

## Determinants of Budgets Fraud for Handling COVID-19 in Makassar City

✉Ismawati, Indriana, Rosidi, Mohamad Khoiru Rusydi  
Muhammadiyah University of Makassar, Indonesia

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### ABSTRACT

*This study aims to examine the determinants of budget fraud for handling COVID-19 in the city of Makassar. This study uses a survey method for data collection. The samples of this research are 171 employees who work in Local Government Organizations in Makassar City while the data analysis tool uses SMART PLS software. The results of this study indicate that the greater the pressure, opportunity, competence, and arrogance of a person, the greater the level of fraud that occurs in a country. However, different results were found on the rationalization variable that fraud that occurred in a country was not influenced by a person's rationalization in justifying his actions. Moderation in this study shows that bureaucratic reform can weaken the relationship between pressure and opportunity for fraud. However, it strengthens the connection between justification, competence, and arrogance to the occurrence of fraud.*

*Keyword: Fraud, Budget, Crowe's fraud pentagon, Bureaucratic Reform.*

### 1. INTRODUCTION

Fraud will not happen in a vacuum, in an empty room. Fraud always occurs in an organization (institution, corporate institution, etc.) in various sectors, various types of organizations with various situations with internal and external problems of the organization (Irianto & Novianti, 2018). The results of the ACFE survey presented in the form of a Report to The Nations which do not fully reflect the fraud that occurred in Indonesia. Therefore, ACFE Indonesia specifically conducted a

Fraud Indonesia survey (SFI) while still based on the methodology developed by ACFE Global and accompanied by adjustments on several matters relevant to Indonesia. The results of the ACFE survey Association of Certified Fraud Examiners Indonesia Chapter (2020) show a different phenomenon from the global phenomenon, the highest percentage of fraud that occurs most often and causes the greatest loss is corruption. Respectively 69% (corruption), 20.9% (misappropriation of assets), 9.2% (financial statement fraud) with the

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✉Corresponding author :  
Email: [ismawati@unismuh.ac.id](mailto:ismawati@unismuh.ac.id)

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highest total loss of Rp. 373,650,000,000 by corruption while the lowest loss of Rp. 242,260,000,000 by financial statement fraud and abuse assets of Rp. 257,520,000,000 are between the two. According to the findings of the Indonesian Fraud Survey (SFI), out of 239 respondents, the government is regarded as the organization that has suffered the most from fraud. The 2016 Indonesian Fraud Survey's findings and this outcome are in agreement. According to as many as 48.5% of respondents, fraud hurts the government more than any other institution. This is plausible given that the majority of Indonesian media reports on fraud include instances involving the government.

Based on a state regulation that has taken the place of Law No. 1 of 2020 on State Financial Policy and Financial System Performance. The perp regulates a number of items, including the broad strokes of state financial policy, which are subsequently further regulated by the Ministry of Finance via the Minister of Finance Regulation (PMK). The Ministry of Finance released PMK No 38/PMK.02/2020 about the Implementation of Financial Institutions Regulations of Managing the COVID-19 Epidemic and/or Mainly Coming that Damage the Country Trade and/or Financing Stable Operation in order to carry out this task.

The state budget for 2020 includes IDR 405.1 trillion in additional spending and funding to address the effects of COVID-19 (Table 1). The COVID-19 Handling Allocation Ratio based on data from the 2020 Directorate General of Regional Finance, Ministry of Home Affairs (*Kemendagri*) published on April 16, 2020,

amounted to Rp. 56,572,490,043,798.50 (56.57T). The allocation consists of 3 allocation posts as follows:

- a. Health Management amounting to Rp. 24,099,526,126,034.40 (24.10T) or 42.60% of the total budget allocation for handling COVID-19.
- b. The amount allotted for Economic Impact Management was Rp 7,129,338,132,32 (7.13T), or 12.60% of the overall budget for managing COVID-19; and
- c. The sum allotted for social safety nets was Rp25,342,625,759,637.70 (25.34T), or 44.80% of the whole budget.

Based on this data, Makassar City is the largest area to allocate a budget for handling COVID-19 of Rp. 749,056,073,604.00 compared to other regencies/cities. In addition, in handling the economic impact, Makassar City is also the largest area to allocate a budget of Rp. 367,636.135,025.00.

