ISSN No:-2456-2165

Fraudelent Financial Reporting (Empirical Study of Internal Control, Compensation Management, and Management's Morality)

Dian Anggita Sari
Student of Master of Accounting Program
Mercubuana University, Indonesia

Fardinal
Lecturer of Master of Accounting Programn
Mercubuana University, Indonesia

Abstract:- This research aims to find out the influence of internal control, compensation management, and management's morality on Fraudelent Financial Reporting. The population in this study is employees of PT. Pos Indonesia (Limited) working in the internal control unit and manager in accounting and finance department in Regional IV Jakarta. Data collection is conducted by giving questionnaires to respondents to the relevant sections. Analyzing data uses smartPLS Software 3.2.7 Structural Equation Modelling (SEM) which is a method used to cover weaknesses contained in the regression method. The results of this study have a positive internal effect and the management's morality negatively affects Fraudelent Financial Reporting, while compensation management has no significant effect on Fraudelent Financial Reporting.

Keyword:- *Internal Control, Compensation Management, Management's Morality, and Fraudelent Financial Reporting.*

INTRODUCTION

Fraudulent financial reporting can be interpreted as a loss arising from a realized misrepresentation, concealment of material facts, or careless/uncalculated presentation for others to do or act to their detriment. The results of ACFE research in 2016 mention that fraudulent financial reporting is one of the adverse fraud in Indonesia. Based on the results of the survey, the third order of fraud according to respondents is the financial report of 4%. Although according to respondents financial report cheating only by 4%, the impact of losses caused by financial report fraud can reach above 10 billion.

A phenomenal fraud case in America is the case of Enron, Inc. The motive of the case is borrowed debt, recognized as purchasing more contract value, and recorded as "sales revenue" money. The report by Enron, Inc. does not describe the actual condition, so many users of Enron's report are wrong to make decisions including shareholders who believe that Enron is not experiencing a surge in debt.

The case of financial report fraud occurred in early April 2019, in one of the SOEs in Indonesia namely PT. Garuda Indonesia, Tbk. Financial Services Authority *(OJK)* and the Ministry of Finance have sanctioned PT. Garuda Indonesia Tbk and Public Accounting Firm (*KAP*) Kasner Sirumapea and Public Accounting Firm (*KAP*) Tanubrata, Sutanto, Fahmi, Bambang & Colleague because it was found to be a violation related to financial statements and annual financial statements, which are not following OJK regulation standards and do not comply with Financial Accounting Standards Statement (*PSAK*) No. 23. PT. Garuda Indonesia Tbk complies with administrative sanctions in the form of several fines before the deadline required by OJK and IDX, reporting on the fulfillment of the penalty has been submitted by letter to OJK and IDX on July 11, 2019. Concerning the presentation of financial statements 2018, PT. Garuda Indonesia Tbk recorded an operating income report of USD4.37 billion, not changed from the previous earnings report. Meanwhile, other operating income was corrected to USD38.8 Million from usd278.8 million. Thus, PT. Garuda Indonesia Tbk which initially posted a profit posted a loss of USD175 million or Rp2.45 trillion due to adjustments as the impact of Citilink contract's cancellation of with Mahata Group.

As it is, PT. Garuda Indonesia (Tbk) is one of the State-Owned Enterprises (SOEs) that is required to result in profit as support for Non-Tax State Revenue (*PNBP*). Similar to PT Garuda Indonesia (Tbk), PT. Pos Indonesia (Persero) is also required to make a profit. Judging by the trend in the financial statements of PT. Pos Indonesia (Persero), there was a decrease in profit for the year 2015 to 2019, but in contrast to the revenue earned by PT. Pos Indonesia (Persero) which shows an increase in revenue from year to year.

In Lendez's research (1999) mentioned to help prevent financial report fraud, top management needs to create a positive control environment such as creating a positive control environment, hiring honest people, providing fraud awareness training, developing an understandable code of conduct. While Adyani's research (2014) explained that professional skepticism, independence, auditory experience have a significant effect on the auditor's responsibility in detecting fraud and financial misrepresentation.

Zuberi's research results (2018) revealed six motivating factors that encourage employees and managers to engage in fraudulent financial reporting behavior, namely business financial pressures; incentives and social pressures, greed, operating problems, internal pressures, and an unsupported work's environment.

Other research by Arista et all. (2016) mentioned the effectiveness of internal control, compliance of accounting rules, and morality of management has a positive effect on the tendency of accounting cheating, while information asymmetry with information asymmetry competency and compensation conformity has a negative effect on the tendency of accounting cheating.

