

MEDIATION EFFECTS OF MORAL REASONING AND INTEGRITY IN ORGANIZATIONAL ETHICAL CULTURE ON ACCOUNTING FRAUD PREVENTION

Hidayatul Khusnah^{1,*} and Noorlailie Soewarno²

Abstract

This study aims to investigate the mediating effect of moral reasoning and integrity on the effect of ethical organizational culture on the prevention of accounting fraud. This study also examines the effects of ethical organizational culture, moral reasoning, and integrity on accounting fraud prevention. This research was conducted at the BPKP (Financial and Development Supervisory Agency) of East Java Province, BPKP is a government agency that oversees the use of budget allocations for regional development. Data was collected from a sample of 84 respondents. The data analysis technique in this study consisted of a partial least squares analysis. The results of the hypothesis testing discovered a positive influence of ethical organizational culture on moral reasoning and employee integrity. In contrast, there was no statistical support for the effect of ethical organizational culture on preventing accounting fraud. The main finding in this study is that moral reasoning and integrity positively affect the prevention of accounting fraud, indicating that ethical and moral culture can change employees' perspectives by allowing them to distinguish good work behavior from poor or wrongful work behavior.

Keywords: Organizational ethical culture, moral reasoning, integrity, prevention of accounting fraud.

JEL Classification: O1, O15, O16, Q56

INTRODUCTION

The prevalence and severity of accounting fraud in Indonesia has become alarming and has reached an alarming extent. Corruption in Indonesia has infected all groups (Suryono et al., 2021), from the ranks of government leaders to employees in lower levels. This has happened due to low employee morals (Y. Wang et al., 2019). In recent years several corruption cases have been uncovered by the Corruption Eradication Commission;

these cases involve the highest leadership of the ministry and its staff. Fraud is a serious problem for organizations and society (Law, 2011) as it harms the state and society. Therefore, preventive action is one of the proper steps that should be taken. Fraud can harm many parties, such as companies, society, and the state; financial fraud is no exception. From the company point of view, fraud in financial statements is a disease that can kill the company as it erodes the business sustainability. From the public point of view, reported

^{1,*} Hidayatul Khusnah is currently working as a lecturer in the Department of Accounting, Universitas Nahdlatul Ulama Surabaya, Indonesia. She obtained a master's degree in Accounting Science from Universitas Gadjah Mada, Indonesia. She is a Ph.D. Candidate in the Department of Accounting, Universitas Airlangga, Indonesia. Email: hidayatul.khusnah-2018@feb.unair.ac.id

² Dr. Noorlailie Soewarno is currently working as a lecturer in the Department of Accounting, Faculty of Economics and Business, Universitas Airlangga, Indonesia. She obtained a Ph.D. in Economics-Management from Universitas Airlangga, Indonesia. Email: noorlailie-s@feb.unair.ac.id

fraud can destroy public trust in the company. Thus, the existence of fraud will harm all elements, and preventive action must be taken.

In recent years, suspicious online payments and financial system activity patterns have been revealed nationwide as missing transactions in the database, and steps need to be taken to stop such actions (Henderson, 2020).

Fraud prevention is an integrated effort to suppress the occurrence of the factors that lead to fraud (Wulandari & Nuryanto, 2018). Prevention can minimize fraud (Ngai et al., 2011) and will keep costs down in the future (Law, 2011). Fraud prevention can be achieved by establishing an ethical organizational culture. The most common form of fraud in accounting and financial reporting is in online sales financial reports, which occur worldwide (Soomro et al., 2021). Organizations that cultivate an ethical culture always uphold ethics in their daily processes and communications, while members of the organization will also follow the established culture (Bierstaker et al., 2006).

Organizational culture is one of the factors considered capable of preventing acts of accounting fraud. It is a sense-making and control mechanism that guides individual behavior and attitudes (Robbins & Coulter, 2002). Individuals' behavior in an organization reflects the culture of the organization. When the organization cultivates good ethics in its daily actions, its employees follow the existing culture. Research conducted by Khusnah and Agustina (2019); Artini, Adiputra, and Herawati (2014); and Eka Putra and Latrini (2018), found that ethical organizational culture diminishes the tendency of accounting fraud. The findings of these previous studies indicate that a having a highly ethical organizational culture means that accounting fraud will be deemed of low value. This shows that the moral culture of an organization can prevent accounting fraud.

The second factor that is predicted to prevent accounting fraud is the level of morals held by individuals within the organization. Moral reasoning is one of the determinants of a person's behavior ((Near & Miceli, 2013).