Fraud Triangle developed by Donald Cressey in 1950 found that there are several main reasons someone commits fraud, including: (1) The pressure felt by the perpetrator; (2) Opportunity; and (3) rationalization in justifying their actions. Wolfe & Hermanson (2004) further explains about Fraud Diamond by adding a variable of capability (the ability/power needed to commit fraud). Theories regarding the causes of fraud continue to develop. (Crowe Horwath (2011) argues that there is a need for adjustments between the fraud triangle theory and the increasingly rapid technological developments. There are two additional elements, namely both confidence and skill, which later becomes famous as the Pentagon Crowe's Fraud

**Table 1. Additional Expenditures and Financing of the 2020 State Budget**

No	Description	amount
1.	Health	IDR 75 trillion
2.	Expansion of the Social Safety Net	IDR 110 trillion
3.	Industry support (tax incentives and KUR stimulus)	IDR 70.1 trillion
4.	Financing the national economic recovery program	IDR 150 trillion
	Total	IDR 405.1 trillion

Source: kemenkeu.go.id

theory. Several studies have examined the factors that cause someone to commit fraud, (Abdullahi & Mansor, 2018; Christian et al., 2019; Dorminey et al., 2012; Huang et al., 2017; Kassem & Higson, 2012; Othman et al., 2015) found that fraud is positively impacted by pressure, incentive, rationalizing, competency, and arrogant but (Apriliana & Agustina, 2017) found that financial stability, quality of external auditors and number of CEOs which are proxies of pressure, opportunity and arrogance have a positive influence on a fraud while two other variables namely rationalization and capability have no effect on a fraud. In contrast to the research conducted by Siddiq et al., (2017)1953 that the opportunity as measured by the quality of external audit has no effect on the existence of fraud. Some different results.

Since the reform era, the KPK has been ordained by the public as the spearhead of corruption eradication institutions and is supported by several other institutions such as BPKP, BPK, PPATK and several other institutions. Efforts to prevent corruption, collusion and nepotism within the bureaucracy, KPK launched a grand design roadmap for bureaucratic reform and the *Sistem Integritas Nasional* (SIN) which aims to achieve good governance. The Grand Design for Bureaucratic Reform 2010-2025 and the Road Map for Bureaucratic Reform 2010-2014 are improvements to the Regulation of the Minister of State for Administrative Reform (*Permenpan*) No: PER/15/M. PAN/7/2008 concerning General Guidelines for Bureaucratic Reform and *Permenpan* Number: PER /04/M. PAN/4/2009 concerning Guidelines for Submission of Documents for Proposed Bureaucratic Reform in Ministries/Institutions/Local Governments. In light of the aforementioned context, the author hopes to discover the determinants of budget fraud for handling COVID-19 in the city of Makassar.

## 2. LITERATURE REVIEW AND HYPOTHESIS

This study examines the overall variables of the Crowe's theory Pentagon model, namely the influence of pressure, opportunity, rationalization, competence, and arrogance on an act of financial fraud. This model is combined with a new variable, namely bureaucratic reform as a variable that is expected to weaken a person's reason for committing fraud. This research was conducted in an effort to find empirical evidence regarding the influence of these factors on the reasons someone commits fraud.

H1a: Pressure has a positive effect on Fraud

H1b: Bureaucratic Reform Weakens the Effect of Pressure on Fraud

H2a: Possibility influences Fraudsters in a favorable way

H2b: Bureaucratic Reform Weakens the Effect of Opportunity on Fraud

H3a: Positive effects of rationalization on fraud

H3b: Bureaucratic Reform Weakens the Effect of Rationalization on Fraud

H4a: Competence has a positive effect on fraud

H4b: Bureaucratic Reform Weakens Competence's Impact on Fraud

H5a: The favorable impact of arrogance on fraud

H5b: Bureaucratic Reform Weakens the Effect of Arrogance on Fraud

## 3. METHODS

The approach in this study is a quantitative approach within the scope of the positivism paradigm where this paradigm emphasizes theory testing through quantitative measurement of research variables and using statistical procedures to analyze data (Creswell, 2016). By evaluating a sample of the population, survey research seeks to provide a quantitative or numerical depiction of the tendencies, attitudes, or opinions of a specific population (Fowler, 2009). This research will be conducted in

South Sulawesi, precisely in Makassar City. Makassar City was chosen because based on reallocation data and budget refocusing, it is the largest area in allocating the COVID-19 management budget, it is easily accessible by researchers, both in terms of research permits, besides that research like this has never been done in the area so that it is something new compared to previous research

This Study included all Regional Government Organizations in Makassar City. The OPDs selected by the researchers were all agencies related to the reallocation and refocusing of the additional budget for COVID-19 spending and financing. Based on these data, the related OPD are the Social Service, Health Service, Cooperatives and SMEs Service, Employment Agency, and BPKAD (Regional Financial and Asset Management Agency).

With the use of the SmartPLS ver software, a Partial Least Square (PLS) statistical test tool was used for the data analysis in this work. 2.0 M3. The benefits of PLS include its suitability for testing the predictive impact of a model's latent variable relationships, its ability to be

applied to small sample sizes, its lack of a requirement for normally distributed data, and its ability to test research models with questionable theoretical foundations (Abdillah & Hartono, 2015), (3) PLS is a statistical methodology that combines factor analysis and regression techniques.

