



## **SUPERIOR AUTHORITY AND FRAUDULENT ACTS IN GOODS AND SERVICES PROCUREMENT: THE ROLE OF CODE OF ETHICS**

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### **ABSTRACT**

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An increase in the number of corruption cases in the goods and services procurement at government agencies in Indonesia causes the country to suffer significant losses. This condition proves the non-compliance of the goods and services procurement officials with the code of ethics for the implementation of goods and services procurement. Corruption cases in the goods and services procurement tend to involve goods and services procurement officials, both as Budget User Authorities, Commitment Making Officials, and Technical Implementation Activities Officials. In other words, officials (superiors) use their authority to commit fraud in the goods and services procurement. The purpose of this study is to determine and evaluate the role of the code of ethics on the influence of superior authorities on fraudulent acts in goods and services procurement of government agencies in Indonesia. This study used the laboratory experiments method with the accounting students of Pattimura University, Ambon as the participants and a two-way ANOVA with a 2x3 factorial experimental design as a data analysis technique. The results of this study show that superior authority plays an important role in influencing the occurrence of fraudulent acts in the goods and services procurement, and a code of ethics can reduce it. There is a difference in the tendency to commit fraud in the goods and services procurement when there is a superior authority and no superior authority. The tendency to commit fraud will be smaller for individuals who are asked to read the code of ethics and signatures it compared to only reading the code of ethics and without a code of ethics.

#### **KEYWORDS:**

Superior authority; code of ethics; fraudulent acts; goods and service procurement

**DOI: 10.28986/jtaken.v5i2.374**

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#### **ARTICLE HISTORY:**

**Received at :** 03 October 2019

**Published at :** 28 December 2019

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## INTRODUCTION

Fraud is still a major issue of research in various disciplines, particularly concerning the management of public sector organizations. Tuanakotta (2013) explains that cheating is any illegal action characterized by deception, concealment or breach of trust. This action does not depend on the application of threats of violence or physical force. Fraud committed by individuals and organizations to obtain money, wealth or services, to avoid payment or loss of services, or to secure personal business interests. One form of fraud that often occurs in public sector organizations is corruption. Table 1 shows the prosecution of corruption cases in public sector organizations from 2016 to 2018.

The highest number of corruption cases occurred in 2017 involving more suspects and resulting in greater losses than in 2016 and 2018. The lowest number of corruption cases and suspects occurred in 2018. However, the country still suffered four times greater losses than in 2016, thus the decreasing number of cases and suspects does not mean that the number of state losses also reduced. This shows the high intention of the perpetrators in obtaining personal benefits as much as possible.

The type of corruption that has received public attention is the corruption case in the goods and services procurement. The largest percentage of the number of corruption cases in the goods and services procurement oc-

curred in 2018, while the largest number of state losses occurred in 2017. This condition shows that perpetrators tend to do corruption through the goods and services procurement. The case involved several regional officials at both the executive and legislative levels. That happens because the perpetrator using his authority to fulfill their personal interests through connections to win project tenders or directly orders their subordinates to commit fraud to meet their interests.

Bawa and Yasa (2016) give an example of authority abuse, namely the case of the Mayor of Tanjung Balai who ordered his subordinates to commit fraud to meet their needs. The Mayor instructs the Head of the Local Government Work Unit (SKPD) to deposit six percent of the total budget disbursed to himself, both from the routine budget and the activity expenditure budget. The deposit is made shortly by the head of the SKPD directly or by the SKPD representative concerned after the budget is disbursed. None of the heads of SKPD dared to oppose fearing that his position would be threatened. This example of superior authority abuse shows that fraud is carried out in a structured way from the head of the local government to SKPD subordinates.

Bawa and Yasa (2016) explain that superiors who suggest cheating might encourage subordinates to take unethical actions with consideration of the responsibility lies with their superiors. In addition, Milgram (1974) explained that individuals who were ordered to

**Tabel 1.** Corruption Cases Enforcement in 2016-2018

Years	Corruption Cases			Corruption Cases in Goods and Services Procurement		
	Number of Cases	Number of Suspects	Value of State Losses	Number of GSP Cases	% Number of GSP Cases	Value of State Losses from of GSP Cases
2016	482	1.101	Rp.1,450 Trillion	195	41%	Rp. 680 Billion
2017	576	1.298	Rp.6,500 Trillion	241	42%	Rp.1,500 Trillion
2018	454	1.087	Rp.5,645 Trillion	214	47%	Rp. 973 Billion

Source: Indonesia Corruption Watch (2016; 2017; 2018)

do unethical actions by their superiors would obey these orders because he saw himself as a tool for carrying out unethical actions by his superiors, so he felt no need to be responsible for these actions. In contrast, Mayhew and Murphy (2014) state that in the condition of subordinates not given authority by their superiors to commit fraud, subordinates will be more careful to commit fraud because they realize that they must be responsible for the fraud committed.

