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Understanding the Drivers of Fraud Tendency: The Roles of Internal Control, Accounting Compliance, Compensation Schemes, Information Asymmetry, and Managerial Ethics

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Abstract
Fraud is an intentional act to obtain personal gain that harms others. This study examines the effects of internal control, accounting compliance, compensation schemes, information asymmetry, and managerial ethics on fraud tendency in Village Credit Institutions (LPDs) in Ubud District. A total of 96 respondents were selected using purposive sampling, of whom 93 provided usable responses for analysis. Data were obtained through questionnaires and analysed using multiple linear regression. The results show that internal control, accounting compliance, and managerial ethics have significant negative effects on fraud tendency. This means that stronger internal control, greater accounting compliance, and stronger managerial ethics are associated with lower fraud tendency. Conversely, information asymmetry was found to have a significant positive effect on fraud tendency, indicating that greater information asymmetry is associated with higher fraud tendency. Meanwhile, the compensation scheme did not have a significant effect on fraud tendency. These findings indicate that fraud prevention in traditional financial organisations such as LPD needs to be supported by strong internal controls, information transparency, and high ethical values based on Tri Kaya Parisudha from its managers.
***Keywords**: Fraud Tendency, Internal Control, Accounting Compliance, Compensation Scheme, Information Asymmetry, Managerial Ethics.*

INTRODUCTION

Fraud is a phenomenon that persists across various sectors, spanning both the private and public spheres. It is defined as a deliberate act of deception for personal gain that causes loss to others (ACFE, 2024). This phenomenon frequently arises from the interplay of pressure, opportunity, and rationalization, as outlined in the fraud triangle theory (Cressey, 1953). ACFE surveys consistently rank the banking sector highest in terms of fraud incidents. In Indonesia, fraud poses a tangible threat to organizational sustainability, including community-based financial institutions such as Village Credit Institutions (Lembaga Perkreditan Desa or LPD). High levels of fraud not only undermine an institution's financial stability but also erode public trust. According to Donelson et al. (2017), the opportunity to commit fraud is a primary driver. Meanwhile, research by Kumar et al. (2018) emphasizes the importance of early detection and the strengthening of legal systems as preventive measures. A concrete example occurred at the LPD in Kedewatan Village, Gianyar, Bali, where the misappropriation of IDR 11.58 billion took place due to weak internal oversight and lapses in the management's morality

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(NusaBali.com, 2024). This case illustrates the vulnerability of internal control systems and managerial integrity in preventing fraud.

The urgency of this research is heightened by the significant role LPDs play in supporting village economies. LPDs are financial institutions owned by Balinese indigenous communities, legally regulated under Bali Provincial Regulation Number 3 of 2017. They are managed by "prajuru" (management boards) and overseen by "panureksa" (supervisory boards), which are intended to serve as the primary line of defense against potential fraud. However, reality indicates that existing internal controls have not been fully effective in minimizing fraud. Previous studies have yielded inconsistent results; for instance, research by Suryandari et al. (2023) and Febriani (2019) suggests that internal controls help reduce fraud tendency. Conversely, studies by Juliantari et al. (2021) and Wiguna et al. (2024) indicate that internal controls can actually increase fraud tendency, depending on how the system is implemented. Non-compliance with accounting regulations is another critical factor. According to Dewi (2022) and Amalia (2020), violations of accounting principles can create opportunities for the manipulation of financial statements. This aligns with findings by Cinthyani & Sulindawati (2020), which demonstrate a link between accounting compliance and the potential for fraud. Unfair compensation schemes have also been identified as a cause of increased fraud tendency. Research indicates that inequities in compensation or rewards can lead to dissatisfaction, ultimately driving employees to engage in unethical behavior or fraud within the organization (Sulastri, 2014).

