

Conference Paper

Determinant of Internal Control of Payroll System Ethics: Evidence Base from PT. XYZ

Litdia

Faculty of Economics and Business, University of Muhammadiyah Jakarta

Abstract

Company goals will be achieved if there is good cooperation from counterparts in the company. In order to require the company's goals, it is a need for internal control, supervision and direction of the organization which can be used by management to plan and control the operations of the company, to provide reliable accounting information for financial statements and to ensure compliance with applicable laws and regulations. This study examines the control environment variables, risk assessment, control activities, information and communication and monitoring influences the ethical behavior of employees in the payroll system at PT. XYZ both partially and simultaneously. The research sample was 35 employees at PT. XYZ. The results showed that partially the control environment, risk assessment, control activities, information and communication did not affect the ethical behavior of employees in the payroll system while monitoring affected the ethical behavior of employees in the payroll system. Simultaneous significant influence between the control environment, risk assessment, control activities, information and communication, and monitoring.

Keywords: internal control compliance, ethical behavior

Corresponding Author:

Litdia

litdia_koto@yahoo.com

Received: 16 September 2019

Accepted: 28 September 2019

Published: 31 October 2019

Publishing services provided by
Knowledge E

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Selection and Peer-review under the responsibility of the ICEMA Conference Committee.

1. Introduction

1.1. Background of the problem

One of the main objectives of the company is the achievement of profits meet the target of the company. Surely, this goal will be achieved if there is cooperation between counterparts within the company. Those are leaders, managers and employees. The Cooperation will run smoothly if the behavior of counterparts in a mutual relationship and respect. Ethics is a rule or regulation made by the management by mutual agreement. These rules must be implemented and obeyed by all elements in the company. Ethics must be implemented well in order to provide added value for the organization. Ethical behavior is behavior in accordance with social norms which generally accepted. (Soe-goto, Eddy Soeryanto, 2013: 352). The more employee runs ethical the more improvement will be on quality and performance of employer. There are several factors that



influence ethics, namely cultural differences, knowledge and organizational behavior (Soegoto, Eddy Soeryanto, 2013: 253). These three factors will influence the actions and behavior of a person, especially employees in the company or organization. Examples of unethical behavior of employees in terms of payroll, for instance, not doing work during normal working hours (8 work hours) in order to get overtime thus by overtime will increase the salary yet this is disadvantaged for the company because it expends high costs. Employees, moreover managers in a company must maintain organizational ethics by honestly, misconduct of company assets for personal, not plunging companies to risky businesses, avoiding conflicts of interest, and safeguarding company secrets. Unethical cases violate the law, including the behavior of financial mark-ups, embezzling customer money, using telephones for personal interest, and manipulating working hours. In practice there are several unethical behaviors found in several companies and agencies: Merdeka.com - Mojokerto District Attorney, East Java Province, detained the Head of Banjarsari Village (non-active), Jetis Sub-District, Andi Mulyono (40), for alleged corruption cases. village (DD) and village fund allocation (ADD) of Rp. 487 million for the fiscal year 2015.

Losses due to fraud committed by employees and elements in the company are difficult to prevent and to detect. The management plays an important role in the company's internal control. Internal control is required to direct and to supervise resources within the company or organization. Internal control is an organizational plan for the company and a business method used to safeguard assets, provide accurate and reliable information and improve the efficiency of the company or organization and encourage conformity with policies. This internal control system consists of various policies, practices and procedures applied by the company to achieve company goals. These components will be discussed consist of the control environment, risk assessment, control activities, information and communication and monitoring activities.

Behavior theory is the response or reaction of individuals to stimuli or the environment and emphasizes the rationalization of human behavior as well as the belief that behavior is under the control of individual consciousness. Bear in mind that the importance of employees as a company resource, many employees carry out good ethical behavior but some not. The importance of the role of internal control in a company as a procedure or system designed to control, supervise and direct the organization can be used by management to plan and control company operations, help provide reliable accounting information for financial statements and ensure compliance with applicable laws and regulations. One of the factors is compliance. The importance of employee compliance with internal control, in Hesti et al (2012) with the title of the influence of internal control,

compliance and management compensation on employees' ethical behavior, it can be concluded that both partially and simultaneously all have positive and significant influence.