An individual's moral reasoning determines whether they display good or bad behavior. The results of several studies, including those presented by Arnold and Ponemon (1991), state that the level of an individual's moral reasoning will affect their ethical behavior. When faced with ethical dilemmas, individuals with low levels of moral reasoning will behave differently from individuals with high levels of moral reasoning. It is also stated that the higher a person's level of moral reasoning, the more likely they are to do the "right thing".

Several studies in the field of ethics use the theory of moral development to observe the basis of individuals' actions. One of the theories of moral development widely used in ethical research is the Kohlberg model. Nunner-Winkler (2015) explained that morality develops through the pre-conventional stage, the conventional stage, and the post-conventional stage. Knowing a person's level of moral reasoning will be the basis for understanding how that person can be prevented from taking specific actions, especially those related to ethical dilemmas, based on their level of moral reasoning. Individuals with high moral reasoning tend to behave in ways that do not violate norms. Several previous studies, conducted by Khusnah and Agustina (2019), Eka Putra and Latrini (2018), and Noviriantini, Darmawan, and Werastuti (2015), found that morality reduces the tendency for accounting fraud. This shows that when a person's moral reasoning is high, their propensity to commit fraud is low. The results of this study indicate that morality can prevent the occurrence of accounting fraud.

Integrity is another factor that predicts an individual's ability to prevent accounting fraud. Integrity is a foundation to the rule of law and is an essential element of policy. The risk of fraud can be minimized by insisting on an attitude of integrity from each individual, as integrity is related to the honesty and responsibility of individuals. Individuals with high integrity will carry out their work ethically (Wulandari and Nuryanto, 2018). Integrity has a positive effect on accounting fraud prevention. Individuals with high integrity

tend to pay attention to every behavior, distinguishing beneficial and negative behaviors. Individuals with high integrity tend to take actions that do not violate norms and rules.

This study also examines the indirect effect of ethical organizational culture on accounting fraud prevention through moral reasoning and integrity. Individuals in an ethical environment and with high moral sense tend to avoid actions that are not commendable (Khusnah and Agustina, 2019). An environment with an ethical culture coupled with sound moral reasoning can prevent accounting fraud. Individuals with high moral sense can better distinguish between good and bad behavior and control their actions accordingly (Liyanarachchi and Newdick, 2009).

An ethical organizational culture will form individuals with the character to uphold ethics. These individuals will prioritize honesty and truth. Likewise, the integrity within an individual will also thrive in an organizational environment that supports openness. Individuals who are committed to existing values and norms will have high integrity. Al-Swidi, Gelaidan, and Saleh (2021) found that ethical organizational culture positively affects employee integrity. Employees who live in a corporate environment that upholds ethics will have high integrity.

This study examines the direct effects of ethical organizational culture, moral reasoning, and integrity, on accounting fraud prevention. In addition to looking at the immediate impacts, this study also examines the mediating effect of moral reasoning and integrity on the impact of ethical organizational culture on the prevention of accounting fraud. This research was conducted on employee financial and development supervisory agencies in East Java Province. Based on the Regulation of the Head of the Financial and Development Supervisory Agency (FDSA) No. 17 of 2016, one of the tasks of the FDSA is to carry out internal supervision of the accountability of state and regional finances for cross-sectoral activities. This is one task of the FDSA that is vulnerable to fraud. Fraudulent acts not only trap the manager or maker of financial statements but can also trap supervisors through

actions such as bribery to make reporting state or regional financial statements easier.

LITERATURE REVIEW

Theory of Planned Behavior

The Theory of Planned Behavior further develops the *Theory of Reasoned Action* (Procter et al., 2019). The Theory of Reasoned Action is applied to behavior under the control of the individual himself (Mishra, Akman, and Mishra, 2014). Suppose the behavior is not entirely under the control or volition of the individual himself. In that case, even though he is highly motivated by his subjective attitudes and norms, he may not display the behavior in reality. In contrast, the Theory of Planned Behavior was developed to predict behaviors that are not entirely under the control of the individual.

Organizational Ethical Culture

Oriade et al. (2021) conceptualized ethical organizational culture as employee perceptions of the extent of organizational commitment regarding ethical issues involving employees and their management. Mahmoudi and Bagheri Majd (2021) asserted that corporate ethical culture is created within organizations through ethical policy management practices, enforcement, and actions. An organization's ethical culture creates and instills ethical beliefs among its members regarding what members feel will increase their moral obligation to protect the interests of the organization they serve. Organizations should support members' noble actions through rewards and reduce bureaucratic reporting channels.

