



## RESEARCH ARTICLE

## Experimental Study of the Influence of the Level of Religious and Moral Reasoning on Fraudulent Financial Reporting Behavior

Wuryan Andayani<sup>1\*</sup>, Sutrisno T<sup>2</sup>, Made Aristia Prayudi<sup>3</sup>, Maharani Wuryantoro<sup>4</sup>, Alphasyah Lazuardy Sidarta<sup>5</sup>

<sup>1, 2, 3</sup> Accounting Department, Faculty of Economics and Business, Universitas Brawijaya

<sup>4, 5</sup> Accounting Master's Student, Faculty of Economics and Business, Universitas Brawijaya

ARTICLE INFO	ABSTRACT
Received: May 22, 2024	<p>This research aims to investigate the influence of pressure for compliance with superiors on fraudulent financial reporting behavior. The study uses 2x1 factorial design, manipulating compliance pressure on fraudulent financial reporting. Participants (n=64) from Indonesian Accounting Firms engaged in two distinct sessions, evaluating moral reasoning and religiosity levels. The second session introduced two experiment conditions, one with superior pressure and one without. The detailed procedural steps ensured a controlled and comprehensive approach to data collection, enhancing the study's reliability. The test results using the Independent Sample t-test and contrast test in ANOVA indicated that fraudulent financial reporting appeared in groups with 1). Conditions of compliance pressure; 2). Low level of moral reasoning; and 3). A combination of being in a condition of obedience pressure and having a low level of moral reasoning. This research comprehensively explores fraudulent financial reporting dynamics in the public sector, highlighting the critical roles of obedience pressure and moral reasoning. While religiosity's impact remains intricate, the study underscores the necessity of robust ethical training and precise measurement tools. The implications advocate tailored strategies that prioritize transparency, integrity, and ethical conduct, fostering sustainable ethical practices globally.</p>
Accepted: Jun 22, 2024	
<b>Keywords</b>	
Experimental	
Fraud	
Moral	
Religiosity	
Compliance Pressure	
<b>*Corresponding Author:</b>	
andayani@ub.ac.id	

### INTRODUCTION

Manipulation of financial reporting is a form of accounting fraud that is widespread in public sector organizations (Purcell, 2016). Centralization of authority and excessive efforts in achieving budget realization are the main features of organizations that can actually trigger the emergence of fraud in financial reporting (Mat *et al.*, 2013). The paradigm shift towards accrual accounting and the increased use of numerical performance measures have also created incentives and pressure for public sector managers to prepare financial reports to meet organizational targets (World Bank, 2017). In the Indonesian context, fraudulent financial reporting in the public sector is found to occur frequently in central and regional government organizations (Sukmadilaga *et al.*, 2022) as well as state-owned enterprises (BUMN) (Achmad *et al.*, 2022).

In several cases in the field, pressure for obedience to superiors has been documented as a major determining factor in fraudulent financial reporting in the public sector (PricewaterhouseCoopers, 2011). Compliance pressure provides incentives for subordinates to commit fraud thanks to the superior's strategic position in determining rewards and punishment for subordinates (Rustiarini *et al.*, 2019). Testing in the research realm, however, still produces mixed findings. Sofyani and Pramita

(2013) found that manipulation of government budget realization reports was positively influenced by superior pressure and retaliation. Cipta (2021) reveals how subordinates who experience pressure to obey their superiors are willing to commit fraudulent financial reporting in government organizations in Indonesia. Research by Sukmadilaga *et al.*, (2022) actually did not find a significant influence of aspects of superior pressure on the emergence of fraudulent financial reports in public sector organizations in Indonesia.

This research aims to investigate the influence of pressure for compliance with superiors on fraudulent financial reporting behavior. Furthermore, this research focuses on efforts to minimize the level of fraudulent financial reporting in government organizations in situations where there is compliance pressure from superiors for subordinates to do so. There are two mitigating factors that will be tested, namely the level of religiosity and moral reasoning, with the following considerations. First, the level of religiosity is expected to arouse ethical sensitivity so that it can stimulate individuals to prioritize aspects of honesty over fraudulent behavior (Rashid and Ibrahim, 2007). Recent research also reveals how the level of religiosity can be related to an individual's degree of tolerance for fraud (Knechel and Mintchik, 2022). Several studies have found that the level of religiosity has a negative effect on fraudulent financial reporting behavior (Said *et al.*, 2018). However, evidence of the effect of its interaction with compliance pressure is still found to be inconsistent, namely that it can be significant (Cipta, 2021) or not significant (Nafiati and Ainy, 2022) on fraudulent financial reporting.

Second, individual moral reasoning can also be related to individual decisions to behave ethically (Liyanarachchi and Newdick, 2008). Moral reasoning focuses on how individuals think and consider moral dilemma situations and determine the right and wrong actions in these conditions (Belgasem-Hussain and Hussaien, 2023). In fact, moral reasoning is observed to be able to determine individual ethical behavior when under conditions of social pressure (Lord and DeZoort, 2001). Research by Khusnah and Soewarno (2022) found that moral reasoning has a positive effect on the preventing fraud in financial reports of public institutions in Indonesia. Shawver and Shawver (2018) found that individuals with a high level of moral reasoning were more likely to be willing to report orders from superiors to commit fraudulent financial reporting compared to individuals with a low level of moral reasoning.