Based on the description of the phenomenon, this study makes the tittle “Fraudulent Financial Reporting (Empirical Study of Internal Control, Compensation Management, and Management's Morality).

LITERATURE REVIEW

A. Fraud Crowe Pentagon

By the development of the age of fraud theory also follows the change. From the beginning, Cressey triggered the Fraud Triangle theory with 3 (three) things that support fraud, then became a Fraud Diamond with plus 1 more factor namely capability and the latest today is "Fraud Crowe Pentagon". The condition of the company is now more developed and complex than it used to be, as well as the fraudsters who are now more astute and able to access various company information. This led to the theory of fraud needing to be developed from a fraud triangle to a pentagon fraud. 5 elements in pentagon fraud are pressure, opportunity, rationalization, competence/capability, and arrogance.

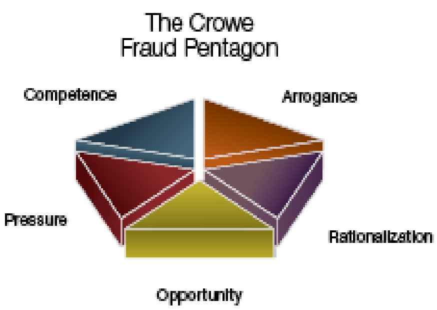

Fig. 1 The Crowe Fraud Pentagon

B. Fraudelent Financial Reporting

Fraudelent financial reporting is intentional or reckless conduct, whether by action or deletion, that results in misleading financial statements (biased). Fraudelent financial reporting that occurs in a company requires special attention from independent auditors.

The cause of Fraudelent financial reporting is generally 3 things as follows :

a. Manipulation, falsification, alteration of accounting records and supporting documents on financial statements presented.
b. Misrepresentation or significant misinformation in financial statements.
c. Misapplication of accounting principles relating to amount, classification, presentation and disclosure.

C. Internal Control

Internal Control according to COSO is an internal control system involving the board of commissioners, management, and other personnel, designed to provide adequate confidence about the achievement of the following three objectives: Effectiveness and efficiency of operations, Reliability of financial reporting, Compliance with applicable laws and regulations.

The five components of internal control are Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.

D. Compensation Management

According to Santoso and Ronie (2016), compensation management is a process of managing rewards, usually taking into account job size, performance, effort, and length of service. Compensation management describes how the company pays, recognizes, and values its work within an organization. In his book, it says compensation by its nature is divided into two intrinsic and extrinsic. Extrinsic compensation is compensation related to payment. While intrinsic compensation is usually in the form of working environment conditions, job type, learning/development opportunities, and challenges in the work. The combination of the two elements is referred to as the overall structure of the award.

Under Abraham Maslow's Hierarchy of Needs theory, the needs are divided into several levels. The first level is the basic level, which is a physical need. For employees who are at the lowest level in an organization, the role of an extrinsic company in the form of wages and incentives is the main tool in meeting basic needs. Next is the need for a second recall which is the need for security of protection. In today's developments, the needs are met with pension and health insurance programs such as insurance or BPJS. The last level of need is social needs. In this level, high motivation, employees expect awards and opportunities to develop themselves.

E. Managemen's Morality

According to Kanto and Patta (2017), morale is defined as the generally accepted doctrine of good about deeds, attitudes, obligations, ethics. It can also be interpreted as a mental condition that keeps people brave, vibrant, passionate, disciplined, or state of feeling. Moral principles are used as guiding tools and control tools in human life. A person who is not perfectly functioned morally who has in the man who is precisely in the heart, then the man will become a human being who will always do misguided deeds or actions, thus man degrades his dignity. From the above explanation indicates that a person's morale will influence his or her actions in doing deeds. As well as running a company, it takes moral awareness to run its business through management policies.

Kohlberg's model is a theory of moral development often used in ethics research. This theory has the view that moral reasoning is the foundation of ethical behavior, where the stage of moral development is a measure of a person's low moral height based on the development of moral reasoning. In this theory, there are three stages of moral development, namely the pre-conventional stage, the conventional stage, and the post-conventional stage.

F. Fraud Prevention Method

The way of companies prevent fraud according to Recht, Albrecht, Albrecht, and Zimbelman (2009:109) is to reduce the chance of fraud by taking into account the following things such as the company must have an internal control framework that includes a good control environment (e.g. management roles and examples as well as clear organizational structure), flow of communication and good information (Good accounting system must ensure that recorded transactions include established criteria) , control activities or procedures (employee behavior according to what you want as a businessman and assist the company in achieving its goals).