Moral Reasoning

Morality is a moral trait or the totality of principles and values relating to right and wrong (Baker, D'Esterre, and Weaver, 2021). Morality is understood as a rule that regulates the understanding of good and bad human actions. Humans can distinguish whether an act is right or wrong, good or bad,

permitted or forbidden, so that they will not automatically perform an action even though they can make it happen. Morality is a principle and rule of decency in social life.

Morality can be divided into individual, social, and collective morality (Corcoran et al., 2020). Individual morality is an awareness of inward principles embedded in humans, which affect the way of thinking and acting. Morality arises from within, not by being forced from without. Morality is an attitude of the heart that is revealed in outward actions. Social morality derives from the individual morality of the members of a society, namely how individuals see other people as human beings who have the same dignity and worth. Meanwhile, universal morality refers to universal moral principles which apply anywhere and anytime, in all cultures; such moral principles are related to the essence of humanity, human rights, and autonomy.

Integrity

Integrity is the unity of values and commitments integrated within a person (Ongsakul et al., 2021). Integrity is the quality that gives rise to public trust and the highest order of importance for professional members in examining their decisions. The code of ethics of internal auditors mentions the integrity of internal auditors, which builds trust in the process of internal auditing, and provides a basis for the assessment of the auditing process. Integrity refers to the tendency to remain moral, honorable, fair, and courageous, acting with full encouragement, not being duplicitous or selfish, or justifying a philosophy without regard to its principles (Bjørnskov & Pfaff, 2021).

Individual integrity is essential as it shows that an individual's actions consistently abide by applicable norms. If an internal auditor has high integrity, they can improve the quality of the company's auditing examination results. The higher the integrity, the easier it is for internal auditors to prevent fraud, as integrity affects the quality of internal auditors' performance (Ramadhaniyati &

Hayati, 2014).

Accounting Fraud

In the context of auditing financial statements, accounting fraud is a presentation of financial information that is intentionally erroneous or contains misstatements. Misstatement of financial reporting means that the decisions of users of financial statements will be affected by the inaccuracy of the misstated information, which will also affect the decisions taken. There are two types of accounting fraud: fraudulent financial reports and misappropriation (Wang et al., 2017). Fraudulent financial reporting is a misstatement, omission of a certain amount, or the intentional disclosure of misstatements, meant to deceive. The information presented is misleading for the users of the financial statements. At the same time, asset embezzlement is fraud involving the theft of assets or corporate entities. Employees generally carry out this theft with relatively small and immaterial amounts. However, the theft can also involve management who have a greater ability to cover-up or hide fraud, making it difficult to detect (Wu, Xu, and Li, 2019). Accounting fraud is usually detected randomly (Papík & Papíková, 2022). According to the American Institute of Certified Public Accountants, the causes of this fraud include (1) modification of financial statements and company documents, (2) intentional concealment of transactions, company accounts, and economic activities (Arif et al., 2022). Efforts with a conceptual approach and information technology can reduce at least 10% of fraudulent accounting reporting cases (Wu et al. 2022). Wu et al. (2022) describe techniques and procedures for detecting accounting fraud in companies with low-quality financial systems by applying the CRIME concept (C = cooking the books, R = recipes, I = incentives, M = Monitoring, E = End Results). The CRIME approach describes the possibility of situational factors influencing individuals to commit fraud—another alternative approach to detect accounting fraud from Wang and Winton (2021), is to apply data mining techniques to large data samples from different perspectives to obtain classifications and predictive patterns so that fraud patterns are

obtained from individuals or fraud perpetrators.

Financial fraud occurs as a result of the failure of the audit system, which has become a longstanding issue, and this failure is used to assess the potential fraud risk to the organization, with severe consequences (Wu et al. 2022). Another cause of financial fraud is that internal auditors are not too concerned with reporting financial or management fraud. Accordingly, research from Wilks and Zimbelman (2004) states that external auditors are more concerned with reports of fraud and asset misappropriation by employees. A survey conducted by an auditing agency in Malaysia in 2009 showed that 78% of respondents believed that the internal audit system was the party most responsible for detecting and investigating company fraud (M. Noor et al., 2017). Suppose the internal audit system cannot perform its duties and authorities optimally. In this case, there will be a decrease in performance and an even more significant impact because they are considered to have collaborated in committing fraudulent financial statements (Norman et al., 2010). The Indonesian financial services authorities have implemented regulations concerning the laws governing the implementation of anti-fraud strategies by compiling an audit system mechanism and taking steps to anticipate fraud through prevention, detection, investigation, reporting, and sanctions; these are found in Article 4 paragraph 1 (Otoritas Jasa Keuangan, 2019).

