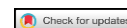





THE EFFECT OF MORALITY, COMPENSATION, AND PROFESSIONAL COMMITMENT TO FRAUDULENT FINANCIAL STATEMENTS WITH RATIONALIZATION AS AN INTERVENING VARIABLE EMPIRICAL STUDY ON SKPD SOUTH TANGERANG CITY



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ABSTRACT

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The case of fraud that occurred at LKPD in 2017 South Tangerang City has inflict a financial loss country up to 1.7 billion rupiahs, this incident proves that fraud is still a common practice even though it has violated the principles of accounting. This study aims to examine the effect of morality, compensation and professional commitment on fraudulent financial statement by rationalization as an intervening variable. The population in this study was all South Tangerang Regional Work Unit. The sampling technique used is Nonprobability Sampling with saturated sample method until 36 samples are obtained. The analysis in this study is structure equation modeling with the help of the Smartpls version 3.0 program. The results of the study concluded that morality has a significant negative effect on accounting report fraud while compensation and professional commitment does not significant effect on fraudulent financial statement and rationalization does not mediate the relationship of morality, compensation and professional commitment to fraudulent financial statement.

Contribution/Originality: The paper's primary contribution is finding that the importance of implementing moral values into the work culture of all employees as a form of business that needs to do by the organization in minimizing the occurrence of fraud.

1. INTRODUCTION

The Association of Certified Fraud Examiners (ACFE) explains that 5% of the organization's revenue is manipulated, which is categorized as a cause of fraud, and considered as a latent danger. One of the cases that becomes evidence of fraud in Indonesia is that committed by the local government of South Tangerang City. According to the financial statement from the Audit Board of the Republic of Indonesia (BPK) in 2017, there were five cases of fund deviations in five Regional Apparatus Work Units (SKPD) that led to massive state loss to 1.7 billion rupiahs. [Arens, Elder, and Beasley \(2015\)](#) argued that fraudulent financial statements are misstatements and neglect of intentional amounts or disclosures to deceive financial statement users. According to [Karyono \(2013\)](#) the cause of someone's deception is because they rationalize their mind by assuming that the actions they do are normal and they have the right to receive better results because of their work performances and devotion to the organization.

John Rawls explained in Theory of Justice that human beings are naturally independent so that they need to oblige themselves to a rule as a guidance in their social lives, one of the rules is known as morals. Individual morality according to Sagala (2013) is a system of values and habits about how humans should live as human beings who have been institutionalized in a customary habit which then manifests in a behavioral pattern and recurs in a long time as a habit. Gert (1998) argued that morality is a guide that determines universal right and wrong behavior. Individuals who implement moral values in their social life will act based on the standard morals that acceptable in society, including work. A person with a decent morality will have high honesty and responsibility and will not abuse the authority to seek private gain by harming others.

Eka Putra and Latrini (2018) said that individual morality can affect accounting fraud because morals can determine whether someone will do good or bad actions. Gert (1998) stated that morality brings goodness to an individual's personality which will prevent him from committing crimes that harm others. In contrast to the results found, Puspasari and Suwardi (2016) concluded that individual morality has a positive effect on accounting fraud, other research conducted by concluded that individual morality does not affect accounting fraud because the moral reasoning level of individual does not affect whether the fraud increases or not. Another motive that can provoke a fraudulent worker is the amount of salary they received. Yoyo and Agus Aribowo (2018) stated that compensation is a form of corporate retribution to employees for their output and productivity at work. Argarini (2015) argued that compensation harms fraud because compensation affects individual welfare so that individuals who feel they do not receive the appropriate amount of compensation motivate them to commit fraud. A compensation which is a reward for someone's work measured in units of currency and then used to meet the needs of life. Therefore, someone will do everything if the compensation received does not fulfill their needs even though the actions deviate from the rules of work. The dissatisfaction of compensation leads to a justification of these actions.

Astari (2018) and Ahriati, Basuki, and Widiastuty (2015) have different perspectives because the results of their researches concluded that compensation does not affect accounting fraud because the existence of appropriate compensation does not affect the number of frauds. It is because the compensation system that is given to the employees is equal. Because of rapid development and high demands of seeking jobs, the majority of the worker create a resolution to commit with their profession to be a valuable and high-quality individual that can be appreciated because of their abilities. Nowadays, some professionals use the public trust to generate greater benefits to maintain their position in a certain circumstance. For instance, a case found in Garuda Inc. in 2019 and SNP Finance in 2018. Although all the process of preparing financial statements and auditing have been carried out by professional public accountants, the Financial Services Authority found evidence that manipulations have been made on the financial statements by not providing the actual financial condition. Research conducted by Fauzalina (2018) concluded that professional commitment negatively affects the accounting fraud because loyal workers will be honor-bound of their professions and will not deviate the values of their professions. Meanwhile, Pamungkas (2014) concluded that a professional commitment positively influences against accounting fraud.