This research targets findings in the form of a model for mitigating fraudulent financial reporting behavior to be applied to government organizations in Indonesia so that service delivery to the community becomes more efficient. This research also targets contributions both theoretically and practically, as follows: 1). For the field of education, the results of the research will contribute ideas, references and academic models related to the field of Economics in general and the sub-field of Accounting in particular; 2). For interested parties, namely the government, research result can provide input for the formulation of organizational management policies that are more effective, efficient and accountable.

This research contributes to the literature by providing a nuanced understanding of the complex interplay between obedience pressure, moral reasoning, and fraudulent financial reporting in the public sector. While existing studies have acknowledged similar factors, this work delves deeper into the multifaceted dynamics, emphasizing the critical roles of internal control mechanisms highlighted through its exploration of religiosity's impact on fraudulent behavior, showcasing the complexities beyond religious considerations and the need for nuanced measurement tools (Ahmadi *et al.*, 2013; Hickman, 2013; Stapleton, 2013). Furthermore, the study's focus on the Indonesian context enriches the international literature by providing a comprehensive examination of fraudulent financial reporting within a specific cultural and organizational setting, shedding light on the unique challenges and potential solutions in a global context (Sukmadilaga *et al.*, 2022; Achmad *et al.*, 2022).

## LITERATURE REVIEW

### Financial reporting fraud

Fraudulent financial reporting or financial statement fraud is an action carried out deliberately and covertly to manipulate an organization's financial reports, thereby giving a false or misleading impression of the organization's performance and financial condition (Bedard *et al.*, 2020). There are several types of financial reporting fraud, including: 1). False revenue recognition, by which organizations can report revenue that does not exist or has not been received, or increase existing revenue by manipulating data and documents, by which organizations can minimize costs or delay bill payments; 3). Asset value manipulation, whereby organizations can exaggerate asset values or eliminate unpaid debts to increase net assets and liquidity; 4). Manipulation of financial reports, where organizations can falsify financial reports by manipulating the data and information presented, such as making false reports or covering up losses with other profits (Committee of Sponsoring Organizations of the Treadway Commission, 2013). The impact of fraudulent financial reporting can be very detrimental to the organization and other stakeholders. In the short term, fraudulent financial reporting can have a positive impression on organizational performance, but will disrupt investor and market confidence and cause large financial losses in the long term (Association of Certified Fraud Examiners, 2021).

### Compliance pressure

Compliance theory states that orders given by someone who has authority can influence the behavior of other people because the authority they have is a form of legitimate power (Dezoort and Lord, 1994). In other words, compliance behavior can arise due to the perception of the recipient of the order regarding the ownership of the power of the person giving the order which originates from the hierarchical position of each party in a formal legal organizational structure. Milgram (1963, 1974), as the developer of classical obedience theory, emphasized that individuals who experience pressure to obey orders from their superiors can blindly carry out these orders even though they actually conflict with their attitudes, beliefs and values. This is because under conditions of pressure for obedience, subordinates no longer view themselves as individuals who act based on their own free will, but rather act as agents who are carrying out their superior's orders.

Pressure for obedience can make a subordinate willing to act unethically according to the orders of a superior. The subordinate will assume that all the consequences of this action are immediately the responsibility of the person giving the order, while he only acts as an agent implementing the order (Milgram, 1974). In other words, under conditions of obedience pressure, subordinates will delegate responsibility (displacing responsibility) for their actions to their superiors. This rationalization of delegation of responsibility is the most reasonable cognitive mechanism for someone to continue committing fraud even though the perpetrator 1). Is aware that the action is classified as unethical; 2). Has used his intuition and moral reasoning to decide that the action is unacceptable; and 3). Have felt negative emotions (negative affect), such as psychological discomfort and guilt, before the unethical act was actually carried out (Murphy and Dacin, 2011).

### The effect of compliance pressure on fraudulent financial reporting behavior

According to agency theory, there is an agent-principal relationship between the individual as agent and his superior as principal. Agents have a responsibility to report financial information accurately, but superiors may apply pressure to report information that shows better performance, or covers up deficiencies or weaknesses in financial reports. In situations like these, agents can feel compliance pressures and may feel forced to comply with superiors' wishes even though they violate applicable accounting principles. Therefore, pressures for compliance with superiors can increase the possibility of fraudulent financial reporting behavior.

Stalebrink and Sacco (2007) see pressure as one of the factors that contributes to fraudulent financial reports in government. According to the Austrian perspective, individuals tend to commit fraud when they feel stressed or in a threatening situation. Pressure can come from the organizational environment such as unrealistic performance targets, lack of supervision, or excessive demand from superiors. However, in the context of government, pressure can also come from political pressure of pressure from society to achieve certain goals. Ultimately, individuals may rationalize their fraudulent behavior as an attempt to meet the demands or pressures they are experiencing. This occurs when employees feel pressure from superiors to obtain better performance results or achieve targets that are difficult to achieve, so they feel forced to engage in fraudulent behavior in financial reporting. Thus, the hypothesis in this research is as follows:

H1: Fraudulent financial reporting behavior is found to be lowest in individuals who are not in a situation of compliance pressure

### **The influence of the level of religiosity on fraudulent financial reporting behavior**

The theory of religious ethics states that religious beliefs and religious practices can influence a person's ethical behavior. In the context of fraudulent financial reporting in government organizations, individuals with a high level of religiosity tend to consider the moral and ethical values taught by their religion in making decisions, including in choosing whether or not to be involved in fraudulent financial reporting behavior. In this case, more religious individuals may have higher moral motivation and social responsibility, which may help prevent fraudulent behavior.