HYPOTHESIS DEVELOPMENT

Organizational Ethical Culture with Accounting Fraud Prevention

An organizational culture that upholds honesty and ethics can prevent fraud (Liu, Tsui, and Kianto, 2021). The above theory with arguments from Hardcopf, Liu, and Shah (2021) says that fraud can be prevented by increasing ethics in organizational culture. The ethical culture in an organization dramatically influences the mindset and way of behaving of people in the organization. Organizational culture significantly affects a person's behavior, to be ethical or not (Noviriantini, Darmawan, and Werastuti, 2015). Therefore,

cultivating good ethics in the organization is very important, ensuring that the behavior of individuals in the organization also becomes ethical. A good organizational culture is critical in preventing fraud. Preventive measures can be implemented through a well-developed work culture that will result in good organizational fundamental values such as upholding honesty and integrity, respect, and quality of work, as well as excellent service and respect for openness and transparency (Zelmiyanti & Anita, 2015). Several previous studies conducted by Artini, Adiputra, and Herawati (2014); Virmayani, Sulindawati (2017); and Zelmiyanti and Anita (2015), have found that ethical organizational culture has a positive effect on the prevention of accounting fraud. Based on the theory, arguments, and previous research above, the proposed hypothesis is as follows:

H1: Ethical organizational culture positively affects the prevention of accounting fraud.

Ethical Organizational Culture with Moral Reasoning and Integrity

Ethical organizational culture refers to the norms, values, assumptions, beliefs, and habits made in an organization and approved by all organization members as a guide or reference for employees in carrying out organizational activities and for the benefit of others. An ethical organizational culture will encourage individuals to always comply with existing rules and norms (Noviriantini et al., 2015). An ethical organizational culture will increase a person's morals and their ability to identify wrong and right. In addition, an ethical organizational culture will encourage people to do commendable things while avoiding wrong behavior, including fraud (Khusnah & Agustina, 2019). Research conducted by Khusnah and Agustina (2019) found that ethical organizational culture positively affects moral reasoning. Based on the description above, the proposed hypothesis is as follows:

H2: Ethical organizational culture has a positive effect on moral reasoning.

An organization's ethical culture creates an atmosphere that always upholds existing

ethics, norms, and honesty. An ethical organizational culture encourages its members to always walk on a path which follows the applicable standards. Individuals who are always committed to existing values and norms will have high integrity. Liu, Tsui, and Kianto (2021) found that ethical organizational culture positively affects employee integrity. Employees who live in an organizational environment that upholds ethics will have high integrity. Based on this, the hypothesis proposed in this study is as follows:

H3: Ethical organizational culture has a positive effect on integrity.

Moral Reasoning with Accounting Fraud Prevention

Moral reasoning is one of the determinants of a person's behavior (Near and Miceli, 2013). Individuals with high moral reasoning tend to do things according to applicable norms and values (Liyanarachchi & Newdick, 2009). Several previous studies conducted by Pradaxa et al. (2018); and Putra and Latrini (2018), found a positive effect of moral reasoning on preventing accounting fraud. Someone with high moral reasoning tends to avoid actions that are not commendable, such as accounting fraud. Based on the description and previous research above, the proposed hypothesis is as follows:

H4: Moral reasoning positively affects the prevention of accounting fraud.

Integrity with the Prevention of Accounting Fraud

Integrity is the nature of the unity of values, norms, and commitments, within an individual. Someone who is committed to and adheres to existing models tends to behave well. Wulandari and Nuryanto (2018) and Ramadhaniyati and Hayati (2014), found that integrity positively affects the prevention of accounting fraud. Individuals with high integrity tend to pay attention to behavior, determining which are good behaviors and which are bad behaviors. Individuals with high integrity tend to take actions that do not violate

norms and rules. Based on the theory, arguments, and previous research above, the proposed hypothesis is as follows:

H5: Integrity has a positive effect on the prevention of accounting fraud.

Moral Reasoning Mediates the Effect of Ethical Organizational Culture on the Prevention of Accounting Fraud

Individuals in an ethical environment with high moral reasoning tend to avoid actions that are not commendable (Khusnah and Agustina, 2019). An environment with an ethical culture coupled with sound moral reasoning can prevent accounting fraud. Individuals with high moral reasoning can better distinguish between good and bad behavior, controlling their actions accordingly (Baker, D'Esterre, and Weaver, 2021).

