

# Love of Money and Auditor Ethical Assessment *Fraud Perception Analysis*

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Keywords: Gender, Total Income, Ethical Perception, Love of Money.

Abstract: The aim of this study is to investigate the relation between the auditor ethical perception and the love of money that can drive the fraud, along with the age, gender, and income as other factors. The research method of this study is Path Analysis with decomposition model. The result found that there was a correlation for gender and love of money. Male tended to have the higher-level love of money. The result implied that male tended to put money as an important thing. We assumed this happened since in eastern culture it was the male that had responsibility in fulfilling the needs of his family. Further, this study proved that the respondent income did not affect the love of money. The finding indicated that the amount of salary respondents had did not correlate to the level of the love of money. The wealth of people was more determined by his/her mindset, not by the income they got. In this study, we also found that gender and income did not influence the auditor ethical perception about fraud. Both male and female auditor had indifferent fraud ethical perception; and income of the respondents did not affect the fraud ethical perception of auditor. Finally, this study found that the respondents' level of love of money did not correlate with the fraud ethical perception of auditor.

## 1 INTRODUCTION

Recently, the accountant profession is facing many issues which are related to fraud. Enron (2001), WorldCom (2002) Tyco (2002) are accounting scandals happened. The Sarbanes-Oxley (SOX) Act, held by U.S. Congress in July 2002, is a crucial step that will lead to the rules and code of ethic improvement. But fraud actions still happened. American Insurance Group (2005), PT Kereta Api Indonesia (2006), Tesco (2014) and Toshiba (2015) scandals are the example of the most current issue. Therefore, it cannot be denied that the reliability of accountant profession has been declined.

Ethical perception of accountant has become one of most interesting research materials in order to examine what factors that will reduce fraud. This research is conducted to examine the ethical perception of accounting students in Indonesia. Individual behavior is derived from external and internal factors. External factors are factors which come from outside of the individual (cultures, economic and social factors) and internal factors come from the individual itself (knowledge, perception, etc.)

Perception is the way someone look at something and believe that it is the right things to do. Based on expectancy theory, perception can be the basis of someone's motivation to perform some actions. Money is believed to become an important motivator. In the business, managers frequently use money to control and motivate employees (Milkovich and Newman, 2002). McClelland said, money is an important aspect of everyday life. Although the money is used universally, the meaning and importance of money is not universally accepted (Tang, 1992).

Love of money can be explained literally as the individual perception about money; how they respect money. Based on Tang and Chiu (2003) and Elias and Magdy (2010), love of money has direct impact related to personal unethical behavior. Money ethics scale (MES) developed by Tang (1992) to measure the individual's love of money.

This research is closely related with Elias and Magdy (2010) study, where the results found that the love of money is significantly related to perceptions of cheating. Money worshippers view cheating actions as more ethical followed by money-admirers and money-repellents who view such actions as

more unethical. The purpose of this study is to investigate the relation between the auditor ethical perception and the love of money that can drive the fraud, along with the age, gender, and income as other factors.

## 2 METHODS

### 2.1 Research Model

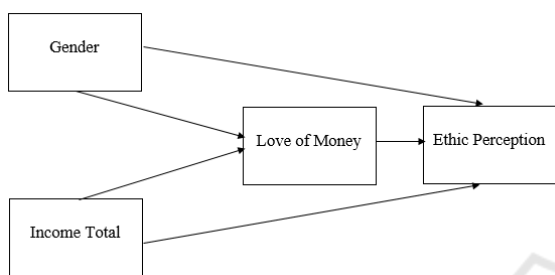


Figure 1: Path analysis model.

### 2.2 Analysis of Variables

#### 2.2.1 Ethical Perception

The endogenous variable in this study is ethical perception of accounting students. The ethical perception in this study is determined from individual's view to accounting fraud that is occurred (Elias and Magdy, 2010). In order to measure ethical perception, this study uses the scenarios applied by Elias and Magdy (2010), consist of four scenarios of fraudulent act.

