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The Influence of Apparatus Competence, Internal Control Systems, and Morality on Financial Report Management: Evidence from X District, Y City

Rusdi Alim Wibawa Jati[1], Sari Andayani[2]

[1]Student Department of Accounting, Faculty of Economic and Business, Universitas Pembangunan Nasional "Veteran" Jawa Timur
[2]Lecturer, Department of Accounting, Faculty of Economic and Business, Universitas Pembangunan Nasional "Veteran" Jawa Timur

ABSTRACT

This study aims to examine the influence of government apparatus competency, internal control systems, and morality on fraud in financial statement management in X District, Y. The results indicate that government apparatus competency has a significant negative effect on fraud in financial statement management, suggesting that higher levels of knowledge, skills, and abilities reduce the likelihood of fraudulent practices. Internal control systems were also found to have a significant negative effect on fraud, indicating that effective monitoring and compliance mechanisms help prevent irregularities in financial management. In addition, morality has a significant negative effect on fraud in financial statement management, demonstrating that ethical values and responsible behavior reduce the tendency toward fraudulent actions.

Keywords: Competency, Internal Control Systems, Morality, Financial Management

INTRODUCTION

In Indonesia, financial reporting in the private and public sectors is governed by different regulatory frameworks. In the public sector, the preparation of financial statements is regulated under Government Regulation No. 71 of 2010 concerning Government Accounting Standards. This regulation stipulates that the preparation and presentation of government financial statements should adhere to Government Accounting Standards to ensure the quality of governmental accountability.

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Furthermore, the Statement of Government Accounting Standards (PSAP 01) on the Presentation of Financial Statements emphasizes that financial statements are prepared to enhance comparability, both with the budget, across periods, and among entities. PSAK No. 1 also states that financial statements represent a structured presentation of an entity's financial position and financial performance (Nirmala, 2022). Therefore, government officials must have a clear understanding of regional government budgets to prevent information asymmetry in regional financial management.

However, in practice, responsible parties within institutions often fail to achieve their performance objectives, resulting in financial information that is unsatisfactory. To conceal such shortcomings, internal parties may engage in fraudulent practices to present financial statements in a more favorable manner, even resorting to actions that constitute accounting fraud. Such fraudulent activities inevitably render financial information irrelevant and unreliable.

The first factor influencing fraud in financial statement management is competence. Competence is defined as a combination of knowledge, skills, attitudes, and other personal characteristics required to achieve success in a job, which can be measured using agreed standards and enhanced through training and development. Apparatus competence refers to an individual's ability or capacity to perform and complete tasks, which is influenced by two factors: intellectual and physical abilities (Widyatama et al., 2022). According to Law No. 13 of 2003 concerning Manpower, competence is the work ability of each individual that encompasses aspects of knowledge, skills, and work attitudes in accordance with established standards.

The next factor influencing financial management is internal control. Internal control systems are used to ensure that organizational objectives can be achieved efficiently and effectively, both in operational activities, the presentation of accountable financial statements, and compliance with applicable laws and regulations. Research conducted by Farikhoh and Kusmuriyanto (2019) indicates that apparatus competence can enhance the accountability of village fund management when moderated by internal control systems. Thus, internal control is a crucial factor in minimizing the potential for fraud in financial management.

Another factor, in addition to internal control, is morality. Morality refers to the principles followed by individuals or groups regarding what is right and wrong based on moral standards. According to Sari (2017), individual morality reflects good behavior and attitudes, where a person acts selflessly without expecting rewards. Conversely, if an

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individual exhibits poor behavior and attitudes, it can be said that they violate moral principles for personal gain.

The importance of apparatus morality is also reflected in real-world phenomena. Based on a report by Ngopibareng (2023), an issue occurred in Medokan Ayu Village where a resident felt disadvantaged and expressed complaints through social media platform Twitter due to negative treatment received from a civil servant (ASN). Such behavior does not reflect the moral standards expected of public officials, who are supposed to provide quality service to the community. This phenomenon indicates that apparatus morality is a crucial factor in supporting sound financial governance and effective public service delivery.