Based on the background of the problem above, the formulation of the problem in this study is (1) Does the control environment affect the ethical behavior of employees in the payroll system at PT XYZ? (2) Does risk assessment affect the ethical behavior of employees in the payroll system at PT XYZ? (3) Does the control activity affect the ethical behavior of employees in the payroll system at PT XYZ? (4) Does information and communication affect the ethical behavior of employees in the payroll system at PT XYZ? (5) Does monitoring affect the ethical behavior of employees in the payroll system at PT XYZ? (6) Does the control environment, risk assessment, control activities, information and communication and monitoring affect the ethical behavior of employees in the payroll system at PT XYZ simultaneously affect the ethical behavior of employees in the payroll system at PT XYZ?. The research objectives are (1) To find out and test the control environment affect the ethical behavior of employees in the payroll system at PT XYZ? (2) To find out and test the risk assessment affect the ethical behavior of employees in the payroll system at PT XYZ? (3) To find out and test control activities affect the ethical behavior of employees in the payroll system at PT XYZ? (4) To find out and test information and communication affect the ethical behavior of employees in the payroll system at PT XYZ? (5) To find out and test the monitoring affect the ethical behavior of employees in the payroll system at PT XYZ? (6) To find out and test the control environment, risk assessment, control activities, information and communication and monitoring affect the ethical behavior of employees in the payroll system at PT XYZ simultaneously affect the ethical behavior of employees in the payroll system at PT XYZ?

2. Review of the Related Literature

2.1. Theory of Planned Behaviour

Theory of Planned Behavior is a theory that emphasizes the rationalization of human behavior as well as the belief that behavior is under the control of individual consciousness. Behavior does not only depend on one's intentions, but also other factors that are not under the control of the individual, such as the availability of resources and opportunities to display the behavior. (Ajzen, 2005). According to Soekarso et al (2015: 150) attribution theory suggests that an understanding of people's reactions to events around them is enhanced by knowing their causal reasons for the event. According to

Marrison (2014: 75) attribution theory provides an interesting picture of human behavior. This theory pays attention to how someone actually behaves. This theory explains how people infer the causes of behavior carried out by themselves or others.

2.2. Internal Control

Internal control is an integral part of management activities. According to Marshal, Romney (2015: 226) is a process that is carried out to provide adequate guarantees that the objectives of internal control have been achieved. According to Marshal, Romney (2015: 226) the purpose of internal control is securing assets, preventing or detecting illegal acquisition, managing records with good detail to accurately report company assets, providing accurate and reliable information, preparing financial statements in accordance with criteria, encouraging and improving operational efficiency, encouraging compliance with predetermined managerial policies, complying with applicable laws and regulations. According to Marshal, Romney (2015: 231) the components of internal control are Internal Environment, Setting Objectives, Identifying Events, Risk Assessment and Risk Response, Control Activities, Information and Communication, Monitoring. The internal control component according to COSO in Rama, Dasaratha and Frederick (2008: 134) consists of: Control environment, Risk determination, Control activities, Information and communication. Supervision. According to Wakhyudi (2018: 34) the limitations of internal control are Precondition of Internal Control, Judgment, Breakdowns, Management Override, Collusion. Based on the Auditing book, the limitations of internal control are: Error in consideration, Interference. Collusion, neglect by management, costs versus benefits. (www.jejakakuntansi.net/2017/01)