In addition to preventing fraud, the Company should note that the established system must prevent collusion, supervise employees and provide telecommunications channels for fraud reporting, decide penalties that will be received when committing fraud, and carry out proactive checks.

Lendez's research (1999) mentioned that to prevent financial report fraud, top management needs to create a positive control environment such as creating a positive control environment, hiring honest people, providing fraud awareness training, developing an understandable code of conduct. In this case, a positive control environment is formed from supervision as one of the internal control by top management.

Donelsen's research (2017) states that Fraudelent financial reporting can be caused by weak controls that give managers a greater chance of committing fraud or signify management characteristics that do not emphasize the quality and integrity of reporting. The study found support for an explanation of opportunities, but not through specific accounts linked to control weaknesses. Conversely, consistent with PCAOB statements, weaknesses in controls across entities, rather than controls at the process level, are associated with a higher risk of fraud reporting.

Zuberi's research (2019) mentioned Fraudelent financial reporting due to poor control environments, inadequate control activities, and circumstances that allow for collusive behavior among fraudsters. Also, the study revealed six motivating factors that encourage employees and managers to engage in Fraudelent behavior, business financial pressures; incentives and social pressures, greed, operating problems, internal pressures, and a nasty work environment. Incentives In addition to these two factors are one of the triggers, which cause employees to do Fraudelent financial reporting. also mentioned one of the factors causing employees to fraud financial statements is a poor work environment. A poor work environment is a reflection of low management's morality.

In research conducted by Kassem (2017) proved that the desire to get remuneration or bonuses and the need to secure finance, tax avoidance, pressure from the family of business owners, the need to avoid being excluded from the stock exchange is the motivation behind financial reporting fraud in Egypt.

Lane's research (2009) found that fraud over financial reporting was to raise profits, as it was driven by a motivation to ensure a rise in the share price and thus would increase executive remuneration.

Jhonson's research (2017) showed that executives who commit corporate fraud expect greater financial incentives as compensation. The results showed that executives performed Fraudelently in financial reporting after a slowdown in their revenue growth.

Richard's research (2004) showed that compensation committees should draw up CEO rewards in such a way as to motivate not only the achievement of financial goals but also the production of high-quality financial statements so as to avoid financial reporting fraud.

The results of Buns research (2006) showed different results from the above studies. The results of this study show that there is no sensitivity between CEO compensation and Fraudelent financial reporting. In this study, CEO compensation is seen from incentives, salaries, and bonuses.

The results of Awang and Ismail 2018 research show that behavior, understanding subjective norms, and ethical judgment have significant effects on unethical financial reporting. An unethical form of reporting is fraud in the financial reporting of institutions. The creation of reporting, influenced by behavior, understanding subjective norms, and ethical judgment of employees who do the work is called upon. Aspects of employee behavior, understanding subjective norms, and ethical judgment are reflections of the morality that management has in an institution.

Zhu's research (2011) showed results that this study had significant implications for understanding corporate behavior related to Fraudelent financial reporting. The understanding of behavior in this study is seen from the code of conduct and understanding of the rules in the preparation of financial reporting, as a reflection of the morality of management.

To support Awang and Ismail's research (2018), Yunita Awang conducted a study that showed subjective attitudes and norms were positively significant in influencing Fraudelent intentions in financial reporting. The subjective attitudes and norms in this study are considered morality by management when reporting financially. In other words, the more respondents who support fraud and feel that their referral group will approve or support such behavior, the stronger their intention to commit fraud.

Based on previous studies, the effectiveness of internal control is likely to have a significant effect on the trend of Fraudelent financial reporting. The better the internal control system will reduce the level of financial reporting cheating on the company. Besides, previous studies have found that Fraudelent financial reporting may be influenced by the motivation of awards in the form of benefits or compensation to employees or executives, which in this study are referred to as management compensation and other factors that affect the morality of management from understanding the code of conduct and rules in the preparation of financial reporting, as a reflection of the morality of management

The following are the frameworks used in this study:

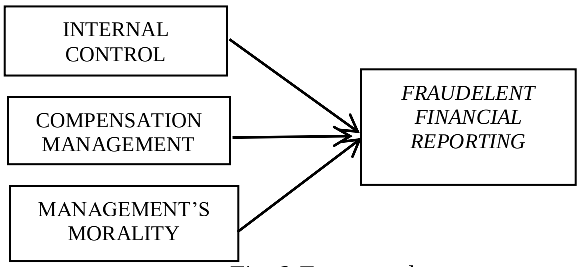

Fig. 2 Frameworks

RESEARCH METHODS

The population in this study is employees of PT. Pos Indonesia (*Persero*) who working in the internal control unit and manager in Accounting and Finance Department in Regional IV Jakarta. Because the sampling method is saturated, the population and sample of this research is the same, namely all auditors of the Internal Control Unit and the Accounting and Finance Department in the working area of Regional IV Jakarta.