Another frequently overlooked factor is information asymmetry. When management possesses information unknown to owners or other parties, the potential for manipulation is high. Previous research indicates that higher information asymmetry is associated with a greater tendency toward accounting fraud (Adwitya & Sari, 2020). Managerial ethics based on "Tri Kaya Parisudha" represent a psychological aspect that is often difficult to measure yet critically important. These ethics are rooted in Hindu teachings: "Manacika" (pure thought), "Wacika" (pure speech), and "Kayika" (pure action). A lack of ethics makes individuals prone to seeking justifications for their fraudulent actions. Studies by Wahyuni & Helmarini (2020), and Pratiwi & Werastuti (2021) demonstrate that high managerial ethics contribute to fraud prevention. Unfortunately, although internal control, accounting compliance, compensation schemes, information asymmetry, and managerial ethics have been examined in prior studies, their roles in explaining fraud tendency remain inconclusive, particularly in community-based financial institutions. This study addresses this gap by integrating formal governance mechanisms, agency-related conditions, incentive mechanisms, and culturally embedded managerial ethics within a single analytical framework.

In the local context, specifically in Bali, research regarding fraud tendency within LPDs (Village Credit Institutions) remains very limited. This study extends the existing literature by examining fraud tendency through the integration of formal governance mechanisms and culturally embedded ethical values in the context of LPDs. Specifically, internal control and accounting compliance represent formal governance mechanisms, information asymmetry reflects an agency-related condition, compensation schemes represent an incentive mechanism, and managerial ethics based on Tri Kaya Parisudha captures the culturally embedded ethical dimension of fraud prevention. The study examines not only systemic external factors such as controls and regulations, but also internal individual factors, specifically ethics. Consequently, the research is not only theoretically relevant but also of great practical importance for strengthening the governance of LPDs as community financial institutions vulnerable to fraud.

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Although Village Credit Institutions (LPDs) in Bali were established as customary-based financial institutions to support local economic development, fraud remains a concern in their management. This condition highlights the importance of examining both organizational and individual factors associated with fraud tendency. Internal control and accounting compliance represent formal governance mechanisms that may limit opportunities for fraudulent practices, while information asymmetry may create conditions that increase such opportunities. Compensation schemes represent an incentive mechanism intended to align individual and organizational interests. In addition, managerial ethics based on Tri Kaya Parisudha represents an ethical dimension that may discourage the rationalization of fraudulent behavior. Accordingly, this study examines how these five factors influence fraud tendency within the management of LPDs.

RESEARCH METHODOLOGY

This study employs a quantitative approach with an associative research design. The objective is to examine the relationships between internal control, accounting compliance, compensation schemes, information asymmetry, managerial ethics based on Tri Kaya Parisudha, and fraud tendency. The study was conducted at 32 Village Credit Institutions (LPDs) in Ubud District, selected due to the high level of LPD activity and the occurrence of fraud-related phenomena in the area. The study population consisted of 377 LPD employees, with 96 respondents selected using purposive sampling based on the criteria of serving as LPD leaders, treasurers, or tellers. The unit of analysis was the individual employee, with each respondent providing an assessment based on practices and conditions within their respective LPD.

The variables examined in this study were internal control, accounting compliance, compensation schemes, information asymmetry, managerial ethics based on Tri Kaya Parisudha, and fraud tendency. All variables were measured at the individual level based on respondents' perceptions of practices and conditions within their respective LPDs. Internal control is defined as a process designed to provide reasonable assurance regarding the achievement of organizational objectives concerning the reliability of financial reporting, compliance with laws, and operational efficiency. Its indicators are based on the Committee of Sponsoring Organizations (COSO) framework, comprising the control environment, risk assessment, control activities, information and communication, and monitoring. The questionnaire was adapted from the study by Febriani (2019). Accounting compliance refers to the extent to which management adheres to generally accepted accounting principles and rules. It was measured using three indicators: the application of financial accounting standards, timely reporting, and the appropriateness of recording procedures. These indicators were operationalized through five questionnaire items adapted from Amalia (2020).

The compensation scheme refers to the system of compensation received by employees based on their responsibilities and workload. It was measured using three indicators: fairness, adequacy, and consistency in compensation provision. These indicators were operationalized through five questionnaire items adapted from Gupta & Shaw (2014). Information asymmetry refers to a condition in which management possesses more information than other parties, such as owners or supervisors. It was measured using three indicators: transparency, openness in reporting, and information parity among parties. These indicators were operationalized through five questionnaire items adapted from Syafitri et al. (2021). Meanwhile, managerial ethics based on Tri Kaya Parisudha refers to an individual's moral commitment to performing duties honestly, grounded in the ethical principles of Tri Kaya Parisudha. It was measured using three

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dimensions: pure thought (manacika), pure speech (wacika), and pure action (kayika). These dimensions were operationalized through four questionnaire items adapted from Suryandari et al. (2023). Fraud tendency, as the dependent variable, refers to the tendency toward fraudulent practices in the management of LPDs. Fraud tendency was measured using three measurement items representing the major categories of occupational fraud, namely corruption, asset misappropriation, and financial statement fraud, based on the ACFE (2024) classification and adapted from Suryandari et al. (2023).

