

Dilemma between Fraud and Tax Compliance at Government Agencies

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Abstract: Fraud in government agencies is very interesting to discuss because of the breadth of the parties with an interest in government agencies. This study aims to reveal the essence of financial management in a government agency in the Madura region regarding the dilemma of fraud in tax compliance enforcement. This research method uses qualitative methods with a transcendental phenomenological approach. The research findings reveal the dilemma faced by financial managers in committing expenditure manipulation fraud as a form of tax compliance enforcement. The essence of state or regional financial management that is peppered with this dilemma is a necessity experienced by financial managers of a government agency. It is hoped that this research will be able to provide an overview of financial management in government agencies from different sides, so that improvements to regulations and policies on state or regional financial management can be realized.

Keywords: fraud, tax compliance, tax fraud, government agencies.

Introduction

The phenomenon of fraud that eats away at an entity is like an iceberg, where visible fraud is only a small part compared to other hidden parts (ACFE, 2020). An entity that looks fine does not mean that it cannot be separated from the fraud that accompanies it. Fraud in government agencies in Indonesia is very interesting to discuss because government agencies have the responsibility of public service accountability to the public, where the government must always provide optimal public services to its people. State or regional income and expenditure budgets that are managed by government agencies are public budgets that must be used in the public interest for the creation of a just and prosperous society. So that the community has the right to always supervise the acquisition and use of public budgets managed by government agencies. As a result, financial management by government agencies is always interesting to discuss, especially about fraud committed by unscrupulous employees of a government agency. The mechanism for the use of the public budget by government agencies must be following the provisions of the prevailing laws and regulations regarding the management of the state or regional revenue and expenditure budget.

The phenomenon of fraud in Indonesia occurs in various entities, as shown in the 2019 Indonesian Fraud Survey Report, fraud is dominated by corruption at 54.4% with a loss rate of 69.9%, asset misuse of 28.9% with a loss rate of 20.9%, and fraud financial reports of 6.7% with a loss rate of 9.2% (ACFE Indonesia Chapter, 2020). Various studies also support the results of this report, where fraud occurs in the management of state or regional finances in government agencies, including fraud in government agencies that have occurred since the planning, implementation, and administration stages (Sholihah et al., 2016), wherein the budget preparation stage, fraud carried out by taking advantage of weak supervision and regulatory loopholes in state or regional

financial management (Indriani et al., 2019), in the implementation stage of the fraud mode used by inflating budget submissions (Kamal, 2018), in the accountability stage fraud is carried out by manipulating accountability documents (Sholihah & Prasetyono, 2016). The trigger factor for fraud in government agencies is due to pressure, opportunity, and reasons for justification from financial managers (Manossoh, 2016), to seek profit (Syahrina et al., 2017), and to meet tactical funding needs (Setiawan, 2019; Setiawan et al., 2013).

Besides fraud in terms of state or regional financial expenditures, fraud that occurs in state or regional revenues is a major problem that must be resolved immediately (Saxunova & Szarkova, 2017). The problem of tax evasion hurts the government in obtaining revenue that should be received to achieve optimal state development (Schonenberg, 2020; Stankevicius & Leonas, 2015), so mitigation is needed to reduce the occurrence of tax fraud (Adekoya et al., 2020; Calafato et al., 2016; Ibadin & Kemebradikemor, 2020; Rad & Shahbahrami, 2016; Shafer et al., 2016; Vanhoeveld et al., 2020). Various previous studies have stated that tax evasion is caused by compulsion, deliberation, unwillingness, and aggressiveness of tax officials (Mangoting et al., 2017), high tax rates, low-income levels, poor tax administration, corruption, sub-optimal tax penalties, perceptions of usage. tax revenue, tax justice and education level of taxpayers (Ibadin & Kemebradikemor, 2020), financial pressure (Rus, 2019; Suprapti, 2017), intentions to commit tax fraud influenced by subjective norms and perceptions (Hidayatulloh, 2016), where tax fraud done by manipulating tax reports and violating the provisions of tax regulations (Inkiriwang, 2017).