The involvement of superiors in committing fraud is supported by the ineffectiveness of the code of ethics in the organization. Financial Services Authority (OJK) (2014) explains that one of the scopes of the code of ethics is the rules about allowed and not allowed behavior for all members of the organization. In the context of managing goods and services in public sector organizations, there are also rules regarding the code of ethics for the goods and services procurement. For example, the Buleleng Regent's Regulation 2018 on a code of ethics for the goods and services procurement in the procurement services division. The regulation explains that the code of ethics is intended as a professional guide for individual structural officers, goods and service managers and procurement officials for functional officials of goods and services responsible for carrying out tasks and goods and services procurement activities. Those include planning, analysis, assessment, evaluation, decision-making, consulting services, and other related services (Regulations of the Head of Buleleng Regency in 2018). Narsa and Supriyadi (2017) examine the role of corporate codes of ethics in reducing managerial behavior that increases with agency theory. The result shows that a codes of ethics can reduce individuals to escalate commitments in the event of adverse selection.

Based on these matters, the formulation of the problem of this study is whether the code

of ethics plays an important role in reducing the influence of superior authorities on fraudulent actions in the goods and services procurement. The purpose of this study is to determine and analyze the role of the code of ethics in influencing superior authority in fraud in the goods and services procurement.

### **Superior Authority and Fraudulent Acts in Goods and Services Procurement**

Moral disengagement theory explains that individuals use rationalization to justify unethical actions (Bandura 1991; 1999). This theory is one important part of the fraud triangle theory by Cressey (1953). Superiors order subordinates to commit fraud. Subordinates commit fraud based on orders from superiors and then rationalize their actions by reason that responsibility rests with their superiors. Supporting theory shows that subordinates' compliance with superiors to commit fraud is influenced by individual internal and external factors. Internal factors such as obeying orders from superiors in hopes of promotion, and external factors such as manipulation of numbers to meet reporting targets on orders from superiors due to family economic conditions.

Mayhew and Murphy (2014) explain that when subordinates are not given authority from superiors to commit fraud, then subordinates will not commit fraud. This condition occurs because subordinates realize that the responsibility of cheating behavior is fully borne by the subordinates because the fraud is done because of their own desires. Milgram (1974) explains that individuals who receive orders from superiors to commit acts of fraud will obey these orders because the individual sees himself as a means for superiors to act according to orders given, so he feels no need to be responsible for these actions.

The results of the study of Bawa and Yasa (2016), Mayhew and Murphy (2014), Sofyani and Pramita (2015), Sofyani and Rahma (2015) show that there are differences in fraud in the condition that there is superior authority to commit fraud and without superior authority to commit fraud. Individuals who receive authority from superiors will commit fraud compared to individuals who do not receive superior authority. The hypothesis proposed by the author is:

H1: Superior authority influences the tendency to commit fraud in goods and services procurement

### **Code of Ethics and Fraudulent Acts in Goods and Services Procurement**

Cressey (1953) introduced fraud triangle theory through three important concepts, namely pressure, opportunity, and rationalization. These three concepts are the basis of individuals practicing cheating. Tehupuring and Lingga (2017) explain that pressure involves situations where individuals need more benefits such as getting bribes and can also arise from job problems and unrealistic performance targets. Opportunities arise when individuals have access to assets and information that triggers individuals to commit fraud. Rationalization involves individuals to align their behavior with general ideas received through politeness and trust. Dishonest individuals tend to rationalize fraudulent practices more easily.

Maslow (1943) explains that pressure is an innate condition felt by every individual and exists at every level of work. Individuals at each level of work despite having a code of ethics but still not immune to pressure to commit fraud, whether internal pressure through the need for job promotion or external pressure originating from the executive level who wants financial statement figures to meet the specified target level (Payne et al., 2019). Code of ethics basically designed

to promote good the professional practice, integrity as well as strong commitment to high standards in dealings with clients (Owolabi 2002).

Cressey and Moore (1983) point out that the existence of a code of ethics and the affidavit of compliance often signed by the employee indicate that if the code is violated it will be subject to sanctions. Furthermore, Cressey and Moore (1983) show that in fact, the corporation is like a private government that has enacted "laws" (codes of ethics) that emphasize the need for conformity to those laws in order to protect the corporate establishment. Wotruba et al. (2001) explain that the code of ethics has three main roles for organizations, namely the code of ethics can demonstrate organizational concern for ethics, the code of ethics can transmit organizational ethical values to its members, and the code of ethics can have an impact on ethical behavior on members of an organization. Furthermore, Wotruba et al. (2001) show that codes of ethics can influence manager's judgment and decision making only if managers are familiar with the contents and objectives of the code. The existence of a code of ethics in an organization does not guarantee that all members of the organization will know it, understand it, and use it to guide their attitudes and actions. Thus, so that the code of ethics is truly familiar in an organization, then all members of the organization must not only know the existence of the code of ethics, but also must know its contents, so that it can influence their ethical awareness and behaviour.

