

## **Considerations of Religion and Situational Factors, Internal Control on the Occurrence of Fraud Trends: An Experimental Study of the Financial Services Sector in Indonesia**

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### **Abstract**

Financial statement fraud does not only occur in the private sector but can also occur in the government sector in the form of material misrepresentation of financial statements to cover up the actual financial condition by carrying out financial engineering. This study aims to examine religious considerations and situational factors, namely pressure or directives from superiors and internal controls against committing fraud tendencies. Literature reveals that religion plays a dominant role in shaping employees' values in their work. This study used an experimental method on 33 financial institution employees divided into two sessions to see the impact of scenarios. The analysis technique using Analysis of Variances (ANOVA) is used to perform multivariable comparative analysis. The results of empirical testing show that internal control factors have a negative influence on fraudulent behavior, and pressure factors or superior directions have a positive effect on the tendency to commit fraud. Meanwhile, religious considerations have less influence on fraud tendencies.

**Keywords:** Religious; Situational; Internal Control; Fraud

### **INTRODUCTION**

Accounting practices that are not credible interfere with the country's economic development. The design and evaluation of financial reporting must adopt part of an integral perspective. Studies on Islamic religiosity and other Muslim characteristics are still few (El-Menouar, 2014). Accounting research integrates and synthesizes with

relevant scientific spaces. Many factors, one of which is that psychological bias plays an important role in the practice of accounting policies and information disclosure policies in financial statements. Differences in economic structure and social structure affect bank operational activities. Moral hazard is a key reason for unethical behavior in the financial industry (Ada, 2014). A fraudulent Financial Statement is a fraud scheme that occurred in less than 5% of fraud cases that occurred in the world in 2010, but had a median loss of more than four million US\$ while the median Asset Misappropriation was only \$135,000 (ACFE, 2012). The increase in cases of fraudulent financial statements occurred in 2012, in this case, the percentage increased to 8% of fraud cases that occurred in the world with a median loss of one trillion US\$. With the increasing number of cases of fraudulent financial statements is necessary to know the factors causing fraudulent reporting behavior to reduce this behavior (Ibrahim et al., 2015).

Situational factors in the form of authority given by superiors and social conditions separately become variables that can predict fraudulent financial reporting behavior. Public disclosure has an impact on increasing accountability for reports that are prepared. Individuals as report preparers will feel that they have a greater burden of responsibility for what is reported when the name of the report preparer is published. Reporting fraudulent behavior is due to the individual's fear of potential losses, such as loss of trust from other parties if fraudulent reporting is found (Murtuza, 2002). Religious considerations or religious considerations should be the frame of every personal judgment in preparing financial accounting reports. According to Ball & Sadka, (2015), accounting fraud (fraud) refers to accounting errors that are carried out intentionally with the aim of misleading readers/users of financial statements. The purpose of this misdirection is to take advantage of certain individuals or parties. The Association of Certified Examiners (ACFE), one of the associations in the United States categorizes fraud into three groups of fraud, namely: fraud in financial statements, misappropriation of assets, and corruption. The Indonesian Institute of Accountants (IAI) describes accounting fraud as (1) misstatements arising from fraud in financial reporting, namely misstatements or intentional omission of amounts or disclosures in financial statements to deceive users of financial statements, and (2) misstatements that arising from improper treatment of assets (often referred to as misuse or embezzlement) related to the theft of entity assets which results in financial statements not being presented in accordance with generally accepted accounting principles (GAAP) in Indonesia. Improper treatment of entity assets is carried out in various ways, including embezzlement of receipts of goods/money, theft of assets, or actions that cause the entity to pay for goods or services that are not received by the entity. Improper treatment of entity assets may be accompanied by false or misleading records or documents and may involve one or more individuals among employees or third parties (Hirshleifer & Teoh, 2009).