Tax fraud mitigation is carried out by improving the integrity of public services (Nurfadila, 2020; Shafer et al., 2016), improving the tax system, service quality, and fraud detection (Winarsih, 2018), implementing optimal tax sanctions (Sumuan & Fidiana, 2020). To reduce tax fraud, the level of tax compliance must be improved by providing better service quality related to security, comfort, service, law enforcement, and good cooperation (Tjondro et al., 2020) and optimizing the reporting of tax fraud by entities (Farrar et al., 2019; Widuri et al., 2019).

Based on some of the explanations above, fraud has occurred in government agencies due to several triggering factors and tax non-compliance in the form of tax evasion that has also occurred in various entities, both public and private sectors. This phenomenon underlies this research intending to uncover the essence of the potential for fraud as a result of tax compliance in the financial management of government agencies. The dilemma faced by financial managers is to commit fraud on the state or regional financial expenditures to meet tax obligations that must be met in financial management mechanisms in government agencies. The obligation to collect and pay taxes on state or regional financial expenditure transactions by tax provisions is a dilemma because of the variety of situations and conditions that accompany the financial management of government agencies.

The experience of the informants as financial managers in government agencies combined with observation and documentation is expected to be able to provide an overview of the potential for fraud in financial management due to tax obligations. Different interpretations by financial managers in a government agency provide a new color underlying the occurrence of fraud in a government agency. What is new in this research is the interpretation of the essence of fraud in state or regional financial expenditures related to tax obligations that must be complied with in every financial management transaction in government agencies.

Methods

This research method uses a qualitative method with a phenomenological approach to reveal the essence of fraud in government agencies. This method is used to describe the similarity of life experiences of each individual that reflects the experience of a group, so that it reflects a universal (Creswell & Poth, 2018). To reveal the essence of the experience of the financial managers of a government agency, a phenomenological approach is chosen with a continuous observation so that it is expected to provide a comprehensive picture of the financial management of a government agency. The transcendental phenomenological approach was chosen to obtain a purer essence of financial management in the government agencies studied, because the research was carried out by putting aside the researcher's experience as optimally as possible to obtain a new perspective on the phenomenon being (Creswell & Poth, 2018). The transcendental phenomenology procedure begins with determining the problem under study, identifying and describing the existing phenomena of the problem under study. Furthermore, sorting and determining philosophical assumptions, collecting data through interviews, observation, and documentation, and determining themes based on important information obtained. The next step is to describe textually and structurally, followed by determining the essence of the existing phenomena based on the development of textural and structural descriptions and ending with presenting the essence of the problems that have been determined at the beginning of the study (Creswell & Poth, 2018).

This research was conducted at government agencies that manage state and regional budgets in one of the areas in Madura to reveal the factors and modes of potential fraud in financial management. The informants selected in this study were financial managers including Diki as the power user of the budget, Diko as the commitment making official, Dila as the official signing the order to pay, Dino as treasurer of expenditure, Dima as financial management staff, and Difa and Dini as supplier partners of government agencies. The names of the informants are not real names so that the informants' personal information is safe from any consequences of the information provided to the researcher.

Interviews with informants were carried out on various occasions with different techniques and perspectives but with the same context to obtain consistency in the information provided by the informants. As well as confirmation of the information obtained to other informants to obtain the expected focus of information. Observations were made over a long period, namely more than one year in the hope that an overview of the financial management of government agencies in one fiscal year can be obtained. Documentation of the results of interviews and observations in the form of documents, audio and video is used for the benefit of analyzing information so that the research results are structured and able to answer research problems.