This research is a quantitative research and the data source used is primary data. Sugiyono (2014) said that quantitative data is data in the form of numbers or qualitative data that is suspected. This figure is derived from the results of measurements of the Likert scale obtained from each question in the questionnaire.

The data collection method in this study used questionnaires to respondents who became an analysis unit for the specified sample and used instruments that had been tested for validity and reality. Instruments are distributed directly to respondents for later in the process (Sugiyono, 2014).

This research questionnaire consists of an array of statements that are indicators of each independent variable and dependent variable. Each statement is measured using a Likert scale (1-5). The data collected in this study were processed using smartPLS 3.2.7 Structural Equation Modelling (SEM) Software which is a method used to cover weaknesses found in regression methods.

In PLS method analysis techniques performed outer model testing (consisting of Convergent Validity, Discriminant Validity, Composite reliability, and Cronbach's Alpha testing) and Inner model analysis, and hypothesis testing.

RESEARCH METHODS

The population in this study is employees of PT. Pos Indonesia (*Persero*) working in the internal control unit and manager in accounting and finance department in Regional IV Jakarta. Because the sampling method is saturated, the population and sample of this research is the same, namely all auditors of the Internal Control Unit and the Accounting and Finance Department in the working area of Regional IV Jakarta.

This research is a quantitative research and the data source used is primary data. Sugiyono (2014) said that quantitative data is data in the form of numbers or qualitative data that is suspected. This figure is derived from the results of measurements of the Likert scale obtained from each question in the questionnaire.

The data collection method in this study used questionnaires to respondents who became an analysis unit for the specified sample and used instruments that had been tested for validity and reality. Instruments are distributed directly to respondents for later in the process (Sugiyono, 2014).

This research questionnaire consists of an array of statements that are indicators of each independent variable and dependent variable. Each statement is measured using a Likert scale (1-5). The data collected in this study were processed using smartPLS 3.2.7 Structural Equation Modelling (SEM) Software which is a method used to cover weaknesses found in regression methods.

In PLS method analysis techniques performed outer model testing (consisting of Convergent Validity, Discriminant Validity, Composite reliability, and Cronbach's Alpha testing) and Inner model analysis, as well as hypothesis testing.

DATA ANALYSIS

A. Outer Model Testing

The first step is to test convergent and discriminant validity of the measurement model which are assessed based on the loading factor value of each construct's indicator. Testing discriminant validity to ensure that each concept of each variable is different from other variables. The model has a good discriminant validity if each loading value of each indicator of a variable has the most loading value with another loading value against another variable.

ISSN No:-2456-2165

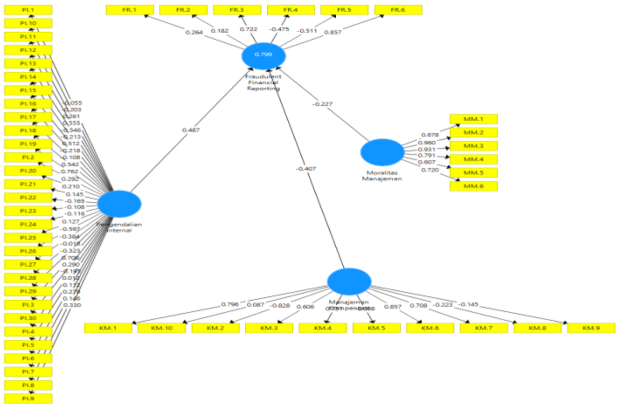
Fig. 3 Model Test Covergent and Discriminant

From the table above, the result is that there are indicators that have a cross-loading value of less than 0.5, the next step is to remodel by aborting the indicators so that the results are obtained as follows:

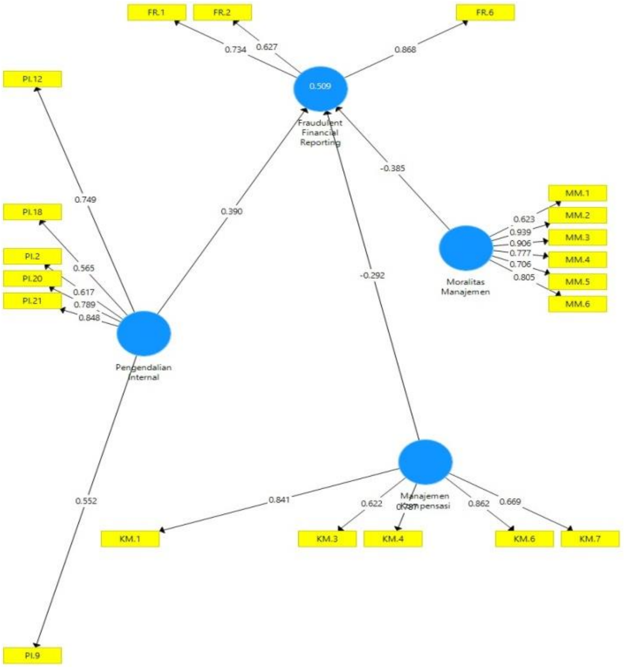

Fig. 4 Modified Model Test Covergent and Discriminant

TABLE I. Cross Loading Value

	Fraudulent Financial Reporting	Manajemen Kompensasi_	Moralitas Manajemen_	Pengendalian Internal
FR.1	0.734	-0.272	-0.319	0.286
FR.2	0.627	0.131	-0.330	0.181
FR.6	0.868	-0.626	-0.306	0.577
KM.1	-0.435	0.841	0.075	-0.382
KM.3	-0.008	0.622	-0.086	0.043
KM.4	-0.505	0.787	0.017	-0.566
KM.6	-0.318	0.862	-0.005	-0.208
KM.7	-0.228	0.669	0.035	-0.321
MM.1	-0.102	0.009	0.623	-0.005
MM.2	-0.402	0.091	0.939	-0.012
MM.3	-0.464	0.120	0.906	-0.141
MM.4	-0.261	-0.010	0.777	0.144
MM.5	-0.190	-0.110	0.706	0.089
MM.6	-0.269	-0.048	0.805	0.034
PI.12	0.322	-0.774	0.128	0.749
PI.18	0.486	-0.385	-0.123	0.565
PI.2	0.145	-0.298	0.053	0.617
PI.20	0.308	-0.274	0.009	0.789
PI.21	0.355	-0.204	0.059	0.848
PI.9	0.386	-0.097	-0.051	0.552

From the Fig.5 Cross Loading Value above, it appears that all correlation values between the score/component score item and the construct score are above 0.5 and all cross-loading correlations with measurement items are greater than other constructed measures, so convergent evaluation and discriminant validity have been met.

In addition to using cross-loading, another method for Discriminant validity can be done by looking at the Average Variance Extracted (AVE) value, recommended the AVE value of each construct greater than 0.50 (Ghozali, 2011).

TABLE II. Table of Average Variance Extracted

Variable	Average Variance Extracted (AVE)
FFR	0,562
MK	0,581
MM	0,641
PI	0,485

Based on the table obtained AVE value for Fraudelent Financial Reporting, Compensation Management, and Morality Management is more than 0.5 and AVE value for Internal Control is 0.485. Since the AVE value for PI is close to 0.5 and all indicators are eligible for convergent validity, all variables in the model meet the discriminant validity criteria..

a. Composite Reliability

Composite reliability is an indicator for measuring a construct that can be seen in the view of latent variable coefficients. In the measurement, if the value achieved is > 0.70, then it can be concluded that the construct has high reliability.

TABLE III. Value Cronbach's AlphaValue of Composite Reliability

Variabel	Composite Reliability
FFR	0,791
MK	0,872
MM	0,913
PI	0,846

Based on the table above it can be concluded that all constructs meet the criteria of reliable. This is indicated by all such constructs having composite reliability values that are more than 0.70.

b. Cronbach's Alpha

Cronbach's Alpha is a reliability test that strengthens the results of composite reliability. A variable can be declared reliable if it has Cronbach's alpha value > 0.7.

TABLE IV. Value Cronbach's Alpha

Variable	Cronbach's Alpha
FFR	0,663
MK	0,834
MM	0,888
PI	0,789

Based on the table above, it can be concluded that all constructs meet the criteria of reliability. Although FFR has a Cronbach's alpha value < of 0.7, it can still be tolerated due to the composite reliability value that qualifies reliability.