According to Norman et al., (2010), grouped three factors that cause fraud, namely: (1) opportunity, (2) rationalization, and (3) encouragement or pressure. These three factors are called the fraud triangle. Knaapen et al., (2004), states that the fraud scale occurs because of (1) situational pressure, (2) the opportunity to commit fraud, and (3) personal integrity. Replaces the rationalization factor with personal integrity, to make it more observable. Personal integrity refers to the individual's personal code

of ethics. Personal integrity can be observed through moral development theory as in ethical research. This study uses individual religious considerations as individual factor variables in decision behavior (Said et al., 2018). Situational factors can be described by using the authority variable given by superiors and social conditions in predicting fraudulent reporting behavior. Authority from superiors to subordinates to commit fraud by reporting more than what should affect reporting fraudulent behavior. Social conditions in the form of public disclosure, namely the name of the report preparer, will reduce fraudulent reporting behavior (Mayhew & Murphy, 2014). The two interacting situational factors can provide a strong combination for fraudulent reporting or can be a combination that can weaken financial reporting fraudulent behavior. Combining these two factors makes the experiments carried out closer to the actual conditions in an organization. Public disclosure has an impact on increasing accountability for reports that are prepared. Individuals as report writers will feel that they have a greater burden of responsibility for what is reported when the name of the report preparer is published. Fraudulent financial reporting behavior will be reduced because of the individual's fear of getting potential losses, such as loss of trust from other parties if fraudulent reporting is found (Kaplow & Shavell, 1994).

The third factor is internal control. The condition of the internal control elements in the organization can influence individuals with a low moral level to tend to commit or not commit fraud. However, for individuals with a high moral level, conditions exist and there are no organizational internal control elements that will not make them commit fraud that will harm the organization (Nenzhelele, 2015). The operational risk of an Islamic bank is highly dependent on the quality of internal control, both for *mudarabah* and *musharakah*-based transactions, so high-quality monitoring is needed by Islamic banks at all levels of management. Good internal control is an element of sound corporate governance and determines what and how much will be presented in financial statements and other information (Zainol & Kassim, 2010). The theory of Planned Behavior (TPB) is an extension of the Theory of Reasoned Action (TRA). In TRA it is explained that a person's intention towards behavior is formed by two main factors, namely attitude toward the behavior and subjective norms. Whereas in TPB one more factor is added, namely perceived behavioral control (Ajzen & Driver, 1991).