Data triangulation is carried out to test the validity of information obtained through credibility, transferability, dependability, and confirmability testing by confirming information to financial management informants and partners regarding actions that have the potential for fraud and ensuring that similar research can be carried out by other parties to test suitability of the information obtained in this study. Data analysis based on the information obtained was carried out by performing data reduction, data presentation, verification, and conclusions. Data reduction is done by grouping the topics of information obtained and describing in detail and comprehensively the essence of each of the information points. The presentation of the data is revealed after the essence

of financial management in government agencies is clear with continuous verification so that in the end a conclusion can be obtained that answers the research problem.

Findings

Based on the results of in-depth interviews, continuous observation and documentation carried out on all phenomena of financial management in government agencies by the research procedures as previously stated, it can be mapped into several information topics regarding forms of fraudulent behavior caused by pressure, opportunity, and justification. These causative factors cause a dilemma to commit fraud on the side of financial expenditures or avoid taxes on the other. The following is an overview of the phenomena that occur in financial management in government agencies.

It is not taboo that fraud occurs in financial management in various entities, because no single entity is completely free from the trap of fraud. In terms of budget expenditures, financial managers in government agencies face a dilemma between behaving honestly by the provisions of government financial management or having to be willing to mortgage their integrity to commit fraud. Based on Dino's explanation as the expenditure treasurer, inflating expenditures by increasing the quantity or unit price of goods purchased is a necessity that cannot be avoided.

" ... I am in a completely wrong position, on the one hand, I have to record expenses according to the actual proof of purchase, but on the other hand I miss it, because there are taxes that I have to pay "

Expenditure treasurers inflate proof of expenditure compared to actual expenditure to cover tax collection based on regulatory provisions, where tax collection and payment must be made on purchase transactions or services that are charged to state or regional finances. Not a few supplier partners list the purchase price according to the actual value without including the tax collection obligation, as a result, the spending treasurer has to speculate on inflating the quantity or unit price of the purchase. On the other hand, the expenditure treasurer must also make a fictitious proof of purchase to cover tax lapses on other transactions that do not include tax as proof of purchase and the partner insists that he does not agree to include tax payments on the proof of expenditure. Proof of fictitious expenditure is made for purchases or services for supplier partners who have subscribed to government agencies.

" sometimes I have to markup notes brother, to cover tax deposits, you know brother, some supplier partners don't want to change the notes, even though there is a tax obligation there ... "

To test the validity of the statements submitted by the expenditure treasurer, questions with a similar theme were carried out on different occasions and the results of similar statements from the expenditure treasurer were obtained. The statement obtained from the expenditure treasurer was also supported by Diko's statement as the commitment making official, namely:

" ... as the commitment making official dilemma is also a matter of tax brother, sometimes proof of purchase or services received from a partner is that nominal, it continues to be confirmed to the partner that I don't want any tax deductions, so I have told the treasurer to be that complete, brother "

Associates who do not want to include tax deductions and write down the nominal value according to the money they receive presents a separate dilemma for the

commitment making official act, where on the one hand the evidence obtained is that the nominal handed over to the partner is stated, but on the other hand there must be a tax deduction on the transaction. the. So that the choice of solution that can be taken by the commitment making official with the expenditure treasurer is to manipulate expenditure evidence, either by inflating other expenditure evidence from regular partners of government agencies or by making fictitious spending evidence. The choice of solutions for inflating evidence or fictitious evidence is made according to the situation and conditions that occur.