The data collection instrument was a questionnaire utilizing a five-point Likert scale (ranging from 1 = strongly disagree to 5 = strongly agree). Prior to the main analysis, item validity and internal consistency reliability tests were conducted to assess the adequacy of the questionnaire items. Data analysis was performed using multiple linear regression, preceded by classical assumption tests specifically normality, multicollinearity, and heteroscedasticity using SPSS software. The analysis was used to examine the effect of each independent variable on fraud tendency within the LPD context.

RESULTS AND DISCUSSIONS

The discussion of the research findings begins with an overview of the respondent profile, followed by the results of the research instrument testing, classical assumption tests, and multiple linear regression analysis examining the influence of each independent variable on fraud tendency at Village Credit Institutions (LPDs) in Ubud District.

Respondent Profile

Of the 96 questionnaires distributed, 93 were returned and considered usable for analysis. While the majority of respondents were female, the gender distribution was relatively balanced. With over six years of work experience and an age of more than 25 years, the respondents are assumed to possess a solid understanding of the control systems, accounting processes, and governance structures within their respective institutions. Regarding educational background, the majority of respondents held a high school or vocational high school qualification.

Table 1. Respondent Profile

Gender	Amount (%)	Work experience	Amount (%)
Male	44%	< 2 Years	1%
Female	56%	2– 6 Years	10%
		'> 6 Years	89%
Respondent's Age	**Amount (%)**	**Education**	**Amount (%)**
≤ 25 years old	3%	Senior High School / Vocational High School	71%
26-45 years old	43%	Diploma Education Program	13%
> 45 years old	53%	Bachelor	16%

Source: Processed from questionnaire data (2025)

Instrument Test Results

The questionnaire was assessed for item validity and internal consistency reliability. The item validity test showed that all questionnaire items for internal control, accounting

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compliance, compensation schemes, information asymmetry, managerial ethics, and fraud tendency had correlation coefficients above 0.30, indicating that all items met the predetermined criterion for item validity. Internal consistency reliability was assessed using Cronbach's Alpha. All constructs had Cronbach's Alpha values above 0.70, indicating acceptable internal consistency.

Table 2. Validity and Reliability Test Results

Variable	Measurement Item	Correlation Coefficient	Cronbach Alpha
Internal Control (IC)	IC_1	0,811	0,919
	IC_2	0,908	
	IC_3	0,856	
	IC_4	0,928	
	IC_5	0,842	
Accounting Compliance (AC)	AC_1	0,839	0,905
	AC_2	0,905	
	AC_3	0,790	
	AC_4	0,863	
	AC_5	0,858	
Compensation Scheme (CS)	CS_1	0,801	0,818
	CS_2	0,833	
	CS_3	0,823	
	CS_4	0,779	
	CS_5	0,832	
Information Asymmetry (IA)	IA_1	0,686	0,867
	IA_2	0,791	
	IA_3	0,869	
	IA_4	0,850	
	IA_5	0,851	
Managerial Ethics (ME)	ME_1	0,906	0,912
	ME_2	0,896	
	ME_3	0,819	
	ME_4	0,939	
Fraud Tendency (FT)	FT_1	0,939	0,940
	FT_2	0,947	
	FT_3	0,954	

Results of Classical Assumption Tests and Multiple Linear Regression

The normality test yielded an Asymp. Sig. (2-tailed) value of 0.178, indicating that the regression residuals did not significantly deviate from normality. Multicollinearity test results indicate that all independent variables have tolerance values greater than 0.10 and Variance Inflation Factor (VIF) values below 10, leading to the conclusion that no multicollinearity exists. The Glejser test results show that all independent variables have significance values greater than 0.05, indicating that the regression model is free from heteroscedasticity. Similarly,

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the F-test shows a calculated F-value of 38.62 with a significance level of <0.001, leading to the conclusion that the five independent variables simultaneously influence fraud tendency. The Adjusted R-Square value of 0.673 indicates that the independent variables included in the model explain 67.3% of the variation in fraud tendency, while the remaining 32.7% is attributable to other factors not included in the model.