Research conducted by Khan *et al.* (2019) discussed the relationship between religiosity and ethical behavior among business students in Pakistan. The research results show that religiosity has a positive and significant effect on ethical behavior in the business environment. This research provides a theoretical basis that the level of religiosity can influence a person's ethical behavior in a business context. In the context of fraudulent financial reporting in government organizations, more religious individuals may have higher moral motivation to prevent fraudulent behavior and consider the social impact of their actions. Therefore, it can be assumed that the level of religiosity can also influence fraudulent financial reporting behavior in government organizations. Thus, the hypothesis in this research is as follows:

H2: Fraudulent financial reporting behavior is found to be lowest in individuals with a high level of religiosity

### **The influence of moral reasoning on fraudulent financial reporting behavior**

Individuals can use moral reasoning to consider the ethical consequences of their actions. In the context of fraudulent financial reporting behavior, individuals with a high level of moral reasoning are more likely to consider ethical values and the social impact of their actions, so they tend to avoid unethical behavior. In contrast, individuals with a low level of moral reasoning are more likely to consider their personal benefits and individual interests, so they are more likely to engage in fraudulent financial reporting behavior.

Trevino *et al.*, (2006) examined the relationship between moral reasoning and ethical behavior in an organizational context. The research results show that individuals with a high level of moral reasoning are more likely to make ethical decisions in organizations. This research provides a theoretical basis that the level of moral reasoning can influence ethical behavior in an organizational context. In the context of fraudulent financial reporting in government organizations, moral reasoning can be an important factor influencing individual decisions in considering the ethical consequences of their actions. Therefore, it can be assumed that the level of moral reasoning can also influence fraudulent financial reporting behavior in government organizations. Thus, the hypothesis in this research is as follows:

H3: Fraudulent financial reporting behavior is found to be lowest in individuals with a high level of moral reasoning.

**The interaction effect of compliance pressure, level of religiosity, and moral reasoning on fraudulent financial reporting behavior**

Compliance theory suggest that individuals tend to obey orders or demands from people who hold higher positions in the organizational hierarchy. Therefore, compliance pressure exerted by superiors or leaders can influence an individual’s tendency to commit fraudulent financial reporting. Moral and religious theories can also influence fraudulent financial reporting behavior. An individual’s level of religiosity can influence an individual’s moral judgment and integrity. Individuals who have a high level of religiosity tend to have conservative moral views and apply religious values in everyday life, including at work. The level of moral reasoning can also influence fraudulent financial reporting behavior. Individuals who have a high level of moral reasoning tend to have a better understanding of what is right or wrong in complex situations.

Theoretically, it can be assumed that high compliance pressure can reduce the influence of the level of religiosity and level of moral reasoning on fraudulent financial reporting behavior. In other words, individuals who experience high levels of compliance pressure may tend to ignore moral or religious values and commit unethical or inappropriate actions.

Zulkarnain, Susilowati and Nurhayati (2020) in their research found that pressure for obedience to superiors has a positive effect on fraudulent financial reporting behavior in government organizations. In this research, compliance pressure on superiors is defined as the influence of superiors who force subordinates to take actions that are not in accordance with norms and ethics in financial reporting. The research results show that the higher the level of pressure for compliance with superiors felt by employees, the higher the possibility of fraudulent financial reporting behavior. Apart from that, this research also found that morality and education have a negative effect on fraudulent financial reporting behavior, meaning that the higher the employee’s morality and education level, the lower the possibility of fraudulent financial reporting behavior. Thus, the hypothesis in this research is as follows:

H4: Fraudulent financial reporting behavior is found to be lowest in individuals who are not in a situation of compliance pressure, have a high level of religiosity and also a high level of moral reasoning.

**RESEARCH METHODS**

**Research design**

This research applies a type of experimental research with a 2x1 factorial design between subjects. The factor (independent variable) that is manipulated is compliance pressure to commit fraudulent financial reporting (TK) versus no compliance pressure (TTK). The experimental design is depicted as presented in

Moral Reasoning	Compliance Pressure
	Level of Religiosity
Compliance Pressure (TK)	GROUP 1
No Compliance Pressure (TTK)	GROUP 2

**Figure 1: Experimental design**

## Participants

Research participants were accountants at several Public Accounting Firms.

## Procedure

Two experimental sessions were carried out in separate places and times. In the first session, participants were instructed to work on three cases to measure their level of moral reasoning and answer 22 questions that measured their level of religiosity. The results of measuring each value of the two variables (high versus low moral reasoning and high versus low levels of religiosity) will be the basis for distributing participants to different groups in the second session. In the second session, participants carried out experimental tasks randomly in two different conditions, namely a). the condition that they received pressure from their superiors to commit fraudulent financial reporting and b). the condition that they did not receive pressure from their superiors to commit fraudulent financial reporting. The experimental procedure carried out is as follows:

- 1) Researchers, Actors and Staff prepare in the room.
- 2) Participants enter the main seminar room, fill in the attendance list and take the form and table number randomly at the Staff table then occupy the table according to the number they have obtained. Participants then fill out a statement of consent form to take part in activities and a preliminary questionnaire. The form is submitted to Staff ( $\pm 5$  minutes).
- 3) The Researcher introduced the Actor as PDIA Student, a Research Assistant who came from the Directorate General of Regional Development of the Ministry of Home Affairs. The Researcher said that the Actor will guide the course of experiment because the Actor understands the substance of the research better, while the Researcher will only evaluate at the final stage after the experiment is complete. The Researcher gave confirmation to the participants to follow all directions and instructions from the Actor during the experimental process. The Researcher and Staff then leave the room ( $\pm 5$  minutes).
- 4) The Actor reintroduces himself and provides a general overview of the research topic, namely the regional government accounting system in Indonesia. The Actor reiterated to the participants to follow his directions and instructions during the experimental activities as previously conveyed by the Researcher. It was also conveyed that the Actor would provide a report to the Researcher regarding of the experiment, including if there were participants who were deemed not to have met the requirements ( $\pm 5$  minutes).
- 5) The Actor provides material related to local government accounting systems ( $\pm 20$  menit)
- 6) The Actor distributes quiz sheets related to material and work instructions in hardcopy form to each participant. While asking participants to pay attention to the sheet provided, the Actor reads aloud the information provided on the instruction sheet. At the end of the reading, the Actor ensures to the participant whether there are things that are unclear that can be discussed first before the participant carries out the work process ( $\pm 5$  menit).
- 7) Participants are allowed to take the quiz on a hardcopy answer sheet ( $\pm 20$  menit).
- 8) The Actor said that the final results would be assessed by the Researcher. The procedure is that participants will send a copy of the answers from the hardcopy sheet to the main Google form link provided. Before sending, participants are given the opportunity to check the correctness of the quiz answers themselves using the answer key provided by Actor. The Actor then pulled out the hardcopy answer sheet and asked the participant whether the participants was able to get maximum results from completing the quiz. Afterwards, the Actor provided superior pressure treatment by conveying that the success of the research was largely determined by the participants' performance in answering the quiz. For this reason, the Actor persuades participants to fill in the answers in the main Google form link based on the answer key provided

by the Actor. Participants filled out the main Google form link which also contained manipulation check questions ( $\pm 10$  menit).

- 9) The Actor closes the activity. The Researcher enters the room and together with the Actor explains the aims and objectives of carrying out the experiment ( $\pm 5$  menit).

### Research variable

- a) The Financial Reporting Fraud variable is defined as the behavior of presenting financial performance values in financial reports that do not correspond to reality. This variable is measured as the difference between the actual performance value and the reported performance value on a ration scale.
- b) The superior pressure variable is defined as the condition of giving orders and authorization from superiors to subordinates to commit fraudulent financial reporting, in the form of presenting financial performance values in financial reports that do not correspond to reality. This variable is measured using a dummy scale, namely "0" for the absence of superior pressure and "1" for the condition of the presence of superior pressure.
- c) Variable the level of participants' moral reasoning was measured using the defining issue test (DIT). Kohlberg (1971) measured an individual's level of moral reasoning by asking participants to solve ethical dilemma situations by selecting several solution options and explaining their choices. Participants measured their level of moral reasoning using DIT based on P-Score (Post-Conventional Score). Classification of participants into categories of low and high moral levels by using the median or middle value of the P-Score determined by Rest (1984) as a theoretical limit.
- d) Variable level of Religiosity is defined as a guiding perspective on life that is expressed in beliefs, narratives, symbols and worship practices – it is an inner experience of each individual, which connects individuals with each other and directs actions – their actions (Peterson, 2001). This variable has four components, namely the cognitive religiosity component, the extrinsic religious motivation component and the intensity component of religious behavior (Schouten *et al.*, 2014).

### Data analysis

The data obtained in this research were analyzed using Independent Sample t-test statistical technique in order to determine whether there were differences in mean values in the two sample groups (Hair *et al.*, 2010) – testing hypotheses H1, H2, and H3. Meanwhile, to test the hypothesis, H4 was tested in ANOVA. However, before hypothesis testing was carried out, descriptive statistical analysis to investigate data quality parameters (mean and standard deviation) was also applied in this research.

## RESULTS AND DISCUSSION

### Descriptive statistics

Table I. presents the results of descriptive statistical analysis of research variables as follows. The level of participants' religiosity was classified as high (mean religiosity score = 4.0824) with the distribution of scores for each aspect of cognitive religiosity (mean = 4.4102), intrinsic religious motivation (mean = 4.3406), extrinsic religious motivation (mean = 3.5438) and the intensity of religious behavior (4.0938) which is also high. Meanwhile, the participants' p-score values were moderate in the range of 0.00 to 53.33 with a mean of 26.1463. Finally, the value of financial reporting fraud is categorized as low with a mean of 1.5038 in the value range of 0 to 7 units.

**Table 1: Descriptive statistics of research variables**

	Religiosity Score	Level of Religiosity	P-Score	P-Score level	Compliance Pressure	Financial Reporting Fraud
N	Valid	64	64	64	64	64
	Missing	0	0	0	0	0
Mean	4.0824	1.5000	26.1463	1.5313	.4844	1.5938
Median	4.0682	1.5000	26.6700	2.0000	.0000	1.0000
Std. Deviation	.39996	.50395	14.50239	.50297	.50371	1.95764
Minimum	3.18	1.00	.00	1.00	.00	.00
Maximum	5.00	2.00	53.33	2.00	1.00	7.00

**Hypothesis Test**

**The effect of compliance pressure on fraudulent financial reporting behavior**

The first hypothesis in this study predicts that fraudulent financial reporting behavior is found to lowest in individuals who are not in a situation of compliance pressure. The results of the independent sample t-test (Table II.) indicate that there is a significant difference in mean financial statement fraud (-1.47605) (p-value = 0.016) between the group that did not receive compliance pressure treatment (mean = 0.8788) and group that did not receive compliance pressure (mean cheating = 2.3548). Based on the test results, it can be concluded that the existence of compliance pressure can give rise to fraudulent reporting behavior. Thus, hypothesis H1 can be stated to be supported empirically.