The relationship between morality and fraud prevention refers to research conducted by Cooper, Dacin, and Palmer (2013) which shows that individuals with a low level of moral reasoning tend to commit accounting fraud. On the other hand, individuals with a high-level of moral reasoning tend to avoid accounting fraud. Based on the description above, the proposed hypothesis is as follows:

H6: moral reasoning can mediate the influence of ethical organizational culture on the prevention of accounting fraud

Integrity Mediates the Effect of Ethical Organizational Culture on the Prevention of Accounting Fraud

An ethical organizational culture will form individuals who have the character to uphold ethics. Such individuals will prioritize honesty and truth. Ethical organizational culture will reduce the tendency of accounting fraud, so that the organization is considered capable of preventing accounting fraud (Eka Putra and Latrini, 2018; Khusnah and Agustina, 2019; Virmayani and Sulindawati, 2017; and Zelmianti and Anita, 2015). Likewise, the integrity within the individual will also thrive in an organizational environment that upholds honesty. Individuals who are

always committed to live according to values and norms have high integrity. Sulistyowati and Maharani (2020) found that ethical organizational culture positively affects employee integrity. Employees who live in an organizational environment that upholds ethics will have high integrity.

Integrity refers to a firm personal commitment to ethical and ideological principles and becomes a self-concept displayed through ones' behavior (Wan et al., 2020). Integrity requires an individual to be honest and forthright without sacrificing the beneficiary's secrets. Cui and Jiao (2019) define integrity as a moral principle involving being impartial and honest; someone with high integrity views and expresses facts as they are.

The relationship between integrity and fraud prevention refers to the research conducted by Chen et al. (2013). This research explains that the higher an individual's integrity, the less likely they are to perform fraud, leading to higher fraud prevention. Based on the description above, the proposed hypothesis is as follows:

H7: Integrity can mediate the influence of ethical organizational culture on the prevention of accounting fraud.

METHOD

Research Design

This study utilized a quantitative descriptive analysis with path analysis mediated by driving variables (Duong et al., 2020). The population in this study consisted of the BPKP employees of East Java Province, approximately 230 people. The sampling technique used was purposive sampling, a sampling technique with predetermined criteria. The sample criteria specified that employees must have been permanent employees for at least one year. This sample criterion was used as permanent employees who had worked in the organization for at least one year were believed to have understood the organizational culture. Based on this criterion, the number of employees included in the sample was 205. Research questionnaires were distributed

online to employees who met the criterion. The respondents who completed the questionnaire totaled 84, representing a 40.89% response rate.

Ethical organizational culture provides a broad view of employees' perceptions of moral actions by leaders who pay attention to the importance of ethics in the company and reward or sanction immoral actions. Five items developed by Oriade et al. (2021) measure ethical organizational culture. Each question item contains the actions taken by the leader towards his subordinates regarding the performance of ethical and unethical activities. Ethical organizational culture is measured through 5 questions. A scale of 1 to 5 is used to indicate the response to moral behavior (1 – strongly disagree to 5 – strongly agree). The higher the scale value the greater the organization's ethical culture.

Individual morality refers to the moral traits or general principles and values relating to right and wrong. The measurement of personal morality in this study comes from the ethical measurement model developed by Corcoran et al. (2020) in the form of the Defining Issues Test instrument. The instrument is delivered in the form of an accounting ethical dilemma case via 6 (six) measurement items that measure each moral stage. The tool used in this study was a questionnaire. The questionnaires used in this study to obtain data on the effect of individual morality on the tendency for accounting fraud, were developed from the research of Baker, D'Esterre, and Weaver (2021), with additional modifications. The data were analyzed using indicators consisting of:

- a. Obedience to avoid punishment.
- b. Compliance with the lure of gifts.
- c. Observance to avoid a lousy image.
- d. Obedience to social norms.
- e. Compliance due to social contracts/ individual rights and democratically accepted laws
- f. Compliance due to universal ethical principles/individual principles of conscience.

The indicators above reflect 6 (six) stages of moral development (Corcoran et al., 2020)

consisting of Level I/pre-conventional morality (indicators a and b), Level II/traditional morality (indicators c and d), and Level III/post-conventional morality (indicators e and f). For the current study, each stage of morality was measured using a Likert scale, measuring the respondents' attitudes through their expression of agreement or disagreement with a presented statement; respondents submitted a score of 1 (STS = Strongly Disagree), 2 (TS = Disagree), 3 (N = Neutral), 4 (S=Agree), or 5 (SS=Strongly Agree).

Integrity is a quality, character, or condition that shows a unified whole: honesty, hard work, and adequate competence. The integrity variable was measured using indicators sourced from Bjørnskov and Pfaff (2021).

Namely, honesty, courage, wisdom, and responsibility.