Based on the descriptions that have been outlined in the preceding paragraphs, the researchers are motivated to research the influence of morality, compensation, and professional commitment to the report of financial fraud by rationalization as an intervening variable. The researchers will focus on the entire units of Regional Apparatus Work (SKPD) in the South Tangerang area. Although the regional financial report in this area gained reasonable opinion in 2017, including from the Audit Board of the Republic of Indonesia, some evidence of fraud is still found. The research is organized into several sections. The first section is an introduction that will be followed by the development of the hypothesis in the second section. The research model and sample selection process will be discussed in the third part, while section four will mainly discuss the result of this research. Lastly, the conclusion will be in the last section.

2. LITERATURE REVIEW

2.1. Signaling Theory

Spence (1973) stated that signaling theory is a sign or signal that the owner attempts to deliver information to the information user. The signaling theory assumes that investors, as the information users, do not have as sufficient information as the manager or management which causes asymmetric information. These conditions cause investors in uncertain investment decisions. Morris (1987) argues that asymmetric information can be reduced by delivering all the information about financial management. Spence (1973) argues that in the decision-making process of investors or external parties, financial information is not the only signal that can be analyzed. The report users or investors can examine and analyze a broader signal through behavior patterns of individuals that manage information and their professionalism in preparing the report because it will affect the quality contents of the financial statements. Investors believe that a high-quality financial statement has credibility that can be accounted which means the probability of fraud indication in financial statements can be minimized. When the investors are sure that the management can manage the organization well, it can be assumed as a positive signal for the management because the support from the investors will affect the operational continuity of the company.

2.2. Fraud Triangle Theory

Cressey (1953) explained the theory of the fraud triangle which mentioned that three factors cause fraud; pressure, opportunity, and rationalization. These three factors are interrelated in causing the fraud committed by someone. The first factor is pressure, someone who is experiencing work pressure either from internal or external factors may provoke him to commit fraud. Another factor that may lead to fraud is because of a lack of control from the organization that can give possible opportunities for being a fraudster. The last factor is the rationalization or self-justification of the fraudster (Arens, Elder, & Beasley, 2014) Rationalization is "an attitude, character or set of ethical values exists that allows management or employees to intentionally commit fraud, or they are in an environment that imposes sufficient pressure that causes them to rationalize committing deception. Based on the three factors causing fraud, Nugraha and Susanto (2018) said that rationalization is the most crucial factor because rationalization determines how fraud occurs. The fraudsters will assume that what they do is not a mistake, they will think that everything they do is right without contemplating the impacts, opinions, and judgments from others.

2.3. Fraudulent Financial Statement

Fraudulent financial statement is an action that is done deliberately to disguise, obscure figures to manipulate financial statements from actual conditions. According to Johnstone and Karla (2014) fraudulent accounting report consists of three forms of action; manipulation of the recording done by changing the number of the transaction evidence and recording fictitious transactions, negligence to the transaction by eliminating the transaction record and replacing the chart of account, and lastly is an error in implementing the principle and classifying the chart of account.

2.4. Rationalization

Rationalization is a justification from a person because of his unethical behaviors which have been detrimental to others, while he assumes his actions are normal. Marliani and Jogi (2015) stated that rationalization actions are formed because individuals assume they have good purposes to please and help others. Another factor is self-confidence which is a belief that they will not lose trust from society, they never feel suspected and do not have anxiety. The last factor is the dissatisfaction caused by the work environment, leadership, and organizational policies.

2.5. Morality

Morality is a rule that contains values about the good and bad things of life to guide human beings in living life. Individual morality is measured by using the multidimensional ethics scale developed by Reidenbach and Robin (1990)

which consists of five dimensions of justice, relativism, selfishness, utilitarian, and Deontology. MES is reflected through fair and decent behavior. Behaviors that comply with the prevailing norms, customs, and norms. The behavior that maximizes their concerns between themselves and others and lastly is behavior that is subject and obedient to every rule in the organization.

2.6. Compensation

Compensation is a reward received by a person after they complete their work at a certain time. According to Kadarisman (2014) the amount of compensation can be measured by observing the three aspects. The first compensation derived from the internal factor of the organization which is salary can be measured by the position, workload, contributions, and education. Another aspect of compensation is originated from the external organization that is under the laws of employment and a decentralized standard of living. The last aspect is compensation that measured from the abilities and behavior of the working individual.

