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Research Article

Literature Study of Factors Causing Fraud in Public & Private Sector Companies

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ABSTRACT

This study aims to describe the factors that cause fraud in Indonesia, both from public sector organizations and non-public sector organizations. The research carried out is a literature review research sourced from articles that are in accordance with the research topic for further analysis. The research method used is descriptive qualitative method by taking data from literacy studies on research on fraud in various entities in Indonesia. The results of this study are expected to be used as an initial method of fraud detection and provide input and additional insight to all parties including company management, auditors, and users of financial statements about the factors that cause fraud in public and private sector companies.

Keywords: *Fraud, Financial Statements, Behavioral Accounting, Public Sector Accounting*

Introduction

Cheating is an act that is very detrimental to companies and organizations, both private and public organizations Kusuma & Sukirman (2017), Lokanan (2019) and Ataman & Aydın (2017). Therefore, acts of fraud will always be fought by private organizations to public organizations. Likewise in Indonesia, there are many cases of fraud that occur in public organizations, namely government organizations (Kiswanto & Maulana, 2019). This shows that fraud must be handled immediately (Hardinto, 2018), therefore every company or government agency requires an auditor to examine financial statements.

The government is obliged to provide services to the community with full trust, as well as carry out duties as representatives of the people effectively and efficiently. There are many tasks that must be carried out by the government to the community, one of which is ensuring the stability of state finances in a good and accountable manner. However, in practice in the field there are many cases or problems, one of which is fraud which can directly harm the state and indirectly harm the community. The widespread disclosure of fraudulent practices, especially corruption in the government, shows two sides of the reality of government implementation. This shows how rampant

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fraud is at every level of government, but on the other hand there is hope that the disclosure shows the government's willingness and determination to improve itself. However, there is hope that fraud can be prevented so that state losses and public losses can be avoided.

The ratification of Law Number 17 of 2003 concerning State Finance which requires central and regional government agencies to make financial reports in every accountability for the implementation of the APBN/D to the DPR/D gives hope that the government can become more accountable. The preparation of these financial reports is expected to be able to present information on the management of state finances in a higher quality and ultimately can encourage better decision making. The financial statements also provide opportunities for financial supervisors, internal auditors, and government external auditors to assess and identify fraud. The issuance of standardized and regulated financial statements also provides an opportunity to develop systems and procedures that do not provide opportunities for fraud to occur (Soepardi, 2013).

Fraud that occurs in government agencies does not only involve the ranks of the central government, but also involves people who have positions under them, so it can be concluded that this fraud has now spread to all levels within the government (Malau, Ohalehi, Badr, Yejini, 2018) but can also occur within the local government environment. (Evenri, 2019). In order for fraud to be minimized, the government of course needs to take action to improve its internal control. These attitudes are contained in the general auditing standards contained in the SPKN (State Financial Audit Standards). In the SPKN it is stated that the general attitude of an auditor related to his personality is competence (technical expertise and training), independence, and professionalism (careful use of the auditor's professional skills).

In fact, the occurrence of financial fraud causes losses for a company and a country. Most of the perpetrators of fraud who commit are leaders and employees who work in the workplace, and the perpetrators are people who know the operating system of the agency/government so that they will open gaps that they can take the opportunity to commit

fraud. In fact, fraud will be very difficult for the leadership to do when compared to what is done by ordinary employees.

Various questions that often arise are, why is fraud only done by certain parties? Why does the government establish an institution to eradicate corruption, one of which is that it is an example of fraud, in fact many people are involved in fraudulent acts. From that question, various assumptions arise that it occurs because of human factors in it, human nature and character that must be changed. So that the main cause of corruption (fraud) as stated by Tuanakotta (2010).

In fact, there are several possibilities that cause acts of fraud in companies or government agencies to occur, one of which is due to internal factors, for example, the absence of communication on complaints actions, the absence of an award for employee performance, and in essence the attitude of lack of justice given. employees, thus opening the intention to commit fraud.

