

## **Government Accounting Standards in Moderating the Influence of Organizational Culture and the Implementation of Good Government Governance Principles on Fraud Detection**

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### **Abstract**

This work is focused on the impact of organization culture implementation and application of the principles of good government governance against fraud detection with government accounting standards as a moderating variable. This work has a thorough analysis with respondents being heads of regional government organizations and heads of accounting departments throughout Banten province. SEM PLS is used to analyze the data of this study. The questionnaires used in this work are obtained using surveying methods. The results clearly revealed the application of organizational culture and the principles of good government governance have a positive and significant effect on fraud detection, while government accounting standards as a moderator variable do not have a strong enough influence on organizational culture variables and the principles of good government governance in fraud detection.

## **Keywords**

Organizational Culture, Good Government Governance, Fraud Detection, Government Accounting Standards.

## **Introduction**

Based on official sources from the Corruption Restrictions Commission (KPK) (2019) there were 124 regions in 2014 from 2014 to 2014, be a suspect of corruption. The ICW release in 2019 stated that many councilors (DPRD and DPR RI) were caught in corruption cases from 2014-2019 there were 254 council members were suspected of corruption and 22 of them were members of the DPR RI. Fraud is not only done by government agencies, but also by companies such as PT. Garuda Indonesia Airways in 2019 committed fraud in the form of economic models. The same thing was done by the Jiwasraya Insurance Company. This state-owned insurance was allegedly provided incomplete financial statements and allegations of embezzlement of corporate investment funds. The results of a survey conducted by ACFE Indonesia in 2017 most fraud is corruption by 67%, misuse of assets/wealth of the country & companies by 31% and fraudulent financial statements by 2%. PT Asuransi Jiwasraya's financial statements, according to the Indonesian Supreme Audit Agency, from 2006 to 2019, have fabricated its financial statements, resulting in profits derived from false profits.

An effective and efficient organizational culture will be able to detect fraud. Arifin (2000) states that one of the causes of fraud (corruption) is because there is no correct organizational culture. With so many members of the council and regional heads becoming suspects of corruption, it shows that in the regions and institutions the culture of the organization is very poor. Poor organizational culture is shown by the poor municipality. The Mayor of Malang from 2013-2018 and 18 members of Malang DPRD committed corruption (fraud) together. Risk culture is considered as a multidimensional framework that has a focus on both risk and culture which are complicated scopes (Schmitt, 2017). Zulkarnain's research (2013) states that organizational culture has no role to play in the effect of fraud. However, the results of research from Eka Putra and Yenni Latrini (2018) explains that it could have a negative effect on fraud. Zelmiyanti and Anita's research (2015) concluded that organizational culture has a positive effect on fraud prevention in BPR West Sumatra. According to Yuliana's research (2019), Organizational Culture has no impact on the value of the data system.

Good administrative control in government agencies needs to be done to improve public services and trust. Good administrative control and accountable policy perform are

implemented to accomplish organizational goals of upholding bondholders' resources and wealth intensification. The crucial amid the top practices is the control measures put in place to identify and avert fraud within the unit whether private or public (COSO, 2011). Rich and Birol Research (2019) states that there is not enough evidence that good governance can diminish the jeopardy of financial statement fraud. In'airat (2015) good administrative control does not influence the level of fraud.

Based on the mandate of Law No. 17 of 2003 concerning State Finance, the Government has issued Government Regulation (PP) No. 24 of 2004 concerns government accounting standards (SAP). Fill PP No. 24 2004 is about government accounting standards are adhered to the accounting system the cash basis to the accounting system the results of accruals (cash toward accruals) is using the cash foundation for the acknowledgement of income transactions and funding, and the accrual basis for the recognition of liabilities, and equity funds. Application of Government Regulation (PP) No. Government Regulation (PP) No. 24 of 2004 is still temporary, while the evaluation of revenue and expenditure accrual basis are carried out no later than 5 (five) years as mandated by article 36 paragraph 1 of Law no 17 of 2003. 24 of 2004 is replaced by Government Regulation (PP) No. 71 of 2010 concerning government accounting standards (SAP) which adheres to the full accrual basis, which replaces the government-based accounting standard cash to accruals regulated in Government Regulation (PP) No. 24 of 2004, and its implementation will begin in 2015. The stipulation of PP No. 71 of 2010, the application of an accrual-based government accounting system has a legal basis. This means that the government must be able to immediately implement a new SAP, namely accrual-based SAP.