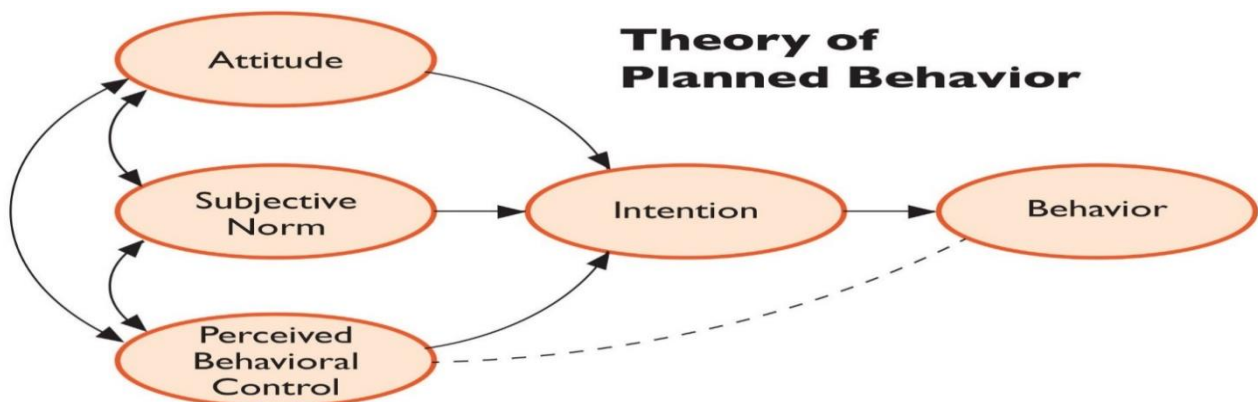


Figure 1. Theory of Planned Behavior

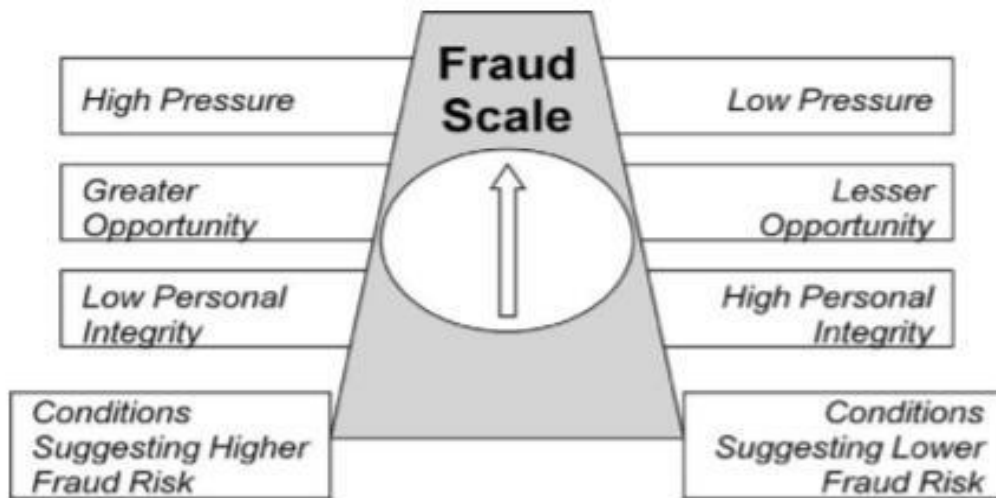
Source: (Ajzen & Driver, 1991).

TPB presents a model that describes the existence of factors that can encourage someone to bring up a behavior. In this theory, three factors motivate people to have behavioral intentions before they become actual behaviors. The first is the attitude towards behavior. Attitude is not behavior, but attitude presents a readiness for action that leads to behavior. Individuals will do something according to the attitude they have towards a behavior. The attitude towards behavior that is considered positive is what the individual will choose to behave in his life. Therefore attitude is a vehicle for guiding an individual to behave (Icek Ajzen, 2022). Both perceptions control behavior. In behaving, an individual cannot fully control his behavior under the control of that individual or in a condition where it can be the other way around where an individual can control his behavior under the control of that individual. An individual's control over his behavior is caused by several factors, namely internal factors as well as external factors. Internal factors come from within the individual such as skills, willingness, information, and others. While external factors come from the environment that surrounds the individual. Perception of behavior control is how a person understands that the behavior he shows is the result of control carried out by himself. The three subjective norms. An individual will perform a certain behavior if his behavior can be accepted by people, he considers it important in his life to accept what he will do. Thus, normative beliefs produce awareness of pressure from the social environment or subjective norms (Jennings & Seaman, 1990).

Fraud is a growing problem today. Cheating is not only perpetrated by top-level personnel but also by middle-level and even lower-level personnel. Fraud is an intentional act by an entity that results in the possession of illegal profits. describes three fraud items that are usually presented as a triangle diagram (Rezaee, 2005). Pressure refers to the factors that trigger unethical behavior. Every fraudster faces pressure to engage in unethical behavior. Pressure is the starting point of fraud incidents. Individuals with high life pressure tend to show greater deceptive intentions than individuals with low life pressure (Eiya & Otalor, 2013). Potential fraudsters derive opportunities to commit fraud from ineffective controls or governance systems that allow these individuals to perpetrate organizational fraud. In accounting, these ineffective controls are referred to as internal control weaknesses. Several factors lead to greater opportunities for employees to commit fraud in the organization such as lack of disciplinary action and negligence or violation of personnel policies (Rustiarini et al., 2019). Pamungkas et al., (2018), argue that the ability and strength of employees to realize the weaknesses of their organizational systems and exploit these weaknesses by committing fraud. Two opportunities encourage fraud, namely the organization's vulnerability to manipulation and conditions that facilitate fraud within the organization.

Fraudsters display certain mindsets that allow individuals to rationalize fraud. Rationalization is the justification of fraudulent behavior due to a lack of personal integrity, or moral reasoning. The tendency to commit fraud depends on ethical values and also on the individual's attitude (Riahi & Picur, 2000). Miller, (2006), argues that the link between pressure and opportunity is when someone can rationalize fraudulent behavior. Machiavellianism is a strategy of social behavior that involves manipulating individuals for gain. Machiavellian individuals are considered manipulators and fraudsters who erode the social capital of organizations or groups.

