To get maximum monitoring results, effective internal company control is needed.

### Moral Development Theory

The theory of moral development that is often used in ethical research is Kohlberg's (1969) model. This theory holds that moral reasoning is the basis of ethical behavior. This theory of moral development is based on the concept of moral justice (justice) which is more focused on aspects of macro-morality.

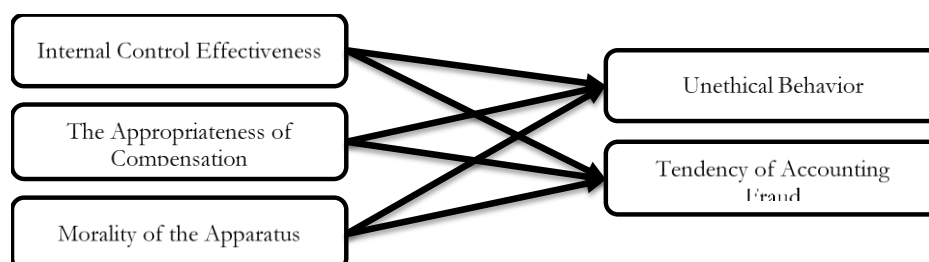
According to Kohlberg (1981) that a person's moral development is directly related to one's own individual. He also mentioned that reasoning can occur and be used when someone analyzes moral judgment. When moral reasoning arises, the structure of thoughts will analyze

moral judgment by replacing or combining the previous structure in order to work more effectively in making a decision (Safrihsyah, 2017).

Kohlberg (1981) states that an individual assesses right or wrong by looking at a situation or situation and combining psychological and moral conditions before analyzing moral reasoning. Kohlberg (1981) groups the stages of moral development into 6 (six) stages in analyzing one's moral reasoning. These stages can be seen in Table 1 as follows:

**Table 1.** Kohlberg's Moral Development Stage

Stage	Description of the right thing to do	Explanation of the reasons for doing the right thing
<b>Pre-conventional</b> <b>Stage 1</b> Obedience and punishment orientation	To avoid violating rules for fear of punishment.	Avoid punishment and authority authority
<b>Stage 2</b> Personal interest orientation (What's in it for me?)	Obey the rules that are considered appropriate with him in achieving a goal for personal gain.	Showing attention to the needs of others, unless those needs also affect him.
<b>Conventional</b> <b>Stage 3</b> Interpersonal harmony orientation ('good child' attitude)	Done for people who have close relationships such as family, good friends, etc. being nice is important to show concern for others.	The need to take action by evaluating the consequences in the form of interpersonal relationships by including respect, gratitude, and the golden rule.
<b>Stage 4</b> Authority orientation and maintenance of social rules (morality of law and rules)	Completing obligations for people entrusted. The law must be obeyed in certain cases when there is a conflict related to social work. This is a contribution to the community or institution.	Ensuring that an institution is a unit. Obey the law to avoid being morally condemned.
<b>Post-Conventional</b> <b>Stage 5</b> Social contract orientation (values agreed by the community, including individual rights or regulations to reach an agreement)	Realizing that humans have relative values and opinions and rules in a group. Problems that are not considered as relative such as life and choices should not be held back or inhibited.	Law is seen as a social contract. Rules that do not result in social welfare must be changed if necessary in order to fulfill the greatest good for as many people as possible. This is obtained through majority decisions, and compromise.
<b>Stage 6</b> Universal ethical principles (the right thing is the conscience in accordance with the principle of universal justice)	According to its own ethical principles. Law or social agreements are often correctly based on certain principles. This principle is a universal principle based on justice, equality of human rights and respect for humanity as individuals.	Believe in rational humanity in universal moral principles and an absolute sense of individual commitment to it.



**Figure 1.** Research Framework

### **The Effectiveness of Internal Controls and Unethical Behavior**

Kohlberg (1981) states that moral development looks at a person's height and morality based on the development of moral reasoning. The control system is very instrumental to reduce unethical actions and accounting fraud.

Effective internal control minimizes unethical behavior. If this is implemented in an agency/organization and implemented effectively, the level of unethical behavior of its employees will be even lower. This statement is in line with research by Adelin (2013) and Shintadevi (2015).