#### 4. RESULTS AND DISCUSSION

Respondents in this study were all employees who worked in five government agencies, namely the Social Service, Cooperatives and SMEs Service, Health Service, Employment Agency, and the Makassar City Regional Financial and Asset Management Agency. Researcher collected data from February 1 to March 1, 2021. There were 180 questionnaires total that were distributed by the researchers. After the re-confirmation stage was completed three times, there were 4 questionnaires that did not return. Five surveys were incomplete, which is the number that was recorded. There are 171 questionnaires in all that can be fully processed out of the ones that were returned. The distribution and responses to the questionnaire are summarized in the table 2.

**Table 2. Sample and Rate of Return**

Information	amount	Percentage
Number of questionnaires distributed	180	100%
Number of questionnaires not returned	4	2%
Number of returned questionnaires	176	98%
Number of unfilled questionnaires	0	0%
Number of incomplete questionnaires	5	3%
Number of questionnaires that can be processed	171	95%

Source: Primary Data Processed (2021)

**Table 3. Descriptive Statistics**

Information	N	Min.	Max.	Mean	Std. Deviation
Pressure	171	1	5	3,200	1.034
Chance	171	1	5	3,508	1.034
Rationalization	171	1	5	3.181	1.132
Competence	171	1	5	3.356	1.053
Arrogance	171	1	5	3.287	1.015
Bureaucratic Reform	171	1	5	3.311	1.009
Fraud	171	1	5	3,200	0.975

Source: Primary Data Processed (2021)

Information about the profiles of respondents in this study can be seen from the demographic data attached to the questionnaire. The respondent's profile includes age, gender, years of service, position. The following is the demographic data of respondents, it is known that male respondents are 46% and female respondents are 54%. Respondents were dominated by the age of 20-30 years, namely 40% while the remaining 30% were for those aged 31-40, 23% were for those aged 41-50 years and 6% were for those aged over 50 years. Respondents who hold positions as head of service and secretary respectively 2%, as for the head of the field by 9%, 57% for members and 29% others. Respondents who worked for 0-1 years 16%, 1-2 years 6%, 3-4 years 8%, 4-5 years 12%, and the rest worked more than 5 years as much as 58%.

Researchers conducted a descriptive analysis to identify respondents' answers to each indicator in the study to determine the lowest value, highest value and distribution of data including mean, median, and mode.

Table 3 also shows the mean values. The mean value shows the average respondents' answers to the statements in the questionnaire. This standard deviation value indicates the size of the deviation between the answers to the statements in the questionnaire. The value of the standard deviation of all variables in this study did not exceed the mean value, so the answers to the statements in the questionnaire did not have a large difference between respondents. In another sense, the answers of each respondent tend to be consistent so that they can represent the overall data used and all variables are suitable for use in research instruments on the determinants of fraud.

### **Evaluation of Research Hypothesis Model**

This research model uses seven variables, namely pressure, opportunity, rationalization, competence, arrogance, bureaucratic reform and fraud. PLS model evaluation is

done by evaluating the measurement model (outer model) and structural model (inner model).

### **Testing the Measurement Model (Outer Model)**

An evaluation of a research model's validity and dependability is done using its outer model. Examining the convergent validity, discriminant validity, and dependability of the outer model are the three stages of testing that are involved.

#### **Convergent Validity Test**

The average variance extracted (AVE) value, communality value, and factor loading parameter value must all be at least 0.7 for the convergent validity test to be valid. (Abdillah & Hartono, 2015). These parameters must be met for the factor loading values for all variables and indices to be used for this study's hypothesis testing. These are the outcomes of the convergent validity assessment.

The information in Table 4 above makes it evident that all variables' AVE values and communalities have above 0.5, which is required for validity. However, the researcher opted to eliminate one indication T6 because its loading values were less than 0,7. One factor that cannot be used in hypothesis testing is the particular indicator. The researcher retested the convergent validity of the measure. The convergent validity of the predictor after deleting the indicator with a factor loading of less than 0,7 was tested. The results showed that the predictor is valid.

It is evident from Table 5 above that all indicators have factor loading values greater than 0.7. In addition, Each variable's AVE value and communality exceeded 0, reaching 5. This demonstrates that all indicators for each variable can be deemed genuine, allowing all indicators for these variables to be used as data to evaluate the study's main hypothesis.

#### **Discriminant Validity Test**

The second stage is the discriminant validity test. The parameters used are the

AVE root values must be more than the correlation of the latent variables and the cross loading values is more than 0,7. If these parameters are met, then all indicators in the variable can be used

in testing the hypothesis of this study. The following are the results of discriminant validity testing on the variables in the study.