In 2015, all government agencies both at the central and regional levels must have applied Government Accounting Standards (SAP accrual-based). After the accrual-based SAP rules are signed, the central and regional governments must have implemented SAP as of 1 January 2015 (Temenggung, 2014). Mardiasmo (2015) said the implementation of accrual-based financial statements became an important step for the government in providing better information, especially in presenting information related to measuring government performance. Accrual-based accounting can not only produce the value of the burden paid by the government, but all the costs are required so that the costs of public services can be calculated more fairly. The Ministry of Finance considers that with the accrual system, the management of state finances will be more orderly, law-abiding, efficient, economical, effective, and transparent.

## **Theoretical Background**

### **Fraud Detection**

Fraudulent activities have been one of the most crucial issues to the worldwide financial upgradation. So, it needs thorough analysis and focus of the internal control, auditing, forensic accountants, etc., (Abdullahi and Mansor, 2018) Faud is defined as a deliberate act manipulated against the law for a specific purpose carried out by people from within or outside the organization to personal gain or group benefits that directly or indirectly harm other group sectors (ACFE, 2016). ACFE (Association of Certified Fraud Examiners) divides fraudulent activities into three categories based on actions, namely (ACFE, 2016); Asset Misappropriation, Fraudulent Declarations, and Bribery.

### **Government Accounting Standards**

Accounting standards based on the PP number 71 of 2010 are the accounting principles applied in formulating government financial reports. Government Regulation Number 71 of 2010 article 1 describes that "Accrual-based government accounting standards are government accounting standards that recognize transactions, financial states, and equity in accrual-based financial management, and clarifying the revenue, transactions, and financing in reporting budget execution based on APBN / APBD."

The accrual basis according to the PSAP 01 basis" The accounting that formulates the impacts of trades and other incidents at the time the transactions and events occur, without regard to when cash or cash equivalents are received or paid". Siregar (2015) describes that Government Accounting Standards are the accounting principles formulated in the preparation of government financial statements."

Based on Government Regulations Number 71 concerning Government Accounting Standards (SAP), the elements recognized on an accrual basis (Siregar, 2015) are: 1) operating income (LO) income, 2) expenses, 3) assets, 4) liabilities, and 5) equity.

### **Organizational Culture and Fraud Detection**

Organization's habits, beliefs, assumptions, languages, symbols, systems, norms, values, vision are included in organizational culture as defined by Needle (2004). Interaction with people and groups, with stakeholders and with clients are effected by organizational culture as stated by Schrodtt (2002). Employees identification regarding their organization is influenced by organizational culture. Shared basic assumptions learned by group's pattern is defined as group's culture as stated by Schein (2010). Internal integration and

external adaption problems are solved by those groups itself and they have worked well enough to be valid. They taught to new members regarding proper way of feeling, thinking and perceiving in relation with those problems. "The perceiving, thinking, and feeling dimensions of organizational culture according to (Hotstede, 2001) are indulgence versus restraint, long term versus short term orientation, masculinity versus femininity, individualism versus collectivism, uncertainty avoidance and power distance.

Company is predisposed to consider fraudulent financial reporting by organization culture's four characteristics as shown in the results of research done by Geriesh and Lotfi (2003). Company legitimate accounting policy decision Firms for issuing fraudulent financial statements which are more likely to be engaged with related-party transactions and having founders that still exert major influence over company to employ fewer CPAs and for exhibiting illegal violations history. Irrespective of organization size, in corporate world, a real challenge is occupational fraud as stated by Ocansey and Ganu (2017). Negative leaderships and poor organizational culture leads to majority of occupational fraudulent actions as mixed messages regarding what is expected and what is important are send by them. Occupational fraud risk's management is influenced positively or negatively by corporate culture.

Omar et al (2015) said Corporate culture can be difficult to address. Even well-known corporations are having difficult times in changing their corporate to improve corporate performance. However, neglecting it may cause another problem. Thus, in introducing the ethical corporate culture in mitigating the occurrence of financial statements of fraud, one should implement ethics training programs to the employees of the company. This is important since the characteristics of the company are influenced by the characters of the person in it. Therefore, to strengthen the ethics culture, the employees need to be addressed with it. The other suggestion is the application of reward measures to compensate employees so that, they are keen to work for company. It can be in terms of monetary rewards or other benefits.