B. *Inner Model Analysis*

a. R-Square

TABLE V. Table R-Squre

	R Square	R Square Adjusted
Fraudulent Fin...	0.509	0.461

From the output above, R square value is obtained at 50.9 %. That is, all three free variables (MK, MM and PI) affected Fraudelent Financial Reporting by 50.9%, while the remaining 49.1% was influenced by other factors outside the study.

b. Q-Square

$$Q^2 = 1 - (1 - R^2) = 1 - (1 - 0.509) = 0.509 \qquad (1)$$

Since Q Square has a value of 0.509 greater than 0, the model has good predictive relevance's value.

C. *Hypothesis Testing*

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Compensation Management -> Fraudelent Financial Reporting	-0.292	-0.311	0.194	1.509	0.132
Management's Morality -> Fraudelent Financial Reporting	-0.385	-0.364	0.131	2.935	0.003
Internal Control -> Fraudelent Financial Reporting	0.390	0.398	0.129	3.022	0.003

TABLE VI. Table of Hypothesis Testing

The Effect of Internal Control on Fraudelent Financial Reporting

According to Herry (2014), internal control in a system is a set of policies and procedures to protect the company's assets or wealth from any form of misuse, ensure the availability of accurate company accounting information, and ensure all legal provisions and management policies that have been adhered to or executed accordingly by all employees of the company. The company's internal control system serves to monitor whether all operational activities and reporting activities are following the procedures and policies established by the company.

Based on the Hypothesis Testing Table, internal control significantly affects Fraudelent financial reporting with a significance of 3,002 greater than 1.96 with a significance of 0.05. The original sample value is positive at 0.390 which indicates that the direction of the relationship between Internal Control and Fraudelent Financial Reporting is positive, which means the better internal control, not decrease Fraudelent financial reporting. Based on the results of analysis of variable indicator X1 is known that there is still a lack of punishment if the employee does not do the job description. The function of punishment imposed on employees who commit misconduct so that employees are motivated to stop deviant behavior and lead to positive behavior so that the company's goals can be achieved.

In addition, the implementation of performance evaluation periodically is considered still inadequate. This indicates that the evaluation of perfomance that should serve as a benchmark of assessment so that it can be used as a guideline for supervisors to review the performance results of its employees has not been fully implemented. If the implementation of perfomance evaluation has been running, then it can encourage employees to provide the best performance according to the job description.

This research is in line with research conducted by Sunaryo et al, (2019), which stated that internal control has a positive effect on accounting fraud including Fraudelent financial reporting. The study found that of the pentagon's five fraud theory factors, there are three factors related to internal control, namely competence, arrogance, and opportunity. Competence can make an employee ignore internal oversight, develop concealment strategies, and control social situations for his or her benefit. Arrogance is considered an employee's superiority to a right that causes him or her to feel that internal oversight and internal policies do not apply to him or her.

This research also supports Arista's research (2016), which mentioned the effectiveness of internal control, adherence to accounting rules, and morality management has positive effects on the tendency of accounting cheating, while information asymmetry with information asymmetry competency and compensation conformity has negative effects on the tendency of accounting cheating.

The Effect of Compensation Management on Fraudelent Financial Reporting

According to the Hypothesis Testing table, the compensation management t-count value of 1,509 is greater than 1.96 with a signification rate of 0.05. It means that compensation management has an insignificant effect on

Fraudelent financial reporting. Because compensation management activities are a set of activities that are closely related to performance assessment, the quality of good compensation management will not be achieved without being accompanied by a quality performance assessment. The results of this study show that the evaluation of performance periodically has not been fully implemented, so compensation management has no significant effect on Fraudelent financial reporting.

The results of this study are in line with Wilopo's research (2006) which stated that the suitability of compensation cannot reduce the tendency of accounting fraud. The reason for the rejection of this hypothesis is thought to be because the desire to obtain an increase in bonuses, higher positions or simply maintaining his position makes financial report makers (agents) dare to condition the tendency of accounting fraud in related agencies. Besides, the absence of a compensation system describes rights and obligations, measures of achievement and failure in managing organizations (agencies), and rewards and penalty that can prevent organizations (agencies) from unethical behavior of their managers.

This research also supports the results of Burns's study (2006) which stated that the sensitivity of other components of CEO compensation, namely, equity, limited stock, long-term incentive payments, and salary plus bonuses did not have a significant impact on the tendency to commit fraud acts reporting financial statements. The study found that stock options associated with incentives tend to be stronger reasons for Fraudelent financial reporting, because jealousy in CEO wealth introduced by stock options restricts the risk of decline in mis-reporting detection.