RESULTS

Validity and Reliability Testing

Results of the validity and reliability tests can be seen in the table below, where all cross-loading values are show to be above 0.5 with a P-Value <0.001 (Riyadi, 2021).

The results of the reliability testing with a composite reliability coefficient value > 0.07 indicate that all data processed using the statistical tools can be trusted for continuation in the quantitative research.

Table 1 BE Validity Test Results After Mediation

	OEC1	OEC 2	OEC 3	OEC 4	OEC 5	P-Value
Value	0.813	0.838	0.829	0.874	0.805	<0.001

Table 2 PKA Validity Test Results After Mediation

	AFP1	AFP 2	AFP 3	AFP 4	AFP 5	P-Value
Value	0.832	0.886	0.776	0.821	0.820	<0.001

Table 3 IG1-7 Validity Test Results After Mediation

	IG1	IG2	IG3	IG4	IG5	IG6	IG7	P-Value
Value	0.714	0.877	0.912	0.896	0.912	0.614	0.829	<0.001

Table 4 IG8-14 Validity Test Results After Mediation

	IG8	IG9	IG10	IG11	IG12	IG13	IG14	P-Value
Value	0.877	0.837	0.804	0.906	0.835	0.829	0.877	<0.001

Table 5 MR Validity Test Results After Mediation

	MR1	MR2	MR3	MR4	MR5	P-Value
Value	0.891	0.927	0.866	0.818	0.543	<0.001

Table 6 Composite Reliability Coefficients

	OEC	AFP	IG	MR
Value	0.918	0.916	0.971	0.933

Table 7 Cronbach Alpha Coefficients

	OEC	AFP	IG	MR
Value	0.888	0.885	0.967	0.910

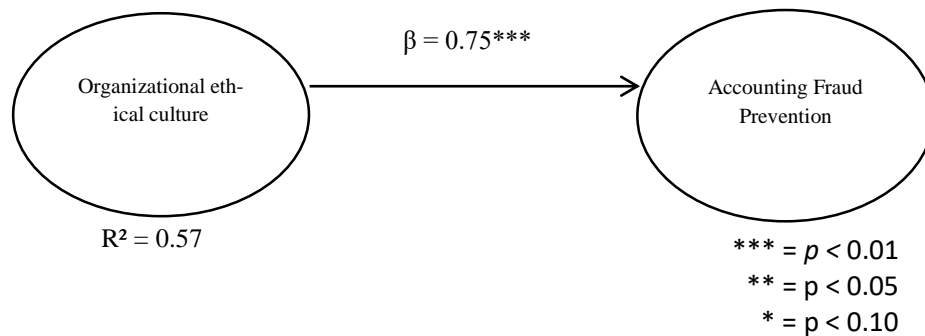
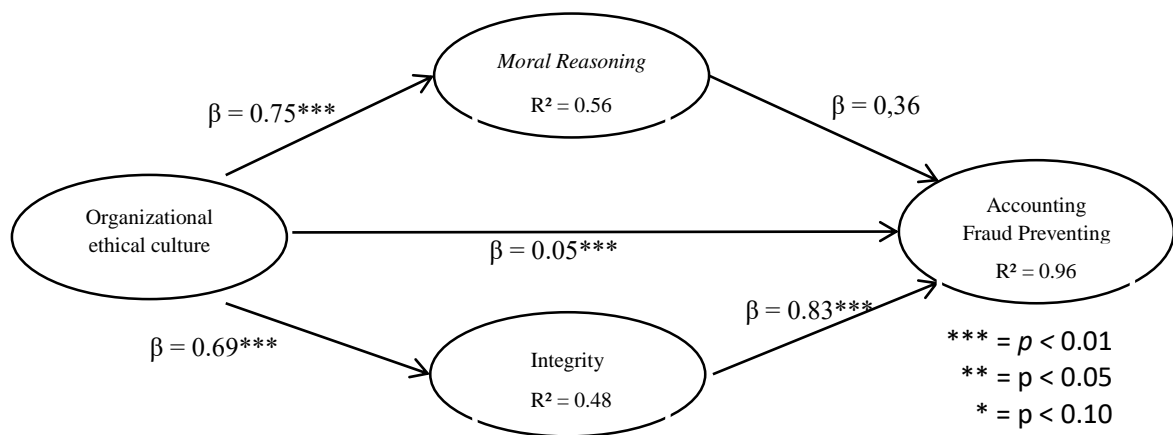
Information:

OEC: Organizational Ethical Culture

AFP: Accounting Fraud Prevention

IG: Integrity

MR: Moral Reasoning

**Figure 1** Estimation of Direct Relationships**Figure 2** Estimation Including Indirect Relationships (full model)

Hypothesis testing in this study used Structural Equation Modeling (SEM) with an alternative method Partial Least Square (PLS) using WarpPLS 6.0 software. The figure shows the results of the hypothesis testing.