Table 3. Multiple Linear Regression Results

Model	Coefficient	t	Significance	Tolerance	VIF
Constant	13.453	8.688	<0.001		
Internal Control (IC)	-0.156	-2.562	0.013	0.340	2.948
Accounting Compliance (AC)	-0.215	-2.439	0.018	0.224	4.490
Compensation Scheme (CS)	0.061	1.121	0.267	0.432	2.322
Information Asymmetry (IA)	0.113	2.368	0.021	0.567	1.769
Managerial Ethics (ME)	-0.202	-2.279	0.026	0.254	3.960

Source: Data processing results (2025)

The regression equation in this study is:

$$FT = 13.453 - 0.156\ IC - 0.215\ AC + 0.061\ CS + 0.113\ IA - 0.202\ ME$$

Based on Table 3, it can be seen that internal control, accounting compliance, and managerial ethics can reduce fraud tendency. Information asymmetry can increase the potential for fraud tendency, whereas the compensation scheme has no effect on fraud tendency.

Table 4. Heteroskedasticity Test Results

Model	Coefficient	t	Significance
Constant	3.299	3.845	<0.001
Internal Control (IC)	0.049	1.445	0.153
Accounting Compliance (AC)	-0.071	-1.448	0.153
Compensation Scheme (CS)	-0.002	-0.025	0.982
Information Asymmetry (IA)	-0.052	-1.954	0.055
Managerial Ethics (ME)	-0.087	-1.758	0.084

DISCUSSIONS

This discussion is presented based on the results of regression analyses performed on each independent variable. Each section is analyzed starting with the statistical results, interpreted through relevant theories, supported by prior research, and contextualized within the actual management practices of Village Credit Institutions (LPD) in Bali.

Internal Control and Fraud Tendency

The negative association between internal control and fraud tendency suggests that effective control mechanisms are important in limiting opportunities for fraudulent practices within LPDs. This finding is particularly relevant because LPD management involves relatively close interactions among managers, employees, supervisors, and members of the customary village, making clear authorization, segregation of duties, and monitoring essential for reducing opportunities for misconduct. In theory, these findings support the fraud triangle theory (Cressey, 1953), especially the opportunity element. Fraud usually occurs because of opportunities that are not covered by the system. Effective internal control through separation of duties, layered authorization, continuous monitoring and transparent communication can close these gaps. The internal control system is not only an administrative instrument, but is

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also a fundamental mechanism for preventing irregularities, increasing accountability, and ensuring the quality of financial reports (Valentina et al., 2025). From the fraud triangle perspective, effective internal control reduces opportunities for fraudulent behavior by strengthening supervision, authorization, segregation of duties, and monitoring mechanisms. Consistent and comprehensive implementation of internal control will improve corporate reputation, reduce the risk of corruption, and build public trust in the company (Mabyuni et al., 2025).

Empirically, the findings of this study are consistent with Febriani (2019), who identified a significant negative effect of internal control on fraud. However, these results differ from those of Juliantari et al. (2021) and Wiguna et al. (2024), who noted that internal controls can sometimes be exploited by perpetrators to conceal fraud. In the context of LPDs, this can be attributed to the social closeness between administrators and supervisors, which may compromise the independence of control mechanisms. Practically, LPDs need to strengthen internal audits, clarify Standard Operating Procedures (SOPs), and ensure the independent functioning of the “panureksa” (supervisory) role. Controls that are merely administrative in nature are insufficient to eliminate opportunities for fraud.

Accounting Compliance and Fraud Tendency

The negative relationship between accounting compliance and fraud tendency indicates that adherence to accounting rules can serve as an important governance mechanism within LPDs. Consistent recording and reporting practices reduce managerial discretion in processing financial information and make irregular transactions easier to identify, thereby limiting opportunities for fraudulent practices. Accounting compliance refers to an organization's obligation to observe applicable financial recording and reporting rules. From an agency theory perspective, accounting compliance can reduce agency problems by improving the reliability and transparency of financial information available to principals, thereby limiting managers’ opportunities to exploit information advantages.