Business with low "culture and values" level and low job satisfaction levels as measured by employees are highly subjected to securities class action complaints and SEC fraud enforcement actions as found by Yuan Ji (2017). Undesirable company ambiance is having relation with augmented likelihood of beating or narrowly meeting market earnings potentials in consistent with boiler room effect.

With lower abnormal accruals, senior leadership's positive employee thoughts and job satisfaction to be concomitant. For firms with floppier board independence, relationship

between financial reporting menace and firms' culture are strong as found. Thus, in financial reporting risk, a precarious role is played by work environment as perceived by employees.

Based on some of the above research it is concluded that organizational culture application is having a positive effect on fraud detection.

H1: Application organizational culture is having a positive effect on fraud revealing.

### **Good Government Governance and Fraud Revealing**

Governance is defined by World Bank as “the state power is used to handle social and economic supplies for society development”. Good governance is “exercise of administrative, economic and political authority for managing a nation's affair at all levels” as defined by United Nations Development Program (UNDP). According to BAPPENAS (2007), Good Governance is a conception of supremacy that is clean, democratic, and effective.

UN-ESCAP (United Nations Economic and Social Commission for Asia and the Pacific) stated that there are eight principles held by good governance, namely involvement, rule of law, openness, caring, consensus-oriented, inclusiveness and fairness, efficiency and effectiveness, and accountability. According to BAPPENAS, good governance principles are Visionary, Openness and Transparency, Community Participation, Liability (accountability), The rule of law, Democracy, Professionalism and Competence, Responsiveness, Efficiency and Effectiveness, Decentralization, Partnership with the Private Business Sector and Community (private sector and civil society partnership); Commitment to Reducing Gaps (inequality); Commitment to the Environment (environmental protection); Fair Market Commitment. According to Law No. 28 of 1999, the principles of good governance consist of legal certainty, orderly administration of the State, openness, proportionality, professionalism, and accountability.

Sarwono's research (2018) found that in the Jakarta Metropolitan Police, fraud prevention was generally good, good governance was good, and fraud prevention consisting of opportunities, red flags and symptoms identification as well as their assessments, reporting and monitoring together affect good governance is 49.5%. On financials, manipulations are minimized using corporate governance application as stated by Rich and Birol (2019) during beginning of the study. Relationships are not proven using test results as they are not sufficient. However, such practices produces companies good messages regarding its attitudes towards fraud. Taufik (2019) concluded that good

governance can mediate a part of relationship between fraud prevention and local governments' internal control systems implementation. On Financial Reporting quality, significant effect is shown by Internal Control and Apparatus Competence partial and simultaneously as stated by Nurafiah & Rahmatika (2014). For Good Government Governance, implications are shown by financial reporting quality as found. Azlim et al (2012) argue that good government and governance accounting systems implementation has an influence on financial reporting quality in both simultaneously and partially.

Based on some of the above research, it can be concluded that good government governance principle's application is having a positive effect on fraud detection.

H2: good government governance principle's application is having positive effect on fraud detection.

### **Organizational Culture on Fraud Detection with Government Accounting Standards as Moderating Variables**

According to Artini et al (2014), the proper ethos of the organization negatively affects the inclination of accounting deception. By implementing an ethical culture in an organization, it is able to encourage a person to perform ethical actions so that the tendency of accounting fraud can be avoided. Umar & Nasution (2018) Accrual-based accounting implementation positively influences corruption deterrence.

Based on some of the above studies it is clinched that organizational culture application is having positive effect on fraud detection with government accounting standards as a moderating variable.

H3: Application of organizational culture is having positive effect on fraud detection with government accounting standards as a moderating variable.

### **Good Governance Government Principles on Fraud Detection with Government Accounting Standards as Moderating Variables**

On financial reporting quality, a noteworthy as well as confident impact is shown by Government's domestic control system Implementation as found by Nur Afiah and Azwari (2015). In local governance, in financial reporting quality, very important role is played by Government's internal control system's control enhancement. On good governance principles, a significant as well as positive effect is shown by financial reporting quality. Good governance principle's enhancement leads to better financial exposure's excellence.



