
The Influence of Internal Control System, Individual Morality, and HR Competency on Fraud Prevention with Good Governance as An Intervening Variables: Study on OPD Deli Serdang Regency, North Sumatra

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ABSTRACT

This study aims to determine the effect of internal control systems, individual morality, and human resource competence on fraud prevention at OPD Deli Serdang Regency. In addition, this study also aims to determine whether good governance is able to mediate the effect of the internal control system on fraud prevention in OPD Deli Serdang Regency. This type of research is a causal associative research. This study uses a quantitative approach. This research was conducted on all OPDs (Regional Apparatus Organizations) in the Deli Serdang Regency Government. The sample in this study amounted to 83 people. While the data analysis technique used is PLS (Partial Least Square) with the help of SmartPLS software which is run on computer media. The results found in this study indicate that the internal control system has a positive and significant effect on fraud prevention in OPD Deli Serdang Regency. Individual morality has a positive and significant effect on fraud prevention. HR competencies do not have a significant effect on fraud prevention. Good governance is able to mediate the influence of the internal control system on fraud prevention. Good governance is able to mediate the effect of individual morality on fraud prevention. Meanwhile, good governance is not able to mediate the effect of HR competence on fraud prevention in OPD Deli Serdang Regency.

INTRODUCTION

Fraudulent actions that are carried out can cause many losses, both material and non-material, such as damage to the reputation of the organization, loss of state finances, damage to employee morality and other negative impacts (Indayani, et al., 2018). There are two types of accounting fraud according to the Indonesian Institute of Accountants (IAI), the first is a misstatement arising from fraud in financial reporting, namely misstatement or deliberate omission of amounts or disclosures in financial statements that aim to deceive users of financial statements and the second is false representations arising from improper treatment of assets (often referred to as misuse or embezzlement).

The issue of corruption in Indonesia is one of the main problems of this nation because of the increasing prevalence of corrupt practices. The Indonesian Corruption Watch (ICW) argues, of the 14 most corrupt institutions, the first place is occupied by the District Government (Pemkab) with a total of 246 cases, the second rank is occupied by institutions under the auspices of the City Government (Pemkot) which have 56 cases, the third rank is institutions in the Provincial Government (Pemprov) with a total of 23 cases with state losses reaching Rp. 88.1 billion, and the fourth place is occupied by State-Owned Enterprises (BUMN) with 18 corruption cases held with losses reaching Rp. 249.4 billion, in fifth place, namely KPU / KPUD with 14 cases that caused losses to the state amounting to Rp. 26 billion, the sixth is the Ministry with 13 cases that caused losses to the state amounting to Rp. 56 billion, and many other sequences from the 7th to the 14th, including BUMDs with 12 cases that caused losses to the state as much as Rp. 69 billion, DPRD / DPR with 10 cases that resulted in losses

of Rp. 8 billion, the Agency as many as 8 cases that caused loss of Rp. 15 billion, universities with 7 cases as much as Rp. 12 billion, Court with 4 cases that caused loss of Rp. 2 billion, the Attorney General's Office with 4 cases that caused a loss of Rp. 0.8 billion, NGOs with 2 cases as much as Rp. 24 billion, and Bank Indonesia with 1 case (Wardana, et al., 2017).

Deli Serdang Regency is a Sabuah Regency in North Sumatra Province. A bribery case involving the former Regional Secretary of Deli Serdang Regency who carried out a corruption aid project for the development of election order security and Community Development Assistance for the District. Deli Serdang. For his actions, the state loss reached Rp. 2.1 billion (Detik News, accessed June 29, 2020). In Deli Serdang Regency, based on the results of the initial interviews, the research showed that the internal control system was not yet maximized, sometimes a problem that had to be resolved immediately. Among them are the overlapping functions and duties between employees and the inadequate determination of the reward and punishment system. So that this causes employees to be less motivated and unable to work optimally. The problem regarding this internal control system is a problem that still occurs in many local governments in Indonesia. As the table below shows.