Individuals who are involved in their work and are responsible for managing the goods and services procurement have the opportunity to commit fraud in the goods and services procurement. Payne et al. (2019) explain that opportunity is a fundamental factor in triangle fraud theory because it is most vulnerable to fraud. Individual opportunities

to commit fraud caused by weak internal control systems and ineffective implementation of ethical codes. Individuals who only read the code of ethics have the opportunity to commit fraud in the goods and services procurement because they are considered not bound in writing (signing a code of ethics agreement) compared to individuals who certify themselves by signing the agreement. The effective application of a code of ethics is when fraud practices are reduced. West (2018) explains that even without a code of ethics, individuals who have responsibilities in their work will not commit fraud despite the pressure.

When the code of ethics is combined with self-certification, namely through the signature of members of the organization, it is predicted to increase the value of responsibility for their work. Orin (2008) shows that 31% of organizations implement their code of ethics by asking for self-certification in the form of signatures to the CEOs, managers, and cross-employees. Davidson and Stevens (2013) show that individuals who give a check mark to be willing to comply with a code of ethics after reading a code of ethics can reduce the opportunistic behavior of managers. Individuals who do self-certification tend to focus more on social norms that are expected to be consistent in shaping their self-identity. The hypothesis proposed by the author is:

H2: The code of ethics influences the decreasing tendency to commit fraud in goods and services procurement

If H2 is proven significantly, the author continue to test H2a, H2b and H2c as follows.

H2a: Individuals show more tendency not to commit fraud in the goods and services procurement when there is a code of ethics that must be read than when there is no code of ethics.

H2b: Individuals show more tendency not to commit fraud in the goods and ser-

vices procurement when asked to conduct self-certification of a code of ethics than when only asked to only read the code of ethics.

H2c: Individuals show more tendency not to commit fraud in the goods and services procurement when asked to conduct self-certification of a code of ethics than when there is no code of ethics.

### **Superior Authority, Code of Ethics, and Fraudulent Acts in the Goods and Services Procurement**

Fraud triangle theory (Cressey, 1953) and moral disengagement theory (Bandura, 1991; 1999) explain that one individual factor is cheating through the rationalization of his actions. Subordinates who receive orders from superiors to commit fraud tend to obey orders from superiors because the responsibility lies with their superiors, so that subordinates can rationalize their actions. This condition shows that subordinates obey superiors' orders, even though their actions are contrary to ethics. The cause of subordinate compliance with superiors' orders is influenced by internal and external factors. Internal factors because subordinates want to benefit from their actions such as a promotion or retain their current position, while external factors such as manipulation of numbers to meet reporting targets on orders from superiors due to family economic conditions.

Payne et al. (2019) explain that individuals who are involved in their work and are responsible for managing goods and services procurement have the opportunity to commit fraud in the goods and services procurement. This condition occurs because it is influenced by the implementation of an ineffective code of ethics. Individuals at every level of work, even though they have a code of ethics, do not mean that they are immune

to the pressure to commit fraud, both internal and external (Payne et al., 2019). In the case of superior authority with the effective application of a code of ethics (the individual in whom has read the code of ethics and signed an organizational code of ethics agreement) will reduce the tendency of individuals to commit fraud compared to individuals who only read the code of ethics without having to sign the agreement. When individuals read and sign after reading a code of conduct shows that the individual has agreed to comply with regulations in the organization, so that individuals feel responsible for doing work in accordance with the code of ethics. The effectiveness of the application of the code of ethics is to increase the integrity and professionalism of the organization, thereby reducing unethical actions such as fraud. Based on the description, the hypothesis proposed is

H3: There is a difference in the tendency to commit fraud in the goods and services procurement when there is a superior authority and there is no superior authority at the three levels of the code of ethics.

If H3 is proven significantly, then the author will continue the H3a, H3b and H3c tests as follows.

H3a: The difference in the tendency to commit fraud in the goods and services procurement when there is a superior authority and no superior authority will be smaller for individuals who are asked to read the code of ethics compared to individuals who are not exposed to the code of ethics.

H3b: The difference in the tendency to commit fraud in the goods and services procurement when there is a superior authority and no supervisory authority will be smaller for individuals who are asked to conduct self-certification of the code of ethics compared to individuals who are only asked to read the

code of ethics only.

H3c: The difference in tendency to commit fraud in the goods and services procurement when there is a superior authority and no supervisory authority will be smaller for individuals who are asked to conduct self-certification of the code of ethics compared to individuals who are not exposed to the code of ethics.

## RESEARCH METHOD

The experimental method is a research design to investigate a phenomenon by manipulating a condition or condition through certain procedures and then observing the results of the engineering and interpreting it (Nahartyo, 2013). The author manipulates the independent variable and observes the effect of manipulating the variable through the dependent variable. This study adapted and modified the five previous studies (Bawa & Yasa, 2016; Mayhew & Murphy, 2014; Narsa & Supriyadi, 2017; Sofyani & Pramita, 2015; also Sofyani & Rahma, 2015) to establish an experimental module and then discuss the validity of the research module with several lecturers who supported subjects relevant to this study to improve the quality of the research module. This discussion is important to know the validity, experimental procedures, and case material in order to obtain the perfection of the experimental design (Nahartyo & Utami, 2015).