2.7. Professional Commitment

Professional commitment is a form of love, pride, and full dedication from someone for their profession. According to Setyadi (2010), two reasons show the emergence of one's professional commitment. The main reason is the pride of the profession can be reflected from the attitude of individuals who happily expressed his profession and the sincere attitude in achieving career and both perceptions can be formed based on the profession by believing that the profession they currently have that is the best profession that will lead to a brilliant career.

3. HYPOTHESIS DEVELOPMENT

Morality is a common belief that has been accepted by society about values and norms in social life. People with excellent morality do not take actions that tend to prosper themselves and try to avoid things that violate the norms and laws. Fraudulence in an organization may occur if the people in the organization do not have good morals because the lower moral reasoning when confronted with ethical dilemmas, will increase the number of fraudulence that may destroy the organization. Prawira, Herawati, and Darmawan (2014) stated that the higher stage of individual morality makes him more concern to the wider and universal matters than personal or organizational matters. It can be concluded that morality affects fraudulence because the higher the morality level of an individual, the harder he will try to avoid that will put others at risk. Based on the explanations, the hypothesis of this research is formulated as follows:

H1 Morality significantly affects the fraudulence in financial statements.

According to Ratna (2016) spiritually intelligent individuals can adapt and understand every requirement that applies in the society, spiritual intelligence generates a moral understanding that supports within. Someone with bad morals will more easily rationalize all the actions that have been done is normal. Goolsby and Hunt (1992) stated that the moral development process follows the process of individual cognitive development in determining an action, individuals who have moral reasoning will think logically to analyze a complex decision and relationship among all elements involved in a single social relation, so that it will minimize individual rationalization thinking. Based on the explanation, the hypothesis is formulated as follows:

H2 Morality has a significant effect on fraudulence in financial statements with rationalization as an intervening variable.

According to Sagala (2013) Compensation is received by the employee, whether in the form of money or not as a return to their contribution to the organization. Compensation is received because they have completed all the works and it will be used to fulfill their living expenses. A person that does not obtain a proper amount of compensation will seek additional funds, although the actions are prohibited, such as commit fraudulence. Conyon

and He (2016) stated that the increased number of fraud in the financial report because the company gives a low amount of compensation to the employees. Based on the explanation, the hypothesis is formulated as follows:

H3 Compensation significantly influences in fraudulent in accounting report.

Compensation at work can imply how the organization appreciates the hard work of the employees who have worked in developing an organization to work in line with the vision and mission as well as the advancement and the amount of compensation received by someone can lead to self-justification when they commit fraudulence. It can be caused because they have devoted themselves to the works, but they do not a proper wage, then rationalization appears. They assume that they take his rights, although it is unethical and unlawful. Based on the explanation, the hypothesis is formulated as follows:

H4 Compensation significantly affects the fraudulent accounting report with rationalization as an intervening variable.

Professional commitment is a form of love, pride, and complete dedication of a person to the profession he is working on. A person with a commitment is expected to be able to work according to the rules and values of the profession, thus can influence a good performance at work. Setyadi (2010) stated that professional commitments relate to the traits formed by individuals towards their respective professions, commitments include trust, acceptance, goals, and values towards the profession. Professional commitment is closely related to one's loyalty and love of his work, individuals who have high professionalism will work well and avoid actions that deviate from the value of the profession to maintain the credibility of the profession. Professional commitment is considered capable of influencing individuals not to commit fraud because the commitments formed make them act according to the rules, to maintain the good name of the profession, the trust of the organization, and others. Based on the explanation, the hypothesis is formulated as follows:

H5 Professional commitments have a significant effect on fraudulent financial statements.

Individuals with high professional commitment are characterized by having high trust and acceptance in their profession objectives, the desire to do their best in the name of the profession, and a strong desire to maintain membership in the profession (Rahayu & Faisal, 2005). The professional commitment of a worker is a promise to work properly without violating the rules and regulations that bind him because the behavior of a highly committed individual will influence the rationality in thinking about the choices of his actions when confronted with a condition to commit fraud. The formed commitment will minimize their way of thinking to justify unethical values because professional individuals have a positive attitude toward every work. Based on the explanation, the hypothesis is formulated as follows:

H6 Professional commitments have a significant effect on fraudulent financial statements with rationalization as intervening variables.

