

**THE EFFECT OF FINANCIAL INCENTIVES SCHEME TOWARD
INTENTION TO DISCLOSE FRAUD**

(Experiment Study on Undergraduate Accounting Student Faculty Of
Economics Yogyakarta State University Year 2016)

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Abstract : **The Effect of Financial Incentives Scheme toward Intention to Disclose Fraud.** The purposes of this research is to examine the effect of financial incentive scheme toward intention to disclose fraud. This research is an experimental research using experimental factorial design 1x1 between subject. The population of this study was 81 Undergraduate Accounting Students of the Faculty of Economics, Yogyakarta State University, year 2016. Validity test using Face Validity. The research hypothesis was processed using a One-Way ANOVA statistical test. The result of this research showed that there is an effect of financial incentives scheme on the intention to disclose fraud with a significance value of 0.000.

Keywords : Financial Incentives Scheme, Disclosing Fraud, Whistleblowing

Abstrak : **Pengaruh Skema Insentif Finansial terhadap Niat untuk Mengungkapkan Kecurangan.** Penelitian ini bertujuan untuk mengetahui pengaruh skema insentif finansial terhadap niat untuk mengungkapkan kecurangan. Penelitian ini merupakan penelitian eksperimen dengan menggunakan desain eksperimen factorial 1x1 between subject. Populasi penelitian ini adalah 81 Mahasiswa S1 Akuntansi Fakultas Ekonomi Universitas Negeri Yogyakarta angkatan 2016. Uji Validitas menggunakan face validity. Hipotesis penelitian diolah menggunakan alat uji statistic one way ANOVA. Hasil penelitian ini menunjukkan bahwa terdapat pengaruh skema insentif finansial terhadap niat untuk mengungkapkan kecurangan dengan nilai signifikansi sebesar 0.000

Kata kunci : Skema Insentif Finansial, Pengungkapan Kecurangan, Whistleblowing

PROBLEM BACKGROUND

At this time, cases on economic fraud have been attracting public attention. Fraud included illegal acts, violations of regulations, and other legislation carried out with the intention of fraud (Widodo, 2017). As a developing country, Indonesia was very vulnerable to fraud. In Indonesia, fraud had increased so that causes a negative impact on social welfare and country development (Urumsah et al. 2018).

A survey conducted by The Association of Certified Fraud Examiners (ACFE) showed that 83% fraud was caused by asset misappropriation, 35% corruption, and 9,6% financial statement fraud (Report to the nations, 2016). This had increased compared to 2018. In 2018, 89% fraud was caused by asset misappropriation, 38% corruption, and 10% financial statement fraud (Report to the nations, 2018). This shows that cases of fraud must be addressed and prevent immediately in order not to increase every year.

Based on a survey conducted by *Survai Fraud* Indonesia 2016, fraud prevention method is the best and effective way is through a Whistleblower System. Whistleblower System is the disclosure of a violation or disclosure of an unlawful act, unethical or immoral conduct or other actions that can harm the organization or stakeholders, that has done by the employee

or the organization's leadership to the leadership of another organization or institution that can take action on the violation (*Pedoman Sistem Pelaporan Pelanggaran* KNKG, 2008). Hoffman and Robert (2008) argue that whistleblowing as an employee disclosure related to information that is believed to contain violations of laws, regulations, practical guidelines or professional statements, or relating to procedural errors, corruption, abuse of authority or endanger the public and workplace safety. This shows that the Whistleblower System is important to be applied in companies and countries.

Nevertheless, the practices of the reporting system and the protection of fraudulent disclosures in Indonesia has not been full carried out widely in government and private institutions, but awareness of the importance of the reporting system and protection against disclosure of fraud has begun to show good development (Semendawai et al, 2011). It can be proven by *UU Nomor 31 Tahun 2014* (Institution No. 31 year 2014) About the Witness and Victim Protection, *Surat Edaran Mahkamah Agung Nomor 4 Tahun 2011* (Circular letter of Supreme Court No. 4 year 2011) About Treatment of whistleblower and justice collablator, and *Peraturan Pemerintah Nomor 7 Tahun 2018* (Regulation No. 7 year 2018) About

Allocation of Compensation, Restitution, and Aid to Witnesses and Victims. However, there are no specific laws and regulations regarding disclosure of fraud in Indonesia.