To corroborate the statements of spending treasurers and officials making commitments based on their experiences, a similar question is asked of the power of budget users as the holder of financial management control of government agencies. Based on his experience, Diki as the budget user attorney has known this dilemma and always receives reports from the treasurer of expenditures and officials making commitments on manipulated transactions. The following is Diki's statement as the power user of the budget:

" I will get reports and explanations from the treasurer of expenditures or officials making commitments, brother, which transactions are closed or fabricated to cover taxes, and my policies to the staff, just arrange how good it is ... "

The dilemma experienced by the power users of the budget as the leader in financial management must be addressed with a policy to submit what is best to the expenditure treasurer or commitment making official. The choice of solution taken by the expenditure treasurer or commitment making official by manipulating expenditure evidence. Similar confirmation was also made to the official signing the payment order to provide an illustration of what was experienced by Dila as the official signing the payment order and the following statement was obtained:

" ... this problem is a classic occurrence brother and we often discuss it together, the treasurer must complain that if there is a transaction like this, it has been resolved with normal things ... "

A similar experience was experienced by officials who signed a pay warrant which reinforced that the expenditure manipulation policy was a solution that was considered effective in solving tax problems. To provide confidence for researchers, statements obtained from financial management officials were confirmed to financial management staff and regular partners of government agencies. The following is the statement given by Dima as the financial management staff:

" ... manipulation of evidence of ordinary expenses and I often encounter it brother, you know how to cover taxes "

The statement of the financial management staff provides a strengthening argument that the solution to the tax collection and payment obligations can be made from the state or regional financial budget which is managed by taking refuge in evidence of manipulated expenditures. To reveal the deep and comprehensive essence of each component involved in the financial management of government agencies, information from partners needs to be disclosed. The following is a statement from Difa as a partner who subscribes to government agencies:

"... sometimes I ask for a blank note brother, I gave it, one time I also asked the treasurer who often shopped here, ... added to pay taxes he said"

Based on Difa's statement, as a partner who subscribes to government agencies for spending, the manipulation of evidence of expenditure is supported by the availability of blank notes that can be used as material for manipulation. The same thing was conveyed by Dini as another subscription partner, expressed that often increasing the quantity or unit price of goods written on proof of purchase or services, such as the following statement:

"... often those who shop here ask for the price or the amount of goods are raised brother, they say they still have to pay taxes for the purchase, I just follow brother, those who shop know me well (smiling)"

The statement expressed based on the experiences experienced by Difa and Dini as partners who subscribe to government agency spending guarantees that there has been manipulation of evidence of expenditures carried out by financial managers of government agencies as a response to the obligation to collect and pay taxes on state or regional financial transactions based on regulatory provisions applicable laws.

Pressure in the form of tax collection and payment obligations on transactions imposed on the state or regional finances forces financial managers to manipulate evidence of expenditures from purchases or services from government agencies. The opportunity was obtained because of the conspiracy committed by all financial managers which constituted a policy deemed necessary to resolve tax problems. The opportunity is also obtained because of the existence of regular partners of government agencies who are ready to provide backups of expenditure evidence in manipulating expenditure evidence. The feeling is right because it is commonplace and expenditure manipulation is carried out solely to cover tax payment collection obligations. The dilemma of determining the choice becomes a necessity that must be chosen between committing fraud by manipulating expenses or by doing tax evasion.

Conclusion

Fraud is deeply rooted and difficult to separate from an entity, including government agencies. Factors causing fraud include pressure, opportunity, and justification for accompanying fraud by financial managers at government agencies. A qualitative approach to transcendental phenomenology is used to obtain a natural and comprehensive essence in financial management in government agencies by ignoring the knowledge and experience of researchers.

The essence of financial management in government agencies is decorated with the dilemma of fraud by each financial manager, which is the main picture of the dilemma of financial management of a government agency. The dilemma of committing fraud on the side of state or regional financial spending is carried out to enforce tax compliance. The factor of fraud in the form of manipulation of expenditure evidence occurs due to pressures, opportunities, and justifications experienced by financial managers of a government agency. This factor is in line with the fraud triangle theory that underlies fraud in an entity.

This research is limited to data triangulation which is only limited to determining informants for financial managers and partners, so it is necessary to confirm information to drafters of state or regional financial management regulations regarding tax obligations on state or regional financial management. Suggestions for further research to carry out research involving informants who compile state or regional financial management regulations using an ethnographic or case study approach.

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