2.3. Ethical Behavior and Unethical Behavior of Employees in the Payroll System

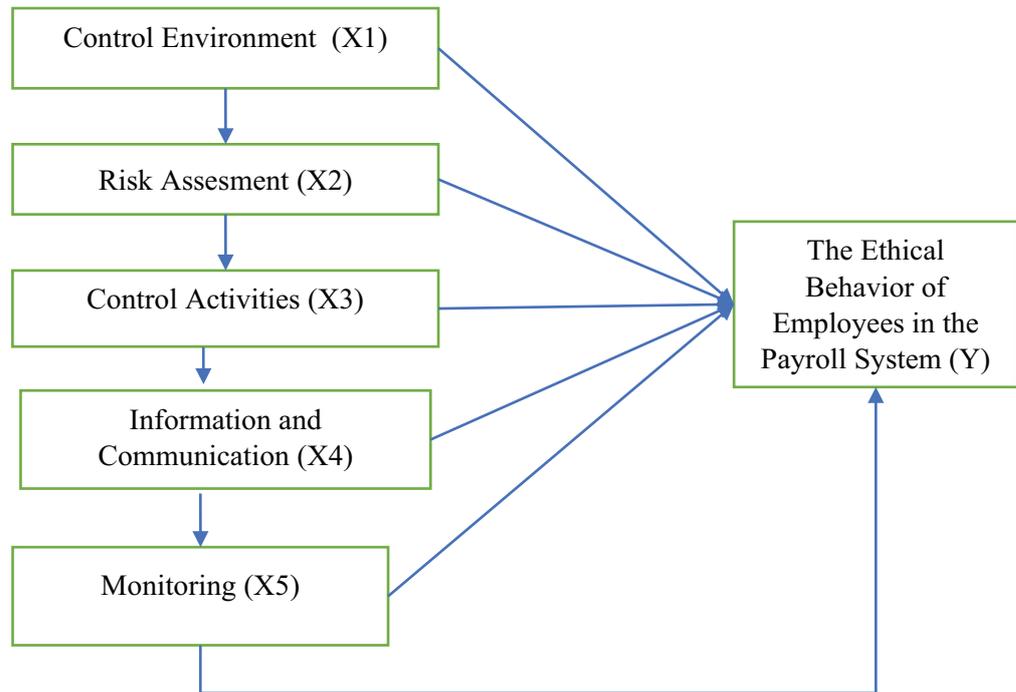
According to Soegoto (2013: 352) Ethical behavior is behavior in accordance with social norms which generally accepted related to the right or good actions. Whereas unethical behavior is behavior that is not in accordance with social norms that are generally accepted related to wrong or bad actions. Ethical behavior of employees in the payroll system, namely employees must work in accordance with the rules set by the company and maintain company secrets, while the unethical behavior of employees towards the payroll system is to manipulate working hours, initiate employees who are not in

accordance with their performance. Factors Affecting Ethics according to Soegoto (2010: 353) are Cultural differences, Knowledge, Organizational Behavior.

2.4. Payroll System

Rewards received for a job within a company, organization or business entity are known as salaries or wages. According to Article 1 paragraph 30 of Law No. 13 of 2003 concerning Employment, Wages are rights of workers / laborers received and expressed in the form of money as compensation from employers or employers to workers / laborers which are stipulated and paid according to a work agreement, agreement, or legislation, including benefits for workers / laborers and their families for a job and / or service that has or will be done. Mulyadi (2001: 386) says that the element of internal control in the payroll accounting system is the Organization, Authorization System, Record-keeping Procedure, Good Practice. Mulyadi (2001: 374) says that documents used in payroll and wage accounting systems are supporting documents for changes in salaries and wages, Attendance Cards, Working Hours Cards, List of Salaries and Wages, Recap, List of Salaries and Recap Wages List, Statement of Salary and Wages, Envelopes Salaries and Wages, Proof of Outgoing Cash. Mulyadi (2001: 379) stated that the accounting records used in recording salaries and wages are General Journal, Product Price Card, Cost Card, Employee Income Card.

2.5. Framework



H1: The Control Environment affects the Ethical Behavior of Employees in the Payroll System.

H2: Estimating Risk has an effect on Ethical Behavior of Employees in the Payroll System.

H3: Control activities affect the Ethical Behavior of Employees in the Payroll System.

H4: Information and Communication affect the Ethical Behavior of Employees in the Payroll System.

H5: Monitoring affects the Ethical Behavior of Employees in the Payroll System.

H6: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring of Ethical Behavior of Employees in the Payroll System.