H<sub>1</sub>: The effectiveness of internal control negatively affects unethical behavior

### **The Effectiveness of Internal Control and Tendency of Accounting Fraud**

The tendency of accounting fraud is influenced by the presence or absence of opportunities or opportunities. Large opportunities make the tendency for accounting fraud to occur. The implementation of effective internal control and adequate regulation can prevent various forms of overstated and irregularities that harm various stakeholders (Adelin, 2013).

Internal control according to Mulyadi (2016: 129) is organizational structure, methods and measures that are coordinated to safeguard organizational assets, check the accuracy and reliability of accounting data, encourage efficiency and encourage compliance with management policies. Effective internal control is ensured to minimize accounting fraud. This was shown in the research of Adelin (2013), Delfi, et al (2014), Ahriati (2015), Adi (2016), and Maula (2017) regarding the effectiveness of internal control negatively affecting accounting fraud.

H<sub>2</sub>: The effectiveness of internal control negatively affects the tendency of accounting fraud

### **The Appropriateness of Compensation and Unethical Behavior**

One of the determinants of the behavior of someone in an institution/organization is influenced by whether or not compensation is given because the success of the organization is affected by the compensation given.

Accounting fraud is carried out because it is driven by individual dissatisfaction over the rewards that it receives. Suitability compensation is expected to provide satisfaction so that employees are motivated to provide the best for the company where they work. Shintadevi (2015) explains that the more appropriate compensation given by management to employees, the lower the unethical behavior.

H<sub>3</sub>: The appropriateness of compensation negatively affects unethical behavior

### **The Appropriateness of Compensation and Accounting Fraud Tendencies**

In the agency theory Jensen and Meckling (1976) explain that giving adequate compensation makes the agent (management) act in accordance with the wishes of the principal (shareholder). Providing adequate compensation is expected to reduce the tendency of accounting fraud.

Adequate compensation will minimize employee accounting fraud. Compensation programs are established based on principles of fairness and worthiness. This is in line with previous research by Shintadevi (2015) and Delfi (2014) who found that the appropriateness of compensation negatively affects the tendency of accounting fraud.

H<sub>4</sub>: The appropriateness of compensation negatively affects the tendency of accounting fraud

### **Morality of the Apparatus a Unethical Behavior**

One of the factors that influence someone to behave unethically is the morality of a person himself. A person of low moral standing looks different from someone of high moral standards. The higher one's morale allows one to behave properly. Moral maturity is used as the basis for determining one's morals (Kohlberg, 1981). Thus, the following hypothesis can be formulated:

H<sub>5</sub>: The morality of the apparatus negatively affects unethical behavior

## Morality of the Apparatus and Accounting Fraud Tendencies

Kohlberg (1981) at the post-conventional stage that the higher the level of maturity of one's morality, the higher the management in an agency/organization to pay attention to the public interest rather than personal interests. Taking this hypothesis based on research conducted by Aranta (2013) and Amalia (2015) states that the higher a person's morale, the lower the level of tendency to commit accounting fraud.

H<sub>0</sub>: The morality of the apparatus negatively affects the tendency of accounting fraud

## Research Method

### Population and Sample

The population in this study is the Civil Servants who are responsible for the use of the budget in Central Java Province. The reason for choosing the subject is because almost all districts in Central Java Province were involved in corruption cases (jatengpos.co.id, April 16, 2018). In addition to these reasons, researchers are interested in choosing Regional Government Offices in Central Java because lately there is a tendency of Accounting Fraud (KKA) in the public sector that has involved 32 Regional Heads or Deputy Regional Heads in Central Java who are entangled in the vortex of corruption during period of 1999 - 2017 (jateng.tribunnews.com, 25 September 2017).

The sample in this study used a purposive sampling method. Roscoe (1982) revealed that "a decent sample size in research is between 30 and 500" (p.253). This research was conducted at BPPKAD Magelang, Klaten, and Purworejo. The reason for selecting the research sample is because there has been a case of misappropriation of the Regional Budget in the Regency/City. The study population numbered 284 people consisting of 56 civil servants in BPPKAD Magelang, 113 civil servants in BPPKAD Klaten, and 115 civil servants in BPPKAD Purworejo. Slovin formula with a sampling error rate of 5%.

$$n = \frac{N}{1 + Ne^2}$$

whereas:

n : sample size

N : population size

e : percent leeway for inaccuracy due to sampling errors that are still tolerated or desirable, for example 1% - 5%

Therefore, the sample size of this research can be calculated below:

$$n = \frac{284}{1 + (284) \times (0,05)^2}$$

$$n = \frac{284}{1 + 0,71}$$

$$n = \frac{284}{1,71}$$

$$n = 166,081$$

In accordance with the calculated formula, a minimum sample of 166 people was used in this study. The number of samples is considered capable of representing employees within the Central Java Province BPPKAD.