It is important to examine the root causes of fraud, firstly because of the many cases of corruption that ultimately hinder the running of the government, so that the goal of development itself, namely the welfare of society, will never be achieved. A big example is the misuse of funds by related officials in development for infrastructure and public services. Finally, the service to the community is not optimal. This also tarnishes the community's sense of justice and therefore anyone who is proven to have violated it must be dealt with as a lesson to the person concerned and other officials (progressive approach). The second thing is how to make efforts so that any official as early as possible does not make the same mistake (preventive approach).

From various theories, there are several factors that cause fraud, including the Fraud Theory developed by Bologna (1993). This theory explains the causes of fraud or also known as GONE Theory, consisting of four factors that encourage someone to behave deviantly (Fraud). The four factors are: (1) Greed or greed, (2) Opportunity or opportunity, (3) Needs or needs, (4) Exposure or disclosure.

Cressey (1953) developed the Fraud Triangle theory, stating that the causes of fraud are

three factors, namely: (1) Pressure, (2) Opportunity or opportunity, (3) Rationalization or justification. Pressure is a condition in which a person feels pressure to commit fraud. Situational pressure is a condition caused by financial or non-financial factors that are very difficult to resolve legally or ethically by employees and management. Moeller (2004:222) says that situational pressure arises because of an excess of employee/management capability limits in financial obligations, and the failure of the relationship between employees and the company in the use of company assets, awards that are not in line with expectations, and the career paths that employees receive do not. appropriate or not there is clarity within the company or government agency.

The Committee on Sponsoring Organizations of the Treadway Commission (COSO) said that an in-depth analysis of fraud research on the nature, extent and characteristics of fraudulent financial reporting provides a helpful understanding of new and ongoing issues that need to be addressed urgently. All parties involved must be able to focus on minimizing the occurrence of fraud by preventing, blocking, and detecting fraudulent financial reporting. COSO also revealed that further development of internal control guidelines could assist parties involved in the financial reporting process.

Based on the background of the problem, this research is interesting to study. So the author gave the title of this research "Factors Causes the Emergence of Fraud in Public & Private Sector Companies".

Literature Review

Teori Atribusi

The theory developed by Fritz Heider explains how a person analyzes an event, reason, or cause of his behavior. someone with a combination of internal and external power. In making judgments about other people, perception will be associated with attribution theory. Likewise, what was conveyed by Robbins (2003) that the explanation of attribution theory is the human way of explaining how one person to another has differences, depending on which angle and with what a behavior is compared. The conclusion is this theory explains that about someone who observes

another individual, then that person will automatically determine that behavior is caused by internal or external factors.

The behavior of a person in the organization such as the behavior of the leader and the behavior of subordinates cannot be separated from this theory. Actions or decisions taken by leaders or people who are given authority are caused by causal attributes. Factors such as internal control and compensation are some of the factors that cause the fraud to occur.

Fraud Triangle Theory

The concept of fraud triangle was first proposed by Donald Cressey. Fraud triangle theory as the main theoretical basis in this research. The theory of Fraud Triangle Cressey (1953) in Tuanakotta (2007), fraud is caused by 3 factors, namely (1) Pressure is the motivation of individual employees to act fraud due to pressure, both financial and non-financial from personal and personal pressure. from the organization, (2) Opportunity is the opportunity for fraud to occur due to weak or ineffective control effectiveness so that it opens up opportunities for fraud to occur. Factors causing fraud due to weaknesses in the system where an employee has the power or ability to take advantage of so that fraudulent acts can be carried out, (3) Rationalization is fraud that occurs due to conditions of local ethical values that encourage (allow) fraud to occur. Consideration of fraudulent behavior as a consequence of employee personal integrity gaps or other moral reasoning. Rationalization occurs when a person or group of people build justifications for the fraud committed. Fraud perpetrators usually look for justifications that what they do is not theft or fraud.