Marliani and Jogi (2015) stated that rationalization is self-justification for the reason of fraudulence, rationalization occurs because most of the fraudsters claim that what they do is normally happen in the workplace and assume that it is not a crime. Amanda (2015) states that fraudulence is caused by rationalization behavior that self-justification will convince and believe that fraudulence is legal and does not violate the rules because the experienced circumstances are considered to be reasonable. Dwi, Lestari, Sujana, and Julianto (2017) stated that the rationalization, which is part of the fraud triangle, proved that it can affect the financial statements fraud because most of the fraudsters claim that they do not commit fraud and believe that it normally occurs at work. Based on the explanation, the hypothesis is formulated as follows:

H7 Rationalization significantly affects financial statement fraud.

The framework of how this study conducted is represent in the following Figure 1.

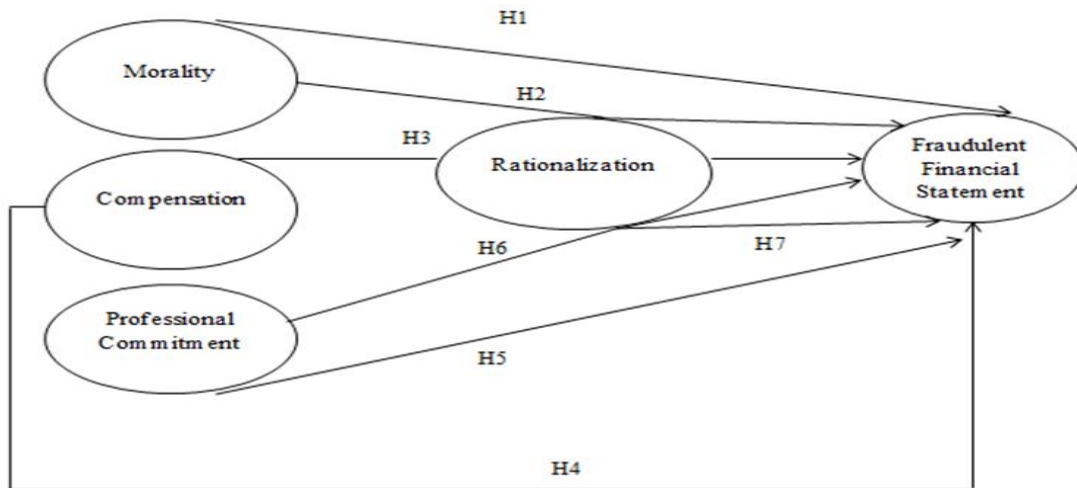


Figure-1. The Framework.

4. RESEARCH METHODS

In conducting this research, the researcher uses casual research that examines the cause-and-effect relationships of the variables. This research will observe whether one variable will affect other variables and explain one or more factors that cause problems. The data source used is primary data with a research instrument in the form of questionnaires. The population in this research was the entire units of Regional Apparatus Work in South Tangerang. The sampling techniques used were Non-Probability Sampling by using the saturated sample method, thus the total number of 36 populations was used to be the entire sample. Respondents involved in this research were employees of the finance department, from 36 questionnaires that have been distributed, there were 35 questionnaires returned because the Regional General Hospital did not respond to the questionnaire. The Analysis used in this research was structural equations modelling with the help of the SmartPLs version 3.0

5. DESCRIPTIVE STATISTICS

Based on the results of the distributed questionnaires to the respondents obtained the number of individuals who were respondents was 35 people with 19 men and 16 women. Each individual has a different level of education that is divided into three levels, there were 3 people attained diploma degree, 28 people obtained a bachelor's degree and 35 respondents earned postgraduate degrees. The empirical description of the data used the index numbers which are categorized into a range of scores based on the calculation of the Three box method (Ferdinand, 2014) which are then grouped into three levels of interpretation of index values; between index values, 20.00 to 46.67 then included in the low category, then the index value between 46.67 to 73.33 included in the moderate category and the last value is between 73.33 to 100 included in the high category. Table 1 presents a summary of the index results for each variable.

Table-1. Variable indexes.

No	Variabel	Average index value
1	Fraudulent financial statement	66. 2 .
2	Rasionalitazion	69.08
3	Morality	66. 86
4	Compensation	66. 36
5	Professional committee	71. 44

Fraudulent financial statements obtain 66.2 of an average index value and can be categorized into moderate, which means that the respondents did not deny that financial statement frauds still commonly occur and it has been prevalent to do. Rationalization has an average index value of 62.99 and included in a moderate category,

which means the respondent agrees that in certain conditions, rationalization thinking arises and can be used as a motive to take the action.