**Table 2: Hypothesis Testing Results H<sub>1</sub>**

	Compliance Pressure	N	Mean	Std. Deviation	Std. Error Mean	Mean Difference	Sig.
Financial Reporting Fraud	No Pressure	33	.8788	1.47389	.25657	-1.47605	0.016
	With Pressure	31	2.3548	2.13773	.38395		

**The influence of the level of religiosity on fraudulent financial reporting behavior**

The second hypothesis in this study predicts that fraudulent financial reporting behavior is found to be lowest in individuals with a high level of religiosity. The results of the independent sample t-test (Table III.) indicate that there is a difference in the mean of financial statement fraud-(0.12500) but it is not significant (p-value = 0.452) between the group with a low level of religiosity (mean fraud = 1.6563) and the group with high level of religiosity (mean cheating = 1.5313). Based on the results, it can be concluded that the existence of compliance pressure can give to fraudulent reporting behavior. Thus, hypothesis H2 can be stated as not supported empirically.

**Table 3: Hypothesis Testing Results H<sub>2</sub>**

	Level of Religiosity	N	Mean	Std. Deviation	Std. Error Mean	Mean Difference	Sig.
Financial Reporting Fraud	Low Religiosity	32	1.6563	2.04165	.36092	.12500	0.452
	High Religiosity	32	1.5313	1.90050	.33596		

**The influence of moral reasoning on fraudulent financial reporting behavior**

The third hypothesis in this study predicts that fraudulent financial reporting behavior is found to be lowest in individuals with a high level of moral reasoning. The results of the independent sample t-test (Table IV.) indicate that there is a significant difference in the mean of financial statement fraud (1.51765) (p-value = 0.002) between the group with a low level of moral reasoning (mean fraud =



2.4000) and the group with high level of moral reasoning (mean cheating = 0.8824). Based on the test results, it can be concluded that the existence of compliance pressure can give rise to fraudulent reporting behavior. Thus, hypothesis H3 can be stated to be supported empirically.

**Table 4: Hypothesis Testing Results H<sub>3</sub>**

	Moral Reasoning	N	Mean	Std. Deviation	Std. Error Mean	Mean Difference	Sig.
Financial Reporting Fraud	Low Moral Reasoning	30	2.4000	2.02740	.37015	1.51765	0.002
	Higher Moral Reasoning	34	0.8824	1.60991	.27610		

**The interaction effect of compliance pressure, level of religiosity, and moral reasoning on fraudulent financial reporting behavior**

The fourth hypothesis in this study predicts that fraudulent financial reporting behavior is found to be lowest in individuals who are not in a situation of compliance pressure, have a high level of moral reasoning. The results of the contrast test in ANOVA (Table V in the shaded part) indicate that the mean of financial statement fraud in the group that did not receive compliance pressure treatment, had a high level of religiosity and also a high level of moral reasoning was the lowest (0.3636) compared to the other groups, but not significant (p-value = 0.841 – Table VI.). Based on the test results, it can be concluded that compliance pressure, level of religiosity and moral reasoning do not interact with each other to influence the emergence of fraudulent financial reporting behavior. Thus, hypothesis H4 can be stated as not supported empirically.

**Table 5: Descriptive Statistics of the Interaction between Level of Religiosity, Level of Moral Reasoning and Compliance Pressure**

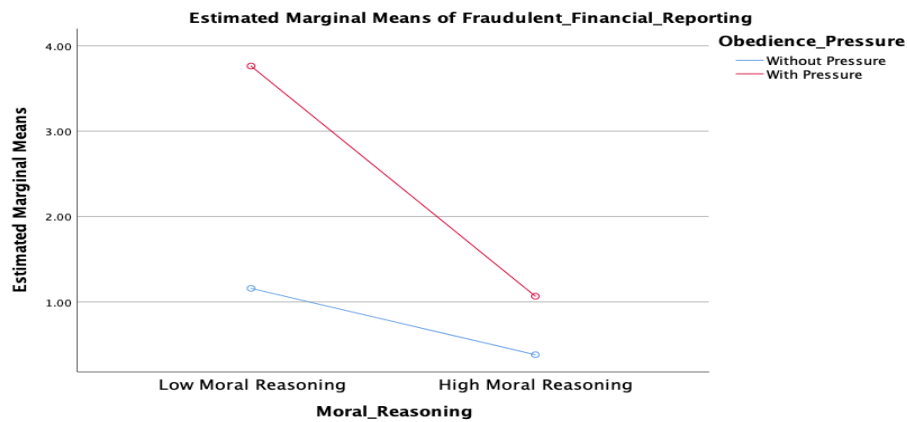
Level of Religiosity	Moral Reasoning	Compliance Pressure	Mean	Std. Deviation	N
Low Religiosity	Low Moral Reasoning	No Pressure	1.8182	1.88776	11
		With Pressure	3.8571	1.86445	7
		Total	2.6111	2.09028	18
	Higher Moral Reasoning	No Pressure	.4000	1.20605	11
		With Pressure	.6667	1.15470	3
		Total	.4286	1.15787	14
	Total	No Pressure	1.0909	1.71573	22
		With Pressure	2.9000	2.23358	10
		Total	1.6563	2.04165	32
High Religiosity	Low Moral Reasoning	No Pressure	.5000	.54772	6
		With Pressure	3.6667	1.50555	6
		Total	2.0833	1.97523	12
	Higher Moral Reasoning	No Pressure	.3636	.89443	5
		With Pressure	1.4667	1.99523	15
		Total	1.2000	1.82382	20
	Total	No Pressure	.4545	.68755	11
		With Pressure	2.0952	2.09535	21
		Total	1.5313	1.90050	32
Total	Low Moral Reasoning	No Pressure	1.3529	1.65609	17
		With Pressure	3.7692	1.64083	13
		Total	2.4000	2.02740	30
		No Pressure	.3750	1.08781	16

