The Effect of the Bystander Effect, Organizational Culture, and Internal Control on the Trend of Accounting Fraud at LPD in Jembrana Regency

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Abstract: Accounting fraud until now it is still a latent danger that threatens the world. Jembrana Regency has an LPD with unhealthy conditions that occur every year. In 2021, there will be two LPD in Jembrana Regency that are no longer operating. This is due to an act of accounting fraud in the form of misappropriation of funds for personal interests by manipulating financial statements. Some considerations for company management to find out fraud include bystander effect, organizational culture and internal control, but these factors still have mixed research results. This study aims to examine bystander effect, organizational culture and internal control on the tendency of accounting fraud. The population in this study were 162 employees at LPD in Jembrana Regency. Determination of the number of samples in this study using stratified proportionate random sampling, which is method with the SmartPLS 3.0 application. The results showed that the bystander effect had a positive and insignificant effect on the tendency of accounting fraud in LPD in Jembrana Regency, while organizational culture and internal control had a negative and significant effect on the tendency of accounting fraud in LPD in Jembrana Regency.

Keywords: Bystander effect, organizational culture, internal control, accounting fraud tendencies.

Introduction

Accounting fraud is still a latent danger that threatens the world today (Nugraheni & Triatmoko, 2017) so that research on fraud must continue to be developed in order to reduce fraud in Indonesia (Dellaportas, 2013). In 2016, the results of the implementation of SFI found fraudulent financial statements that caused losses of more than 10 billion Rupiah (Oktafiana et al., 2019). This condition does not rule out the possibility for organizations, one of which is the Village Credit Institution (LPD) in Bali.

LPD is an institution owned by traditional villages engaged in finance, the number of LPDs in Bali Province according to the Special Committee for LPD DPRD data is 1,433 LPDs, but not all LPD units in Bali have healthy financial development. As many as 158 LPDs or 11.03 percent were declared bankrupt or no longer operating, one of which is in Jembrana Regency (Balitribune.co.id, 2021). Jembrana Regency is recorded to have 64 LPD units spread across each village. Based on data from the Village Credit Institutions Empowerment Agency (LPLPD) shows that in 2021 the number of unhealthy LPD will increase by one LPD so that it becomes 4 LPD units with an unhealthy classification level compared to 2020 and even in 2021 there are two LPD that are no longer operating. This is due to an act of accounting fraud in the form of misappropriation of funds for personal interests by manipulating financial statements (Tribun-Bali.com, 2021).

The first variable that has been studied to have an influence on the tendency of fraud is the bystander effect. Research that examines the bystander effect explains that the bystander effect has a significant positive influence on the tendency of accounting fraud (Asiah & Setyorini, 2017); (KYD Dewi et al., 2018); (Made et al., 2017). However, in the research of Wakhidah & Mutmainah, (2021) it shows that the bystander effect has a negative influence on the tendency of accounting fraud. Organizational culture is a guideline that is applied so that it becomes a good habit in an organization. According to Yuliani, (2018); L. Natalia & Coryanata, (2018) from their research results show that organizational culture has a significant negative effect on the tendency of accounting fraud. However, the results of research by Pujayani & Dewi, (2021); Candra et al., (2020) show that organizational culture has a significant positive effect on the tendency of accounting fraud. Internal control is a series of policies and procedures designed to maintain compliance with applicable laws and regulations (CKR Dewi, 2017). The results of the study stated that internal control had a positive effect on the prevention of accounting fraud (Kurniawan & Izzaty, 2019). However, in the research of Muna & Haris, (2018), it states that internal control has a significant negative effect on the tendency of accounting fraud.

Therefore, it is necessary to re-examine the factors that influence accounting fraud by combining variables from previous studies in order to reduce fraudulent actions has the title "The Influence of the Bystander Effect, Organizational Culture, and Internal Control on the Trend of Accounting Fraud in LPD in Jembrana Regency."

Method

The data collection method used is documentation in the form of a list of the total number of employees and a list of health classification levels at the LPD in Jembrana Regency to obtain secondary data and using the survey method directly to the field by distributing questionnaires to each respondent to obtain primary data. This research was conducted at LPDs located in Jembrana Regency, for six months, starting from January 2022 to July 2022.