### Data Collection Method

The data in this study are primary data obtained directly from respondents using survey technique. Survey is a technique used to get data naturally for example by distributing questionnaires, tests, structured interviews and so on (Sugiyono, 2017). Data collection in this

study was carried out by giving questionnaires aires containing a set of questions and written statements to respondents (Sugiyono, 2017). The questionnaire's questions was taken from previous research and the questions use a Likert scale.

The Likert scale employed is presented in Table 2 below:

**Table 2.** Likert Scale Interval

Answer	Scale
Strongly disagree	1
Disagree	2
Neutral	3
Angree	4
Strongly Agree	5

## Operational Definition and Variable Measurement

### Unethical behavior

The instrument used to measure unethical behavior refers to research by Adelin (2013), which is an indicator of management behavior that misuses position, organizational resources, power, and does nothing.

### Tendency of accounting fraud

According to the Indonesian Institute of Accountants in Sukmawati (2016) the discrepancy of financial statements is based on applicable accounting principles. This is a form of accounting fraud in the form of fraudulent financial reporting and improper treatment of assets. Measurement of these variables refers to SPAP section 316 (2001) and adopts Shintadevi's (2015) research. The indicators used are as follows:

1. Tendency to manipulate, falsify, or change accounting records;
2. Abuse tendency to apply accounting principles;
3. Tendency of misuse in presenting financial statements (misuse/embezzlem)
4. Tendency of misuse of presentation of financial statements by falsification of documents.

### Internal Control Effectiveness

Internal control aims to provide reasonable guarantees for achieving management objectives with the following categories; (1) reliability of financial statements, (2) effectiveness and efficiency of operations, and (3) compliance with applicable laws and regulations (Sanuari, 2014). This study uses an instrument consisting of five question items on a scale of 1-5. The instrument is based on internal control components according to Delfi, et al. (2014).

### The Appropriateness of Compensation

Compensation is a reward in the form of money or goods given by the company to employees as a reward for the work they have done. (Amalia, 2015). The instrument used in this study to measure the suitability of compensation consisted of 7 (seven) items referring to Shintadevi's (2015) research.

### Morality of the Apparatus

Someone with a low level of moral reasoning behaves differently from someone who has a high level of moral reasoning when facing ethical dilemmas. The higher the level of one's moral reasoning, the more likely the individual is to do the right thing. (Radhiah, 2016). Instruments related to the morality of the apparatus in this research consisted of six statement items measured with a Likert scale of 1-5 adopted from Aranta (2013) and Ariani, et al. (2015).

## Results and Discussion

Table 3 below displays the descriptive statistic of each variables investigated in this study.

**Table 3.** Descriptive Statistics

Descriptive Statistics					
	n	Minimum	Maximum	Mean	Std. Deviation
Internal Control Effectiveness	146	2,40	5,00	4,3795	,58190
Appropriateness of Compensation	146	2,57	5,00	3,9802	,60735
Morality of the Apparatus	146	2,14	5,00	3,6852	,71592
Unethical Behavior	146	1,00	3,20	1,9301	,47480
Tendency of Accounting Fraud	146	1,33	2,80	1,9632	,32524
Valid N (listwise)	146				

Source: Data processed (2019)

## Data Quality Tests

### Validity test

The Table 4 below displays the result of validity test conducted in this study.