Table 1. The Phenomenon of Weaknesses of the Internal Control System in Indonesia

No	Keterangan	Total Kasus
1	Unprepared / incomplete Standard Operating Procedures (SOP)	546 (297 pemda)
2	Standard Operating Procedures (SOP) that have not been running optimally	528 (351 pemda)
3	Internal Supervisory Unit that is not optimal	183 (122 pemda)
4	The entity does not have an Internal Supervisory Unit and there is no adequate separation of duties and functions.	22 (21 pemda)
Total SPI Weakness Cases		1.279 (466 pemda)

Source: Summary of Semester Audit Results (BPK RI, 2019)

The table above shows that up to 2018, of the total 542 Regional Government Financial Reports that were examined, there were still many cases of weakness in the internal control system that had occurred, namely in 466 local governments. These results indicate that there are still many cases of weakness in the internal control system in the Regional Government Financial Statements, especially regarding the internal control structures owned by local governments. Morality or what is usually called morality is a teaching about the good and bad deeds and attitudes of a person or individual, whereas morality is a consideration of a person's morals (Junia, 2016). Morality is very necessary to prevent fraud or fraud that is committed, especially in village financial management, this is because if someone has good morality, the use and management of village funds will run according to prioritized needs.

Competence is a basic characteristic of a person that indicates how to think, behave and act, and draw conclusions that can be done and can be maintained by a person at a certain time (Ariastini, et al., 2017). In good regional financial management, local government officials must also have competent human resources, supported by an educational and training background and have experience in finance. Due to the lack of competence in understanding and applying accounting, it will have an impact on the errors of the financial statements made and the report's inconsistency with the standards set by the Government, so that the information

received by users will be incorrect and will affect the decisions to be taken next (Ferina, et al., 2016).

In addition, the increasing public demand for good governance has encouraged the central and local governments to implement clean budget management. Good governance is defined as good and responsible government in line with the principles of democracy and an efficient market, avoidance of misallocation of investment funds and prevention of corruption both politically and administratively, carrying out budget discipline (Mardiasmo, 2016). The objective of implementing good governance according to the Forum for Corporate Governance in Indonesia (FCGI) is to ensure that the company's targets have been achieved and strive to safeguard company assets and implement sound business practices. In government, if the effectiveness of the internal control system, individual morality, and competence can be controlled properly, then this will have an impact on improving the implementation of good governance in the agency, with the increase in good governance, transparency and implementation of the accounting function will be better and can be. suppress cheating.

LITERATURE REVIEW

Pentagon Theory's Fraud (Crowe, 2011)

The latest theory that examines the factors that trigger fraud is the theory of fraud pentagon (Crowe's Fraud Pentagon Theory). This theory was put forward by Crowe in 2011. The fraud pentagon theory is an extension of the fraud triangle theory previously proposed by Cressey (1953), and the fraud diamond theory previously proposed by Wolfe & Hermanson (2004). In this theory, there is one element of fraud, namely arrogance. So that the fraud model found by Crowe consists of five indicator elements, namely pressure, opportunity, rationalization, capability, and arrogance (Eka, et al., 2018)

Theory of Moral Development (Kohlberg, 1969)

Kohlberg states that logic and morality develop through constructive stages, and also broadens this basic view by determining that the process of moral development is principally related to justice and its development continues throughout life (Mathes, 2019). According to Kohlberg (1969), the stages of moral development are a measure of a person's high and low moral values based on the development of his moral reasoning. He conducts research based on cases of moral dilemmas to observe differences in individual behavior in addressing the same moral problem. There are three stages of moral development, namely: a. In the first stage (pre-conventional), b. In the second stage (conventional), c. At the third or highest stage (post-conventional).

Fraud Prevention

According to Karyono (2013), fraud can be termed fraud which implies a deviation and an illegal act, which is carried out on purpose for certain purposes, such as cheating or misleading other parties, which is committed by people both from within and from outside the organization.

Internal Control System

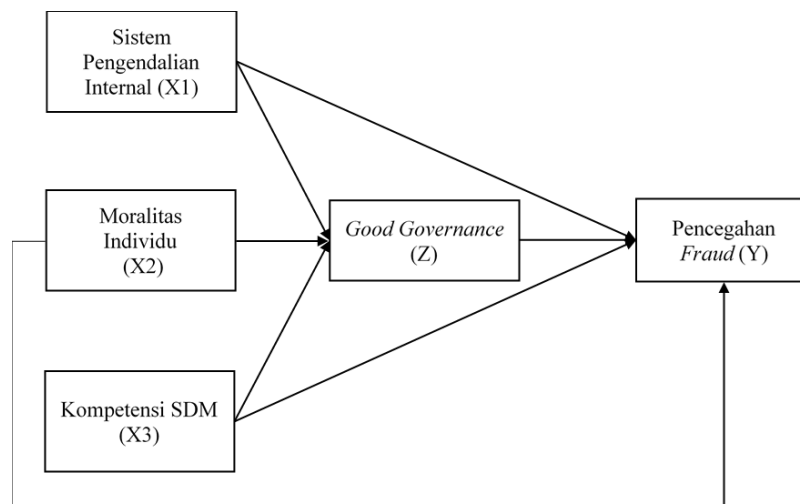
PP According to No. 60 of 2008 explained that the Internal Control System is an integral process of actions and activities carried out continuously by the leadership and all employees to provide adequate confidence in the achievement of organizational goals through effective and efficient activities, reliability of financial reporting, safeguarding state assets, and adherence to laws and regulations (Nisak, et al., 2013).