Level of Religiosity	Moral Reasoning	Compliance Pressure	Mean	Std. Deviation	N
	Higher Moral Reasoning	With Pressure	1.3333	1.87867	18
		Total	.8824	1.60991	34
	Total	No Pressure	.8788	1.47389	33
		With Pressure	2.3548	2.13773	31
		Total	1.5938	1.95764	64

**Table 6: Results of ANOVA analysis of interaction between level of religiosity, level of moral reasoning and compliance pressure**

<i>Tests of Between-Subjects Effects</i>					
<i>Dependent Variable: Financial Reporting Fraud</i>					
Source	Type III Sum of Squares	df	Mean Square	F	Sig.
Corrected Model	95.965 <sup>a</sup>	7	13.709	5.277	.000
Intercept	128.998	1	128.998	49.658	.000
Level of Religiosity (REL)	.359	1	.359	.138	.711
Level of Moral Reasoning (MOR)	38.341	1	38.341	14.759	.000
Compliance Pressure (OBE)	34.368	1	34.368	13.230	.001
REL * MOR	4.371	1	4.371	1.683	.200
REL * OBE	2.844	1	2.844	1.095	.300
MOR * OBE	11.697	1	11.697	4.503	.038
REL * MOR * OBE	.105	1	.105	.041	.841
Error	145.472	56	2.598		
Total	404.000	64			
Corrected Total	241.437	63			

*a. R Squared = .397 (Adjusted R Squared = .322)*



**Figure 4: Interaction plot of compliance pressure and level of moral reasoning**

**Additional analysis**

The results of additional analysis using ANOVA (Table VI.) indicate a significant interaction effect between the level of moral reasoning and compliance pressure in influencing fraudulent financial reporting behavior ( $p$ -value = 0.038). As depicted in the graphic in the graphic plot in Figure 4.1., the value of fraudulent financial reporting in the group that received compliance pressure (red line) was found to be lower for participants with a high level of moral reasoning compared to participants with a low level of moral reasoning.

## DISCUSSION

Our research findings underscore the multifaceted dynamics underlying fraudulent financial reporting. Shedding light on the critical interplay between obedience pressure, moral reasoning, and the nuanced ethical considerations that guide individuals' decisions in organizational settings. The results reveal a significant influence of obedience pressure, with the Actor figure's impact manifesting as a powerful determinant of participants' willingness to engage in fraudulent financial reporting. Obedience pressure has been extensively studied in the realm of psychology and organizational behavior, highlighting the powerful influence of authority figures on individuals' compliance with unethical directives. The findings of our research align with the classic experiments of Stanley Milgram (1963, 1974), emphasizing the propensity of individuals to adhere to authority figures even when it conflicts with their moral compass. Our findings align with prior research emphasizing the profound impact of superior-subordinate dynamics on employees' behavior (Nafiati and Ainy, 2022; Stalebrink and Sacco, 2007). This further corroborates the extensive literature highlighting the susceptibility of individuals to conform to authority figures directives, especially when performance assessments and career advancements are at stake (Cipta, 2021; Sofyani and Pramita, 2013).

Furthermore, our study provides compelling evidence underscoring the pivotal role of moral reasoning in mitigating fraudulent financial practices. Participants demonstrating a higher level of moral reasoning exhibited a heightened resistance to engaging in fraudulent financial activities, underscoring the ethical considerations that guide their decision-making processes (Kohlberg, 1971). Moral reasoning serves as a cognitive process through which individuals evaluate and navigate ethical dilemmas, guiding their actions based on ethical values and norms. Our findings are consistent with contemporary research emphasizing the ethical guidance provided by robust moral reasoning, enabling individuals to navigate complex ethical dilemmas and uphold ethical standards in morally ambiguous situations (Khusnah and Soewarno, 2022; Sharma, 2022).

However, our investigation did not yield conclusive evidence supporting the influence of religiosity on fraudulent financial reporting behavior. While the significance of religiosity in shaping individuals' attitudes towards behavior has been acknowledged (Ajzen, 1991), our research suggests that the relationship between religiosity and ethical decision-making in the context of fraudulent financial reporting remains enigmatic. While religious beliefs and values of the inform individuals' ethical perspectives, the complexity of ethical decision-making extends beyond religious considerations. This complexity may be attributed to the intricate interplay of emotional involvement and personal experiences in an individual's assessment of ethical behavior, thereby highlighting the multifaceted nature of ethical decision-making processes (Ahmadi *et al.*, 2013; Hickman, 2013; Stapleton, 2013). This aligns with the socio-psychological perspective of Albert Bandura emphasizing the diverse array of factors that shape human behavior, including religious beliefs and moral disengagement mechanisms that can potentially override religious teachings (Bandura, 1997).

## CONCLUSION

Our study highlights the multifaceted nature of factors influencing fraudulent financial reporting behavior in the public sector, particularly focusing on the impact of obedience pressure, religiosity, and moral reasoning. The findings highlight the critical role of obedience pressure and moral reasoning as determinants of fraudulent financial reporting, emphasizing the susceptibility of individuals to comply with unethical directives from superiors. Furthermore, the non-significant influence of religiosity on fraudulent financial reporting behavior emphasizes the need for organizations to prioritize comprehensive ethical training and strengthen internal control mechanisms to foster a culture of integrity and ethical accountability.