**Table 4.** Validity Test

Variable	Indicators' Code	r count	r table	Result
Internal Control Effectiveness	KPI1	0,845	0,1625	Valid
	KPI2	0,872	0,1625	Valid
	KPI3	0,939	0,1625	Valid
	KPI4	0,937	0,1625	Valid
	KPI5	0,876	0,1625	Valid
Appropriateness of Compensation	KK1	0,655	0,1625	Valid
	KK2	0,575	0,1625	Valid
	KK3	0,793	0,1625	Valid
	KK4	0,73	0,1625	Valid
	KK5	0,841	0,1625	Valid
	KK6	0,765	0,1625	Valid
	KK7	0,567	0,1625	Valid
Morality of the Apparatus	MA1	0,555	0,1625	Valid
	MA2	0,704	0,1625	Valid
	MA3	0,764	0,1625	Valid
	MA4	0,794	0,1625	Valid
	MA5	0,754	0,1625	Valid
	MA6	0,754	0,1625	Valid
	MA7	0,624	0,1625	Valid
Unethical Behavior	PTE1	0,394	0,1625	Valid
	PTE2	0,661	0,1625	Valid
	PTE3	0,847	0,1625	Valid
	PTE4	0,812	0,1625	Valid
	PTE5	0,702	0,1625	Valid
	PTE6	0,75	0,1625	Valid
	PTE7	0,63	0,1625	Valid
	PTE8	0,794	0,1625	Valid
	PTE9	0,717	0,1625	Valid
	PTE10	0,652	0,1625	Valid
Tendency of Accounting Fraud	KKA1	0,424	0,1625	Valid
	KKA2	0,442	0,1625	Valid
	KKA3	0,413	0,1625	Valid
	KKA4	0,514	0,1625	Valid

Variable	Indicators' Code	r count	r table	Result
	KKA5	0,569	0,1625	Valid
	KKA6	0,751	0,1625	Valid
	KKA7	0,749	0,1625	Valid
	KKA8	0,751	0,1625	Valid
	KKA9	0,781	0,1625	Valid
	KKA10	0,814	0,1625	Valid
	KKA11	0,796	0,1625	Valid
	KKA12	0,729	0,1625	Valid
	KKA13	0,732	0,1625	Valid
	KKA14	0,672	0,1625	Valid
	KKA15	0,708	0,1625	Valid

Source: Data processed (2019)

From the Table 4 it can be seen that the r-count from the validity test results is greater than the r-table, thus, it can be concluded that all variables investigated in this research are valid.

### Reliability test

The reliability test shows that all of the variables of this study are reliable.

**Table 5.** Reliability Test

Variable	Cronbach Alpha	Result
Internal Control Effectiveness	0,935	Reliable
Appropriateness of Compensation	0,823	Reliable
Morality of the Apparatus	0,836	Reliable
Unethical Behavior	0,872	Reliable
Tendency of Accounting Fraud	0,902	Reliable

Source: Data processed (2019)

### Classical Assumption Test

#### Normality test

The normality test in this study is conducted by using One Sample Kolmogorov-Smirnov Test (1-Sample K-S) and the results can be seen in Table 6 below. The Table 6 shows that the significance value obtained for all variables is greater than 0.05, hence, the residuals can be assumed to be normally distributed.

**Table 6.** Normality Test

Dependen Variables	Asymp. Sign. (2 tailed)	Results
Unethical Behavior	0,791	Normal
Tendency of Accounting Fraud	0,923	Normal

Source: Data processed (2019)

#### Multicollinearity test

Table 7 below shows the result of the multicollinearity test conducted in this study. From the multicollinearity test results it can be concluded that the VIF values on all independent variables <10 hence, the independent variables of this study can be assumed to be free of multicollinearity.



**Table 7.** Multicollinearity Test

Dependent Variables	Independent Variables	Tolerance	VIF	Results
Unethical Behavior	Internal Control Effectiveness	0,542	1,845	No multicollinearity
	The Appropriateness of Compensation	0,487	2,054	No multicollinearity
	Morality of the Apparatus	0,595	1,68	No multicollinearity
Tendency of Accounting Fraud	Internal Control Effectiveness	0,542	1,845	No multicollinearity
	The Appropriateness of Compensation	0,487	2,054	No multicollinearity
	Morality of the Apparatus	0,595	1,68	No multicollinearity

Source: Data processed (2019)

### Heteroscedasticity test

The heteroscedasticity test in this study was conducted using the Glejser test. The result of the test is presented in the Table 8 below. The result shows that the significance is more than the significance level of 5%. Hence, it can be concluded that the regression model in this study does not contain any heteroscedasticity.