### Research Subject

This study conducted through a laboratory experiment with accounting students at Patimura University in Ambon play the role of the head of the SKPD who managed and was responsible for the procurement of goods and services. The selection of participants in this experiment is carried out by the author through manipulation checks. The author used a laboratory experiment using universi-

ty students as the participants rather than officials managing goods and services procurement to eliminate biases. Those such as, psychological pressure due to the organizational environment and positions in government structures that have a tendency not to respond to the actual conditions because it is related to ethics, morals, and the responsibility of the manager of the goods and services procurement that is quite sensitive (Sitanala, 2019).

The subjects of this research experiment were accounting students at Pattimura University, Ambon. The use of accounting students as research subjects is a third person as explained by Liyanarachi and Newdick (2009) for ethical research. The aim is to reduce the subject's response bias when the subject is faced with a variety of sensitive ethical issues. The accounting students at Pattimura University are chosen as experimental subjects because (1) accounting students have been equipped with a comprehensive understanding of various ethical issues and public sector accounting, so that accounting students have taken and passed business and professional ethics and public sector accounting courses; and (2) the topic under study is related to ethical, moral, and sensitive responsibility issues if done directly to the head of the SKPD, so accounting students are better suited as subjects to obtain an actual response without psychological pressure (Sitanala, 2019).

### **Experimental Procedure**

The independent variables of this study are superior authority and a code of ethics. Meanwhile, the dependent variable is fraudulent acts in the goods and services procurement. Bawa and Yasa (2016) explain that the authority of superiors who suggest doing fraud can encourage subordinates to take unethical actions because subordinates realize the responsibility lies with their supe-

riors. Measurement of superior authority in this study uses two treatments, namely, the condition of superior authority and no superior authority. A brief description of the two conditions is as follows.

1. The condition of superior authority. The condition of superior authority occurs when the head of the SKPD is given power by the regent as a budget user and user of goods and instruct the head of the SKPD to take unethical actions by depositing a number of costs for the project handled by the head of the SKPD for the personal benefit of the regional head.
2. The condition of no superior authority. The condition occurs when the head of the SKPD is authorized by the regional head as the budget user and user of the goods, including coordinating and being responsible for the goods and services procurement in the scope of service. However, regional heads do not instruct SKPD heads to take unethical actions.

Measurement of fraudulent acts in the goods and services procurement uses the case of a bridge construction project and the response of the subject's decision as the head of the SKPD to approve or disapprove the offer of his old friend's company to win the bridge construction project. Fraudulent acts in the goods and services procurement is the SKPD's head act in accepting his close friend's offer to win the bridge construction project and get a fee share according to the agreement. The measurement is using the 1-10 Skert Likert. Subjects who choose the Likert scale 1-5 indicate the subject's decision not to accept the offer of his old friend's company, on the other hand the subject who chose Skala 1-6 indicates the subject's decision to accept his old friend's company offer.

Measurement of the code of ethics in this study uses three conditions, is as follows.

1. The conditions that there's a code of ethic and self-certification. The condition oc-

curs when SKPD has a code of ethics which is an inseparable part of the internal regulations of the organization and must be applied in all layers of SKPD members, so it is obliged to read, understand, and comply with the SKPD code of ethics. The form of implementing the SKPD code of ethics is to read the contents of the code of ethics and provide a signature (self-certification) on the letter of compliance with the contents of the code of ethics.

2. The condition that there is a code of ethics and no self-certification. The condition occurs when the SKPD has a code of ethics that forms an inseparable part of the organization's internal regulations, and must be applied in all layers of SKPD members, so it is obliged to read, understand, and comply with the SKPD code of ethics. The form of implementing the SKPD code of ethics is reading the contents of the code of ethics (without a signature).
3. The condition of no code of ethics. The condition occurs when SKPD does not have a code of ethics which is an inseparable part of the internal regulations of the organization.

The experimental module consists of six types according to the treatment conditions and is classified as Groups 1-6. Group 1: the condition that there is a superior authority, a code of ethic and self-certification; Group 2: the condition that there is a superior authority, a code of ethics and no self-certification; Group 3: the condition that there is a superior authority, no code of ethics; Group 4: the condition that there is no superior authority,

a code of ethics and self-certification; Group 5: the condition that there is no superior authority, no code of ethics and no self-certification, and Group 6: the condition that there is no superiority and no code of ethics. The experimental design is presented in Table 3.

### Data Analysis Technique

The hypothesis will be tested by using two-way analysis of variances (ANOVA). The use of ANOVA requires the author to tests several assumptions, namely normality and homogeneity. The normality test was carried out through the Kolmogorov Smirnov one-sample test with the provisions that is if sig. >0.05, then the residuals are normally distributed. Meanwhile, the homogeneity test uses the Levene's test with the provisions that is, if sig. > 0.05, then the residual is homogeneous. Two-way ANOVA 2x3 factorial experimental design to examine the role of the code of ethics on the influence of superior authority and fraudulent acts in the goods and services procurement.

## RESULT AND DISCUSSION

This study uses two questions to check the manipulation of the whole scenario given to the subject. The overall subject response will be used by the author to determine the success of the subject participating in the experiment. That is, the subject understands his role as head of the SKPD. Thus, subjects who only pass the manipulation check will be used to test the research hypothesis.