Fraud scale theory provides the argument that when situational pressure, perceived opportunity, and personal integrity are high, then job fraud will tend to occur. Ali, (2020), describe situational forces as when an individual has an environmental stressor as high financial loss or personal debt. The phenomenon of fraud is a very interesting study for academics to examine the factors that underlie fraud. The fraud triangle is a pioneer in the formation of a model explaining the reasons individuals commit fraud based on three main things, namely opportunity, pressure, and rationalization. The triangle is used as a basis for investigating fraudulent behavior in various fraud perspectives. However, there is a possibility that the fraud committed is the result of external influences on the individual that cannot be controlled by the individual himself. One example of external influence is organizational culture.



**Figure 2. The Fraud Scale**

Source: Albrecht et al. (1984).

Fraud triangle theory is an idea that examines the causes of fraud. This theory was first created by Cressey in 1953 in Skousen et al., (2009) which is called the fraud triangle or the fraud triangle. Three elements cause fraud. First Pressure. Tuanakotta (2014), argues that the thing that causes perpetrators to embezzle company money begins with pressure that ultimately encourages perpetrators to commit fraud. Based on SAS No. According to Reskono et al., (2016), some conditions cause pressure to occur in fraudulent financial statements, namely financial stability, external pressure, personal financial needs, and financial targets. Second Chance (Opportunity). Opportunity according to Arens et al (2014), is a situation that can open opportunities for management or employees to commit fraud. Several conditions cause opportunities to arise so that fraudulent financial statements occur, namely the nature of the industry, ineffective monitoring, and organizational structure. Third Rationalization. This includes attitudes, character, or a set of ethical values that allow management or employees to commit dishonest acts, or they are in sufficiently stressful environments to make them rationalize the dishonest act and carry out an auditor change and audit opinion.

In religious studies, the term religion is distinguished from the term religiosity. Religion is belief but religiosity is more about respect for the quality and attitude of an individual's life; based on their religious values. Religiosity from an Islamic point of view is defined as awareness or awareness of God and the desire to strike a balance between worldly needs and obedience to God's commands. Therefore, religion aims to control human behavior in building loyalty and obedience. For adherents of Islam, religion is a framework or pillar to improve the behavior of adherents and followers of religion (Sham & Yusof, 2015).

Several studies have established the importance of religion in controlling human behavior. Study Akir & Malie, (2012), found that religious orientation is positively correlated with employee work behavior, namely, employees affiliated with religion are more obedient to company rules and regulations. In Surat al-Mu'minin verse 8, Allah SWT has outlined the characteristics of lucky believers, and among them, some people are loyal to their mandate and keep their promises. In Islam, they believe that performing the five daily prayers will restrain a Muslim from doing something contrary to Islamic teachings, namely wrongdoing. Cheating in the workplace will be easier to prevent if religiosity becomes a guide in living life and then applied to the world of work. A person's attitude and behavior can be influenced by a good understanding of religion (Purnamasari & Amaliah, 2015). The Koran places great emphasis on honesty. For example, sura al-Ahzab verse 72, sura al-Anfal verse 27, and surah al-Mu'minin verse 8 show the importance of honesty in Islam and the prohibition of fraudulent and unethical acts. This finding is consistent with the results of the study by Azizan & Razlina, (2015), who state that religious leaders have a positive work attitude despite encountering disrespect in the workplace. Such a mindset suggests that they should increase their understanding and devotion to Islamic practices in the workplace to better deal with unethical practices. Research result in Hanim et al., (2015), states that religiosity is negatively related to the occurrence of asset misappropriation among Royal Malaysian Police officers.

Hunt dan Vitell, (1993), in the general theory of marketing ethics, considers religion as an important factor that influences one's ethical judgment. A person's religious beliefs will influence his ethical decision-making process. Mcdaniel & Burnett, (1990), defines Religiosity as belief in God and commitment to follow the rules and principles that are believed and have been established by God. Allport & Ross, (1967), defines religion as belief, as well as a commitment to behavior and attitudes towards religion religious teaching. Religiosity measures the extent to which a person lives religious beliefs. Vitell et al., (2007), distinguish between intrinsic religiosity and extrinsic religiosity. Intrinsic religiosity indicates more religious commitment and involvement for spiritual purposes. Intrinsically religious individuals tend to be more ethical in their belief in religion than less religious individuals. Extrinsic religiosity is a context where religion is not the main motive in life. He plays an instrumental role. Extrinsic religiosity is carried out to serve and rationalize various forms of personal interests. In such a life, full faith and religious precepts are not adopted. The main motive is always self-interest. Therefore, an individual with strong extrinsic religiosity is influenced by social determinants and tends to participate in religious activities to fulfill personal needs, for example, sources of comfort and peace or social goals such as social support.