**Table 8.** Heteroscedasticity Test

Dependent Variables	Independent Variables	Sig.	Results
Unethical Behavior	Internal Control Effectiveness	0,304	No heteroscedasticity
	The Appropriateness of Compensation	0,739	No heteroscedasticity
	Morality of the Apparatus	0,358	No heteroscedasticity
Tendency of Accounting Fraud	Internal Control Effectiveness	0,122	No heteroscedasticity
	The Appropriateness of Compensation	0,282	No heteroscedasticity
	Morality of the Apparatus	0,598	No heteroscedasticity

Source: Data processed (2019)

### Hypotheses test

#### 1. Multiple Regression

The results of multiple regression test of this study is presented in the Table 9 below. The results show that all of the independent variables of this study have negative and significant effects on the dependent variables.

**Table 9.** Multiple Regression Test

Dependent Variables	Independent Variables	Sig.	Coefficient
Unethical Behavior	Internal Control Effectiveness	0,015	-0,314
	The Appropriateness of Compensation	0,000	-0,462
	Morality of the Apparatus	0,003	-0,216
Tendency of Accounting Fraud	Internal Control Effectiveness	0,011	-0,335
	The Appropriateness of Compensation	0,000	-0,466
	Morality of the Apparatus	0,002	-0,232

Source: Data processed (2019)

#### 2. Goodness of Fit Model

##### a) Coefficient of Determination (R<sup>2</sup>)

The result of coefficient of determination test conducted in this study is shown in Table 10 below. The results show that adjusted R square values are 0.516 and 0.526. It can be

concluded that the variation of independent variables investigated in this study affect 51.6% variation of unethical behavior and 52.6% variation of tendency of accounting fraud.

**Table 10.** Coefficient of Determination Test

Dependent Variables	Adjusted R Square
Unethical Behavior	0,516
Tendency of Accounting Fraud	0,526

Source: Data processed (2019)

b) F test

The result of F test conducted in this study is presented in the Table 11 below. From table 11 obtained the calculated F value of 52.493 and 54.585 with sig = 0.000. Since the sig value obtained for both dependent variables <0.05, hence, it can be concluded that together, the independent variables of this study affect the dependent variables.

**Table 11.** F Test Result

Dependent Variables	F count	Sig	Results
Unethical Behavior	52,493	0,000	Normal
Tendency of Accounting Fraud	54,585	0,000	Normal

Source: Data processed (2019)

c) T test

Table 12 below depicts the result of the T test conducted. From the Table 12 it can be seen that all of the independent variables have a negative and significant effect toward the dependent variables

**Table 12.** T Test Result

Dependent Variables	Independent Variables	Significant	Coefficient	Conclusion
Unethical Behavior	Internal Control Effectiveness	0,015	-0,314	Supported by data
	The Appropriateness of Compensation	0,000	-0,462	Supported by data
	Morality of the Apparatus	0,003	-0,216	Supported by data
Tendency of Accounting Fraud	Internal Control Effectiveness	0,011	-0,335	Supported by data
	The Appropriateness of Compensation	0,000	-0,466	Supported by data
	Morality of the Apparatus	0,002	-0,232	Supported by data

Source: Data processed (2019)

### 1. The Effectiveness of Internal Controls toward Unethical Behavior

Based on the aforementioned data analysis section, it can be concluded that the effectiveness of internal control has a negative effect on unethical behavior. The results of this study prove the existence of moral maturity in higher management. This finding is similar to Arens' theory in Shintadevi's (2015) study in which it was stated that ethical values in the form of management actions that can reduce the drive to act dishonestly, illegally, and unethically by employees.

### 2. The Internal Control Effectiveness toward Tendency of Accounting Fraud

The result of this study concluded that there is a negative and significant relationship between the effectiveness of internal control and the tendency of accounting fraud. Therefore, effective internal control can be assumed to minimize accounting fraud. This result is similar to result from studies by by Adelin (2013), Delfi, et al. (2014), Ahriati (2015), Adi (2016), and Maula (2017). The result also supports the attribution theory that explains that the role of leaders in thinking, acting, behaving is very influential on the behavior of their subordinates.

Nonetheless, this research is different from Adi (2016) who found that although employees must obey the rules according to their duties and responsibilities, monitoring and evaluation to assess the implementation of internal control that is not carried out continuously will open the opportunities for employees to commit fraud.

### **3. The Appropriateness of Compensation toward Unethical Behavior**

From the results of the analysis test above, it can be concluded that there is a negative relationship between the appropriateness of compensation toward unethical behavior. Appropriate compensation can motivate employees to provide the best performance. In the agency theory that fraud occurs because of the desire of employees to maximize personal profit. It was triggered because of the individual's dissatisfaction with the rewards they received.