- Scenario 1 deals with early recognition of revenues (an example of earnings management).
- Scenario 2 deals with classifying long-term marketable securities as current, to improve the current ratio.
- Scenario 3 deals with including some of the consigned inventory as assets.
- Scenario 4 deals with not reporting contingent liabilities (a violation of the conservatism principle).

#### 2.2.2 Gender

There is no specific measurement to measure the gender factor. In this study, gender will be determined as dummy variables to separate male and female; male is 0 and female is 1.

### 2.2.3 Love of Money

Love of money measures the value of individual's desire to money, although not for their mutual needs (Tang et al., 2004). In this research, love of money will be measured by using Money Ethics Scale (MES) which is developed by Tang (1992). MES is regarded as the best developed survey to measure individual's attitude towards money; contains 30 items of question which resulted in 6 indicators (good, evil, achievement, respect, budget, and freedom) with regard to the love of money.

### 2.2.4 Population and Samples

Population in this research is the employees of Internal Government Auditor (BPKP/Badan Pengawasan Keuangan dan Pembangunan Negara). Among 1.127 employees, we use 100 staffs as our respondent randomly.

## 3 RESULTS AND DISCUSSION

### 3.1 Hypotheses Testing – Path Analysis

After the normality test is done and the data have normal distribution, our next step is to determine the path coefficient and the path diagram of each construct or sub-structure. For this step, I use SPSS 20.0 to measure the path coefficient and LISREL to create the path diagram.

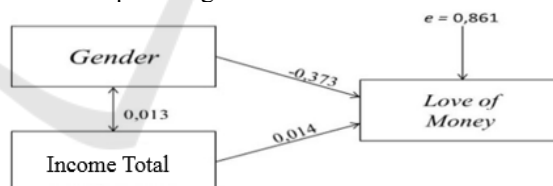


Figure 2: Sub structure 1.

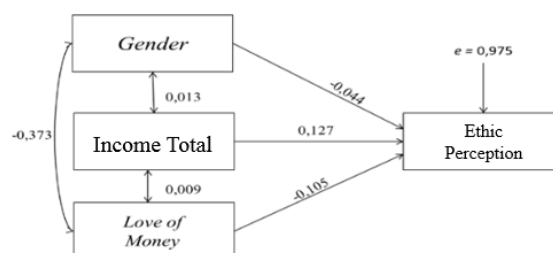


Figure 3: Sub structure 2.

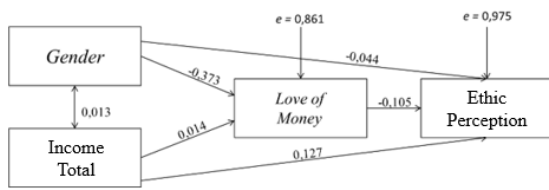


Figure 4: Path model.

### 3.2 Testing Hypothesis

For testing the hypothesis, we can use F-test for simultaneous test and two-sided t-test for partial test; the result will be compared with the value of F-table and t-table for  $\alpha = 10\%$  to find out any exogenous variables that affect the endogenous variable (love of money). However, we can also use look at sig. value in ANOVA table and coefficient table from SPSS output.

Table 1: Simultaneous hypothesis testing – model I.

Hypothesis	F-stat	F-table	Decision	Sig.	Conclusion
Gender and Income simultaneously influence love of money	7,856	3,090	H <sub>0</sub> rejected	0,001	Sig

Table 2: Partial hypothesis testing – model I.

Path Coeff	t-stat	t-table	Decision	Sig.	Conclusion
$\beta_{X_1}$	-3,963	$\pm 1,985$	H <sub>0</sub> rejected	0,000	Significant
$\beta_{X_2}$	0,148	1,661	H <sub>0</sub> accepted	0,883	Not Significant

Table 3: Simultaneous hypothesis testing – model II.

Hypothesis	F-stat	F-table	Dec	Sig.	Conclusion
Gender and Income and love of money on simultaneously influence Ethical Perception	0,828	2,699	H <sub>0</sub> accepted	0,482	Not Sig

Table 4: Partial hypothesis testing – model I.