Individual Morality

The model for measuring morality using the Kohlberg (1969) model is divided into 3 stages, namely the pre-conventional stage, the conventional stage and the postconventional stage. In this stage, individuals tend to have reasons that are considered as justification for their actions.

Good governance

Good Government Governance is good governance that has been defined by various institutions recognized by the world. One of these institutions, namely the United Nations Development Program (UNDP) in its policy document entitled "Governance for Sustainable Human Development" defines good governance as a synergistic and constructive relationship between the state, the private sector and the community (Wahyuni, et al., 2021).



Gambar 1. Conceptual Framework

RESEARCH METHOD

This type of research is a causal associative research. This research is causal or causal associative, according to Erlina (2011). Causal research is a study that explains phenomena in the form of relationships between variables, with the aim of testing hypotheses and to identify causal relationships between various variables. The population in this study were all OPDs in the Deli Serdang District Government. Sampling in this study using a non-probability sampling technique by means of purposive sampling, namely the research sampling technique using certain criteria or considerations.

This study uses data analysis techniques using SmartPLS software run on computer media. PLS (Partial Least Square) is a variant-based structural equation analysis (SEM) that can simultaneously test the measurement model as well as test the structural model. The measurement model is used to test the validity and reliability, while the structural model is used to test the causality (hypothesis testing with predictive models).

RESULTS AND DISCUSSION

Statistical values of Path Coefficient, Direct Effect, Indirect Effect and Total Effect

Table 1. Test Result *Path Coefficient*

No.	Research Variable	Coefficient
1	Internal Control System	0,323
2	Individual Morality	0,233
3	HR competencies	-0,011

Source: Data processing with SmartPLS (2021)

With these results, the basic structural equation model of this research model is as follows:

$$Y = 0.323X_1 + 0.233X_2 - 0.011X_3$$

Based on the results of the tests conducted, it can be explained that the largest path coefficient value is indicated by the influence of the internal control system on fraud prevention, which is 0.323 (32.3%). Then the second biggest influence is the effect of individual morality on fraud prevention, which is 0.233 (23.3%). And the lowest effect is the effect of HR competence on fraud prevention, which is -0.011 (-1.1%).

Tabel 2. Direct Influence Hypothesis Testing (*Direct Effect*)

Hypothesis	Path	P-Value	Ket.
1	Internal Control System → Fraud Pervention	0,000	H _a Accepted
2	Individual morality → Fraud Pervention	0,000	H _a Accepted
3	HR competencies → Fraud Pervention	0,329	H _a Rejected

Source: Data processing with SmartPLS (2021)

Based on the data presentation in Table 5.10 above, it can be seen that of the 3 (three) direct effect hypotheses proposed in this study, there is one independent variable, namely HR competence (X3) which is proven to have no significant effect on fraud prevention. , thus the hypothesis is rejected because the effect shown by the HR competency has a P-Values value > 0.05.

The internal control system (X1) has a P-Value of 0.000 < 0.05, which means that the internal control system has a positive and significant effect on fraud prevention (Y) at OPD Deli Serdang Regency. The individual morality variable (X2) has a P-Value of 0.000 < 0.05, which means that individual morality also has a positive and significant effect on fraud prevention in OPD Deli Serdang Regency. HR Competence (X3) has a P-Value of 0.329 > 0.05, which means that HR competence does not have a significant effect on fraud prevention in OPD Deli Serdang Regency.