The Effect of Management's Morality on Fraudelent Financial Reporting

Based on the Hypothesis Testing Table, management's morality t count of 2,935 is greater than 1.96 with a significance value of 0.05. It means that the morality of management has a significant effect on Fraudelent financial reporting. The direction of the variable relationship is negative which means that the better morality that management has, the lower the Fraudelent financial reporting rate.

According to Kanto and Patta (2017), morale is defined as the generally accepted doctrine of good about deeds, attitudes, obligations, ethics, and it can also be interpreted as a mental condition that keeps the people brave, vibrant, passionate, disciplined, or state of feeling. Moral principles are used as guiding tools and control tools in human life. A man who is not perfectly functioned morally who has been in the heart of man, then the man will become a human being who will always do misguided deeds or actions. Thus, human beings denigrate their dignity. From the above explanation indicates that a person's morale will influence his or her actions in doing deeds. As well as running a company, it takes moral awareness to run its business through management policies.

This research is in line with Lendez's research (1999) which stated that to help preventing Fraudelent financial reporting, there is a need for an internal control environment that supports and develops an understanding of the code of conduct or can be said to be morality owned by management.

The results of this study also support the results of Sanuari's research (2014) that mentioned the internal control system, compensation suitability, and morality management had a significant effect on accounting fraud. In this study mentioned that the higher the level of morality owned by management, the lower the rate of accounting fraud, including accounting or financial reporting fraud.

Zhu's research (2011) showed results that this study had significant implications for understanding corporate behavior related to Fraudelent financial reporting. The understanding of behavior in this study is seen from the code of conduct and understanding of the rules in the preparation of financial reporting, as a reflection of the management's morality.

CONCLUSION AND SUGGESTIONS

Based on the above discussion, it can be concluded that internal control has a significant effect with a positive direction towards Fraudelent financial reporting, compensation management has an insignificant effect on Fraudelent financial reporting, Management's Morality has a significant effect with a negative direction on Fraudelent financial reporting.

Based on the results of research known that internal control has a positive effect on fraud practices in financial reporting, it is expected that management of PT. Pos Indonesia can add or improve existing internal control system, including implementing punishment if employees do not do job description, conducting training to refresh knowledge about job description to employees and routinely carrying out regular performance evaluations, as well as carrying out regular performance evaluations, to encourage employees to provide the best performance according to the job description of each employee.

In addition, other suggestions that can be recommended are to implement a clearer compensation management system, ranging from the implementation of a clear career system to performance measurements such as the implementation of performance evaluations so as to spur employees to perform best by complying with the rules or SOP applicable in PT. Pos Indonesia (*Persero*) so as to reduce the practice of Fraudelent financial reporting.

This research has not been able to prove internal control and management compensation against Fraudelent financial reporting, so it is recommended for further research to test more broadly the variables of compensation management, ranging from career level system, staffing system or addition of soft skills as well as testing the level of training or implementation of refreshment knowledge to employees, and increasing the number of samples to be more accurate.

REFERENCES

[1]. Lendez, Anthony M. (1999). How to Prevent and Detect Financial Statement Fraud: *Journal of Corporate Accounting & Finance* volume 11, issue 1.

[2]. Lane, Richard.(2009). The Changing Face of Regulators' Investigations Into Financial Statement Fraud. *Accounting Research Journal,* Vol. 22 No. 2, pp. 118-143 ISSN: 1030-9616.

[3]. Skousen, et all.(2009).Detecting and predicting financial statement fraud: The effectiveness of the fraud triangle and SAS No. 99. *Advances in Financial Economics,* Vol. 13

[4]. Donelson, et all. (2017). Internal Control Weaknesses and Financial Reporting Fraud. *AUDITING: A Journal of Practice & Theory:* August 2017, Vol. 36, No. 3, pp. 45-69.

[5]. Frazer, Linval. (2012). The Effect Of Internal Control On The Operating Activities Of Small Restaurants. *Journal of Business & Economics Research – June 2012* Volume 10, Number 6.

[6]. Beasley, et all. (1978). Fraudelent Financial Reporting: 1987-1997 An Analysis of U.S. Public Companies. *Committee of Sponsoring Organizations of the Treadway Commission.*

[7]. Ahmad, et all. (2016). Accrual Earning Management and Fraudelent Financial Statements. *Managerial Auditing Journal,* Vol. 33 No. 1, pp. 16-34. 2017 ISSN: 0268-6902.

[8]. Kassem, Rasha. (2018). Exploring External Auditors' Perceptions of The Motivations Behind Management Fraud in Egypt – A Mixed Methods Approach. *Managerial Auditing Journal,* Vol. 33 No. 1, pp. 16-34. 2017 ISSN: 0268-6902.