While our study sheds light on crucial aspects of fraudulent financial reporting behavior, certain limitations warrant consideration. The inadequacy of instrument in capturing the intricate nuances of religiosity's influence on fraudulent financial reporting calls for a more comprehensive and nuanced measurement tool. Future research should focus on refining the methodology to encompass a more holistic understanding of the multidimensional aspects of religiosity that could impact ethical decision-making. Additionally, the controlled experimental conditions, while relevant to the research context, may not fully encapsulate the complexities of real-world organizational dynamics, warranting cautious interpretation of the findings in practical contexts (Schouten *et al.*, 2014).

The implications of our research offer valuable insights for enhancing the ethical landscape within the public sector. Emphasizing the need for robust supervision and control mechanisms, our findings advocate for the implementation of rigorous monitoring systems to deter fraudulent practices and cultivate a culture of integrity (Nafiati and Ainy, 2022). The establishment of accessible whistleblowing channels serves as a critical avenue for employees to report unethical practices, enabling the timely identification and prevention of fraudulent activities (Rustiarini *et al.*, 2019). Moreover, our study underscores the importance of fostering an organizational culture that prioritizes transparency and ethical conduct, thereby fortifying the public sector's integrity and promoting public trust.

Our research underscores the importance of integrating a comprehensive framework that addresses obedience pressure, moral reasoning, and the broader ethical landscape within the public sector. By implementing tailored strategies that bolster ethical awareness and accountability, government organizations can foster a culture of integrity and transparency, thus fortifying their ethical frameworks and promoting sustainable and responsible practices.

The study's examination of obedience pressure and moral reasoning within the public sector's ethical landscape adds depth to the existing international literature, shedding light on the multifaceted influences that shape fraudulent financial reporting behavior in organizational contexts worldwide. The proposed framework for integrating ethical awareness and accountability strategies in government organizations extends its relevance beyond the Indonesian setting, providing valuable insights for promoting integrity and sustainability in public sector practices internationally.

## REFERENCES

- Achmad, T., Ghozali, I., & Pamungkas, I. D. (2022). Hexagon Fraud: Detection of Fraudulent Financial Reporting in State-Owned Enterprises Indonesia. *Economies*, 10(1), 1–16. <https://doi.org/10.3390/economies10010013>
- Ahmadi, V., Davoudi, I., Mardani, M., Ghazaei, M., & ZareZadegan, B. (2013). The Relationships Among Moral Development, Religiosity and Religious Orientation in Students. *Procedia - Social and Behavioral Sciences*, 84, 674–678. <https://doi.org/10.1016/j.sbspro.2013.06.624>
- Ajzen, I. (1991). The Theory of Planned Behavior. *Organizational Behavior and Human Decision*

- Processes*, 50(2), 179–211.
- Bandura, A. (1997). *Self-Efficacy: The Exercise of Control*. Freeman.
- Bédard, J., & Paquette, S. M. (2021). Audit Committee Financial Expertise, Litigation Risk, and Auditor-Provided Tax Services. *Accounting Perspectives*, 20(1), 7–48. <https://doi.org/10.1111/1911-3838.12236>
- Belgasem-Hussain, A. A., & Hussaien, Y. I. (2023). Earnings Management as an Ethical Issue in View of Kohlberg's Theory of Moral Reasoning. *Journal of Financial Crime*, 30(2), 522–535. <https://doi.org/10.1108/JFC-11-2019-0138>
- Cipta, W. (2021). Kecurangan Pelaporan Keuangan pada Pemerintah Daerah di Indonesia: Pengujian Peran Aspek Religiusitas. *Jurnal Ilmiah Akuntansi Dan Humanika*, 11(1), 89–103.
- Dezoort, F. T., & Lord, A. T. (1994). An Investigation of Obedience Pressure Effects on Auditors' Judgments. *Behavioral Research in Accounting*, 6, 1–29.
- Hair, J. F., Black, W. C., Babin, B. J., & Anderson, R. E. (2010). *Multivariate Data Analysis: A Global Perspective* (7th ed.). Pearson Education, Inc.
- Hickman, M. S. (2013). Ethical Reasoning of Accounting Students: Does Religiosity Matter? *International Journal of Business and Social Science*, 4(6), 44–50.
- Khan, I. U., Khalid, A., Hasnain, S. A., Ullah, S., Ali, N., & Zealand, N. (2019). The Impact of Religiosity and Spirituality on Academic Dishonesty of Students in Pakistan. *European Online Journal of Natural and Social Sciences*, 8(3), 381–398. <http://european-science.com/eojnss/article/view/5525>
- Khusnah, H., & Soewarno, N. (2022). Mediation Effects of Moral Reasoning and Integrity in Organizational Ethical Culture on Accounting Fraud Prevention. *ABAC Journal*, 42(4), 1–16.
- Knechel, W. R., & Mintchik, N. (2022). Do Personal Beliefs and Values Affect an Individual's "Fraud Tolerance"? Evidence from the World Values Survey. *Journal of Business Ethics*, 177(2), 463–489. <https://doi.org/10.1007/s10551-020-04704-0>
- Kohlberg, L. (1971). Stages of Moral Development. *Moral Education*, 1, 23–92.
- Liyanarachchi, G., & Newdick, C. (2008). The Impact of Moral Reasoning and Retaliation on Whistle-Blowing: New Zealand Evidence. *Journal of Business Ethics*, 89(1), 37–57.
- Lord, A. T., & DeZoort, F. T. (2001). The Impact of Commitment and Moral Reasoning on Auditors' Responses to Social Influence Pressure. *Accounting, Organizations and Society*, 26(3), 215–235. [https://doi.org/10.1016/S0361-3682\(00\)00022-2](https://doi.org/10.1016/S0361-3682(00)00022-2)
- Mat, T. Z. T., Nazri, S. N. F. S. M., Fahmi, F. M., Ismail, A. M., & Smith, M. (2013). Assessing the Fraud Prevention Mechanisms in Malaysian Government Agencies. *Malaysian Accounting Review*, 12(2), 141–169.
- Milgram, S. (1963). Behavioural Study Of Obedience. *Journal of Abnormal and Social Psychology*, 67(4), 371–378.
- Milgram, S. (1974). *Obedience to Authority: An Experimental View*. Tavistock Publications.
- Murphy, P. R., & Dacin, M. T. (2011). Psychological Pathways to Fraud: Understanding and Preventing Fraud in Organizations. *Journal of Business Ethics*, 101, 601–618. <https://doi.org/10.1007/s10551-011-0741-0>
- Nafiati, L., & Ainy, R. (2022). The Effect of Obedience Pressure and Religiosity On Fraudulent Financial Reporting. *Proceedings of the 3rd International Conference of Business, Accounting, and*