**Table 4. Values For Community, Ave, And Factor Loading**

Variable	Indicator	Factor loading	AVE	Communality
Pressure (T)	T1	0.714	0.572	0.572
	T2	0.702		
	T3	0.845		
	T4	0.842		
	T5	0.745		
	T6	0.674		
Opportunity (K)	K1	0.835	0.654	0.654
	K2	0.861		
	K3	0.802		
	K4	0.857		
	K5	0.762		
	K6	0.727		
Rationalization (R)	R1	0.728	0.651	0.651
	R2	0.787		
	R3	0.894		
	R4	0.850		
	R5	0.766		
Competence (Ki)	Ki1	0.786	0.620	0.620
	Ki2	0.773		
	Ki3	0.805		
	Ki4	0.791		
	Ki5	0.794		
	Ki6	0.774		
Arrogance (A)	A1	0.865	0.745	0.745
	A2	0.879		
	A3	0.845		
Bureaucratic Reform (RB)	RB1	0.813	0.667	0.667
	RB2	0.826		
	RB3	0.796		
	RB4	0.830		
Fraud (F)	F1	0.797	0.590	0.590
	F2	0.732		
	F3	0.839		
	F4	0.726		
	F5	0.752		
	F6	0.756		

Source: Primary Data Processed (2021)

Table 5. Factor Loading, Ave, And Commuality Values After Indicator Deletion

Variable	Indicator	Factor loading	AVE	Commuality
Pressure (T)	T1	0.753	0.617	0.617
	T2	0.721		
	T3	0.829		
	T4	0.846		
	T5	0.771		
Opportunity (K)	K1	0.835	0.654	0.654
	K2	0.861		
	K3	0.802		
	K4	0.857		
	K5	0.762		
	K6	0.727		
Rationalization (R)	R1	0.728	0.651	0.651
	R2	0.787		
	R3	0.894		
	R4	0.850		
	R5	0.766		
	R6	0.728		
Competence (Ki)	Ki1	0.786	0.620	0.620
	Ki2	0.773		
	Ki3	0.805		
	Ki4	0.791		
	Ki5	0.794		
Arrogance (A)	A1	0.865	0.745	0.745
	A2	0.879		
	A3	0.845		
Bureaucratic Reform (RB)	RB1	0.813	0.667	0.667
	RB2	0.826		
	RB3	0.796		
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Fraud (F)	F1	0.797	0.617	0.617
	F2	0.732		
	F3	0.839		
	F4	0.726		
	F5	0.752		
	F6	0.756		

Source: Primary Data Processed (2021)

Description T (Pressure), K (Opportunity), R (Rationalization), Ki (Competence), A (Arrogance), RB (Bureaucratic Reform), F (Fraud).

Description T (Pressure), K (Opportunity), R (Rationalization), Ki (Competence), A (Arrogance), RB (Bureaucratic Reform), F (Fraud).

Table 7 demonstrates that the correlation of latent variables between variables is bigger than the AVE root of each variable. Additionally, table 3.6 demonstrates that each indicator's cross loading value is greater than 0.7 in 1 possible. Therefore, it may be argued that all variables and indicators have satisfied the criteria for discriminant validity testing, making them suitable for use in evaluating the study's hypothesis.

### Reliability Test

The reliability test is the following phase. Cronbach's alpha and composite reliability parameter values are employed in this test. If this research tool's cronbach's alpha value is greater than 0, it will be deemed to be dependable. 6 and greater than 0.7 for the composite dependability score. These criteria-compliant variables may be utilized to test the study's premise.

All variables have cronbach's alpha values over 0.6 and composite reliability values above 0.7, as shown in Table 8. Therefore, it can be argued that every variable employed in this study passed the reliability test or may be deemed trustworthy, allowing for the inclusion of every variable in evaluating the study's central premise.

All indicators in this research instrument are valid and reliable, according to all validity and reliability tests that have been conducted and found to be valid, so all variables that have made it past the elimination process in testing validity and

reliability can be used to test the study's hypothesis.

### Structural Model Testing (Inner Model)

To gauge the variance of changes in the independent variable to the dependent variable, structural model testing (inner model) was done. R-square (R<sup>2</sup>) was used to assess the PLS structural model for the dependent variable.

The level of variance of changes in the independent variable on the dependent variable is measured using R-square (R<sup>2</sup>) (Abdillah & Hartono, 2015). The research model is better the higher the R<sup>2</sup> value. This study variable's R<sup>2</sup> value is 0.732. This number indicates that the variables pressure, opportunity, rationalization, competence, arrogance, and bureaucratic reform may account for 73.2% of the variation in changes in the fraud variable. While other factors not included in the research model account for the remaining 26.8%.