Path Coeff	t-stat	t-table	Decision	Sig.	Conclusion
$\beta_{ZX_1}$	-0,406	$\pm 1,985$	H <sub>0</sub> accepted	0,685	Not Significant
$\beta_{ZX_2}$	1,257	-1,661	H <sub>0</sub> accepted	0,212	Not Significant
$\beta_{ZY}$	-0,968	-1,661	H <sub>0</sub> accepted	0,335	Not Significant

Table 5: Hypothesis testing – influence through mediation.

Hypothesis	t-stat	t-table	Decision
$X_1$ to Z through Y	0,2187	$\pm 1,985$	H <sub>0</sub> accepted
$X_2$ to Z through Y	-0,588	-1,661	H <sub>0</sub> accepted

### 3.3 Gender to Love of Money

From this study, the path coefficient confirms that male respondents have higher love of money than female respondents. This result is in accordance with the psychological studies of Furnham (1984). There are differences between males and females according to their perception towards money. The different perception comes from the culture, where males are the one who is responsible to earn money for the family and females are the one who manages the money. The role differences develop different perspective towards money. Females tend to be more traditionalist, retentive, and precautions toward money than males. Meanwhile, the males are presumed must earn more money for them and for their family, then increase the males' love of money. This result is consistent with Ratna and Birton, and Tang (Elias and Magdy, 2010).

### 3.4 Income to Love of Money

According to our investigation, we find that the income influences the love of money positively yet insignificantly. This finding does not support the proposed hypothesis, that the income influences the love of money positively and significantly. This result is in accordance with the study of Tang et al. (2005). We assume this result shows that learning process of person in appreciating the money, from the childhood to the maturity (Tang et.al, 2005). When time passes by, even the person with the lower income will be grateful at the certain time. Further, we believe that this finding caused by the remuneration system in the BPKP. The employees get fixed income and also variable income when they are doing additional assignment. Therefore, the money is not a problem for them.

### 3.5 Gender to Ethical Perception

This research finds that both male and female have the same level of ethical perception. It means, the proposed hypothesis is rejected. This finding is in line with the study of Smith and Oakley (1997). We believe that the prove we find show that both male and female have earned value education, therefore

they give good response when they are faced with the fraud ethical question.

### 3.6 Income to Ethical Perception

We find that the income gives positive influence towards ethical perception, yet insignificantly. This result rejects the proposed hypothesis. We presume this evidence is caused because the remuneration system for the respondent. As auditors, beside get the fixed income, they also get variable income for additional assignments they have. Therefore, the financial needs of them have been already fulfilled and the income does not influence the ethical perception.

### 3.7 Love of Money to Ethical Perception

We find that the level of money negatively influences the ethical perception insignificantly. It means the higher people's level of love of money, it does not make that they will behave unethically. This finding is not in line with other study. Tang and Chiu (2003) explain that love of money was strongly related to the concept of "greed". They also found the direct path between the love of money and unethical behavior among employees in Hong Kong. Tang and Liu (2012) also found that it is not the income (money), but the motive (love of money) which cause people to behave unethically. Love of money may cause the dissatisfaction with income which leads to unethical behavior of employees; the more people love money the higher probability of people will be dissatisfied with their income. The higher level of love of money tend to make people to behave more unethically. However, we find dissimilar result.

We consider this proof indicates that the auditors in BPKP have a good professional commitment. Elias (2006) shows when a person has high professional commitment, it will increase their ethical perception. This finding is supported by the fact that the BPKP keep renewing the integrity agreement with the auditors and other employees. This contract works as a guarantee that all of the employees will work with high professional commitment in accordance to the work ethical standard.

## 4 CONCLUSIONS

From this study, gender and love of money that affect the ethical perception. In term of ethical perception, both female and male auditor tend to have same ethical level Considering the fact that this is a very new topic and the research is still rare, hence future research is indispensable. The variables, methods, or population of the study can be expanded. Also, the population can be taken from practical and other professional accountants (such as public accountants, governmental accountants in BPK, etc.).

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