ABSTRACT

Empirical Study of Creative Accounting and Internal Control System Effectiveness and Its Influence to Business Ethics and Fraud in Financial Reporting at Public Entities in Indonesia

The purpose of this study was to prove and analyze the influence of creative accounting and internal control system effectiveness to business ethics and fraud in financial reporting. Internal control system effectiveness and business ethics expected can decrease intention of fraud in financial reporting, and also creative accounting will strengthen the influence. Agency theory (Jensen and Meckling, 1976) used to explain fraud in financial reporting. Agency theory tends to solve two problems that happened in agent, because agent (management) does not always act according to principal desire (stockholder). Desire, motivation of utilities and unequal between stockholder and management, generate possibility of management act to harm stockholder, namely intention of fraud.

The research was an explanatory research, in order to explain the influence the relation among variables through a hypothesis test. The research used stratified random sampling with respondent in this research are financial manager and research location at public entities in Indonesia, 112 managers. The data use path analysis with SPSS software.

The study give meaning for BAPEPPAM and Indonesia Stock exchange, which the result showed that creative accounting not influence to business ethic, creative accounting has a significant effect on fraud in financial reporting at public Entities in Indonesia, internal control system effectiveness has a significant effect on business ethic, internal control system effectiveness not influence to fraud in financial reporting and also business ethic has a significant negative to fraud in financial reporting at public entities in Indonesia.

Keyword: Creative Accounting, Internal Control System, Business Ethics, Fraud.