Religiosity is how an individual understands, internalizes, and integrates religious norms into himself and becomes a personality attitude. Therefore, religiosity includes conditions that encourage them to think, behave and act according to their beliefs. Mokhlis, (2010), analyze religiosity and divide it into five dimensions, namely the Ideological Dimension is a dimension that relates to a person's level of belief in a religion that is believed to be fundamental or dogmatic teachings values. The Ritualistic Dimension is a dimension related to the level of individual obedience in carrying out ritual activities ordered or recommended by the religion one follows. The experiential dimension relates to the level of individual religious feelings and experiences. The intellectual and knowledge dimension relates to the individual's level of knowledge and understanding of religious values, especially regarding basic teachings or values that can be found in the holy scriptures. The practice or consequence dimension relates to the level of individual behavior motivated by their religion. Behavior in this case is worldly behavior, namely how individuals relate to their world.

## **METHODOLOGY**

### **Research Design**

Data collection was carried out by the experimental method. Participants are employees who have been or are currently involved in the company's accounting policies in banking, totaling 33 informants. The experiment was divided into two sessions. The first session was to measure the level of individual participants' religious considerations. The measurement is structured with two scenarios for the same accounting decision conditions. In the first scenario, each condition without being accompanied by various verses and hadiths that are relevant to the chosen decision, while the second scenario is accompanied by verses and hadiths that are relevant to the chosen decision. Between the first and second scenarios, a time lag of about 1 month was given to avoid the effects between scenarios on the choices selected by participants. Between these breaks, participants were given knowledge in the form of lectures on accounting, then participants were carried out with the second scenario, it was hoped that there would be no change in the accounting decisions chosen. In the second session, participants received manipulation in the form of authority from superiors to commit fraudulent reporting manipulation of the superior authority variable. In the third session, the answers to the first and second sessions were published by mentioning the name of each participant as a manipulation of the social condition variable. Participants were waited for by the supervisor, namely the researcher, while in the second scenario, the researcher observed not during the filling out the answers, but only before the explanation of the mechanism for filling out the answers and after completing the filling according to the specified time of 30 minutes.

### **Experimental Tasks and Procedure**

The dependent variable is the tendency to commit fraud. The way to measure it is by assessing the width of the fraud value. Each participant will get an incentive for the perception answer. Prior to the first session, the incentives that will be received will be announced according to the number of answers. Participants are invited to

calculate the incentives they expect for their work in answering the questions that have been done. This is to measure reporting fraudulent behavior by calculating the difference between the value of financial incentives reported by participants and the financial incentives that participants should receive. Reporting Fraud Value (NKP). The nominal scale classifies participants who commit fraud with a point of 1, while those who are honest with a number of 0. The second measurement is carried out to find out participants who commit fraud by labeling the number of fraudulent reporting (JKP). The wider the distance indicates the level of dishonesty of the participants. The wider the distance, the more daring participants are to commit fraudulent reporting.

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**Table 1. The Ekperiment Matrix**

Variable	Religious Considerations		Situational Factors		Internal Control	
	High	Low	High	Low	High	Low
<b>Mach (High)</b>	1 <sub>A</sub>	1 <sub>B</sub>	2 <sub>A</sub>	2 <sub>B</sub>	3 <sub>A</sub>	3 <sub>B</sub>
<b>Mach (Low)</b>	4 <sub>A</sub>	4 <sub>B</sub>	5 <sub>A</sub>	5 <sub>B</sub>	6 <sub>A</sub>	6 <sub>B</sub>