Morality has an average score of 66.51 and can be categorized into the medium category. This number shows that according to respondents, deciding an attitude to a particular situation depends on the availability of choices that can be more profitable, even though they realize that their actions are unacceptable to the social and legal norms. Compensation has an average score of 82.46 and considered a high category. This result indicates that the respondents strongly agreed that the organization should provide a decent amount of compensation to support employee welfare. The professional commitment generates an average index value for 8.29 and can be categorized as a high level. This result reveals that the respondent agrees that professional commitment is necessary for every profession to yield greater work performance and boost their careers.

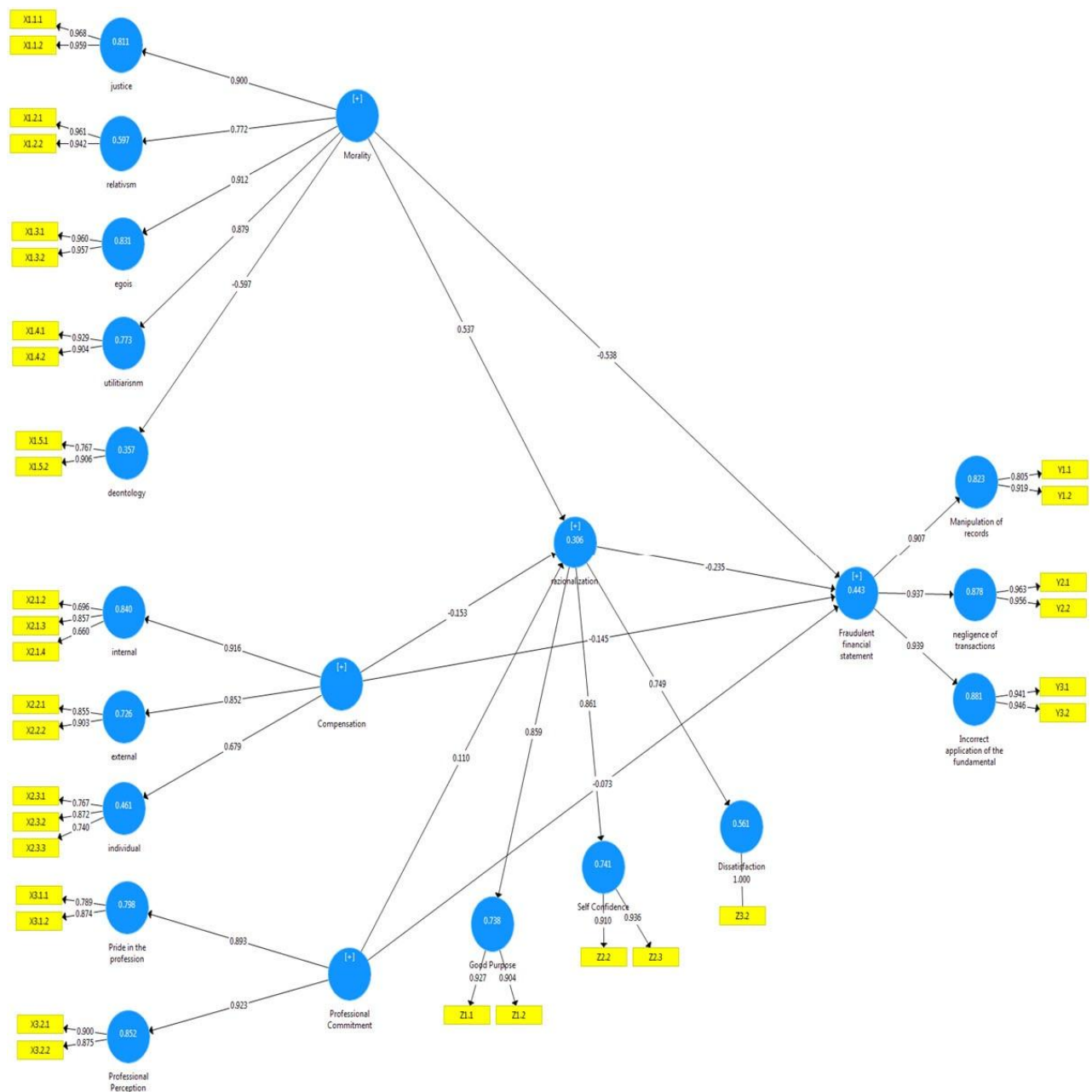


Figure-2. Outer loading Output.

5.1. Evaluating the Outer Model

5.1.1. Validity Test and Reliability Test

The validity test aims to measure the validity of a research instrument. A valid instrument means that the instrument can measure what is being measured. The validity test on the five variables was analyzed by using discriminant validity values which were analyzed based on the Average Variance Extract value, if the AVE value is greater than 0.5 then it can be concluded that there is no discriminant validity problem. The reliability test is a test aimed at the level of reliability of a research instrument. A research instrument has good reliability if the value of composite reliability between 0.60-0.70 (Ghozali, 2014). The figure 2 below shows the reliability test result and the validity test is represent in the following Table 2.