Fraud

According to the Association of Certified Fraud Examiners (ACFE) in Najahningrum (2013), fraud is unlawful acts carried out intentionally for certain purposes (manipulation or giving false reports to other parties) carried out by people from within or outside the organization. to obtain personal or group benefits that directly or indirectly harm other parties. The AICPA and IAI do not clearly distinguish whether the fraud is a material misstatement if

it is intentional. Therefore, incompetence and poor management do not constitute fraud. The desire to deceive for personal gain and loss to the relying party is an error that results in material misstatement or not, what needs to be considered is the factor underlying the reason for fraud, namely the action that underlies the truth of the real evidence of the transaction is the most important element of fraud.

Contained aspects of fraud are deception (deception), dishonesty (dishonest) and intention (intent). Fraud concerns the ways produced by human reason that are chosen by one person to get an advantage from another party by presenting a false/false representation. Cheating includes surprises, deceit, cunning and dishonest ways that are used to deceive others (Zulkarnain 2013). This is in line with the opinion of Singleton (2006), which suggests that fraud, theft, defalcation, irregularities, white collar crime, and embezzlement are terms that are often used interchangeably.

From several understandings of fraud, fraud can be interpreted simply as intentional fraud, including lying, stealing, engineering, and embezzling (unnaturally changing company assets for their own interests). Fraud itself is generally an unlawful act carried out by people from within and or outside the organization, with the intention of obtaining personal or group benefits that directly harm other parties.

Fraud Classification

The Association of Certified Fraud Examinations (ACFE), one of the associations in the USA that has main activities in the prevention and eradication of fraud, categorizes fraud into three groups as follows:

- 1) Financial Statement Fraud Financial Statement Fraud can be defined as fraud committed by management in the form of a material misstatement of Financial Statements that is detrimental to investors and creditors. This fraud can be financial or non-financial fraud.
- 2) Asset Misappropriation Asset misappropriation can be classified into Cash Fraud" and Fraudulent disbursement.

- 3) Corruption in the context of this discussion is corruption according to ACFE, not the definition of corruption according to the Law on the Eradication of TPK in Indonesia. According to ACFE, corruption is divided into conflict of interest, bribery, illegal gratuity, and economic extortion.

Factors Causing Fraud

According to Cressey's (1953) Fraud Triangle theory, through his research, he states that a person commits fraud due to 3 factors, namely:

- 1) Pressure is the motivation of individual employees to act fraud due to both financial and non-financial pressures from personal and organizational pressures (leadership, tasks that are too heavy and others). Pressure is proxied by the influence of compensation suitability variables, distributive justice, and procedural justice. In SAS No. 99, there are four types of conditions that commonly occur in pressure that can lead to fraud. These conditions are financial stability (financial stability), external pressure (external pressure), personal needs (personal financial need), and financial targets (financial targets).
- 2) Opportunity, according to Montgomery (2002) in Rukmawati (2011) opportunity is an opportunity that causes actors to freely carry out their actions caused by weak internal controls, indiscipline, weakness in accessing information, no audit mechanism, and attitude. apathetic. The thing that stands out the most here is in terms of internal control and enforcement of regulations. Poor internal control and enforcement of regulations will give people the opportunity to commit fraud. SAS No. 99 states that opportunities in financial statement fraud can occur in three categories. These conditions are the nature of industry, ineffective monitoring, and organizational structure.
- 3) Justification (Rationalization) is an attitude or process of thinking with moral considerations of individual employees to rationalize fraudulent actions. (Rae, 2008). To

proxy rationalization, the variables of organizational culture and organizational commitment are used.

According to research conducted by Bologna (1993) there are four factors that drive a person to commit fraud, which is also known as the GONE theory, namely:

- a) Greed
- b) Opportunity
- c) Need
- d) Exposure (disclosure).

Greed and Need factors are factors related to individual fraud perpetrators (also called individual factors). While the Opportunity and Exposure factors are factors related to the organization as a victim of fraud (also called generic/general factors).