Figures 1 and 2 illustrate the hypothesis testing results for this study. Figure 1 shows the results of testing the direct relationships

between the ethical culture of the organization and the prevention of accounting fraud. While Figure 2 shows the results of testing on the whole model or the hypotheses after adding the mediating variables of moral reasoning and integrity. The following is a discussion of the research hypotheses in this study.

There were six hypotheses proposed in

this study. The first hypothesis in this study stated that ethical organizational culture positively affects the prevention of accounting fraud. The results of hypothesis testing provided a beta coefficient value is 0.05 with a p-value of 0.36, indicating that the organization's ethical culture does not affect the prevention of accounting fraud. The test results do not support the proposed hypothesis.

Regarding the influence of ethical organizational culture on moral reasoning, the results of the hypothesis testing in this study produced a beta coefficient value of 0.75 with a p-value <0.001 . This test results supports the second hypothesis proposed: ethical organizational culture positively affects moral reasoning. The higher the ethical culture in the company, the higher the moral reasoning possessed by employees. An ethical organizational culture will increase a person's level of morals and ability to identify right and wrong. Regarding the influence of ethical organizational culture on employee integrity, results revealed a beta coefficient of 0.69 with a p-value <0.001 . This test result supports the third hypothesis proposed: ethical organizational culture positively affects employee integrity. The higher the ethical culture applied by the company, the higher the integrity displayed by the company employees. The ethical culture of an organization dramatically influences the mindset and way of behaving of those in the organization. Organizational culture dramatically influences a person's behavior, by helping that person to know whether a behavior is ethical or not (Noviriantini, Darmawan, and Werastuti, 2015). Therefore, cultivating good ethics in the organization is very important to ensure the behavior of individuals in the organization also becomes ethical. This study's results align with research conducted by Sulistyowati and Maharani (2020).

The relationship of the effect of moral reasoning on accounting fraud prevention has a beta coefficient of 0.36 with a p-value <0.001 , indicating that moral reasoning does have a positive effect on accounting fraud prevention, as the fourth hypothesis is supported.

These results mean that the higher the employee's moral reasoning, the higher the accounting fraud prevention measures that will be taken. The results of this study support the findings of Wang et al. (2017), namely that individuals with high moral reasoning tend to do things according to applicable norms and values. The higher a person's level of morality, the more likely he is to do good things according to the standards and rules that apply.

The following test results show that the effect of integrity on the prevention of accounting fraud has a beta coefficient of 0.83 with a p-value of <0.001 . This result supports the fifth hypothesis proposed, indicating that the higher a person's level of integrity, the higher the fraud prevention measures that they take. Integrity refers to the unity of values, norms, and commitments, within an individual. Someone who is committed and adheres to existing models tends to behave well.

To discuss the results of testing the sixth and seventh hypotheses, we must first carry out calculations following the VAF method. The following table provides a summary of the VAF calculations.

Table 8 summarizes the calculations for the proposed mediation hypothesis. For the calculation relating to the relationship between ethical organizational culture and accounting fraud prevention via moral reasoning, the result is 0.20, indicating that moral reasoning partially mediates the influence of ethical organizational culture on the prevention of accounting fraud. The results of testing this hypothesis indicate that the organization's ethical culture can directly affect the prevention of accounting fraud and moral reasoning. An environment with an ethical culture coupled with sound moral reasoning can prevent accounting fraud. Individuals with high moral reasoning can better distinguish between good and bad behavior in controlling their actions (Liu, Tsui, and Kianto, 2021).

Table 8 also presents the results of the VAF analysis for ethical organizational culture \rightarrow integrity \rightarrow accounting fraud prevention, giving a value of 0.36, meaning that in-

egrity partially mediates the influence of ethical organizational culture on accounting fraud prevention. The results of this test are almost the same as those of the previous mediation hypothesis testing. Namely, the mediation effect is only partial. These results indicate that the organization's ethical culture can directly impact the prevention of accounting fraud. Integrity is a firm personal commitment to ethical and ideological principles and becomes part of the self-concept that is displayed through an individual's behavior (Ongsakul et al., 2021). The integrity within an individual also thrives in an organizational environment that upholds honesty. Individuals who remain committed to life's values and norms have high integrity (Chen et al., 2013).