The population used were all LPD employees in Jembrana Regency as many as 62 LPD units with a total of 405 employees. According to the theory of Hair, et al., (2010) in (Aransyah et al., 2021); (Nazarudin et al., 2021) stated that in determining the number of samples not too large, it is recommended that between 100 and 200 respondents in conducting data analysis use estimates with Structural Equation Model (SEM). According to Ferdinand (2014:48) in (Lestari & Utama, 2017) the determination of the minimum number of samples in SEM is the number of indicators in the study multiplied by 5-10. There are 30 indicators in this study, so the sample size ranges from 150-300 respondents. Based on the calculation of determining the number of samples, the minimum sample limit for this study is 150 respondents. Determination of the number of samples taken using stratified proportionate random sampling technique, so that the number of samples used is 162 respondents, this has met the minimum sample limit with the calculation of the number of samples in each sub-district shown in Table 1 below:

Table 1. Result of Stratified Proportionate Random Sampling

No	District	Amount of LPD	Amount of Employees	Sample (40%)
1	Pekutatan	13	80	32
2	Mendoyo	18	119	48
3	Jembrana	9	54	22
4	Negara	10	81	32
5	Melaya	13	71	28
	Total	62	405	162

Source: Primary data processed, year 2022

This research instrument uses indicators in measuring the variables studied. The measurement of bystander effect variables, internal control and accounting fraud tendencies uses indicators developed by Aisah, (2017). For organizational culture variables are measured uses indicators developed by Wulandari, (2017). Each respondent will be given a choice of answers with a Likert scale on each indicator, namely: a score of 5 for strongly agree (SS), a score of 4 for agree (S), a score of 3 for neutral (N), a score of 2 for disagree (TS), and score 1 for strongly disagree (STS) (Pranatawijaya et al., 2019).

This research data analysis technique uses PLS to test research hypotheses: (1) Designing Outer Model, to determine the relationship between indicators and latent variables that are reflective or formative (Pratama., T., 2016). (2) Designing the Inner Model, to determine the causal relationship between latent variables (Pratama., T., 2016). (4) Model Evaluation, to assess the proposed model in measuring the construct. The parameters used in the outer model are convergent validity, discriminant validity, multicollinearity test, cronbach alpha, composite reliability, average variance extracted (AVE) while for the inner model the parameters used are R-square (R2), F-square effect size (F2). Hypothesis testing seen from the comparison of the probability value (sig) must be less than 0.05 then it can be said to be significant.

Result and Discussion

In this test using PLS there are two models, the validity and reliability of a data in research can use the outer model, then to see the relationship between constructs, significance values and R square can use the inner model or structural model (Siregar & Hamdani, 2018).

1. Outer Model

There are two tests carried out in testing the validity of the data, namely convergent validity and discriminant validity. Then the test carried out for testing the reliability of a data is composite reliability. Convergent validity can be measured by looking at the loading factor value and the average variance extracted (AVE) value in the SmartPLS 3.0 program. In rule of thumb the loading factor which is usually used to assess convergent validity is the magnitude of the loading factor > 0.7 for confirmatory research. In

this study, the loading factor > 0.7 means that each indicator in this study is valid and has met the validity requirements. converge. The limit of the average variance extracted (AVE) value according to Hair (2006) in Husnawati et al., (2019) the value of each question item on the indicator is determined to be > 0.5. The output the average variance extracted can be presented in Table 2.

Table 2. Result Average Variance Extracted (AVE)

No	Construct	Result AVE
1	Bystander Effect (X_1)	0.744
2	Organizational Culture (X_2)	0.582
3	Internal Control (X_3)	0.661
4	Trends in Accounting Fraud (Y)	0.603

Source: Primary data processed, year 2022

Based on Table 42, it shows that the average variance extracted (AVE) value for each variable is > 0.5. This can be said to be valid and has met the conditions of convergent validity.

Discriminant validity in the test can use the cross loading value provided that the cross loading for each latent variable must be > 0.70 when compared to other latent variable indicators. The results of the cross loading value in this study showed > 0.70. This can be interpreted that the correlation value of the variable The measured latent is greater than the correlation value of other latent variables. Each latent variable indicator in this study can be said to be valid and has met the provisions of discriminant validity.

Reliability is the reliability and stability of the measuring instrument. In the reliability test to measure the lower limit of the reliability of a construct can be done using Cronbach alpha (α) and to measure the real reliability value of a construct can use composite reliability. rule of tumb used from Cronbach's alpha is > 0.70 for confirmatory so that a construct can be said to be reliable. In a study, a construct can be declared to meet reliability if the results of the data have a composite reliability > 0.7 for confirmatory. The results of the reliability tests that have been carried out in this study can be seen in Table 3 below.