Tabel 3. Hypothesis Testing of Indirect Effects (*Indirect Effect*)

Hypothesis	Path	P-Value	Ket.
4	Internal Control System (X1) → Good Governance (Z) → Fraud Pervention (Y)	0,048	H _a Accepted
5	Individual Morality (X2) → Good Governance (Z) → Fraud Pervention (Y)	0,007	H _a Accepted
6	HR Competencies (X3) → Good Governance (Z) → Fraud Pervention (Y)	0,054	H _a Rejected

Source: Data processing with SmartPLS (2021)

Based on the data presentation in Table 5.11 above, it can be seen that of the 3 (three) indirect effect hypotheses proposed in this study, there is one hypothesis, namely the effect of HR competence (X3) on fraud prevention through good governance. which is significant, thus the hypothesis is rejected because the shown effect of HR competence on fraud prevention through good governance has a P-Values value > 0.05. The effect of the internal control system (X1) on fraud prevention through good governance has a P-Value of 0.048 < 0.05, which means that the internal control system has a significant effect on fraud prevention (Y) mediated by good governance at OPD Deli Serdang Regency.

The individual morality variable (X2) has a P-Value of 0.007 < 0.05, which means that individual morality also has a significant effect on fraud prevention mediated by good governance in OPD Deli Serdang Regency. Meanwhile, HR competency (X3) has a P-Value of 0.054 > 0.05, which means that HR competence does not have a significant effect on fraud prevention mediated by good governance in the OPD of Deli Serdang Regency. So that when added together, the total effect of the independent variables will directly and indirectly produce the following total effect:

Tabel 4. Total Effect

No	Effect	Coefficient	Total Effect
1	Internal Control System (X1) → Good Governance (Z) → Fraud Pervention (Y)	0,323 + 0,119	0,442
2	Individual Morality (X2) → Good Governance (Z) → Fraud Pervention (Y)	0,233 + 0,178	0,411
3	HR Competencies (X3) → Good Governance (Z) → Fraud Pervention (Y)	-0,011 + 0,089	0,078

Source: Data processing with SmartPLS (2021)

Discovery and understanding

The first hypothesis in this study states that the internal control system affects the prevention of fraud in OPD Deli Serdang Regency. In accordance with the test results in this study, it was found that the internal control system had a positive and significant effect on fraud prevention in OPD Deli Serdang Regency. Theoretically, the Fraud Pentagon Theory explains that one of the elements that can cause fraud is due to the opportunity factor which is included in the aspects of controls (Crowe, 2011). The internal control system is very important in order to provide protection for local governments against human resource weaknesses and to reduce the possibility of errors and actions that are not in accordance with the rules. So, the tendency of cheating will be influenced by whether or not there is an opportunity to do so according to the Pentagon's Fraud Theory. These opportunities can be minimized by the existence of an effective internal control system. If the existing internal control system is weak or ineffective,

it will open up opportunities for employees to tend to commit fraud. The results of this study are in line with the results of previous research conducted by Artini (2014) which successfully showed that the internal control system has a significant effect on fraud.

The second hypothesis in this study states that individual morality affects the prevention of fraud in OPD Deli Serdang Regency. In accordance with the test results in this study, it was found that individual morality had a positive and significant effect on fraud prevention in OPD Deli Serdang Regency at the 5% significance level. So the hypothesis which states that individual morality affects the prevention of fraud in OPD Deli Serdang Regency or the Second Hypothesis is accepted. Theoretically, Kohlberg (1969) in his theory divides morality into 3 stages, namely the pre-conventional stage, the conventional stage and the postconventional stage. In this stage, individuals tend to have reasons that are considered as justification for their actions. According to Puspasari, (2012) justification for individual actions can be measured by the level of moral reasoning. Individuals with a low level of reasoning tend to do things that are not right, whereas individuals with a high level of reasoning tend to do things right. The results of this study are also in line with research conducted by Wardana, et al., (2017) which states that partially morality has a significant effect on fraud prevention. Based on the results in this study, it is found that DAU has no significant effect on capital expenditure in a positive direction. These results suggest that district / city governments in the Provinces of North Sumatra, Riau Islands, Bangka Belitung and Bengkulu that receive large DAU will tend to have low capital expenditures. This occurs because the DAU is used more to finance operational expenditures such as personnel expenditure and goods expenditure. The results of this study are in line with the results of research conducted by Verawaty, et al. (2015) ;.