Source: Processed primary data, 202



## Technique of Analysis

At this stage, the researcher conducts a manipulation check to determine which subjects qualify for the process. Next, analyze descriptive statistics and test the effectiveness of randomization with a One-Way Analysis of Variance (ANOVA). The researcher also conducted a different test for the results of religious considerations and situational factors, namely pressure or directives from superiors and internal controls against committing fraud tendencies. Next, we tested the hypotheses to investigate whether the three independent variables significantly affect fraud intention. The hypothesis is supported empirically if the probability is below 0.05 which indicates a significant difference

## RESULTS AND DISCUSSION

**Table 2. Correlations**

		mglaba	PRESSURE	RELIGIOUS	INTCTROL
Pearson Correlation	Fraud	1.000	-.113	-.044	.336
	Intctrl	-.113	1.000	.063	.518
	Religi	-.044	.063	1.000	-.056
	Press	.336	.518	-.056	1.000
Sig. (1-tailed)	Fraud	.	.253	.397	.021
	Intctrl	.253	.	.356	.001
	Religi	.397	.356	.	.371
	Press	.021	.001	.371	.
N	Fraud	37	37	37	37
	Intctrl	37	37	37	37
	Religi	37	37	37	37
	Press	37	37	37	37

Source: Processed primary data, 2023

**Table 3. Variables Entered/Removed<sup>b</sup>**

Model	Variables Entered	Variables Removed	Method
1	Press, Religi, Intctrl		Enter

a. All requested variables entered.

**Table 3. Variables Entered/Removed<sup>b</sup>**

Model	Variables Entered	Variables Removed	Method
1	Press, Religi, Intctrl		Enter

b. Dependent Variable: Fraud

**Table 4. Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.475 <sup>a</sup>	.225	.155	.70711	.225	3.200	3	33	.036	1.524

a. Predictors: (Constant), Press, Religi, Intctrl

b. Dependent Variable: Fraud

**Table 5. ANOVA<sup>b</sup>**

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	4.800	3	1.600	3.200	.036 <sup>a</sup>
Residual	16.500	33	.500		
Total	21.301	36			

a. Predictors: (Constant), Press, Religi, Intctrl

b. Dependent Variable: Fraud

**Table 3. Variables Entered/Removed<sup>b</sup>**

Model	Variables Entered	Variables Removed	Method
1	Press, Religi, Intctrl		Enter

**Table 6. Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B		Correlations			Collinearity Statistics	
	B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1 (Constant)	2.182	.596		3.661	.001	.970	3.395					
Intcontrol	1.912E-06	.000	-.393	2.182	.036	.000	.000	.113	.355	.334	.723	1.382
Religious	.007	.106	.011	.069	.946	-.208	.223	.044	.012	.011	.985	1.015
Pressure	.577	.192	.540	3.000	.005	.186	.969	.336	.463	.460	.724	1.381

a. Predictors: (Constant), Press, Religi, Intctrl

b. Dependent Variable: Fraud

## Discussion

According to King, (2007), a good understanding of the religion of an auditor, either directly or indirectly, will form an individual auditor from actions that are prohibited by regulations. Religion can be a filter that will prevent someone from committing fraud. Remembering God in every activity will make individuals feel that God is watching over them. Therefore, individuals will try to distance themselves from doing bad deeds even though their manager or supervisor is not around. According to Cash & Gray, (2000), This attitude is important for auditors to have and allows them to refrain from fraudulent acts either due to pressure from superiors, clients, and situational factors. Auditors can act independently because they have the

belief that God gives them sustenance, so they are not afraid to face life as long as they do the right thing.

The results of the statistical test of the hypothesis that in the condition of individuals who have a low level of religious considerations tend to commit fraudulent reporting compared to individuals who have a high level of religious considerations, is not proven successful with the results of the Standardized Coefficients value of 0.07 and a significance value of 0.946. The higher the religious level, a person does not provide guarantee that he will have a tendency not to commit fraud. The results of this study are in line with the research findings of Schneider et al., (2011), who state that if a person is religious, the possibility of employee fraud occurring in that individual in carrying out their duties will be lower. In this case, any work that a Muslim employee undertakes to seek the pleasure of Allah will be considered as worship. As a result, a believer will tolerate any unfavorable working conditions that he may face, such as the pressure of long working hours, unsatisfactory facilities, dissatisfaction with his current position, and even the small salary received during an economic downturn, because he believes in job performance. will bring pleasure to Allah. In this study, the hypothesis is supported that religiosity does not significantly influence the tendency to commit fraud. Therefore this finding rejects the findings of Akir & Malie, (2012), regarding religiosity and work behavior as a positive relationship found between religious tendencies and individual behavior at work indicating that individual understanding of religion will reduce the level of unethical behavior at work.