3. Research Methodology

This study used a questionnaire as a data collecting instrument. The nature of this research is field survey. Research using primary data is obtained directly by researchers, while secondary data is data obtained by researchers from existing sources. The research was conducted by PT XYZ in South Jakarta. In this study the population is all employees at PT XYZ. The sampling method is probability sampling, which is a sampling technique that gives equal opportunities for each element (member) of the

population to be chosen as a sample (Sugiyono, 2013: 118). Based on the probability sampling method, the author used the simple random sampling method. The instrument used can measure the variables in the study well, then the data quality test and the classic assumption test are carried out.

4. Discussion

The object of research at PT XYZ in Jakarta is a company engaged in the field of Automotive ranging from the sale of private cars to commercial cars which sell various kinds of car parts and of course there is its own workshop for vehicles that will carry out periodic maintenance every count of the odometer. Respondents in this study were employees of PT XYZ. Based on data from PT XYZ, the population in this study was 200 employees. The sample in the study used the simple random sampling method. Data quality test consists of validity test and reliability test. The validity test of the research instrument used the Pearson Correlation technique. All statements are declared valid. Reliability testing showed that the Cronbach's Alpha value is 0.890 so it is concluded that the statement in the questionnaire is reliable because it has a Cronbach's Alpha value of 0.890 with a value smaller than 0.60. The following are the results of the classic assumption test:

4.1. Normality test

Table 4.1 shows that the statement on the questionnaire has been normally distributed because of the value of Asymp. Sig (2-tailed) $0.200 > 0.05$. Normality Test results in this study can be seen in the table below:

4.2. Heterocedasticity test

The heterocedasticity test results in this study can be seen in the ScatterPlot Graph below:

Based on Figure 1, the scatterplot graph shows that the data is spread above and below the number 0 (zero) on the Y axis and there is no clear pattern in the spread. This means that there is no heteroscedasticity in the regression equation model, so the regression model is feasible to use.

TABLE 1: Normality Test Results.

| One-Sample Kolmogorov-Smirnov Test | | |
|--|----------------|---------------------|
| | | TOTAL |
| N | | 35 |
| Normal Parameters ^{a,b} | Mean | 0000000 |
| | Std. Deviation | 1.32721806 |
| Most Extreme Differences | Absolute | .121 |
| | Positive | .106 |
| | Negative | -.121 |
| Test Statistic | | .121 |
| Asymp. Sig. (2-tailed) | | .200 ^{c,d} |
| a. Test distribution is Normal. | | |
| b. Calculated from data. | | |
| c. Lilliefors Significance Correction. | | |
| d. This is a lower bound of the true significance. | | |