OBJECTIVES

This article intends

1. To examine the effect of government officials' competence on financial reporting fraud.
2. To examine the effect of internal control systems on financial reporting fraud.
3. To examine the effect of morality on financial reporting fraud.

DISCUSSION

Table 1. Outer Loading

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)
X1.1 <- Apparatus Competence (X1)	0.912	0.844	0.252	3.624
X1.2 <- Apparatus Competence (X1)	0.811	0.759	0.241	3.369
X1.3 <- Apparatus Competence (X1)	0.882	0.805	0.281	3.136
X2.1 <- Internal Control Systems (X2)	0.856	0.842	0.103	8.291
X2.2 <- Internal Control Systems (X2)	0.607	0.598	0.205	6.954
X2.3 <- Internal Control Systems (X2)	0.718	0.711	0.138	5.189

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X2.4 <- Internal Control Systems (X2)	0.557	0.718	0.195	6.851
X2.5 <- Internal Control Systems (X2)	0.706	0.677	0.156	4.532
X3.1 <- Moralty (X3)	0.541	0.706	0.219	2.472
X3.2 <- Moralty (X3)	0.839	0.836	0.093	9.009
X3.3 <- Moralty (X3)	0.818	0.815	0.111	7.351
X3.4 <- Moralty (X3)	0.895	0.890	0.073	12.220
Y1.1 <- Financial Statement Management Fraud (Y)	0.937	0.924	0.062	15.125
Y1.2 <- Financial Statement Management Fraud (Y)	0.901	0.889	0.076	11.935
Y1.3 <- Financial Statement Management Fraud (Y)	0.900	0.806	0.267	7.257
Y1.4 <- Financial Statement Management Fraud (Y)	0.898	0.746	0.236	9.940

Source:Smart PLS4

Based on Table, indicator validity can be assessed by examining the factor loading (original sample) and T-statistic values. An indicator is considered to meet convergent validity if it has a factor loading value greater than 0.50 and/or a T-statistic value greater than 1.96 (Z-value at α = 0.05). Factor loading reflects the level of correlation between an indicator and its corresponding construct; therefore, higher values indicate that the indicator better represents the measured variable. Based on the outer loading results, all indicators for the variables of apparatus competence (X1), internal control systems (X2), morality (X3), and financial statement management fraud (Y) have factor loading values above 0.50. In addition, all indicators have Tstatistic values greater than 1.96, indicating that each indicator is statistically significant in measuring its respective construct.

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Table 2 Average Variance Extracted

	Average Variance Extracted (AVE)
Apparatus Competence (X1)	0.756
Moralty (X3)	0.617
Financial Statement Management Fraud (Y)	0.503
Internal Control Systems (X2)	0.752

Source: Smart PLS 4

Based on the AVE test results presented in the table, it is known that the Apparatus Competence variable (X1) has an AVE value of 0.756, the Internal Control System variable (X2) has an AVE value of 0.752, the Morality variable (X3) has an AVE value of 0.617, and the Financial Statement Management Fraud variable (Y) has an AVE value of 0.503. All variables in this study have AVE values above 0.50, indicating that each construct meets the criteria for convergent validity.

Table 3 Composite Reliability

	Composite Reliability
Apparatus Competence (X1)	0.903
Moralty (X3)	0.862
Financial Statement Management Fraud (Y)	0.777
Internal Control Systems (X2)	0.822

Source: Smart PLS 4

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Based on the test results presented in Table 3, the Competency of Government Apparatus variable (X1) has a Composite Reliability value of 0.903, the Internal ControlSystem variable (X2) has a value of 0.822, the Morality variable (X3) has a value of 0.862, and the Fraud in Financial Statement Management variable (Y) has a value of 0.777. All variables in this study have Composite Reliability values above the threshold of 0.70.