Based on the results of this study it can be concluded that one of the determinants of a person's welfare is the appropriateness of compensation. For companies, the level of efficiency and profitability is usually influenced by the cost component, namely compensation. Shintadevi (2015) states that employees receive wages and salaries periodically in return for their work. Unethical behavior in company management can be prevented by providing a balanced compensation and a good system for the employees.

### **4. The Appropriateness of Compensation toward Tendency of Accounting Fraud**

The result shows that there is a negative influence of the appropriateness of compensation on the tendency of accounting fraud. From the hypothesis test it can be concluded that there is a negative relationship between the suitability of compensation for the tendency of accounting fraud. This result is in line with the agency theory which states that the agent (management) will provide actual information to the principal (shareholders) about the condition of the company if the compensation is appropriate and adequate. Hence, compensation is quite often used as an alternative to improve employee performance and minimize accounting fraud (Shintadevi, 2015).

Accounting fraud in the form of asset theft or other can be prevented by providing compensation based on the principles of fairness and suitability/suitability, so that employees feel well cared for by the company. This is supported by research conducted by Delfi, et al. (2014) who found that the goal of the company will be achieved if the company provide financial compensation to their employees in accordance with their performance.

### **5. Morality of the Apparatus toward Unethical Behavior**

Based on the analysis of apparatus morality test on unethical behavior, it is proven that there is a negative relationship between apparatus morality and unethical behavior. The basis for management's consideration in responding to ethical issues is shown by one's moral maturity. A person of low moral standing looks different from someone with high moral standards. This finding is in accordance with Kohlberg's (1981) who stated in the theory of moral development.

### **6. Morality of the Apparatus toward Tendency of Accounting Fraud**

The results of the study prove that the morality of the apparatus negatively influences the tendency of accounting fraud. Therefore, the higher the level of morality of a person, the tendency for that person to commit accounting fraud is lower. Amalia (2015) states that the higher a person's morale, the lower the level of inclination to commit accounting fraud. This is in line with the theory of moral development which states that cheating often happen in an organization due to the lack of attention from employees/officials and cheating is considered as an ordinary thing and employees even pretend that they do not know anything. Positive attention can create strong organizational ethics, behavior and culture. In other words, good organization is formed because of good morality.

However, the result of this study in opposite to a research conducted by Ade (2017), in which Ade (2017) found that the moral level of every management staff may not necessarily be able to minimize fraud. This is partly because employees are more obedient and afraid of leaders

than Government Regulations despite bad leader behavior. For example, the preparation of the budget realization report is the same as the previous period so that the leadership's performance looks good. The leader also gives a bonus if the employee is obedient because it has made the performance of the leader look good. In short, a person with low moral standards tends to cheat. This is usually shown by the weakness of the internal control system which later encourages a person to commit fraud in order to achieve their desires.

## Conclusion

Based on the results of the data analysis and the aforementioned discussion the following conclusions can be drawn:

- a) The effectiveness of internal control, the appropriateness of compensation, and the morality of the apparatus influences unethical behavior and the tendency of accounting fraud in the government agencies of the BPPKAD of Central Java Province.
- b) The effectiveness of internal control affects unethical behavior and the tendency of accounting fraud in government agencies BPPKAD Central Java Province.
- c) The provision of adequate compensation affects unethical behavior and the tendency of accounting fraud to government agencies BPPKAD Central Java Province.
- d) The morality of the authorities influences unethical behavior and the tendency of accounting fraud in government agencies BPPKAD Central Java Province.

## Implication

The implications of this study are as follows:

- a) In practice, this research is expected to be able to contribute to the local government apparatus in order to have the responsibility in preparing financial statements, increase understanding, and accuracy in minimizing the tendency of accounting fraud.
- b) Compensation provided by the government is expected to minimize actions taken by employees. Providing compensation is done by giving rewards in the form of money or goods in accordance with employee performance.

## Limitation

The limitation of this study that may affect the results of research includes the use of primary data in the form of a questionnaire has the disadvantage of allowing respondents to be objective in filling out the questionnaire for fear of being deemed to leak companies' secrets.

## Future Research

Future research can add the number of respondents, the scope of the research and also other independent variables in order to obtain wider results.

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