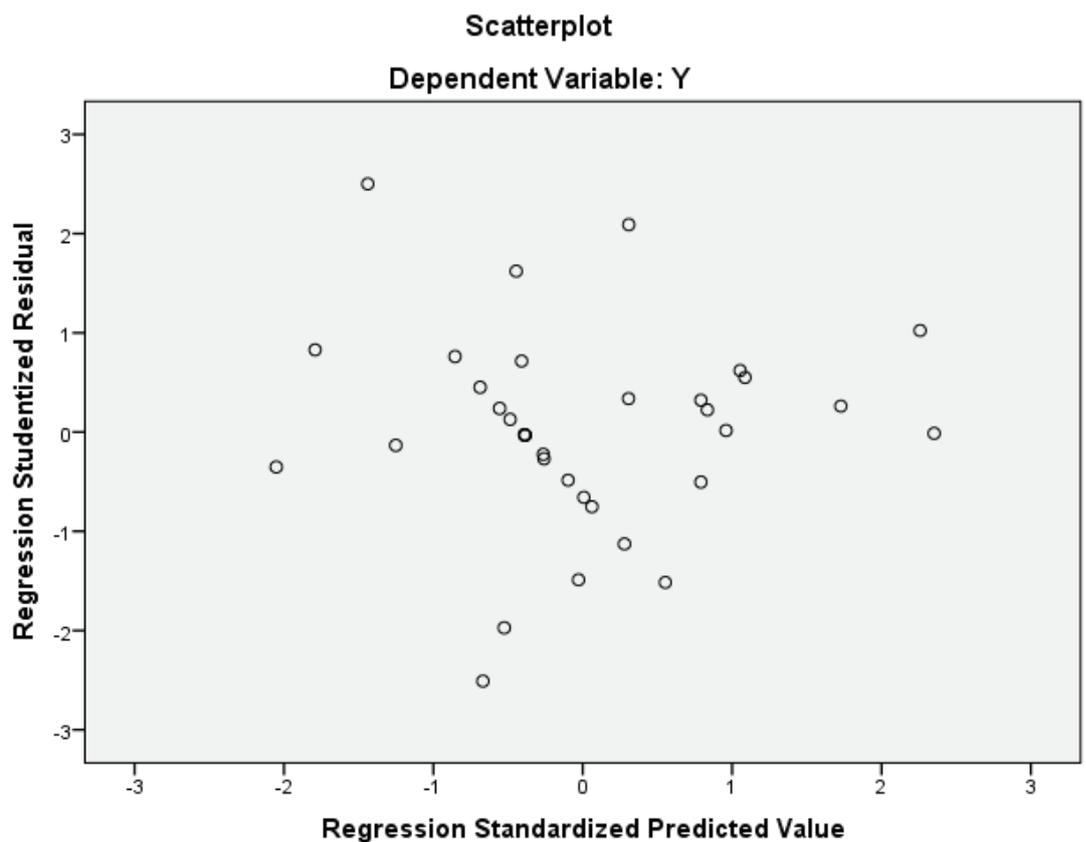


Figure 1: Heterocedasticity Test Results.

4.3. Multicollinearity Test

Multicollinearity Test results in this study can be seen in the table below:

TABLE 2: Multicollinearity Test Results.

| Model | | Collinearity Statistics | |
|-------|------------|-------------------------|-------|
| | | Tolerance | VIF |
| 1 | (Constant) | | |
| | X1 | .839 | 1.191 |
| | X2 | .517 | 1.934 |
| | X3 | .491 | 2.036 |
| | X4 | .412 | 2.426 |
| | X5 | .790 | 1.266 |

Based on table 4.2 above it can be concluded that the regression equation model does not have multicollinearity problems and can be used in this study.

4.4. Autocorrelation Test

Autocorrelation Test results in this study can be seen in the table below:

TABLE 3: Autocorelation Test Results.

| Model Summary ^b | | | | | |
|---|-------------------|----------|-------------------|----------------------------|---------------|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
| 1 | .854 ^a | .730 | .683 | 1.43709 | 2.048 |
| a. Predictors: (Constant), X4, X1, X3, X2 | | | | | |
| b. Dependent Variable: Y | | | | | |

From the results of the autocorrelation test in Table 4.3 it can be seen that the Durbin Watson number generated from the regression model is 2.048 so it can be concluded that there is no autocorrelation problem in the regression model (the Durbin Watson value is greater than the lower limit value Durbin Watson (DL 1.1601)).

4.5. Hypothesis Testing Results

TABLE 4: Multiple Linear Regression Test Results.

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|------------|-----------------------------|------------|---------------------------|--------|------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 4.865 | 1.996 | | 2.438 | .021 |
| | X1 | -.069 | .089 | -.082 | -.777 | .444 |
| | X2 | -.208 | .120 | -.233 | -1.738 | .093 |
| | X3 | .154 | .093 | .228 | 1.651 | .109 |
| | X4 | -.026 | .162 | -.024 | -.157 | .876 |
| | X5 | .769 | .105 | .797 | 7.338 | .000 |

4.5.1. Analysis of Multiple Linear Regression

After calculation, there are results in table 4.11, so that the following equation is obtained:

$$Y = 4,865 + (-0,069X_1) + (-0,208X_2) + 0,154X_3 + (-0,026X_4) + 0,769X_5$$

4.5.2. Adjusted R2 Test (Determination Coefficient)

The following is the Adjustable R2 (Determination Coefficient) table in this study:

TABLE 5: Determination Coefficient Value (R2).

| Model Summary ^b | | | | |
|---|-------------------|----------|-------------------|----------------------------|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .854 ^a | .730 | .683 | 1.43709 |
| a. Predictors: (Constant), X5, X2, X1, X3, X4 | | | | |
| b. Dependent Variable: Y | | | | |

4.5.3. Simultaneous Significance Test (Test Statistic F)

The results of the SPSS 22 calculation obtained the calculated F value as follows:

Based on Table 4.6, the sig value. 0.000, because the sig value is smaller than 0.05 (0.000 < 0.05) then Ho is rejected and Ha is accepted meaning it is simultaneously based on inter-Environmental influence of Control, Risk Assessment, Control Activities, Information and Communication and Monitoring of Ethical Behavior in Payroll System then the first hypothesis (H1) accepted.