- Economics, ICBAE, 10-11 August 2022*. <https://doi.org/10.4108/eai.10-8-2022.2320824>
- Peterson, G. R. (2001). Religion as Orienting Worldview. *Zygon: Journal of Religion and Science*, 36(1), 5–19. <https://doi.org/https://doi.org/10.1111/0591-2385.00336>
- PricewaterhouseCoopers. (2011). Fighting Fraud in the Public Sector. In *Global Economic Crime Survey* (Issue June).
- Purcell, A. J. (2016). Australian Local Government Corruption and Misconduct. *Journal of Financial Crime*, 23(1), 102–118.
- Rashid, M. Z., & Ibrahim, S. (2007). The Effect of Culture and Religiosity on Business Ethics: A Cross-cultural Comparison. *Journal of Business Ethics*, 82, 907–917.
- Rest, J. R. (1984). Research on Moral Development: Implications for Training Counseling Psychologists. *The Counseling Psychologist*, 12(3), 19–29.
- Rustiarini, N. W., Sutrisno, S., Nurkholis, N., & Andayani, W. (2019). Fraud Triangle In Public Procurement: Evidence From Indonesia. *Journal Of Financial Crime*, 26(4), 951–968. <https://doi.org/Org/10.1108/Jfc-11-2018-0121>
- Said, J., Alam, M. M., Karim, Z. A., & Johari, R. J. (2018). Integrating Religiosity into Fraud Triangle Theory: Findings on Malaysian Police Officers. *Journal of Criminological Research, Policy and Practice*, 4(2), 111–123. <https://doi.org/10.1108/JCRPP-09-2017-0027>
- Schouten, C. M. der D., Graafland, J., & Kaptein, M. (2014). Religiosity, CSR Attitudes, and CSR Behavior: An Empirical Study of Executives' Religiosity and CSR. *Journal of Business Ethics*, 123, 437–459.
- Sharma, N. K. (2022). Effects of Integrity and Controls on Financial Reporting Fraud. *Poonam Shodh Rachna (A Multidisciplinary, Peer Reviewed and Refereed Research Journal*, 1(Viii), 5–11. <https://doi.org/10.13140/RG.2.2.24507.49447>
- Shawver, T. J., & Shawver, T. A. (2018). The Impact of Moral Reasoning on Whistleblowing Intentions. *Research on Professional Responsibility and Ethics in Accounting*, 21, 153–168. <https://doi.org/10.1108/S1574-076520180000021005>
- Sofyani, H., & Pramita, Y. D. (2013). Otoritas Atasan, Retaliasi dan Locus of Control sebagai Faktor-Faktor yang Memengaruhi Perilaku Manipulasi Laporan Realisasi Anggaran. *Jurnal Reviu Akuntansi Dan Keuangan*, 3(2), 427–436.
- Stalebrink, O. J., & Sacco, J. F. (2007). Rationalization of Financial Statement Fraud in Government: An Austrian Perspective. *Critical Perspectives on Accounting*, 18, 489–507.
- Stapleton, M. (2013). An Investigation of Moral Development: the Effect of Religiosity on Kohlbergian Moral Reasoning. *Student Psychology Journal*, IV, 1–14.
- Sukmadilaga, C., Winarningsih, S., Handayani, T., Herianti, E., & Ghani, E. K. (2022). Fraudulent Financial Reporting in Ministerial and Governmental Institutions in Indonesia: An Analysis Using Hexagon Theory. *Economies*, 10(4). <https://doi.org/10.3390/economies10040086>
- Treviño, L. K., Weaver, G. R., & Reynolds, S. J. (2006). Behavioral ethics in organizations: A review. In *Journal of Management* (Vol. 32, Issue 6). <https://doi.org/10.1177/0149206306294258>
- World Bank. (2017). Public Sector Internal Audit: Focus on Fraud. In *Centre for Financial Reporting Reform* (Vol. 14, Issue 8).

Zulkarnain, R. M. (2013). Analisis Faktor yang Mempengaruhi Terjadinya Fraud pada Dinas Kota Surakarta. *Accounting Analysis Journal*, 2(2), 125-131.  
<https://doi.org/https://doi.org/10.15294/aaj.v2i2.2852>