The results of this study are not in line with research (Mohd Yunus et al., 2011). Employees have a high religious orientation and are moderate in work value orientation. The development of measuring instruments at the religious level needs to be developed according to the professional context of accounting decisions so that they can be explored more accurately. Likewise, the results of this study are not in line with the research of Weaver and Agle, (2000), West, (2011), and research Amaliah, (2014). Research findings reveal that a good understanding of religion can have implications for individual attitudes and behavior. Internalization of religious values can affect a person's behavior or ethical values and personal attitudes and behavior and will be reflected in personal and social life. Research results Liu, 2010), found a relationship between religiosity and emotional intelligence, prayer and motivation can increase productivity and decrease turnover rates. Smulowitz et al., (2019), said that agency theory is the agency relationship between the owner and the manager. This agency theory is the theory that underlies business people in the company. The owner as the principal wants high profits in his company, while the manager as an agent wants high compensation for his work. The difference in goals between the owner and the manager causes a conflict of interest. This theory explains that problems arise between owners and managers due to information asymmetry. The manager as the recipient of the mandate should work for the owner, but in reality, the manager works for personal gain. The conflict of interest that occurred between the two parties caused managers to be under pressure to find ways to increase the company's performance in the hope that the owner would give appreciation in the form of high compensation. Managers have the opportunity to commit fraudulent financial reports on access to information that is easily obtained (Lou & Wang, 2011).

The results of testing data related to situational factors on the tendency to commit fraud show the results of a Standardized Coefficients value of 0.540 and a significance value of 0.005. These results indicate that the higher the direction or pressure from superiors, the greater the tendency to commit fraudulent financial reporting, to follow orders from superiors. The desired company leaders will use their authority through accruals in preparing financial statements. Private bank managers exploit the unsophisticated ability of users of financial statement information with accrual biasing strategies (Hribar et al., 2017). Managers have more information than external users of information, including external auditors who support the chosen accrual strategy. In the financial industry with a high level of competition between individuals and between companies, individuals will consider the business situation and competition more than ethical aspects. Subordinates take unethical actions by reporting things that are not true because they feel pressured by company leaders. Organizational culture has an impact on unethical behavior in company activities (Idris, 2011).

The research results are strengthened by research findings Boyle et al., (2012), stated that fraud in financial statements mostly occurred due to encouragement from top management such as directors, CEO, and CFO. The results of research during 1998-2007 on 347 companies that were known by the US capital market authorities to have committed fraud, found that 85% of these cases involved top managers who forced their subordinates to participate in the planned fraud scheme. CEO/CFO engagement continues and continues to grow. Cohen et al., (2010), state that fraudulent behaviour can be formed due to corporate culture and directives from top managers and the board of directors, so managers will take unethical actions. They have the perception that their actions will not be punished but will be appreciated with bonuses or prizes because their actions are directions from superiors. Schuchter & Levi, (2015), states that position, rank, and power can encourage someone to easily commit crimes. In principle, a position has the authority and power to give orders that will be obeyed by subordinates and can intervene with auditors, and regulators and regulate police policies. The results of the data test show that the results of the Standardized Coefficients value are -0.393 with a significance value of 0.036. These results indicate that internal control has a negative effect on fraudulent behavior. The higher the effectiveness of internal control, the greater the ability to prevent fraudulent actions in the financial statements by employees. Internal control is the best technique in preventing and detecting fraud with a score of 94.2 more effective than an external audit. Weak internal control reflects the weak quality of management. Opportunities and fraudulent actions increase when weak internal controls are carried out by employees using their positions in the company, one of which cannot be committed to implementing the recommendations of external auditors.