TABLE 6: Simultaneous test results.

| ANOVA ^a | | | | | | |
|--------------------|------------|----------------|----|-------------|--------|-------------------|
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 161.652 | 5 | 32.330 | 15.655 | .000 ^b |
| | Residual | 59.891 | 29 | 2.065 | | |
| | Total | 221.543 | 34 | | | |

a. Dependent Variable: Y
 b. Predictors: (Constant), X5, X2, X1, X3, X4

4.5.4. Partial Significant Test (Test Statistic t)

The calculation results obtained by the value of t arithmetic are as follows:

TABLE 7: Partial Test Results.

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|------------|-----------------------------|------------|---------------------------|--------|------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 4.865 | 1.996 | | 2.438 | .021 |
| | X1 | -.069 | .089 | -.082 | -.777 | .444 |
| | X2 | -.208 | .120 | -.233 | -1.738 | .093 |
| | X3 | .154 | .093 | .228 | 1.651 | .109 |
| | X4 | -.026 | .162 | -.024 | -.157 | .876 |
| | X5 | .769 | .105 | .797 | 7.338 | .000 |

Source: Data processed by the author

The following is an explanation based on table 4.7:

1). The Control Environment (X1) has a sig value. 0.444 more than 0.05 (0.444 > 0.05) then Ho is rejected so that it can be concluded that the Control Environment does not affect Ethical Behavior in the Payroll System, meaning that the first hypothesis (H1) is rejected.

2). Risk assessment has a sig value. 0.093 more than 0.05 (0.093 > 0.05) then Ho is rejected so that it can be concluded that the Estimated Risk does not affect Ethical Behavior in the Payroll System, meaning that the second hypothesis (H2) is rejected.

3). Control activities have a sig value. 0.109 more than 0.05 (0.109 > 0.05) then Ho is rejected so that it can be concluded that the Control Activity does not affect Ethical Behavior in the Payroll System, meaning that the hypothesis (H3) is rejected.

4). Information and Communication have a sig value. 0.876 more than 0.05 ($0.876 > 0.05$) then H_0 is rejected so that it can be concluded that Information and Communication does not affect Ethical Behavior in Payroll Systems, meaning that the hypothesis (H4) is rejected.

5) Monitoring has a sig value. 0,000 less than 0.05 ($0,000 < 0,05$) then H_0 is accepted so that it can be concluded that monitoring has an effect on ethical behavior in the payroll system, meaning that the hypothesis (H5) is accepted.

4.6. Discussion

Based on the test results showed that normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test found no deviation from the classical assumption test requirements. The results of the study that the Control Environment, Risk Assessment, Control Activities, Information and Communication, and Joint Monitoring affect the Ethical Behavior in the Payroll System while the partial test of Environmental Control (X1), Risk Assessment (X2), Control Activity (X3), Information and Communication (X4) does not affect Ethical Behavior in the Payroll System. The Monitoring Variable (X5) shows the influence of Ethical Behavior in the Payroll System.

5. Conclusion

Based on the research, it can be concluded that partially the control environment, risk assessment, control activity, information and communication does not affect the ethical behavior of employees in the payroll system while monitoring affects the ethical behavior of employees in the payroll system. Simultaneous significant influence between the control environment, risk assessment, control activities, information and communication, and monitoring.

6. Suggestion

As for suggestions for improving performance and refining, researchers provide the following suggestions:

- a. PT XYZ needs to improve the understanding of the importance of internal control in the company by providing training to employees so they can provide added value to employees and have ethical behavior.

b. Required supervision or control of employee discipline so that employees can carry out responsibilities in accordance with their respective duties.

c. This study only uses one population in the company, the next researcher is expected to be more so that the respondents or samples used show more the actual situation.

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