Method

This research approach is a qualitative research with a library research approach where the method in this research uses theories taken from literature books, papers, papers and research that support and are relevant to the topic of discussion.

According to Neong Muhadjir, literature study includes a theoretical study of a scientific discipline that needs to be continued empirically or obtain empirical truth. Where this study seeks to examine the causes or factors that cause fraud. The sources and types of data used are secondary data in the form of books, review of articles and previous research.

Results

In this section, 3 (three) indicators will be discussed in the previous section related to the factors that cause fraud.

Indicator 1: Pressure Aspects Cause of Fraud

Officials who get certain pressure while serving a certain position or while working in a certain job have a tendency to commit fraud. Various pressures that can affect officials when they work, including pressure triggered by financial problems, work environment, and pressure from a bad personality. Financial problems can be caused by the greed or greed of officials who are never satisfied in material terms. The current salary, including performance allowances, is still considered

insufficient, so they commit various frauds in financial management based on the position they hold.

According to research from Zahara, A. (2017) the higher the pressure felt by a person such as economic pressure, the higher the desire to commit fraud. The results of Binde's research (2016), someone who already has a gambling addiction is difficult to stop. When they lose, they are motivated to participate in gambling again to cover the results of the defeat that has cost them. When privately owned funding sources have been exhausted, they will be motivated to use office money under their control.

The luxurious lifestyle triggers an official to commit fraud. Luxury, debauchery, rah-rah of course will require some funds for these activities. Meanwhile, the salary and various benefits he received were insufficient, causing financial problems for himself and his family, which in turn allowed officials to commit fraud. Other conditions, such as various unexpected needs.

Indicator 2: There is an opportunity Cause of fraud

The existence of opportunities can lead to fraudulent actions, whether caused by systems, rules and law enforcement. Officials who hold power will have discretionary behavior or behavior that benefits themselves or a certain group of people. Officials will have a certain desire to equip themselves with various facilities that exceed existing standards, such as cars, office equipment and so on.

According to research from Angela. F (2016) states that not a few officials in several SKPD are only accepting of the results of an activity, both physical and non-physical. Other aspects that can lead to fraud, including lack of or no access to information so that they do not understand the actual situation, fail to discipline or impose sanctions on fraud perpetrators, are negligent, apathetic, indifferent, lack or no audit trail. audit), so that data cannot be traced, all of which can lead to fraud.

According to research from Dewi, N (2018) that the cause of fraud in the government environment is due to the lack of supervision carried out, so that opportunities arise for these fraudulent acts which result in state/

government losses. So in theory that says the factor of fraud is the opportunity for the perpetrators.

Indicator 3: Reasons for justification Causes of fraud

In some cases, fraud is encountered as a result of imitating a superior or co-worker, feeling that they have done a lot, assuming that what was taken is not much, or is considered to be just a loan, in due course it will be returned. Feeling that he has done a lot is justification for an official to commit fraud.

According to research from Ristianingsih, I. (2017) that rationalization is a thought or theory that justifies an action into a normal behavior, which can be accepted by most people or normal society. Fraud perpetrators always look for reasons for their actions so that their mistakes are not proven. Because if it is done it will create a sense of confidence and a feeling of calm so that what is done does not cause feelings of guilt. A good culture is a culture that does not provide opportunities for anyone to commit fraud, because a good organizational culture will form organizational actors to have a sense of belonging (sense of belonging) and a sense of identity (sense of pride as part of an) organization.

Conclusion

That in knowing the factors of fraud, the public sector and non-public sector governments need to provide additional regulations and supervision of every transaction that exists within the company for the non-public sector and for the government of the public sector. In various literatures that researchers have analyzed that the factors of pressure, opportunity and justification are found as factors for the emergence of fraud.

Suggestion

Based on research on what factors cause fraud in government and non-government environments, it is necessary to pay attention to the factors that cause it to happen. It is hoped

that further research needs to be improved and added to the analysis of these factors so that the accuracy of the results obtained is more specific, so that fraud that occurs can be anticipated in advance.

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