### Main Hypothesis Testing

The level of significance in hypothesis testing is measured using the path coefficient value parameter (Abdillah & Hartono, 2015). This test looks at the estimated path coefficient and t-statistic value with a significance of =5%. If the t-statistic value is higher than the t-table value, namely 1.64 for the one-tailed hypothesis, then the hypothesis is accepted.

**Table 6. AVE Root Value and Latent Variable Correlation**

Indicator	AVE	T	K	R	Ki	A	RB	F
T	0.7854	1	0	0	0	0	0	0
K	0.8087	0.579	1	0	0	0	0	0
R	0.8068	0.390	0.365	1	0	0	0	0
Ki	0.7874	0.556	0.669	0.549	1	0	0	0
A	0.8631	0.542	0.387	0.451	0.541	1	0	0
RB	0.8167	0.390	0.605	0.479	0.639	0.503	1	0
F	0.7854	0.695	0.666	0.520	0.719	0.649	0.718	1

Source: Primary Data Processed (2021)



Table 7. Cross Loading Value

Indicator	T	K	R	Ki	A	RB	F
T1	<b>0.753</b>	0.418	0.243	0.379	0.418	0.515	0.477
T2	<b>0.721</b>	0.359	0.331	0.367	0.424	0.347	0.402
T3	<b>0.829</b>	0.469	0.334	0.449	0.454	0.475	0.597
T4	<b>0.846</b>	0.493	0.330	0.477	0.418	0.562	0.629
T5	<b>0.771</b>	0.509	0.297	0.489	0.425	0.599	0.578
K1	0.440	<b>0.835</b>	0.240	0.601	0.368	0.471	0.514
K2	0.502	<b>0.861</b>	0.344	0.607	0.383	0.542	0.600
K3	0.413	<b>0.802</b>	0.215	0.480	0.233	0.410	0.450
K4	0.546	<b>0.857</b>	0.330	0.582	0.326	0.544	0.625
K5	0.441	<b>0.762</b>	0.299	0.476	0.308	0.484	0.559
K6	0.448	<b>0.727</b>	0.329	0.484	0.229	0.463	0.440
R1	0.211	0.217	<b>0.728</b>	0.298	0.230	0.301	0.223
R2	0.234	0.194	<b>0.787</b>	0.392	0.332	0.312	0.333
R3	0.360	0.351	<b>0.894</b>	0.519	0.429	0.463	0.561
R4	0.395	0.345	<b>0.850</b>	0.508	0.434	0.426	0.472
R5	0.311	0.310	<b>0.766</b>	0.421	0.322	0.376	0.378
Ki1	0.425	0.487	0.370	<b>0.786</b>	0.448	0.459	0.455
Ki2	0.431	0.462	0.438	<b>0.773</b>	0.464	0.452	0.546
Ki3	0.421	0.499	0.473	<b>0.805</b>	0.443	0.444	0.527
Ki4	0.488	0.559	0.437	<b>0.791</b>	0.407	0.562	0.582
Ki5	0.444	0.583	0.412	<b>0.794</b>	0.414	0.553	0.611
Ki6	0.414	0.550	0.450	<b>0.774</b>	0.390	0.523	0.636
A1	0.448	0.325	0.422	0.499	<b>0.865</b>	0.387	0.590
A2	0.498	0.361	0.427	0.482	<b>0.879</b>	0.535	0.573
A3	0.457	0.314	0.310	0.415	<b>0.845</b>	0.377	0.512
RB1	0.584	0.501	0.479	0.518	0.430	<b>0.813</b>	0.611
RB2	0.520	0.508	0.369	0.523	0.421	<b>0.826</b>	0.592
RB3	0.426	0.441	0.373	0.496	0.309	<b>0.796</b>	0.575
RB4	0.574	0.526	0.337	0.550	0.482	<b>0.830</b>	0.565
F1	0.512	0.397	0.419	0.544	0.629	0.502	<b>0.797</b>
F2	0.460	0.302	0.394	0.451	0.511	0.381	<b>0.732</b>
F3	0.574	0.540	0.390	0.579	0.563	0.546	<b>0.839</b>
F4	0.555	0.516	0.398	0.549	0.369	0.602	<b>0.726</b>
F5	0.526	0.638	0.401	0.582	0.426	0.582	<b>0.752</b>
F6	0.561	0.622	0.396	0.586	0.493	0.655	<b>0.756</b>

Source: Primary Data Processed (2021)

Table 8. **Cronbach's Alpha and Composite Reliability**

Variable	Cronbach's Alpha	Composite Reliability
Pressure	0.894	0.919
Chance	0.894	0.919
Rationalization	0.870	0.903
Competence	0.878	0.907
Arrogance	0.829	0.898
Bureaucratic Reform	0.833	0.889
Fraud	0.845	0.889

Source: Primary Data Processed (2021)