In Government funds usage, accountability and transparency level are increased by adapting IPSAS as found in this study. Public expenditure's inadequate disclosure and revenue leakage impedes government commitment for ensuring public fund's accountable management and transparency in country (Williams & Hussein; 2019).

H4: Application of GP governance has a positive effect on fraud detection with government accounting standards as a moderating variable.

## **Methodology**

### **Samples and Data Collection**

Research samples are governed using a census sampling or saturated sampling methods in this study. A purposive sampling method is used in this study for taking samples. The research criteria referred to are: OPD which is not in the form of a public service agency (hospital), not a sub-district, because transactions that occur are relatively small, the OPD in this study is not a technical institution, because the transaction is still simple.

In this analysis, data collection is done using a survey. Respondents will receive three questionnaires groups consisting of questionnaire 1 which has organizational culture application, questionnaire 2 has *good government governance principle's application*, questionnaire 3 contains about fraud detection.

### **Measurement of Variable**

Ordinal scale is used in this analysis for measuring variables. Facts are gathered in ordinal data form. Ordinal data is a kind of qualitative data. Numbers are used as qualitative data symbols. They are not real numbers. Interval scale data is needed in statistical procedures like t-test, regression and so on.

### **Regression Analysis Regression**

Dependent variable's reliance with one or more independent variables are studied basically in this analysis. According to recognized variable's value, dependent variable's average value or population average's foreseeing and or approximation are focused using this analysis (Gujarati: 2012). A Regression Analysis which is a statistical analysis tools is used for examining gathered information and is expressed as,

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e$$

### **Data Analysis**

The data assortment technique in this study is a survey scheme. This technique is used for attaining data in Pandeglang Regency, Serang City, Tangerang Regency, Tangerang,



Cilegon, South Tangerang, Serang Regency, Lebak Regency and Banten Province for which data collection is done via questionnaire. The analysis unit in this reading is the Regional Organization of Organizations (OPD) in Pandeglang Regency, Serang City, Tangerang Regency, Tangerang, Cilegon, South Tangerang, Serang Regency, Lebak Regency and Banten Province. This study uses SEM PLS as an analysis tool.

## Analysis and Findings

### Validity Test

Every research variable's link is computed for finding validity test results. If a research/statement variable has more than 0.70 loading factor if intended constructs, then it is assumed as a valid one. While 0.50 to 0.60 loading factors can be upheld (Ghozali: 2014). If a research variable's loading factor is more than 0.50 and it is positive, then that variable tends to meet validity. Table 1 summarizes validity test results.

**Table 1 Validity Test**

No.	Variable	Dimension	Score	Results
1	Organizational Culture	Adaptation External Tasks	951	Valid
		Internal Integration Tasks	924	Invalid
		Basic Underlying Assumptions	957	Invalid
2	Good Government Governance	Transparency	966	Valid
		Participation	856	Valid
		Accountability	968	Valid
3	Fraud Detection	Abuse of assets	0.879	Valid
		Financial Statement Fraud	0.886	Valid
		Corruption	0.982	Valid
4	Government Accounting Standards	Revenue	0.952	Valid
		Load	0.947	Valid
		Asset	0.958	Valid
		Liability	0.918	Valid
		Equity	0.852	Valid

### Reliability Test

Two criteria are used for measuring reliability test results namely, Cronbach's alpha and divided composite reliability. With Cronbach alpha exceeding 0.70 and composite reliability values, the construct is termed as reliable. (Gozhali: 2014).

**Table 2 Reliability Test**

	Cronbach's Alpha	Composite reliability	Results
Organizational Culture	862	876	Reliable
Principles of Good Government Governance	724	836	Reliable
Fraud Detection	764	821	Reliable
Government Accounting Standards	850	891	Reliable

## Hypothesis Testing

### Effect of Implementation of Organizational Culture Against Fraud Detection

**Table 3 Value Path Coefficients**

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (  O / STDEV  )	P Values
Cultural-> Fraud Detection	0.394	0.076	0.046	3.824	0.015

Grounded on the table above, parameter coefficient magnitude is 0.394 which indicates a positive impact on organizational culture application to fraud detection. The organizational culture implementation affects fraud detection by 39.4%, while other variables influences remaining 60.6%. The better organizational culture solicitation, better fraud detection.