Table-2. Discriminant Validity.

No	Variabel	AVE
1	Morality	0,674
2	Compensation	0,531
3	Professional committee	0,611
4	Rasionalitazion	0,610
5	Fraudulent financial statement	0,732

5.2. Evaluating Inner Model

The evaluation of the inner model measured by using the value of predictive relevance (Q^2). The value result of the predictive relevance (Q^2) presented in Table 3.

Table-3. Predictive relevance (Q^2).

Variable	R. Square
Rationalization	0.291
Fraudulent financial statement	0.440
Predictive Relevance	0.603

After the R-square value submitted into the Formula predictive relevance, the result reveals the value of Q^2 is 0.603, which means the evaluation of the inner model is reliable in explaining the variables of financial statements fraud and rationalizations. Based on the coefficient of determination in the table above, it can be concluded that 29.1% of rationalization can be defined by morality, compensation, and professional commitment. Meanwhile, the remaining 70.9% described by other variables outside this study. The coefficient value of the financial statements fraud is 44.4% caused by morality, professional commitment, compensation, and rationalization while 55.60% is affected by external variables of this research. The predictive relevant value on this research model is 0.603 or 60.3%, which means the model can explain the phenomena of financial statements fraud related to morality, compensation, professional commitment, and rationalization. This research model has categorized appropriately and can be used to test the hypothesis.

6. RESULTS OF FINDINGS

The hypothesis testing in this study is based on the output of Smartpls ver 3.0 software. The testing hypothesis criteria of the study use a 5% signification level which means the level of confidence of the study is 95% and the probability of error is 5%. Since it uses a significant 5% on hypothesis testing, then if the value is smaller than 0.05 H_a is accepted and H_0 is rejected. The hypothesis testing results conclude that only hypothesis 1 was accepted, which is the influence of morality on the financial report fraud, whereas the other six hypotheses were rejected.

This Picture that explains the path diagram to test a hypothesis can be seen in figure 3 and a detailed overview of the hypothesis testing results can be seen in Table 4 as follows:

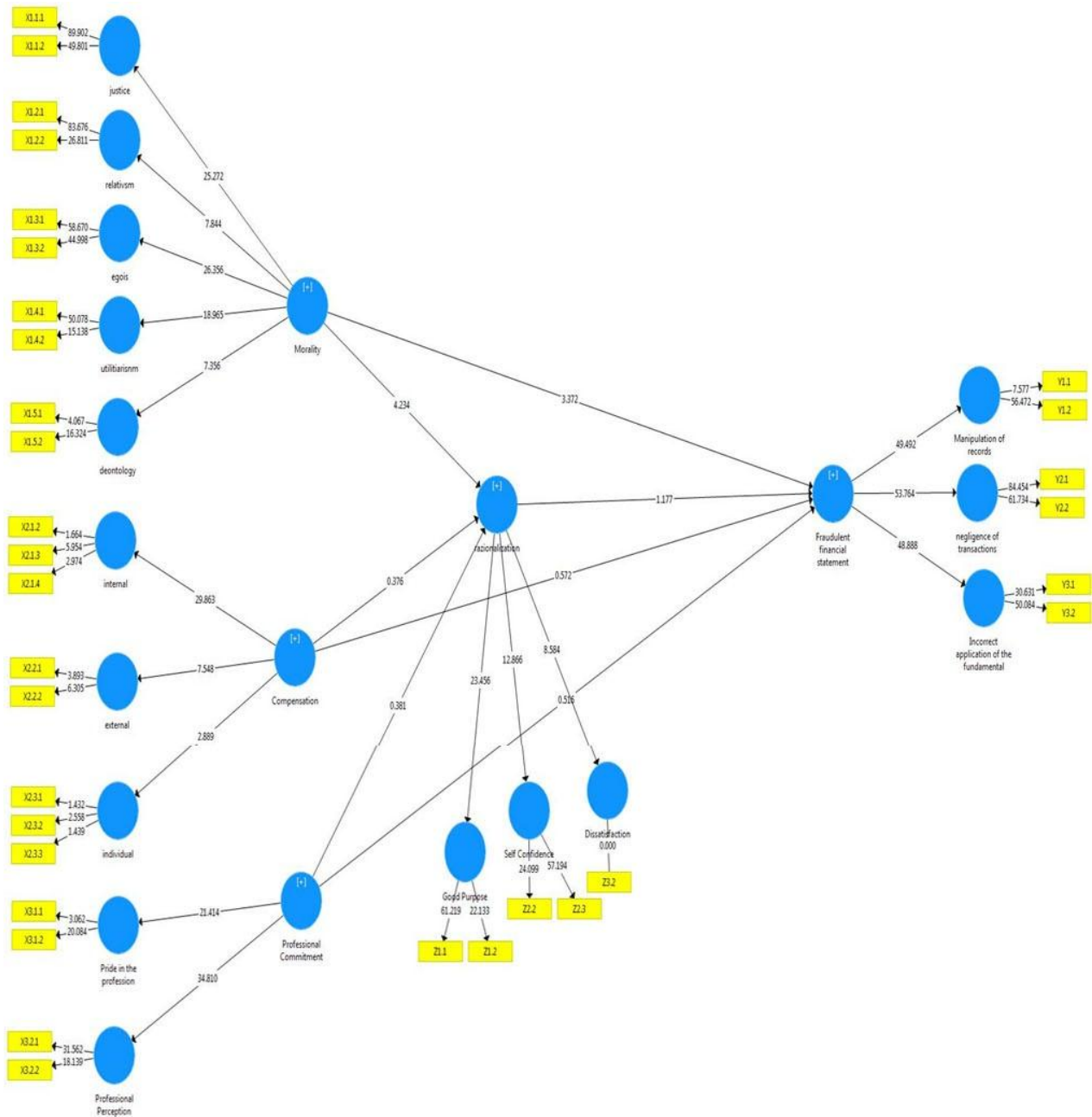


Figure-3. Hypothesis test.

The results of the first hypothesis conclude that there is a negative effect of morality to financial statement fraud. It reveals the importance of implementing moral values in life because morality can control and provide boundaries of action in social life, so that will prevent us to harm others. Kohlberg's theory of moral development declares that moral reasoning can determine an individual's attitude in overcoming the problem of ethical dilemmas. A well-mannered individual will not violate religious norms, customs, and values, therefore the higher level of morality of an individual, the lower the possibilities of financial statement fraud occurs. This study discusses (Efrizon, Febrianto, & Kartika, 2020; Morales, Gendron, & Guéni-Paracini, 2014) which stated that morality has a strong influence on fraudulence. On the other hand, Harry Krishna Mulia, Febrianto, and Kartika (2017b) discovered that morality does not affect fraudulence.

The second hypothesis reveals that morality does not affect the fraudulent financial statement with rationalization as an intervening variable. This result indicates that rationalization does not resolve the relationship

between morality and accounting report fraud. Morality is a determinant of good and bad behaviors because morals provide guidelines for individuals in social life. Bandura, Caprara, Barbaranelli, Pastorelli, and Regalia (2001) stated that a person's behavior is based on moral standards which were shape through self-regulation system. Immoral individuals do not self-justification to fraud because the moral standards within themselves are allowed to do the action. Rationalization appears to justify all deception that has occurred, hence, once someone has no morals, the existence of rationalization will not prevent them to commit fraud.

Table-4. Hypothesis results.

No	Hypothesis	Original Sample	Mean	Standard Deviaton	T statsitic	P values	Description
H1	Influence of morality against accounting report fraud	-0.545	-0.522	0.162	3.372	0.000	Significant negatives
H2	Effect of morality on fraudulent financial statements with rationalization as a intervening variable	-0.119	-0.114	0.101	1.180	0.119	No Significant
H3	Influence of compensation against fraudulent financial statements	-0.131	-0.168	0.233	0.572	0.284	No Significant
H4	The effect of compensation against fraudulent financial statements by rationalization as an intervening variable	0.015	0.008	0.062	0.241	0.405	No Significant
H5	Influence of professional commitment to fraudulent financial statements	-0.075	-0.068	0.146	0.516	0.303	No Significant
H6	Influence of professional commitment to financial statements fraud with rationalization as an intervening variable	-0.016	-0.002	0.056	0.282	0.389	No Significant
H7	Influence of rationalization of fraudulent financial statements	-0.220	-0.234	0.187	1.117	0.120	No Significant

The third hypothesis concludes the result that compensation does not affect the financial statements fraud, as explained in the agency theory that the existence of a compensation system is expected to reduce the agency problems to encourage the management works according to the desired principal. However, the current situation shows the amount of compensation received by someone cannot guarantee that individuals will work based on the direction and goals of the organization. Zuberi and Mzenzi (2019) explained that the perception of significant financial pressures from one individual may not necessarily have the same perception as other individuals, because of the lifestyle differences and greed that make humans commit fraud. The results of this study are in line with Surjandari and Martaningtyas (2015); Alou, Ilat, and Gamaliel (2017); Fauwzi (2011); which stated that compensation does not affect the financial statement fraud, but differs from the results which were concluded by

Onyuka and Otinga (2019); Dewi and Rani (2017); Conyon and He (2016) which stated that compensation affects the financial statements fraud.