**Table 3.** Experimental Design

Superior Authority	Code of Ethics		
	Yes & Self Certification	Yes & No Self Certification	No
Yes	Group 1	Group 2	Group 3
No	Group 4	Group 5	Group 6

The author grouped the subjects into six groups and provide different treatments for each group. The total number of subjects who took the experiment is 82 subjects consisting of 14 subjects for each group 1-4 and 13 subjects for each group 5-6. Furthermore, the results of manipulation checks show that the total number of subjects who passed the manipulation check and used in testing hypothesis was 73 subjects. Table 4 shows the demographics of the subjects used in this study.

Based on Table 4, female subjects were more dominant (66%) than men (34%), and subjects aged between 21-23 years were more dominant (55%) compared to subjects aged between 19-20 years (45%). The author then conducted a randomization test with the aim to find out the distribution of each subject was

evenly distributed for each group.

Based on the results of the randomization test in Table 5, it can be seen that the gender of the subject has a test value of  $F = 0.023$ , and  $Sig = 0.880$ ; and the age of the subject has a test value of  $F = 0.860$ , and  $Sig = 0.357$ . The randomization test results showed that there were no significant differences between the male and female sex treatment groups, as well as the subject's age treatment group which ranged between 19-20 years and ages 21-23. The author concludes that the subjects used in this study have been distributed evenly. The author then conducts an assumption test as a condition that must be met before conducted the ANOVA test. The assumption test is a test for normality and homogeneity. The results of

**Table 4.** Subject Demographics

Variable	Treatment Group	Category	N	Percentage	Total
Gender	Group 1	Male	6	50%	Male = (34%) Female = (66%)
		Female	6	50%	
	Group 2	Male	2	17%	
		Female	10	83%	
	Group 3	Male	3	25%	
		Female	9	75%	
	Group 4	Male	7	54%	
		Female	6	46%	
	Group 5	Male	3	25%	
		Female	9	75%	
	Group 6	Male	4	33%	
		Female	8	67%	
Age	Group 1	19-20	8	67%	19-20 = (45%) 21-23 = (55%)
		21-23	4	33%	
	Group 2	19-20	5	42%	
		21-23	7	58%	
	Group 3	19-20	5	42%	
		21-23	7	58%	
	Group 4	19-20	6	46%	
		21-23	7	54%	
	Group 5	19-20	5	42%	
		21-23	7	58%	
	Group 6	19-20	4	33%	
		21-23	8	67%	

**Table 5.** Randomization Test Results

Notes	F-Test	Sig.
Gender	0.023	0.880
Age	0.860	0.357

normality test through one-sample Kolmogorov Smirnov with Sig = 0.329 > 0.05. The results of this test indicate that this research model has a normally distributed residual. Thus, the normality assumption test has been fulfilled. The homogeneity test results through the Levene's test with a Sig = 0.459 > 0.05. The result indicates that the research model has homogeneous residual variants. Thus, testing the homogeneity assumption has been fulfilled.

Hypothesis 1 (H1) testing, that is, superiors' authority has an important role in influencing the tendency of goods and services procurement fraud. The author used the 2x3 factorial two-way ANOVA test to test the first hypothesis. Table 6 shows the results of the 2x3 factorial two-way ANOVA test.

Table 6 shows that superior authority (OTA) has a value of F = 13.107, and Sig = 0.001 < 0.010. This result indicates that the superiors' authority has an important role in influencing the tendency of fraud in goods and

**Table 6.** Two-Way ANOVA Factorial 2X3

Source	Df	Mean Square	F	Sig.
Corrected Model	5	28.240	13.127	0.000***
Intercept	1	2514.653	1168.868	0.000***
OTA	1	28.199	13.107	0.001***
KOD	2	46.033	21.397	0.000***
OTA X KOD	2	10.698	4.973	0.010***
Error	67	2.151		
Total	73			
Corrected Total	72			

R<sup>2</sup> = 0.495

Adjusted R<sup>2</sup> = 0.457

Notes: \*\*\* significance at 1%

OTA : Superior Authority

KOD : Code of Ethics

services procurement. Thus, hypothesis 1 (H1) is supported. Individuals who receive orders from superiors to commit acts of fraud will obey the orders because the individual sees himself as a means of superiors to act in accordance with orders from superiors, so he feels no need to be responsible for these actions (Milgram, 1974). The findings of the study of Bawa and Yasa (2016), Mayhew and Murphy (2014), Sofyani and Pramita (2015), Sofyani and Rahma (2015) showed that there were differences in accounting fraud in the condition that there was a superior authority to commit fraud and without a supervisory authority to commit fraud. Superiors use their authority to order subordinates to commit acts of fraud and then subordinates rationalize their actions based on the thought that the responsibility lies with their superiors. This action is in accordance with one important part of the fraud triangle theory. Compliance with superiors' orders is influenced by internal factors such as the need for promotion because of obeying superiors' orders, and external factors such as manipulation of numbers to meet reporting targets on the orders of superiors due to family economic conditions.