The Statistical t value of 3,824 while t table value with 5% a significance level which is equal to 2,964 then t statistics value is greater than t table ( $3,824 > 2,964$ ). This means that organizational culture presentation significantly influences fraud detection.

This inquiry is in line with researches by Geriesh and Lotfi (2003, Ocansey and Ganu (2017), Omar et al (2015) and Yuan Ji (2017) which state that organizational culture influences fraud detection.

### Effect of Good Government Governance Principles Application on Fraud Detection

**Table 4 Value Path Coefficients**

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (  O / STDEV  )	P Values
GGG -> Fraud Detection	0.682	0.066	0.52	4.526	0.002

According to the above shown table, parameter coefficient value is 0.682, which indicates a positive influence on good government governance principle's application to fraud detection. The good governance management implementation affects fraud detection by 68.2%, while other variables influences remaining 31.8%. The better good government governance application, better the fraud detection.

The t value of statistics is 4,526 while t table value with 5% significance level which is equal to 2964 then t statistics value is greater than t table ( $4,526 > 2,964$ ). This means that

good government governance principle's application significantly influences fraud detection.

This research is in line with Sarwono's research (2018), Taufik (2019) Nurafiah & Rahmatika (2014) and Azlim et al (2012) arguments that good governance and government accounting systems implementation influences financial reporting quality of both simultaneously and partially.

### **Effect of Application of Organizational Culture on Fraud Detection with Government Accounting Standards as Moderating Variables**

**Table 5 Value Path Coefficients**

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (  O / STDEV  )	P Values
Culture -> GAS-> Fraud Detection	0.584	0.182	0.218	2,684	0.018

Based on the table above, the parameter coefficient value is 0.584, which indicates a positive influence amongst financial accounting standards and fraud detection's moderating variables. Government Accounting Standards can moderate Organizational Culture Implementation by 58.4%.

Statistical t value of 2,684 while t table value with 5% significance level which is equal to 2,964 then t statistics value is smaller than t table ( $2,684 < 2,964$ ). This means that the moderating variable is not able to strengthen the effect of organizational culture application on fraud detection.

### **Effect of Application of Good Government Governance Principles on Fraud Detection with Government Accounting Standards as Moderating Variables**

**Table 6 Value Path Coefficients**

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (  O / STDEV  )	P Values
GGG -> GAS -> Fraud Detection	0.492	0.146	0.096	0.566	0.047

According to the above shown table, parameter coefficient magnitude is 0.492, which means that the moderator variable provides a positive influence between the variables of good governance implementation on fraud detection. Variable Government Accounting Standards can moderate the Good Government Governance principle's variable implementation to fraud detection by 49.2%.

Statistical t value of 0.566, while the t table value with 5% significance level which is equal to 2,964 then t statistics value is greater than t table ( $0.566 < 2,964$ ). This means that the moderator variable is not able to strengthen the effect of good government governance principle's application to fraud detection.

## **Conclusion**

Based on the research hypothesis, framework, and discussion, it is concluded that; the Organizational Culture application has a positive as well as significant effect on fraud detection. Employee habits such as behavior, habits are one of the ways that can be used to detect fraud. The culture of hedonism and the social environment of employees needs to get serious attention because these are the factors that employees commit fraud; the Good Government Governance Principles application has a positive as well as significant effect on fraud detection. Community participation in criticizing government policies must be increased, transparency of the government in preparing the budget, and government accountability also needs attention; moderator variable Government Accounting Standards are not able to strengthen the effect of Organizational Culture application in fraud detection; moderating variables Government Accounting Standards are not proficient to strengthen the consequences of the application of Good Government Governance Principles in fraud detection. Government accounting standards applied by the government have not been able to eradicate fraud, this is evident in some regions of Indonesia which, based on BPK audit opinion, get fair without exception, but members of the board, mayors, and governors who are suspected of corruption cases.

## **Limitation and Future**

The science development is mainly concentrated in this research work. There are some limitations in this research work. Samples from regional organizations throughout Banten Province is only used in this study. So, the results cannot be applied for generalizing situations in some other regions. There is no necessity to indicate actual situation using the data which are generated using questionnaire data. The research variables that influence fraud detection are only two variables, subsequently it is projected that the next enquiry will enlarge supplementary variables such as internal control and human resource axis competence.

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