Table 4 Latent Variable Correlation

	Apparatus Competence (X1)	Moralty (X3)	Financial Statement Management Fraud (Y)	Internal Control Systems (X2)
Financial Statement Management Fraud (Y)	1.000	0.145	0.559	0.279
Internal Control Systems (X2)	0.145	1.000	0.474	0.032
Apparatus Competence (X1)	0.559	0.474	1.000	0.482
Moralty (X3)	0.279	0.032	0.482	1.000

Source: Smart PLS 4

Based on Table 4, it can be seen that the correlation values among the variables in this study indicate relatively strong relationships. The highest correlation value is found between the Competency of Government Apparatus variable (X1) and Fraud in Financial Statement Management (Y), with a correlation coefficient of 0.559. This finding suggests that, compared to the other independent variables, Competency of Government Apparatus has a relatively stronger relationship with Fraud in Financial

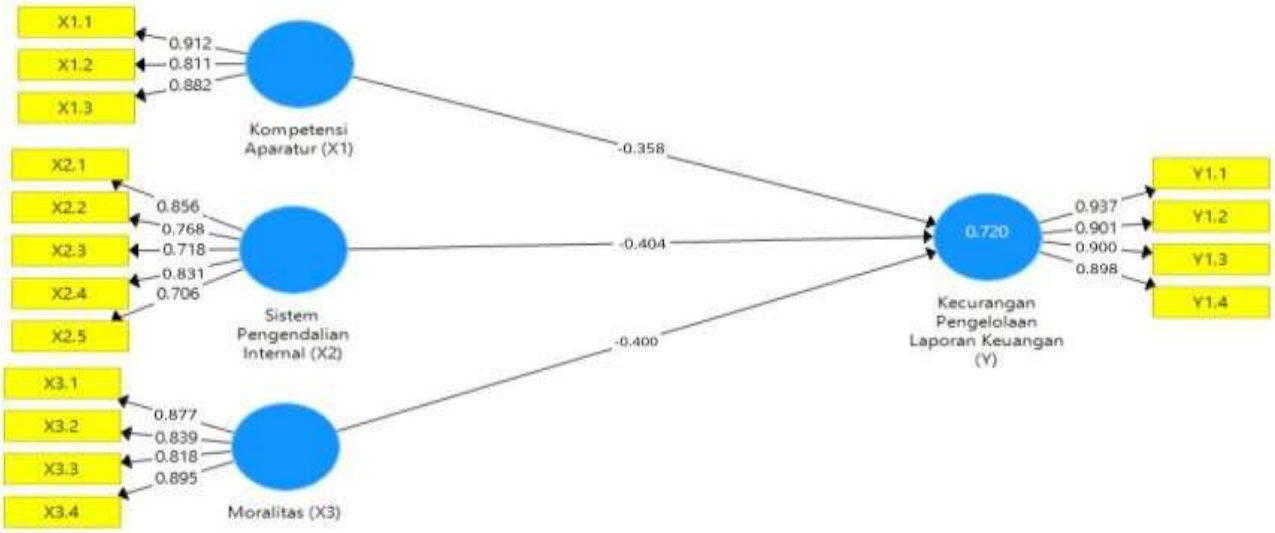
Statement Management. Furthermore, the relationship between the Internal Control System variable (X2) and Fraud in Financial Statement Management (Y) has a correlation coefficient of 0.474, while the relationship between the Morality variable (X3) and Fraud in Financial Statement Management (Y) has a correlation coefficient of 0.482. Both

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relationships indicate moderately strong correlations, although their coefficients are lower than that of the Competency of Government Apparatus variable.

I. FIGURE 1. BOOTSTRAPPING RESULT



From the PLS output diagram, the factor loading values for each indicator can be seen above the arrows connecting variables and indicators, while the path coefficients appear above the arrows linking exogenous to endogenous variables. In addition, the R-square value is displayed inside the circle of the endogenous variable (turnover intention, Y).

Table 5 R-Square

	R Square
Financial Statement Management Fraud (Y)	0.720

Source: Smart PLS 4

Based on Table the R^2 value for Fraud in Financial Statement Management (Y) is 0.720, indicating that Competency of Government Apparatus (X1), Internal Control System (X2), and Morality (X3) jointly explain 72% of the variance in the dependent variable, while the remaining 28% is explained by other factors outside the model. The Q^2

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value of 0.720 (> 0) indicates that the model has good predictive relevance and is capable of adequately predicting fraud in financial statement management.