These findings are consistent with Cinthyani & Sulindawati (2020), who demonstrated that accounting compliance has a significant negative effect on fraud. These findings are consistent with Cinthyani and Sulindawati (2020), who demonstrated that accounting compliance has a significant negative effect on fraud. In the context of LPDs, compliance with accounting rules may reduce managerial discretion in recording and reporting financial transactions, thereby limiting opportunities for fraudulent practices. In the context of LPDs, the requirement to account for financial statements at the year-end meeting creates social pressure, making accounting compliance a crucial factor in preventing fraud. From a practical standpoint, regular accounting training is essential, as many fraud cases stem from a poor understanding of accounting regulations.

Compensation Schemes and Fraud Tendency

The absence of a significant relationship between the compensation scheme and fraud tendency suggests that financial compensation alone may not be sufficient to shape fraudulent tendencies among LPD employees. In the LPD context, employee behavior may be influenced not only by financial incentives but also by internal control, ethical considerations, organizational responsibilities, and the social environment surrounding the institution. These findings suggest that providing fair, adequate, and consistent compensation does not

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automatically prevent employees from committing fraud. In other words, even when compensation aligns with responsibilities and workload, individuals may still engage in fraudulent acts if there is strong motivation or opportunity. This aligns with the views of Hasanah et al. (2025)dan Kusuma & Rosita (2023), who state that if an individual intends to commit fraud, appropriate compensation does not automatically deter such actions. Consequently, compensation is not the sole determinant in preventing fraud; rather, there is a need to strengthen other factors such as integrity, supervision, and internal control systems.

The results of this study are consistent with previous studies indicating that compensation schemes do not significantly influence fraud tendency (Angkabrata et al. 2025; Nugroho & Bone, 2025). They argue that deviant behavior is driven more by internal factors such as morality and ethics and external factors, such as weak oversight and non-compliance with rules. This reinforces the argument that compensation is merely a "hygiene factor"; while its presence is essential for maintaining satisfaction, it is not a sufficiently strong factor to govern employees' ethical behavior.

From the perspective of agency theory, compensation is intended to align the interests of the agent (manager/employee) with those of the principal (owner/supervisor). However, the results of this study indicate that compensation mechanisms are ineffective in mitigating the agency problem of fraud. Thus, efforts to prevent fraud at LPDs cannot rely solely on improving compensation systems; instead, a more comprehensive approach is required. This approach entails stricter oversight, the internalization of ethical values based on Tri Kaya Parisudha, and the consistent, firm enforcement of rules regarding violations. Integrating aspects of morality, organizational culture, and control systems is considered more effective at minimizing the propensity for fraud than merely addressing financial aspects such as compensation.

Information Asymmetry and Fraud Tendency

The positive relationship between information asymmetry and fraud tendency highlights the importance of information transparency in LPD governance. When managers possess information that is not equally accessible to supervisors or other stakeholders, their informational advantage may provide greater discretion to conceal irregularities or manipulate financial decisions. Agency theory explains that information asymmetry arises when agents possess more information than principals, creating opportunities for agents to use this informational advantage in ways that may increase fraud tendency.

Empirically, the results of this study are consistent with Adwitya & Sari (2020), who found that information asymmetry increases the tendency toward accounting fraud. However, Amalia (2020) reported different results, finding that information asymmetry was not significant when strict external auditor oversight was present. In the context of LPDs, external oversight is limited, as supervision is largely conducted by internal “panureksa” (internal supervisors). Customers often lack detailed access to financial reports, creating opportunities for misconduct such as the manipulation of loans and profit figures. Consequently, information transparency is crucial; financial reports need to be made more accessible and understandable to the public, and the use of information technology can help narrow the information gap.

Managerial Ethics and Fraud Tendency

The negative relationship between managerial ethics and fraud tendency indicates that ethical values can function as an internal restraint against fraudulent behavior. In the LPD context, managerial ethics based on Tri Kaya Parisudha may strengthen individual responsibility by emphasizing consistency between ethical thought, speech, and action in carrying out organizational duties. From the fraud triangle perspective, managerial ethics are particularly relevant to the rationalization dimension, as stronger ethical values may reduce an individual's ability to justify fraudulent behavior even when opportunities are present.