[9]. Erickson, et all. (2006). Is There a Link between Executive Equity Incentives and Accounting Fraud?. *Journal of Accounting Research* Vol. 44, No. 1 (Mar., 2006), pp. 113-14.

[10]. Burns, Natasha. (2006). The Impact of Performance-Based Compensation on Misreporting. *Journal of Financial Economics* Volume 79, Issue 1, January 2006, Pages 35-67.

[11]. Armstrong, C.S. (2010). Chief Executive Officer Equity Incentives and Accounting Irregularities. *Journal of Accounting Research* Vol. 48 No. 2 May 2010 Printed in U.S.A.

[12]. Richard, J.A. (2004). oo Good to Be True CEOs and Financial Reporting Fraud. *Consulting Psychology Journal 2004:* Practice and Research, 56(1), 35–43.

[13]. Zuberi, Omari. (2019). Analysis of Employee and Management Fraud in Tanzania. *Journal of Ethics and Systems 2018,* Vol. 34 No. 1, pp. 32-54. ISSN: 2514-9369.

[14]. Awang, Yunita. (2018). Determinants of Financial Reporting Fraud Intention Among Accounting Practitioners in the Banking Sector: Malaysian Evidence. *Journal of Ethics and Systems 2018,* Vol. 34 No. 1, pp. 32-54. ISSN: 2514-9369.

[15]. Zhu, J. (2011). Fraudelent Financial Reporting: Corporate Behavior of Chinese Listed Companies. Accounting in Asia 2011 *Research in Accounting in Emerging Economies,* Volume 11, 61–82.

[16]. Awang, Yunita. (2019). The Influences of Attitude, Subjective Norm and Adherence to Islamic Professional Ethics on Fraud Intention in Financial Reporting. *Journal of Islamic Accounting and Business Research 2019, V*ol. 10 No. 5, pp. 710-725.

[17]. Arista et all. (2016). Pengaruh Faktor-Faktor Internal Terhadap Kecenderungan Kecurangan Akuntansi Pada PT. Pegadaian Area Surakarta. *Seminar Nasional IENACO 2016.*

[18]. Sanuari, N. (2014). Pengaruh Sistem Pengendalian Internal, Kesesuaian Kompensasi, dan Moralitas Manajemen Terhadap Kecurangan Akuntansi. *JURNAL AKUNTANSI* NO.1 VOL 2.

[19]. Stuebs, M.T. (2011). Principles-Based Accounting: The Case for Principled Judgment. *Research on Professional Responsibility and Ethics in Accounting (Research on Professional Responsibility and Ethics in Accounting, Vol. 15).*

[20]. Cormier at all, (2016). CEO Power and CEO Hubris: A Prelude To Financial Misreporting?. *Management Decision, vol. 54 no. 2.*

[21]. Baskaran et all, (2019). Earnings Management: A Strategic Adaptation Or Deliberate Manipulation?. Journal *of Financial Crime* ISSN: 1359-0790.

[22]. Jones, K. (2010). The Game of Fraudelent Financial Reporting: Accounting for Ethics. *Advances in Public Interest Accounting 2010, Vol. 15.*

ISSN No:-2456-2165

[23]. Kabuye, F. (2017). Internal Audit Organisational Status, Competencies, Activities and Fraud Management in The Financial Services Sector. *Managerial Auditing Journal 2017*, Vol. 32 No. 9, pp. 924-944.
[24]. Romano et all (2012). Corporate Governance and Accounting Enforcement Actions in Italy. *Managerial Auditing Journal 2012, Vol. 27 No. 7, pp. 622-638.*
[25]. Shawver, T.J. (2016). Emotional Reactions to Financial Statement Fraud. *Research on Professional Responsibility and Ethics in Accounting*, Vol. 20 (ISBN: 978-1-78560-974-9, eISBN: 978-1-78560-973-2 ISSN: 1574-0765).
[26]. Setiyawati, (2019). *Buku Bimbingan Penyusunan Tesis(Edisi 5.* Program Magister Akuntansi Pascasarjana Universitas Mercu Buana.
[27]. Priantara, Diaz. 2013. *Fraud Auditing & Investigation.* Jakarta : Mitra Wacana Media
[28]. Arens, A. A., Elder, R. J., & Beasley, M. S. (2012). *Jasa Audit dan Assurance : Pendekatan Terpadu (Adaptasi Indonesia). (Alih bahasa : Desti Fitriani).* Jakarta: Salemba Empat.