Table 9. **Value of a Path Coefficient**

Hypothesis	Hypothesis	Original Sample	T-stats	Decision
1	T -> F	0.195	2,921	Accepted
2	K -> F	0.184	3,602	Accepted
3	R -> F	0.067	1.379	Rejected
4	Ki -> F	0.191	2,846	Accepted
5	A -> F	0.234	4.055	Accepted

Source: Primary Data Processed (2021)

Table 10. **Coefficient of Path Value**

Hypothesis	Original Sample	T-stats	Decision
RB -> F	0.210	3.415	Be accepted

Source: Primary Data Processed (2021)

Table 11. **Total Effect Value**

Hypothesis	Hypothesis	Original Sample	T-stats	Decision
6	T * RB -> F	0.101	1,693	Be accepted
7	K*RB-> F	-0.133	2,121	Be accepted
8	R*RB-> F	0.058	0.997	Rejected
9	Ki * RB -> F	0.010	0.108	Rejected
10	A* RB -> F	-0.045	0.633	Rejected

Source: Primary Data Processed (2021)

Description: T (Pressure), K (Opportunity), R (Rationalization), Ki (Competence), A (Arrogance), RB (Bureaucratic Reform), F (Fraud).

#### Hypothesis Testing Effect of Moderation

Based on table 10 it is known that the significant result for the t-statistic on the variable of bureaucratic reform on fraud is 3.451, which is higher than 1.64. Therefore, it can be said that bureaucratic reform reduces fraud.

Description: T (Pressure), K (Opportunity), R (Rationalization), Ki (Com-

petence), A (Arrogance), RB (Bureaucratic Reform), F (Fraud).

Description: T (Pressure), K (Opportunity), R (Rationalization), Ki (Competence), A (Arrogance), RB (Bureaucratic Reform), F (Fraud).

#### DISCUSSION

This test examines the effect of pressure, opportunity, rationalization, competence and arrogance on fraud, with bureaucratic reform moderation. The discussion and analysis of the findings from this research's hypothesis testing follow.

Table 12. Comparison of the Total Effect Value with and without the Moderating Effect

Hypothesis without moderating effect	Original Sample	Hypothesis with moderating effect	Original Sample	Decision
T -> F	0.195	T * RB -> F	0.101	Weaken
K -> F	0.184	K*RB-> F	-0.133	Weaken
R -> F	0.067	R*RB-> F	0.058	Strengthen
Ki -> F	0.191	Ki * RB -> F	0.010	Strengthen
A -> F	0.234	A* RB -> F	-0.045	Strengthen

Source: Data Processed (2021)

Figure 1. Structural Model Hypothesis Testing Effect Moderation



Source: SmartPLS Output

**H1a: Effect of Pressure on Fraud**

The study's first hypothesis is that pressure has a beneficial impact on fraud. The first

hypothesis is accepted, according on the grades of the challenging hypothesis. This indicates that a country's perception

of fraud will be higher the more pressure there is believed to be. This is consistent with research conducted by (Abdullahi & Mansor, 2018; Dorminey et al., 2012; Fitri & Nadirsyah, 2019; Huang et al., 2017; Kassem & Higson, 2012; Marliani & Jogi, 2015).

This pressure provides a strong impetus for a person to perform deviant behavior. Pressure is a psychological demand that encourages a person to behave deviantly. Various pressures that occur, both financial and non-financial pressures, cause a person to experience difficulties and be trapped in difficult situations. So that it can motivate someone to justify all means to be free from this difficult situation.

Prevention efforts that can be done by law enforcement (sanctions). The punishment given can be in the form of a warning letter for the return of assets that have been corrupted, postponement of promotion/class promotion, and other sanctions in accordance with the provisions of the applicable legislation.

#### **H1b: Bureaucratic Reform Weakens the Effect of Pressure on Fraud**

The first hypothesis in this study is that bureaucratic reform weakens the effect of pressure on fraud. Based on the results of hypothesis testing, it is conceivable that the hypothesis is accepted. This implies that the value of pressure felt by a person can be weakened by bureaucratic reform, so the perception of fraud decreases in a country. This statement is supported by research conducted by Irawati et al., (2019) Wahyuni & Siswandaru, (2019).

Institutional theory describes the relationship between the organization and its environment, about how and why organizations run a structure and process moreover how the consequences are carried out. One part of this theory is that institutional pressures reflected in many laws and regulations and government policies can disrupt organizational commitment to implementing a new practice. The effectiveness of bureaucratic

reform on institutional pressure, namely on simplification of regulations which are external pressures is categorized as coercive isomorphism, namely pressure or force that forces organizations to adopt certain policies.

Research conducted by Irawati et al. (2019) stated that the policy brief indicated an opportunity for successful deregulation efforts and improving the quality of the public policy formulation process. The existence of bureaucratic reform tries to simplify regulations so that it is hoped that the magnitude of the pressure can be minimized.