These findings are supported by Wahyuni & Helmarini (2020), who state that management morality has a significant negative effect on fraud. However, Setiawan & Nuansari (2025) report different results, finding that morality does not significantly influence fraud. This finding may be understood within the LPD context, where managerial ethics based on Tri Kaya Parisudha emphasize ethical thought, speech, and action in carrying out organizational responsibilities. The practical implication is that moral development and the internalization of local cultural values must be integrated into fraud prevention strategies, alongside technical mechanisms such as controls and regulations.

Overall, this study confirms that fraud tendency is influenced by a combination of structural and personal factors. Internal controls and accounting compliance serve as formal mechanisms affecting fraud tendency, while managerial ethics act as a moral safeguard against rationalization. Meanwhile, information asymmetry is a risk factor that must be mitigated through data transparency. However, incentive schemes were not found to be a driver of fraud tendency within LPDs. The findings are largely consistent with fraud triangle and agency theory, while also enriching the literature by incorporating the local, customary-based context of LPDs. The findings indicate that managerial ethics based on Tri Kaya Parisudha are associated with lower fraud tendency, complementing formal governance mechanisms such as internal control and accounting compliance. Thus, this study contributes to the literature by integrating formal governance mechanisms with managerial ethics based on Tri Kaya Parisudha in explaining fraud tendency within community-based financial institutions.

CONCLUSION

Based on the data analysis and discussion, this study concludes that fraud tendency within Village Credit Institutions (LPDs) in Ubud District is influenced by a combination of structural and personal factors. Regression results indicate that internal control, adherence to accounting standards, and managerial ethics have a significant negative impact on fraud tendency; in other words, the stronger the internal control system, the higher the compliance with accounting regulations, and the stronger the managers' ethical standards, the lower the likelihood of fraud. Conversely, information asymmetry was found to have a significant positive impact on fraud tendency, indicating that a greater information gap between managers and external parties increases the potential for the abuse of authority. However, the compensation scheme was not a significant factor in determining fraud tendency. Thus, fraud prevention cannot rely solely on formal mechanisms but also requires a balance with ethical considerations and individual integrity.

These findings carry several important implications. From a practical standpoint, LPDs need to strengthen internal controls by clarifying the segregation of duties, tightening oversight mechanisms, and enhancing the independence of the "panureksa" (internal supervisors). Accounting compliance should be improved through continuous training for management to ensure financial reports meet standards and offer greater transparency. Furthermore, information asymmetry must be minimized by providing financial reports that are easily understood by village residents and by leveraging information technology to boost transparency. At the same time, strengthening managerial ethics based on Tri Kaya Parisudha may reinforce managers' ethical commitment by emphasizing responsible thought, speech, and action in carrying out their organizational duties.

From a theoretical perspective, this study reinforces the relevance of fraud triangle theory and agency theory by showing that internal control, accounting compliance, information asymmetry, and managerial ethics based on Tri Kaya Parisudha are significantly associated with fraud tendency. The inclusion of managerial ethics based on Tri Kaya Parisudha provides an additional ethical perspective by showing that stronger managerial ethics are associated with lower fraud tendency. This enriches the literature by showing that fraud is determined not only by formal mechanisms but also by personal dimensions and cultural values. The study also offers practical contributions to the management of LPDs. The findings can serve as input for LPD administrators to improve financial governance, and for local governments and LPD associations to formulate more effective guidance and oversight policies. In particular, strengthening information transparency, internal control, accounting compliance, and managerial ethics is essential to support effective fraud prevention and maintain public trust in community-based financial institutions.

LIMITATIONS & RECOMMENDATIONS

This study has several limitations. First, the study was conducted only in Ubud District, which may limit the generalizability of the findings to LPDs in other regions of Bali. Second, the study relied on self-reported questionnaire data, including responses related to fraud tendency, which may be subject to social desirability bias because of the sensitive nature of the topic. Future research could expand the geographical coverage and employ qualitative, mixed-methods, or multi-source data to provide a more comprehensive understanding of fraud tendency in LPDs.

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