Indonesia only has *Lembaga Perlindungan Saksi dan Korban (LPSK)* or Witness and Victim Protection Agency. Unlike in America and Australia. America has Sarbanes Oxley Act, a law that is passed to avoid financial irregularities in public companies, including deviations from financial statements made by public accounting firms. America also has an ACFE Ethics Line that provides a hotline with the function of analyzing and managing case handling to empower companies to prevent, detect and investigate existing irregularities and emphasize the protection of fraudulent reporters. Australia has an Australian Mission Agency that handles fraud reporting (Semendawai et al. 2011).

However, disclosing a fraud case is not an easy thing. The whistleblower can face threats to themselves and their family (Liyanarachchi and Newdick, 2012). In addition, because of law enforcement in Indonesia is not strong enough, it is not difficult for those who have power in a company to make whistleblower as guilty party. For example, Vincentius Amin Sutanto who disclose tax evasion in PT

Asian Agri. Even though he was disclosing the case, he continued to be tried for criminal acts of money laundering and letter forgery. He was also sentenced to 11 years in prison. Furthermore, Agus Condro Prayitno who disclosing about alleged bribery related to the election of the Senior Deputy Governor of Bank Indonesia. Agus Condro was also named a suspect and sentenced to 1 year and 3 months in prison (Semendawai et al. 2011).

Big risks and inadequate protection can be many factors that make individuals do not want to disclose fraud, so this makes the government has not optimized the role of disclosure of fraud in Indonesia (Annisa, 2017). Therefore the government must know which factors can increase the individual's intention to disclose fraud. According to Reinforcement Theory, individuals will be motivated to take certain actions because of the rewards that have ever been associated with these actions (Putri, 2012). Researchers guess that financial incentives schemes can increase individual intentions to disclose fraud.

Xu and Ziegenfuss (2008) stated that incentives is a factor that can increase individuals to have the intention to report or disclose fraud is an incentive. Incentives are all income in the form of money, goods directly or indirectly received by employees in return for services provided by

organizations or companies (Hasibuan, 2001). The types of incentives can be classified into two categories, that are Financial Incentives (Materials) and Non-Financial Incentives (Non-Material) (Sarwoto, 1991). But researchers only want to examine financial incentive schemes. This is because previous research found that financial incentives schemes could influence an individual intention to disclose fraud.

Xu and Ziegenfuss (2008) showed that internal auditors tended to disclose fraud to higher authorities when financial incentives and employment contracts were given. Paul Andon et al. (2016) had examined the effect of providing financial incentives and the level of seriousness of fraud against the intention to disclose fraud as externally. The results of the study showed that there was significant influence between the provision of financial incentives and the level of seriousness of the fraud toward the intention to disclose fraud externally. The company preferred to provide financial incentives to the disclosure of fraud because it was considered more efficient than the losses incurred by fraud (Stikeleather, B, 2016). Thus it could be concluded that financial incentives schemes can influence individual intentions to disclose fraud.

Different from previous research, in this study the researchers wanted to examine the

effect on the intention to disclose fraud. Financial incentive schemes are thought to be one of the factors that can motivate individuals to disclose fraud.

Based on the background of the problems above, then the authors will examine "The Effect of Financial Incentives Schemes toward Intention to Disclose Fraud" (Experiment Study on Undergraduate Accounting Student Faculty Of Economics Yogyakarta State University Year 2016).

RESEARCH METHOD

Type of Research

This research includes the type of quantitative research, because the data used in this study is in the form of numbers and data analysis is done using statistics. The design of this study used experimental research. This study uses factorial 1x1 design between subject factorial. This study consists of two independent variables, that is Financial Incentives Schemes, and one dependent variable is the intention to disclose fraud.

Place and Time Research

This research was conducted at the Faculty of Economics, Yogyakarta State University with participants Undergraduate Accounting Student year 2016. The timing of this research was November-February 2018.

Research Subject

The population in this study was all Undergraduate Accounting Students Faculty of Economics Yogyakarta State University of year 2016. Due to the relatively small number of Undergraduate Accounting Students year 2016 who have taken or are taking Management Accounting and Business Ethics, 81 people, therefore this study uses all existing populations to become participants

Procedure

The design of this study used experimental research. This study uses factorial 1x2 design between subject factorial. This study consists of one independent variables, that is Financial Incentives Schemes, and one dependent variable is the intention to disclose fraud.