Table 3. Result of *Output Cronbach's Alpha & Composite Reliability*

No	Construct	Cronbach's Alpha	Composite Reliability
1	Bystander Effect (X_1)	0,856	0,893
2	Organizational Culture (X_2)	0,931	0,946
3	Internal Control (X_3)	0,891	0,914
4	Trends in Accounting Fraud (Y)	0,949	0,955

Source: Primary data processed, year 2022

Based on Table 3, it can be seen that the results of cronbach alpha on each construct >0.70 means that each statement tested has met the reliability requirements with good consistency of respondent answers. Table 3 also shows that each construct in this study has composite reliability >0.70 so that it can be said to be reliable and meet the reliability requirements.

2. Inner Model

Inner model or structural model can be evaluated by PLS using R-square for each exogenous latent variable. According to Chin (1998) in (Pritama & Arde, 2021) the R square of 0.67 can be concluded that the model is strong, then a value of 0.33 is concluded that the model is moderate and a value of 0.19 can be concluded that the model is weak. The results of the R-square in this study are presented in Table 4.

Table 4. Result of Output R Square

	R Square	R Square Adjusted
Trends in Accounting Fraud (Y)	0.431	0.420

Source: Primary data processed, year 2022

Based on Table 4 shows that the result of the R square is 0.431, which means that the model is classified as moderate. This can be interpreted bystander effect, organizational culture, and internal control have an influence of 43.1% in detecting the tendency of accounting fraud.

The F square (F^2) was conducted to determine the effect of exogenous variables on endogenous variables, this (F^2) test be seen from the effect size provided that if the F^2 value is. 0.02 it means it has a weak influence, then 0.15 means it has a moderate, and 0.35 have a strong influence. The results of the F-square in this study can be seen in Table 5.

Table 5. Result of Output F Square

Variable	F
Bystander Effect (X_1)	0.005
Organizational Culture (X_2)	0.043
Internal Control (X_3)	0.241

Source: Primary data processed, year 2022

Based on Table 5 shows that the F Square variable bystander effect and organizational culture of 0.005 and 0.043 which means that the variable bystander effect and organizational culture have an influence with a weak category, while the internal control variable shows a value of 0.241, which means that the category has a moderate influence on the tendency of accounting fraud.

3. Hypothesis Testing

The hypothesis procedure bootstrapping to test the significance. The results of hypothesis testing using the bootstrapping are presented in Table 6.

Table 6. Result of Output bootstrapping

	Original Sample	T Statistics	P Values
Bystander Effect (X_1) -> Accounting Fraud Trend (Y)	0,068	0,912	0,362
Organizational Culture (X_2) -> Accounting Fraud Trend (Y)	-0,196	2,338	0,020
Internal Control (X_3) -> Accounting Fraud Trend (Y)	-0,483	5,992	0,000

Source: Primary data processed, year 2022

Based on Table 6 shows that there is one hypothesis with a P Value above 0.05, namely the first hypothesis with a result of 0.362. In testing the hypothesis using the SmartPLS bootstrap, the output is presented in Figure 1.
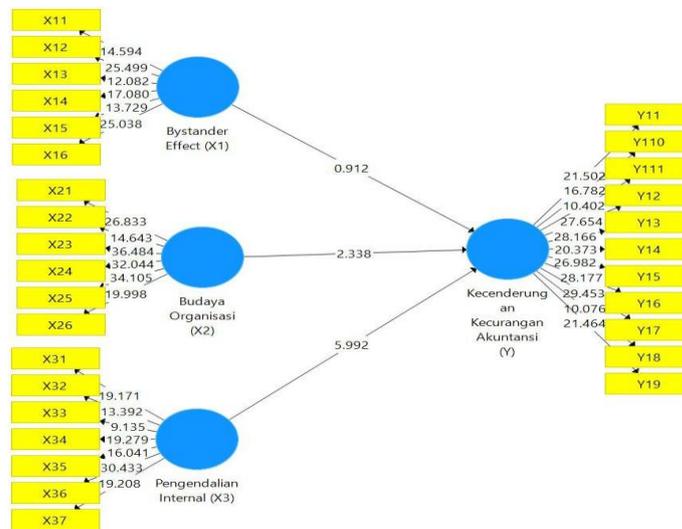
Source: Primary data processed, year 2022
Figure 1. Output Bootstrapping PLS