Hypothesis 2 (H2) testing, that is, the code of ethics influences the tendency of fraud in goods and services procurement. The author used the 2x3 factorial two-way ANOVA test and descriptive statistics to test the second hypothesis. Table 7 shows the results of the descriptive statistics of the research variables.

Table 7 shows that the response of subjects with the smallest decisions is the group with a code of ethics and self-certification (Group 1 and 4) which have an average value of 4.32 and the largest is the group without a code of ethics (Group 3 and 6) which have an average value of 6.92 . The mean values have a significant difference at the level of 1% (F = 21,397, and Sig = 0,000 < 0.010). The results

showed that the code of ethics affected the reduction in the tendency of goods and services procurement fraud. Thus, hypothesis 2 (H2) is supported.

The objective of the implementation of the code of ethics is to increase the integrity and professionalism of the organization. Individuals who are involved in their work and responsible for managing the goods and services procurement have the opportunity to commit fraud in the goods and services procurement. Individuals who uphold organizational ethics will uphold the applicable code of ethics, so individuals will try to behave ethically by not cheating on the goods and services procurement. Furthermore, because hypothesis 2 was accepted, the author then tested hypotheses 2a, 2b, and 2c by looking at the results of the post hoc test through the Tukey test.

Table 8 shows that the difference in the mean value of the group with a code of ethics and no self-certification (Group 2 and 5) with the group without a code of ethics (Group 3 and 6) is 0.54167 (1% level, Sig = 0.695 > 0.05) is not significant. The results show that individuals do not show a tendency not to commit fraud in the goods and services procurement when there is a code of ethics that must be read compared to when there is no code of ethics. Thus, hypothesis 2a (H2a) is not supported. Individuals who only read the code of ethics or there is no code of ethics in the organization cannot influence the fraudulent acts in the goods and services procurement because the individual feels not bound in writing through self-certification (signature of the code of ethics read) compared to individuals who conduct self-certification.

Meanwhile the difference in the mean value between the group with a code of ethics and

**Table 7.** Descriptive Statistics of Research Variables

Superior Authority	Code of Ethics			Total
	Yes & Self-Certification	Yes & No Self-Certification	No	
Yes	Group 1 (N=12) (Mean=4.42) (Std.Dev=1.37)	Group 2 (N=12) (Mean=5.17) (Std.Dev=1.64)	Group 3 (N=12) (Mean=6.17) (Std.Dev=1.74)	(N=36) (Mean=5.25) (Std.Dev=1.74)
No	Group 4 (N=13) (Mean=4.23) (Std.Dev=1.23)	Group 5 (N=12) (Mean=7.58) (Std.Dev=1.24)	Group 6 (N=12) (Mean=7.67) (Std.Dev=1.37)	(N=37) (Mean=6.43) (Std.Dev=2.06)
Total	(N=25) (Mean=4.32) (Std.Dev=1.28)	(N=24) (Mean=6.38) (Std.Dev=1.88)	(N=24) (Mean=6.92) (Std.Dev=1.76)	(N=73) (Mean=5.85) (Std.Dev=1.99)

**Table 8.** Tukey Test

Group	Mean Difference	Standard Error	Sig.	Result
2 & 5 vs 3 & 6	0.54167	0.49597	0.695	H2a not supported
1 & 4 vs 2 & 5	2.05500	0.49099	0.000***	H2b supported
1 & 4 vs 3 & 6	2.59667	0.49099	0.000***	H2c Supported

self certification (Group 1 and 4) and with a code of ethics and no self-certification (Group 2 and 5) is 2.05500. The difference is significant at 1% level (Sig = 0.000 < 0.010). Thus, hypothesis 2b (H2b) is supported, individuals showed more tendency not to commit fraud in the goods and services procurement when asked to conduct self-certification of a code of ethics than when only asked to read a code of ethics. An effective code of ethics implementation is when individuals read the code of ethics and sign after reading the code of ethics as an attitude of complying with regulations both verbally and in writing, so that individuals will feel responsible for doing work in the organization compared to individuals only reading the code of ethics. The implementation of an effective code of ethics is when the practice of cheating decreases. Individuals who carry out a self-certification will assume that they are fully responsible for their work. This condition will affect the increase in commitment to achieve organizational goals while sticking to organizational regulations.

As for Hypothesis 2c (H2c) testing, the difference in the mean value of the group with a code of ethics and self-certification (Group 1 and 4) and with the group of no code of ethics (Group 3 and 6) is 2.59667. The difference is significant at 1% level (Sig = 0.000 < 0.010). Thus H2c is supported, the individuals showed more tendency not to commit fraud in the goods and services procurement when asked to conduct self-certification of a code of ethics than when there was no code of ethics. Thus, hypothesis 2c (H2c) is supported. A form of individual compliance with an organization is when an individual reads the code of ethics and signs after reading the code of ethics as an attitude of complying with regulations verbally and in writing. The consequence is that individuals will feel responsible for the organization, so that individuals will uphold the ethical values of the organization contained in the code of ethics

compared to there is no code of ethics in the organization.