#### **H2a: Effect of Opportunity on Fraud**

The second hypothesis is that opportunity has a positive influence on fraud. According to the results of the hypothesis testing, the second hypothesis is accepted. This means that the greater the opportunity a person has, the higher the level of fraud. These results are consistent with research conducted by (Abdullahi & Mansor, 2018; Purwanto et al., 2017; Sihombing & Budiarta, 2020; Susandra & Hartina, 2017; Tiffani, 2009).

Opportunity is a system weakness where employees have the chance, strength and ability to exploit and possibly commit fraud (Beasley et al., 2000; Farber, 2005). The weaker the Organization's internal control system, the greater the opportunity to hide fraud. Even if an employee has excessive pressure, financial fraud is unlikely to occur unless there is an opportunity. Organizational internal control weaknesses, poor auditing systems, poor accounting records and poor segregation of duties significantly influence individuals to commit fraud (Mock, 2014) argues that even if there is pressure or motive on a person, he cannot commit fraud until the possibility is created (Moyes et al., 2005) states that related party transactions will be considered as the second factor among various opportunity risk factors (Wilks & Zimbelman, 2004) they are not sufficiently sensitive to high levels of incentive or opportunity risks in

their overall fraud-risk assessments. In this study, we examine whether a fraud-triangle decomposition of fraud-risk assessments (that is, separately assessing attitude, opportunity, and incentive risks prior to assessing overall fraud risk argues that related party transactions can only be considered as a third position among various elements that indicate an opportunity to commit fraud.

Improvement of the internal control system can be carried out as a form of prevention, this method is a good and correct action where the internal control system with processes and procedures aimed at preventing fraud, is designed and implemented for the purpose of preventing and preventing corruption or in other words, create a deterrent effect on the perpetrators.

### **H2b: Bureaucratic Reform Weakens Opportunity's Impact on Fraud**

The second hypothesis in this study is that bureaucratic reform weakens the effect of opportunity on fraud. The hypothesis is accepted as a consequence of the hypothesis testing, it can be said. This indicates that the opportunity a person has can be weakened by bureaucratic reform, so the perception of fraud decreases in a country. This statement is supported by research conducted by (Pane, 2018).

Strengthening supervision through a system of checks and balances to support the integrity zone in the government. According to Jilmly Asshiddiqie, the financial supervision function here is limited to the *rechmatigheid* and *wetmatigheid* aspects and is only carried out at the time of receipt or expenditure, so it is different from the pre-audit function carried out by the technical ministry or post-audit carried out by the functional supervisory apparatus. Thus, one of the principles of internal control that is very important in the budget execution process can be implemented, namely the existence of a clear separation between the holder of administrative authority (*ordonnateur*) and the holder of the payment function

(*comptable*). The application of the pattern of separation of authorities, which is one of the good rules in managing state finances, has undergone "deformation" so that it becomes less effective in preventing and/or minimizing the occurrence of irregularities in the implementation of state revenues and expenditures. Therefore, the application of the separation pattern must be carried out consistently.

### **H3a: The Effect of Rationalization on Fraud**

Based on the results of hypothesis testing in the previous section, the third hypothesis, namely rationalization has a positive effect on fraud, is rejected. This means that a person's rationalization in justifying the acts of fraud committed has no effect on fraud. This study is in line with the results obtained in research conducted by Apriliana & Agustina (2017) which states that rationalization has no effect on an act of fraud in the company.

Rationalization is the part of the fraud triangle that is the most difficult to measure. The standard for those who are accustomed to being dishonest may be easier to rationalize compared to the standard fraud for those with higher moral standards, it may not be so easy for fraud perpetrators to always seek rational justification to justify their actions. An example of an employee in a company can be at the lower, middle, or upper levels, with various arguments, for example because the salary given by the company or agency is still less than it should be. Other employees commit fraud and rationalize their actions for other reasons because of urgent needs, they are forced to borrow temporarily and will return them on time and there are many other reasons that can be used to rationalize fraud (Irianto & Novianti, 2018).

The findings of this study differ from those of earlier studies made by (Dorminey et al., 2012; Fitri & Nadirsyah, 2019; Huang et al., 2017; Kassem & Higson, 2012; Marlioni & Jogi, 2015) which states that the more someone justifies the action

(rationalization), the higher the perception of fraud in a country.

### **H3b: Bureaucratic Reform Weakens the Effect of Rationalization on Fraud**

The next third hypothesis in this study is bureaucratic reform that weakens the effect of rationalization on fraud. The hypothesis is disproved in light of the findings of the hypothesis testing. This means that the more a person is able to rationalize crime, the other factors are not able to weaken a fraud in a country.