The first hypothesis (H_1) related to the bystander effect has a significant positive effect on the tendency of accounting fraud, it has an original sample result of 0.068 with a t statistic smaller than t table, namely 0.912 < 1.975 and a P value of 0.362 > 0.05. This result explains that the bystander effect has a positive but not significant effect on the tendency of accounting fraud, so H_1 is not accepted. In the case of fraud that occurred in LPDs in Jembrana Regency, it was explained that the presence of a bystander could not affect the occurrence of significant fraud, because employees at LPDs in Jembrana Regency had learned from LPDs that were bankrupt or no longer operating, so that LPD employees were able to prevent fraud in the work environment. This can be done by increasing the sense of concern for LPD employees. Thus, employees at LPD in Jembrana Regency will not tend to do bystander if there is a bystander in the surrounding environment which will provide a high opportunity for accounting fraud to occur.

The second hypothesis (H$_2$) related to organizational culture has a negative effect on the tendency of accounting fraud to produce an original sample of -0.196 with a t statistic more than t table, which is 2.338 < 1.975 and the resulting P values of 0.020 < 0.05, p. This shows that organizational culture has a negative and significant effect on the tendency of accounting fraud, so hypothesis H$_2$ accepted. Theory fraud triangle according to Cressey (1953) in (Mia Tri Puspitaningrum et al., 2019) explains that rationalization is an action taken by perpetrators of fraud by convincing themselves that their actions are not fraud but are a reasonable action. A bad organizational culture will make someone who commits accounting fraud consider it normal and reasonable. Until now, LPD employees in Jembrana Regency have implemented a good organizational culture. The culture is to believe in the law of karma phala, so they are afraid to commit fraudulent actions or bad deeds which will later get bad rewards and can harm the organization. This culture is proven to be able to reduce the level of accounting fraud. So that a habit will be formed that creates a sense of belonging and a sense of pride in being part of an organization so that the intention to do worse things in the company will not happen.

The third hypothesis (H$_3$) related to internal control variables has a negative effect on the tendency of accounting fraud to produce an original sample of -0.483 with a t statistic greater than t table, which is 5.992 > 1.975 and the P values of 0.000 <0.05, so that the hypothesis H$_3$ is accepted. This explains that if the internal control at the LPD is not good and deviates from the procedure, it will provide opportunities for LPD employees to commit accounting fraud. Agency theory put forward by Jensen and Meckling (1976) suggests that there is an agency relationship in an organization, one of which is LPD, this agency relationship occurs between the principal (owner) and agent (manager). Agency relationships can occur in village governments, namely LPD employees as agents have the task of providing services to the community as principals (Natalia et al., 2020); (Nurjanah & Setiawan, 2021). In order to minimize agency conflicts in the form of opportunistic behavior of agents who take personal gain at the expense of the public interest (Maria et al., 2021); (Luayyi, 2012); (Nurhidayah & Indrayani, 2020) can be done controlling the performance of LPD employees so that the internal control that is implemented effectively can reduce the behavior that deviates from the procedures that cause accounting fraud.

Conclusion

Based on the results of hypothesis testing and the discussion described in the previous chapter regarding the effect of the bystander effect, organizational culture and internal control on the tendency of accounting fraud, it can be concluded as follows:

1. The bystander effect has an insignificant positive effect on the tendency of accounting fraud in LPDs in Jembrana Regency.
2. Organizational culture has a significant negative effect on the tendency of accounting fraud in LPD in Jembrana Regency.
3. Internal control has a significant negative effect on the tendency of accounting fraud in LPDs in Jembrana Regency.

The theoretical implication of the results of this study explains that the bystander effect does not have a significant effect on the tendency of accounting fraud, meaning that the presence of a bystander does not affect the surrounding employees to commit fraudulent acts. So far, a good organizational culture has been applied by LPD employees in Jembrana Regency. The results of this study support the theory of legitimacy that includes organizational culture, so that in the future by applying a good culture in accordance with applicable norms, it can be an effort to minimize accounting fraud. Based on the results of this study, further researchers can use organizational culture as a variable that moderates the effect bystander effect on the tendency of accounting fraud.

Acknowledgment

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