Table 6 Hypothesis Result

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Apparatus Competence (X1) -> Financial Statement Management Fraud (Y)	-0.358	-0.313	0.148	2.139	0.033
Internal Control Systems (X2) -> Financial Statement Management Fraud (Y)	-0.404	-0.479	0.179	2.648	0.008
Moralty (X3) -> Financial Statement Management Fraud (Y)	-0.400	--0.324	0.193	2.890	0.001

Source: Smart PLS 4

Government apparatus competency significantly affects fraud in financial statement management in X District, supporting the first hypothesis. This is evidenced by a t-statistic of 2.139, which exceeds the critical value of 1.970, and a pvalue of 0.033 (< 0.05). The negative path coefficient (-0.358) indicates that higher competency is associated with lower levels of fraud in financial statement management. This finding is consistent with previous studies. Cahyani Putri et al. (2019) and Komala et al. (2019) found that individual and organizational factors significantly influence accounting fraud tendencies, while Lestari and Ayu (2021) reported that apparatus competency affects financial statement management. These findings suggest that competency plays an important role in reducing the risk of fraud. Competency refers to an individual's knowledge, skills, and abilities in performing job responsibilities (Hevesi, 2005, as cited in Atiningsih et al., 2019). Competent employees are better able to carry out financial management procedures accurately and effectively, thereby minimizing errors and opportunities for fraudulent

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practices. Therefore, higher levels of government apparatus competency contribute to lower levels of fraud in financial statement management.

Internal control system significantly affects fraud in financial statement management in X District, supporting the second hypothesis. This is evidenced by a tstatistic of 2.648, which exceeds the critical value of 1.970, and a p-value of 0.008 (< 0.05). The negative path coefficient (-0.404) indicates that a stronger internal control system is associated with lower levels of fraud in financial statement management. This finding is consistent with previous studies. Azzahra and Yendrawati (2021) found that internal control systems significantly contribute to fraud prevention, while Yando et al. (2020) reported a significant effect of internal control on accounting fraud tendencies. Similarly, Cahyani Putri et al. (2019) demonstrated that internal control influences fraud tendencies in village financial management. These findings suggest that effective internal controls play a crucial role in reducing opportunities for fraudulent activities. According to Hery (2014), internal control consists of policies and procedures designed to safeguard assets, ensure the accuracy of accounting information, and promote compliance with organizational regulations. An effective internal control system enables proper monitoring and supervision of financial management activities, thereby minimizing the risk of irregularities and fraud. Therefore, stronger internal controls contribute to lower levels of fraud in financial statement management.

Fraud in financial statement management in X District, supporting the third hypothesis. This is evidenced by a t-statistic of 2.890, which exceeds the critical value of 1.970, and a p-value of 0.001 (< 0.05). The negative path coefficient (-0.400) indicates that higher levels of morality are associated with lower levels of fraud in financial statement management. This finding is consistent with previous studies. Cahyani Putri et al. (2019), Komala et al. (2019), and Yando et al. (2020) found that individual morality significantly influences the tendency to engage in accounting fraud. These findings suggest that higher moral standards reduce the likelihood of fraudulent behavior in financial management. According to (Njonjie et al., 2019), morality refers to behavior that reflects an individual's ethical values and judgments of right and wrong. Since fraud is ultimately committed by individuals within an organization, differences in moral standards can influence the propensity to engage in fraudulent activities. Therefore, higher levels of morality among government officials are expected to reduce fraud in financial statement management by encouraging honest, responsible, and ethical behavior.

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CONCLUSION

Based In conclusion, the results of this study demonstrate that government apparatus competency, internal control systems, and morality have significant effects on fraud in financial statement management. Higher levels of competency contribute to reducing fraud by enabling officials to perform their duties effectively and accurately. Likewise, effective internal control systems minimize opportunities for fraudulent activities through proper supervision and compliance with established procedures. In addition, higher levels of morality reduce the tendency toward fraudulent behavior by encouraging honesty, responsibility, and adherence to ethical standards. Therefore, strengthening competency, improving internal control systems, and fostering moral values among government officials are essential measures for preventing fraud in financial statement management

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