The results of this study are in line with the fraud triangle theory. One factor in the occurrence of fraud is opportunity. Opportunity is a condition or situation that allows a person to commit or cover up a dishonest act. Usually, this can occur due to weak internal controls, lack of supervision, and abuse of authority. According to Zimbelman, et al., (2014), the most common way to prevent fraud is to have a good control system. This means that a good internal control system is one of the most effective tools and methods for preventing and detecting fraud. It can be ascertained

that an organization with a good internal control system can reduce the occurrence of fraud. The results of this hypothesis testing are in line with the results of the study Indriastuti et al., (2017), stated that the more effective the internal control within an agency, the lower the possibility of fraud occurring within the agency. The results of this study are in line with the findings of Irphani, (2017), that an effective organizational internal control system will be able to reduce individual tendencies to commit acts of fraud.

According to Petraşcu & Tîeanu, (2014), One way to prevent fraud from occurring is to design a system that is equipped with sufficient internal controls so that fraud is difficult for outsiders or people within the company to commit. Thus, the company will avoid fraud, so that the financial statements presented by the company will certainly be more accurate and more representative of the actual financial condition, so as not to mislead users in making decisions. This theory is in line with the research results of Hillison et al., (1998), who stated that to control fraud and losses in business, is to build an internal control system. The purpose of internal control is as the first line of defense against fraud in the organization. This needs to be implemented to monitor the control system to prevent and detect fraud. Internal control understands the various types of fraud that will be committed by the organization and also detects corruption.

According to Wilopo, (2006), if an internal control system is weak, it will result in the safety of the company's assets not being guaranteed, the existing accounting information is not accurate and unreliable, the company's operational activities being inefficient, and ineffective and management policies cannot be complied with. With the control of authority by the owner to the manager, the control function is increasingly important. This is to determine whether the delegated tasks and authorities have been carried out in accordance with the established plan. According to Tuanakotta, (2007), the internal control process is carried out by management who is responsible for protecting and securing company assets. The fraudulent form of taking assets illegally (asset misappropriation) is called theft (larceny), which is a form of looting that has been known since the beginning of human civilization, where opportunities for looting to occur are closely related to the weakness of the internal control system, especially about the safeguarding of assets. According to the research results of Othman et al., (2015), Weak internal control systems within an organization can affect fraud in financial reports. If an internal control system is weak, it will result in the safety of the company's assets not being guaranteed, the existing accounting information is not scrutinized and cannot be trusted, the company's operational activities being inefficient and ineffective and the policies of the established leadership cannot be fulfilled. With the control of authority by the leadership on employees, the control function is increasingly important. This is to determine whether the delegated tasks and authorities have been carried out in accordance with the established plans.

## CONCLUSION

In general, the results of this study can be concluded that individual religious considerations, although influential, have not been able to strongly prevent fraudulent behavior. situational factors, namely pressure from superiors are strongly related to the behavior of employees committing fraud. The higher the pressure from superiors

to commit fraud, the more employees follow the directions of superiors. The effectiveness factor of internal control affects the tendency to commit fraud in financial reporting. The higher the effectiveness of internal control, the greater the ability to prevent fraud committed by employees. Although all research hypotheses can be supported by empirical data, however, the results of this study have not shown that the experimental treatment of this research needs to be improved, to clarify the causality relationship which is significant for the effect of the independent variable on the dependent variable (earnings management variable). The failure of this experiment could be caused by the long lag time between the pretest and the posttest. This research certainly has shortcomings, therefore further research is needed to improve the results of this study. Further research should examine the results of this study in the form of religious and situational considerations using a larger and more representative sample size. The development of indicator context coverage needs to be carried out to test the strength of the indicators carried out by this study and previous studies so that the results better describe the actual conditions. The failure of this experiment could be caused by the long lag time between the pretest and the posttest, so a shorter lag time between the pretest and the posttest is needed so that the informants are not too interrupted by other dimensions.

## ACKNOWLEDGMENT

We would like to express our sincere thanks to colleagues who have contributed during this research, as well as to the respondents who have taken the time to fill out the questionnaire, thus providing very valuable answers for data collection in this research. Through its publication *Journal of Islamic Economics and Business Ethics (JIESBI)* on this occasion we would like to thank you for your efforts and membership as a reviewer. Your help allows us to meet scheduled times and maintain journal observation standards. We appreciate your dedication as the number of manuscripts increases each year.

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