The implementation of an effective code of ethics is when the practice of cheating decreases. West (2018) explains that even without a code of ethics, individuals who have responsibilities in their work will not commit fraud despite pressure. The code of ethics is intended as a professional guideline for individual structural officials, goods and service procurement managers and functional officers in the goods and services procurement who are responsible for carrying out the duties and activities of the goods and services procurement which include planning, analysis, assessment, evaluation, decision making, service advisory consulting and other related services. The positive implication of applying the code of ethics is to uphold the integrity, honor and dignity of the goods and services procurement profession, thereby reducing unethical actions such as fraud.

H3 testing, that is, differences in tendency to commit fraud in goods and services procurement when there is a superior authority and no superior authority will be different at the three levels of the code of ethics. The author used the 2x3 factorial two-way ANOVA test to test the second hypothesis. Based on Table 9, it can be seen that the interaction between superior authority and the code of ethics has a value of  $F = 4,973$ , and Sig. is  $0.010 = 0.010$ . Thus, hypothesis 3 (H3) is supported. Furthermore, because hypothesis 3 is supported as a requirement for the main effect test to be significant, the author then tests hypotheses 3a, 3b and 3c.

Hypothesis testing 3a (H3a) that is, differences in tendency to commit fraud in the goods and services procurement when there is a superior authority and no superior authority will be smaller for individuals who are asked to read the code of ethics compared to individuals who are not exposed to

the code of ethics. The author used the 2x2 factorial two-way ANOVA test to see the interaction between superiors' authority and the code of ethics for Groups 2 and 5 with

**Table 9.** ANOVA Factorial 2x2 Interaction of Group 2 and 5 vs Group 3 and 6

Source	Df	Mean Square	F	Sig.
Corrected Model	3	17.354	7.278	0.000***
Intercept	1	2120.021	889.095	0.000***
OTA	1	46.021	19.300	0.000***
KOD	1	3.521	1.477	0.231
OTA X KOD	1	2.521	1.057	0.309
Error	44	2.384		
Total	48			
Corrected Total	47			

R<sup>2</sup> = 0.332  
Adjusted R<sup>2</sup> = 0.286  
\*\*\* significance at 1%

Groups 3 and 6. Table 9 shows the results of the two-way factorial ANOVA 2x2 Group 2 and 5 interactions with Groups 3 and 6.

The difference of the mean value between Group 2 and Group 5 is 2.41 and the difference of the mean value between Group 3 and Group 6 is 1.50. The author used a two-way factorial 2x2 ANOVA in Table 12 and showed that the interaction between superior authority and the code of ethics was not significant (F = 1.057; and Sig = 0.309 > 0.05). This condition shows that the mean value of 2.41 and 1.50 does not differ significantly. The results showed that H3a is not supported. There is no difference in the tendency to commit fraud in the procurement of goods and services when there is a superior authority and without superior authority whether there is a code of ethics and no self-certification or without being exposed to a code of ethics.

Hypothesis testing 3b (H3b) that is, differences in tendencies to commit the goods

and services procurement when there is a supervisory authority and no supervisory authority will be smaller for individuals who are asked to conduct self-certification of the code of ethics compared to individuals who are only asked to read the code of ethics only. The author used the 2x2 factorial two-way ANOVA test to see the interaction of superior authority and the code of ethics for Groups 1 and 4 with Groups 2 and 5. Table 10 shows the results of the two-way factorial ANOVA 2x2 Groups 1 and 4 interaction with Groups 2 and 5.

**Table 10.** ANOVA Factorial 2x2 Interaction of Group 1 and 4 vs Groups 2 and 5

Source	Df	Mean Square	F	Sig.
Corrected Model	3	28.989	15.203	0.000***
Intercept	1	1400.483	734.453	0.000***
OTA	1	15.222	7.983	0.007***
KOD	1	51.483	26.999	0.000***
OTA X KOD	1	20.718	10.865	0.002***
Error	45	1.907		
Total	49			
Corrected Total	48			

R<sup>2</sup> = 0.503  
Adjusted R<sup>2</sup> = 0.470  
\*\*\* significance at 1%

The difference of the mean value between group 1 and group 4 is 0.19 and the difference of the mean value between group 2 and group 5 is 2.41. The author used a two-way factorial 2x2 ANOVA in Table 10 and showed that the interaction between superior authority and the code of ethics was significant (F = 10.865; and Sig = 0.002 < 0.010). This condition shows that the mean values of 0.19 and 2.41 are significantly different. The results of the study show that differences in the tendency to commit fraud in the goods and services procurement with or without superior authority will be smaller for individuals who are asked to conduct self-certification of the code of

ethics compared to individuals who are only asked to read the code of ethics (H3b is supported). Individuals use authority to behave unethically due to pressures, opportunities, and rationalization, pressures can arise from family economic conditions that cause individuals to behave unethically in meeting the interests of their families. Individuals also see opportunities as loopholes to commit fraud when the internal control system and organizational code of ethics are ineffective. Individuals who only read the code of ethics without having to sign it has the potential to commit fraud because they feel fundamentally not bound by the organization. That is, there are individual gaps to rationalize fraud because individuals do not carry out self-certification through signatures on ethical codes that are read.