The outcome of the fourth hypothesis shows that indirect compensation through rationalization does not alter the fraud in financial statements. The existence of rationalization arises from the environment which gives people considerable pressure to provide a space for someone to justify themselves from dishonest actions. The compensation received by a person no longer influence someone to think rationally because humans will never feel enough so it cannot be measured by a specific amount of money. It leads to a perspective that everything they do is not violating the rules and what they received does not fulfill their expectations and living expenses, so the probability of fraud will still occur with or without self-justification due to the financial pressure.

The result of the fifth hypothesis in this research discovers that financial statement fraud cannot be affected by professional commitment. Theory of Attribution explains the process of each individual in determining motives about his behavior, Heider (1958) in Malle and Ickes (2000) stated that the basic concept of the theory is perception, pleasure intentions, abilities and sentiments of individual behavior in giving meaning to what has been experienced. Heider (1958) in Malle and Ickes (2000) said that social perception is used as an instrumental to achieve one's goals in social interaction. Professional commitment is generated as a form of individual perception in its acceptance of all values related to the profession to show ability and pride in the profession, the professional commitment will shape the individual to be an idealist that will enact according to the provisions and rules that prevail in his profession. However, a person's behavior can change along with the motives and purposes that make him commit unethical action or behavior that is contrary to the values of his profession. Thus, the professional commitment will not be an essential consideration in committing fraud. This result is aligned with research by Mauboy and Pesudo (2019) which stated that professional commitment does not significantly influence financial statement fraud. On the other hand, Karamoy and Wokas (2015); Trinanda (2016); Wulandari and Nuryanto (2018) concluded the results that professional commitment influences accounting fraud.

The sixth hypothesis concludes that professional commitment does not affect financial statement fraud through the mediation of rationalization. Someone who works with professional commitment is expected to be able to work under professional values so that they can be wise and not easily change their minds to rationalize all actions that are considered unethical to be normal when confronted with conditions to deceive the organization and the reputation of the professional Commitment is unable to guarantee that the rationalization of individual thoughts will be better because the formed commitments depend on the loyalty and needs of each individual. Hence, it can be concluded that professional commitment does not significantly affect the rationalization of fraudulent financial statements. The discovery of this study is in line with Fauzalina (2018) but different from Pamungkas. (2016) which stated that there is an influence of professional commitment with moderation by rationalization towards accounting fraud.

The last hypothesis in this research reveals that rationalization in this study has not been proven to affect financial statement fraud. According to Mardianto and Tiono (2019) It is not easy to measure rationalization because the motives of perpetrators of fraud cannot be indicated clearly. Moreover, rationalization is not the only determinant in one's decision to commit fraud. Rationalization is part of the fraud triangle (Zuberi & Mzenzi, 2019) which states that fraud occurs because many people confronted with financial problems that cannot be disclosed, so there are perceived opportunities and rationalization which are a verbalization to justify fraud. Hence, the three elements must be present when individuals will commit fraud. The results of this study are identical with those concluded by Inayanti and Sukirman (2016); Aprilia (2017) which states that rationalization does not affect financial statement fraud while Dwi et al. (2017); Septriani and Handayani (2018) states that rationalization has a positive effect on fraud.

7. CONCLUSION, IMPLICATIONS AND SUGGESTIONS

Fraudulent financial statements in Indonesia are a phenomenon that grass root of the causes cannot be resolved, moreover, this fraud occurs in both the private and public sectors. This fraudulence is considered as normal actions. Furthermore, the thing that makes it more difficult to tackle this fraud is because of the fraudulent actions committed by people with credibility, integrity, as well as an expert at work.

The results of the study reveal that morality affects financial statements fraud while compensation and professional commitment in this study prove insufficient financial statements and the rationalization does not mediate the relationship of the independent variables to the dependent variable. The implication of this research for organizations is to entrust the management of organizations to other parties or management needed individuals who not only have intellectual intelligence but also have emotional intelligence so that organizations can be managed safely and the probability of unethical behavior can be minimized. Suggestions for further research can broaden research samples and explorations of research variables that are more varied to test for fraud factors in a larger association environment in terms of spiritual workers, work culture, work environment, and employee background.

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