

CHAPTER I

INTRODUCTION

1.1 Background Issue

The issue of Fraud, the threats and various practices of it has been going around creating chaos for centuries. In spite of the fact that billion efforts have been done along with billion actions to be taken and the many creative preventive methods that keep improving throughout the years, the threat of fraud still is the biggest concern when it comes to run a business. According to Indonesia Corruption Watch (ICW) (2014) out of a total of 19 institutions in Indonesia, educational institutions occupy the fourth position with 28 corruption cases. While social institutions comes with 31 corruption cases, regional finance with 60 corruption cases, then comes first, the infrastructure institution with the grand total of 102 corruption cases. This shows that corruption cases are concerningly high. Actions that are often carried out as corruptive behavior including a great amount of fraudulent activity, such as removal of documents, manipulation of evidence in the form of documents, intentional errors of recording and mark up that impact great losses on the country's economy (Adelin, 2013).

However many researches have been done repeatedly from time to time to analyze all the different factors leading up to Accounting Fraud in a corporate or institutions with the hope to understand further the triggers and key leading factors in this issue. Regarding Internal Control on Accounting Fraud, prior studies have been done before by Predita Ayu Putri and Soni Agus Irwandi (2016), along with Luminita Ionescu (2010), concluding that Internal Control System plays a good role when it comes to prevent the actions of fraudulent behavior. A poorly designed Internal Control System can result in a weak

corporate control that creates an opportunity for someone to conduct fraudulent behavior that can harm an agency or institution. With the existence of effective internal controls, it is expected to minimize accounting fraudulent activities in an agency or institution. Disclosure of internal control had become one of the main focuses in a business for the last few years after a repetitive case and threat of accounting fraud, and thus became a determining factor in decision making.

Meanwhile on the topic of Individual Morality and Accounting Fraud, studies were done once again by Predita Ayu Putri and Soni Agus Irwandi (2016) and Santy Setiawan (2018), who stated that individual morality certainly have an effect on accounting fraud, considering that the higher of morality level an individual have could impact their actions and behavior, preventing them to commit fraudulent behavior. According to expert, Liyanarachchi and Newdick (2009) who explained that the level of individual moral reasoning will most likely influence their ethical behavior. People who have a low level of moral reasoning behave differently from people who have a high level of moral literacy when they face ethical dilemmas. The higher the level of one's moral circulation, the more likely the individual is to do *the right thing*. Individuals at specific moral level will also view their personal interests as the main thing in carrying out an action.

Ethical Value on Accounting Fraud was studied by Loveday Nwayanwu (2018) and Jasmine Smith (2016), in which they explained that ethical value relates to Accounting Fraud in certain way, seeing as professional accountants follow specific ethic codes, which applies differently in different countries and varies from each companies based on the type of instituion and business that is being ran. Generally though, Accounting Ethic Codes are pretty much similar, and created for the same purpose which is to maintain the quality and professionalism of a credible accountant. This correlates to fraudulent behavior a lot, considering that proper professional accountant wouldn't so much go against

the already existing and well known rules in their profession. Going against the rules and regulations could create a damage to their career and affect the future of their profession. Seeing professionalism of a company or an institution regarding their ethical codes and how they take actions into it, affect employees in the long run. Creating a properly well-managed work environment increasing awareness in fraudulent behavior and self aware of carrying the professionalism in the work place (Jajaram, 2018).

This research focuses mostly on Start Up Business responses against Accounting Fraud Tendency, judging the performance of a Start Up company at handling and preventing fraudulent behavior in their institution or company. As far as I'm concerned, many Start Up Businesses have yet to effectively use a proper Internal Control, which creates a lot of loopholes and opportunities for anyone to take advantage of the lack of security in said company or institution, creating an open space for anyone to commit a fraudulent action that could potentially harm and cause damage to the institution or company (Jackson, *et al.* 2010). In addition to the statement made previously, we can further argue that there are actions that clearly should be made in order to prevent Accounting Fraud Tendency, therefore we need to understand deeper the key leading factors towards this fraudulent actions. This research is done purposely to look deeper into the issue of Internal Control aspect in the business, along with Individual Morality and Ethical Value against Accounting Fraud Tendency as a contribution of knowledge for educational purpose and hopefully, a solution for corporates and businesses.

1.2 Research Quetions

1. Does Internal Control affect Accounting Fraud Tendency?
2. Does Individual Morality affect Accounting Fraud Tendency?
3. Does Ethical Value affect Accounting Fraud Tendency?

1.3 Research Purpose

1. To analyze the effect of Internal Control Effectivity on Accounting Fraud Tendency.
2. To analyze the effect of Individual Morality on Accounting Fraud Tendency.
3. To analyze the effect of Ethical Value on Accounting Fraud Tendency.

1.4 Research Contributions

1.4.1 Theoretical Contribution

Hopefully this research can contribute for the existence of future researches about The effect of Effective Internal Control, Individual Morality and Ethical Value on Accounting Fraud Tendency in Start Up Businesses.

1.4.2 Practical Contribution

1. For Readers and Researches, to provide a credible information about The effect of Effective Internal Control, Individual Morality and Ethical Value on Accounting Fraud Tendency in Start Up Businesses.
2. For Companies and Institutions, to provide inspirational ideas, credible informations and a reliable guidance about The effect of Effective Internal Control, Individual Morality and Ethical Value on Accounting Fraud Tendency in Start Up Businesses.