The third hypothesis in this study states that HR competencies have an effect on fraud prevention in OPD Deli Serdang Regency. In accordance with the test results in this study, it was found that the competence of human resources was proven to have no significant effect on fraud prevention in OPD Deli Serdang Regency at the 5% significance level. So the hypothesis which states that individual morality affects the prevention of fraud in the OPD of Deli Serdang Regency or the Third Hypothesis is rejected. Theoretically, competence is a basic characteristic of a person that indicates how to think, behave and act, and draw conclusions that can be done and can be defended by someone. at a certain time (Ariastini, et al., 2017). In good regional financial management, local government officials must also have competent human resources, supported by an educational and training background and have experience in finance. Due to the lack of competence in understanding and applying accounting, it will have an impact on the errors of the financial statements made and the report's inconsistency with the standards set by the Government, so that the information received by users will be incorrect and will affect the decisions to be taken next (Ferina, et al. , 2016). The findings in this study are in line with the results of research conducted by Pahlawan, et al., (2019) which proved that human resource competence has no significant effect on fraud prevention.

The fifth hypothesis in this study states that good governance is able to mediate the influence of morale individu against the prevention of fraud in OPD Deli Serdang Regency. In accordance with the test results in this study, it was found that individual morality was proven to have a significant effect on fraud prevention mediated by good governance in the OPD of Deli Serdang Regency. So the hypothesis which states that good governance is able to mediate the effect of individual morality on fraud prevention in the OPD of Deli Serdang Regency or the Fifth Hypothesis is accepted. Moral development theory (Kohlberg, 1969) explains that moral reasoning becomes a basis for doing actions so that it depends on which moral level is owned by individuals. Because individuals who have low morality will view their personal interests as the main thing in committing an act of fraud. Meanwhile, individuals who have high morality will obey the rules more and have a sense of responsibility in the organization.

That way, if all individuals are able to have good morality, the implementation of good governance will be well realized. So, in the end, the implementation of good good governance will lead to a government that is clean and free from fraud.

The sixth hypothesis in this study states that good governance is able to mediate the effect of HR competence on fraud prevention in OPD Deli Serdang Regency. Meanwhile, the test results in this study indicate that human resource competence is proven to have no significant effect on fraud prevention mediated by good governance at OPD Deli Serdang Regency. So the hypothesis which states that good governance is able to mediate the effect of HR competence on fraud prevention in OPD Deli Serdang Regency or the Sixth Hypothesis is rejected. Human resources (HR) are the main capital in an organization, which includes a person's knowledge, skills and abilities that can be used in producing a professional service. Meanwhile, competence is a combination of knowledge, skills, attitudes, and other personal characteristics needed to achieve success in a job, which can be measured using agreed standards, and which can be improved through training and development (Marwansyah, 2012). The results of previous research conducted by Washliati (2015) prove that the competence of human resources has a significant influence in realizing good governance in government circles. However, the results in this study indicate the opposite where HR competencies do not have a significant effect on fraud prevention mediated by good governance. So that no matter how good the level of competence possessed by human resources in the OPD of Deli Serdang Regency will not affect the prevention of fraud in the OPD of Deli Serdang Regency.

CONCLUSIONS AND SUGGESTIONS

The internal control system has a positive and significant effect on fraud prevention in OPD Deli Serdang Regency. Individual morality has a positive and significant effect on fraud prevention in OPD Deli Serdang Regency. HR competence does not have a significant effect on fraud prevention in OPD Deli Serdang Regency at the 5% significance level. Good governance is able to mediate the influence of the internal control system on fraud prevention in OPD Deli Serdang Regency. Good governance is able to mediate the effect of individual morality on fraud prevention in OPD Deli Serdang Regency. Good governance is not able to mediate the effect of HR competence on fraud prevention in OPD Deli Serdang Regency.

Based on the research results, it can be seen that the factors that have the greatest influence on fraud prevention in OPD Deli Serdang Regency are the internal control system, then individual morality. Meanwhile, on the other hand, human resource competence is proven not to affect fraud prevention. For this reason, the OPD of Deli Serdang Regency is expected to focus on fixing problems that exist in the internal control system. Deli Serdang Regency OPD is also expected to continue to pay attention to the individual morality of employees in the Deli Serdang Regency OPD environment because increasing individual morale can also increase prevention of fraud.

It is hoped that the next researchers will conduct research again on what factors can affect the prevention of fraud in OPD Deli Serdang Regency and other government agencies. By conducting these follow-up studies, we will be able to find out what are the factors that can affect fraud prevention in local government agencies. Future research can use several other variables that are not used in this study which are in accordance with existing theories such as: leadership style, motivation, and work experience.

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