When most employees have a habit of self-justification or think that rationalization is a natural and normal thing to do, it will have an impact on organizational habits that allow rationalization in the work environment. One form of rationalization that may be carried out by the examiner is that the fraud committed by the BPK examiner will not affect the results of the examination conducted by the audit team. An example of such rationalization is for example there is a BPK examiner who receives gratuities from the audited entity in the form of giving money or goods when the audit has ended.

### **H4a: The Effect of Competence on Fraud**

Based on the findings of the hypothesis testing, it can be said that the fourth hypothesis, which claims that competence has a favorable impact on fraud, is accepted. This implies that when competence rises, fraud will also rise in intensity. This research is supported by research conducted by (Purwanto et al., 2017; Wolfe & Hermanson, 2004).

Government detects fraud with paying attention to the previous three factors is not enough but the government must also consider of one's personal capabilities who play a major role in enabling fraud. Fraud can't happen without the right people to do and the person has the capability to commit fraud, in this case the people with the capability are people who actually have positions in government, employees who can order someone to commit fraud, employees who can lie so as not to be detected by their colleagues, employees

who have intelligence and creativity in managing conditions so that fraud is difficult to detect.

### **H4b: Bureaucratic Reform Weakens the Effect of Competence on Fraud**

The fourth hypothesis in this study is that bureaucratic reform weakens the influence of competence on fraud. The hypothesis is disproved in light of the findings of the hypothesis testing. It follows that a person's competence against the level of fraud cannot be reduced by implementing bureaucratic reform in a country. This is not in line with research conducted by Akny (2014).

Honesty of work is also fueled by the relatively high salaries paid to public officials; high salary given to eliminate temptation to corruption. The organization views the importance of holding human resource development because at this time employees are a very important asset in achieving organizational goals that have been set. Besides that, in human resources development, there is a need of a fairly good coordination between each work units in the organization and the personnel department. The development of a nation is highly dependent on the development and capabilities of the remaining human beings (labor) in that country. This is the reason why people are seen as the most important asset in the human resource development process (Drucker, 1999).

### **H5a: The Effect of Arrogance on Fraud**

According to the findings of the hypothesis testing, it can be said that the fifth hypothesis, which asserts that arrogance has a favorable impact on fraud, is accepted. This indicates that the level of fraud increases in direct proportion to the level of leadership conceit. This positive influence is reinforced by research Arisandi & Verawaty (2017) & Harto (2016) stated that the arrogance proxied by the frequency of the appearance of the CEO image has a positive effect on fraudulent financial reporting (Aprilia, 2017; Nindito, 2018; Rezaee, 2005; Ulfah et al., 2017).

The leader's arrogance can lead to fraud in the future because of his belief that internal controls and organizational policies do not apply to them. The leader of the organization is a politician. The leader can take advantage of their connections for the smooth running of their organization's business.

#### **H5b: Bureaucratic Reform Weakens the Effect of Arrogance on Fraud**

The fifth hypothesis in this study is that bureaucratic reform weakens the influence of arrogance on fraud. The hypothesis is refuted in context of the results of the hypothesis testing. This means that the nature of one's arrogance towards the level of fraud cannot be reduced by implementing bureaucratic reform in a country (Prasojo & Kurniawan, 2008).

The government's inability to make changes to colonial-oriented structures, norms, values and regulations has led to the failure of efforts to meet the aspirations and needs of the community. The quality and performance of the bureaucracy in providing public services is still far from expectations. There is still no public service-oriented culture created to customer needs (service delivery culture). On the other hand, what is formed is the obsession of bureaucrats and politicians to make the bureaucracy a place to fulfill desire and power. In this kind of culture thus, corruption, collusion and nepotism become norm (Prasojo & Kurniawan, 2008).

#### **5. CONCLUSION**

Fraud is illegal and must be punished. Intent, malice, deception, concealment, and abuse of trust are all components of the crime of fraud. This research was conducted in several Local Government Organizations in Makassar City which aims to obtain empirical evidence of the factors that influence fraud.

The findings of this investigation demonstrate that the higher the pressure, opportunity, competence and arrogance, the higher the level of fraud that occurs in

a country. However, different results were found on the rationalization variable that fraud that occurred in a country was not influenced by a person's rationalization in justifying his actions. In addition, This study demonstrates that the relationship between pressure and opportunity for fraud can be weakened by bureaucratic change. However, it strengthens the link between denial, skill, and conceit with the prevalence of fraud.

According to Horwart's Crowe's Fraud Pentagon Model, which was introduced in 2011, there are five factors that can lead someone to commit fraud: pressure, opportunity, rationalization, competence, and arrogance. However, the findings of this study demonstrate that the theory does not fully support the claim, as the rationalization variable produced non-significant results. The effectiveness of the grand design of bureaucratic reform on the amount of pressure and opportunities that a person has can be minimized so that perceptions of fraud decrease in a country.

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