The design of the experimental research that will be carried out by the researcher is as follows :

Table 1. 1x1 Factorial Experimental Research Design

Financial Incentives Scheme	
There is Financial Incentives Scheme	There is no Financial Incentives Scheme
Case 1	Case 2

Data, Technique, and Instrument Collection

The type of data in this study is primary data in the experimental stage. All respondents with a randomly determined treatment group must take several experimental steps. The data collection technique in this study was the response of the participants. Participants were asked to take part in the experimental stages with treatment or cases that had been determined and varied.

The case instrument to be used in this study is to refer to and develop research conducted by Ratna Candra Sari (2018), and Xu and Ziegenfuss (2008). The instrument in this study is in the form of an animated video based on augmented reality. This is done so that participants can better understand and feel every treatment they get. Participants must download Whistleblower application on Google Play and scan Case Marker to look the animated video.

Figure 1. Case Marker



Data Analysis Technique

This research using Pilot test and Validity test to test instrument quality. The pilot test was conducted on December 10, 2018. The

participants were 30 students of Faculty of Economics UNY. The pilot test results show that 30 students of Faculty of Economics UNY students can understand Case 1, 2, 3, 4, and 5. The Validity test using Face Validity. This research using One Way ANOVA to examine a hypothesis, that is Financial Incentives Scheme has effect toward Intention to Disclose Fraud.

RESULT AND DISCUSSION

Result

Analysis of Data Description in this research are Minimum, Maximum, Standart Deviation (SD), and Mean.

Table 1. Table of Descriptive Statistic by Variable Data

Case	Intention to Disclose Fraud				
	Total	Min	Max	Std Deviasi	Mean
1	17	4	6	0,727	5,176
2	16	3	6	0,946	4,687
3	16	4	6	0,403	5,187
4	16	4	6	0,680	4,937
5	16	2	3	0,516	2,500
Total	81	2	6	1,215	4,506

Source : The results of primary data, 2019

Based on table 10 above. It can be seen that the minimum value of intention to disclose fraud data is 1 while the maximum value is 6. The average fraudulent disclosure variable in this study ranged from 2,500 to 5,187. By means of the greater the average value is better because the greater the value, the participant will choose to disclose fraud at a high level.

Conversely, the smaller the average, the worse because the smaller the value, the participant will choose to disclose fraud at a low level.

The results of the One Way ANOVA for each hypothesis are as follows :

Table 2. Table of Hypothesis Test Result

Variable	F	Sig	Information
Financial Incentives Scheme	4,775	0,000	Hyphotesis is accepted

Sumber : The results of primary data, 2019

H : Financial incentives scheme has effect toward intention to disclose fraud.

The hypothesis (H) will be accepted if or P_{value} is less than 0.05 (<0.05), while the hypothesis will be rejected if P_{value} is more than 0.05 (> 0.05). The Hypotesis test results indicate that a significant value of 0.000 is less than 0.05. Thus the hypothesis **(H) is accepted**, that is Financial Incentives Scheme influences the Intention to Disclose Fraud.

Discussion

The results of the tests conducted showed that Hypotesis is accepted because Financial Incentive Scheme has an effect on the Intention to Disclose Fraud. Then it can be concluded that by providing incentives in the form of finance can affect individual actions so that individuals can have the intention to disclose fraud. The results of this study support the research conducted by Yin Xu and Douglas E. Ziegenfuss

(2008) which shows that internal auditors tend to disclose fraud to higher authorities when financial incentives are given. In addition, the results of a study conducted by Andon et al., (2016) which states that providing incentives in the form of finance can affect the intention of accountants to disclose fraud.

CLOSING

Conclusion

The test results show that the hypothesis is accepted, that is Financial Incentives Scheme influences the intention to disclose fraud.

Suggestion

Providing financial incentive schemes needs to be implemented so as to provide motivation for individuals to work in accordance with expectations. For future research Researchers are expected to use participants who have worked or at least participants who have already been interned so that they have experience related to the world of work. In the next research should researchers is better to provide other types of incentives such as non-financial incentives in the form of promotions. Future researchers should increase the number of participants who take the experiment in each case. The next researcher can increase the number of incentives given to participants.

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