Hypothesis testing 3c (H3c) that is, differences in tendencies to commit the goods and services procurement when there is a superior authority and no superior authority will be smaller for individuals who are asked to conduct self-certification of the code of ethics compared to individuals who are not exposed to the code of ethics. The author used the 2x2 factorial two-way ANOVA test to see the interaction between superiors' authority and the code of ethics for Groups 1 and 4 with Groups 3 and 6. Table 11 shows the results of the two-way factorial ANOVA 2x2 of Group 1 and 4 interaction with Groups 3 and 6.

The difference of the mean value between Group 1 and Group 4 is 0.19 and the difference of the mean value between Group 3 and Group 6 is 1.50. The condition of this hypothesis is that the code of ethics and self-certification will affect the reduction of fraud in the goods and services procurement with a stronger impact when there is a superior authority. The author used a two-way factorial 2x2 ANOVA in Table 11 and it showed that the interaction between superior authority

**Table 11.** ANOVA Factorial 2x2 Interaction of Group 1 and 4 vs Group 3 and 6

Source	Df	Mean Square	F	Sig.
Corrected Model	3	32.093	14.803	0.000***
Intercept	1	1545.883	713.063	0.000***
OTA	1	5.282	2.436	0.126
KOD	1	82.263	37.945	0.000***
OTA X KOD	1	8.694	4.010	0.050**
Error	45	2.168		
Total	49			
Corrected Total	48			

R2 = 0.497

Adjusted R2 = 0.463

Notes: \*\*\* significance at 1%, and \*\* significance at 5%.

and the code of ethics was significant (F = 4,010; and Sig = 0.050 = 0.05). This condition indicates that the mean values of 0.19 and 1.50 are significantly different. The results of the study show that differences in the tendency to commit fraud in the goods and services procurement when there is a superior authority and there is no superior authority will be smaller for individuals who were asked to do self-certification of the code of ethics compared to individuals who are not exposed to the code of ethics. Thus H3c is supported.

Information of individuals to the organization can be known when individuals read the code of ethics and sign it compared to without code of ethics in the organization. The aim is to bind individuals to work in accordance with the norms of the applicable code of ethics so that individuals feel responsible for the organization. This action is carried out with the aim to reduce individual unethical behavior that can lead to action cheating. Narsa and Supriyadi (2017) show that a code of ethics can reduce individuals to escalate commitments in the event of adverse selection. As such, the code of ethics is one of the formal control mechanisms that increase

honesty, which is a tool that is generally used to encourage ethical behavior.

## CONCLUSION

The findings of this study prove that the superior authority played an important role in influencing the occurrence of fraudulent acts in the goods and services procurement and code of ethics is able to reduce fraud in the goods and services procurement. There is a difference in the tendency to commit fraud in the goods and services procurement when there is a superior authority and no superior authority. The difference will be smaller for individuals who are asked to read the code of ethics and signatures of the code of ethics compared to only reading the code of ethics and without a code of ethics.

The contribution of this study to the development of the theory is individuals commit fraud in the goods and services procurement due to opportunities, pressures, and rationalization. An ineffective code of ethics (only reads the code of ethics) or no code of ethics in the organization provides opportunities for individuals to commit fraud in the goods and services procurement in the presence of superior authority. The code of ethics that is implemented effectively in organizations through self-certification will enable individuals to reduce unethical behavior through acts of misuse of the goods and services procurement. Individuals who are under pressure have the potential to commit fraud because the pressure also benefits individually, such as maintaining their position or wanting a promotion. Finally, individuals rationalize their actions as a form of self-defense because of pressure or orders from superiors. Thus, this study can confirm the fraud triangle theory and moral disengagement theory.

The contribution of this study to policy is that an effective code of ethics is not only aimed at individuals in the organization by reading the code of ethics, but each individual must carry out self-certification (read and sign the code of conduct), so that individuals have a responsible attitude towards their job description. An effective code of ethics design needs to consider a number of important things, namely (1) compilation of operational guidelines for the basic values of the code of ethics and disseminating these guidelines so that they can be understood and obeyed by everyone in the organization, (2) improving law enforcement and improve the process of handling violations of the basic values of the code of ethics, such as code of ethics training, effectiveness of the code of ethics commission, effectiveness of code of ethics advisors, ethics hotlines, and ethical audits. The basic principle of applying the code of ethics is to improve the integrity, honor and dignity of the profession of the goods and services procurement, thereby reducing the actions of unethical individuals.

The limitation of this study are the experimental subjects were accounting students at Pattimura University Ambon who were taking undergraduate courses who had passed business ethics courses and the public sector accounting and accounting profession. The involvement of this subject is because the author takes into account the adequacy of the subjects in each group and is adjusted to the context of the research issue. This study used supervisory authority, code of ethics, and the tendency to commit fraud as variables in the goods and services procurement, without taking into account other factors. However, other factors not taken into account by the author in this study have been controlled through the method used. Some of these limitations provide opportunities for further research such as using different subject and the involvement of other factors in influencing the fraudulent use of goods and services

such as situational factors, locus of control, or others.

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