The results of the hypothesis testing found a positive effect of ethical organizational culture on moral reasoning and employee integrity. Meanwhile, the effect of the organization's ethical culture in preventing accounting fraud was not supported. It was found that moral reasoning and integrity positively affect the prevention of accounting

fraud. It was also found that moral reasoning partially mediates the effect of ethical organizational culture on accounting fraud prevention. The final finding in this study was that integrity partially mediates the influence of corporate ethical culture on the prevention of accounting fraud.

CONCLUSION

This study investigated the mediating effect of moral reasoning and integrity on the impact of ethical organizational culture on accounting fraud prevention. This study also examined the direct effect of ethical organizational culture, moral reasoning, and integrity, on accounting fraud prevention. Based on the discussion of the hypotheses above, it can be concluded that ethical organizational culture has a positive effect on moral reasoning and integrity but has no effect on preventing accounting fraud. Moral reasoning and integrity positively impact the prevention of accounting fraud. The following conclusion is that

Table 8 VAF Calculation Results

Indirect effects (Figure 2)		
ethical organizational culture → moral reasoning → accounting fraud prevention	0.75*0.36	0.27
ethical organizational culture → integrity → accounting fraud prevention	0.69*0.83	<u>0.57</u>
Total Indirect Effect		0.84
Direct effect		
ethical organizational culture → accounting fraud prevention		0.75
Total Direct Effect		0.75
Total		0.84 + 0.75 = 1.59
VAF (ethical organizational culture → moral reasoning → accounting fraud prevention)	<u>indirect = 0.27</u> Total 1.59	0.20
VAF (ethical organizational culture → integrity → accounting fraud prevention)	<u>Indirect = 0.57</u> Total 1.59	0.36

Information

- < 0.2 the variable does not mediate the relationship
- > 2.0 – 0.8 the variable partially mediates the relationship
- > 0.8 the variable fully mediates the relationship

moral reasoning and integrity partially mediate the influence of ethical organizational culture on accounting fraud prevention.

The results of testing the hypotheses in this study found that ethical organizational culture can directly affect fraud prevention, moral reasoning, and integrity. Based on this, the implications of this research are:

1. Organizational leaders must continually cultivate a culture of upholding ethics in organizational life so that wrongful actions can be minimized.

2. The employee recruitment process must be done honestly and fairly, with use of procedures to ensure that employees who pass the selection have sound moral reasoning and integrity; this can minimize the occurrence of fraudulent actions.

It is recommended that future research adds variables related to increasing employee job satisfaction, as it is expected that employees tend to do their best to minimize fraudulent actions for the organization when they have high job satisfaction.

This research contributes considerations and inputs for companies or organizational leaders in enforcing ethics in the corporate environment and reducing or preventing fraud. Overall, an internal control system can induce pressure on auditor performance, reducing the risk of fraud. Therefore, in assessing fraud risk factors, an auditor must improve understanding by considering each element of risk that can lead to fraud. External and internal auditors have the same ability to reduce the risk of fraud. The final contribution of this study is the practical recommendation that a company's leadership should be selective in their employee recruitment process, focusing on the level of moral reasoning and integrity of prospective employees, as this will help to prevent fraud.

REFERENCES

- Arens, Alvin dan Loebbecke, James. 1996. *Auditing Pendekatan Terpadu*. Salemba Empat.
- Arens A. Alvin, Ellder J. Ronal & Beasley

Mark S. 2008. *Auditing dan Jasa assurance Pendekatan Terintegrasi*. Jakarta: Erlangga.

- Al-Swidi, A. K., Gelaidan, H. M., & Saleh, R. M. (2021). The joint impact of green human resource management, leadership and organizational culture on employees' green behaviour and organisational environmental performance. *Journal of Cleaner Production*, 316, 128112. <https://doi.org/https://doi.org/10.1016/j.jclepro.2021.128112>
- Arif, D., Halik, A., & Yucha, N. (2022). The influence of intellectual capital through human capital and structural capital towards financial performance manufacturing companies (garment and textile sector). *International Journal of Learning and Intellectual Capital*, 19(5), 395–415.
- Arnold, D., & Ponemon, L. (1991). Internal Auditors Perceptions of Whistle-Blowing and the Influence of Moral Reasoning: An Experiment. *Auditing: A Journal of Practice and Theory*. 10(2): 1-15
- Artini, N. L. E. A., Adiputra, I. M. P., & Herawati, N. T. (2014). Pengaruh Budaya Etis Organisasi Dan Efektivitas Pengendalian Internal Terhadap Kecenderungan Kecurangan Akuntansi Pada Satuan kerja Perangkat Daerah (SKPD) Kabupaten Jembrana. *Jurnal Akuntansi Program SI*, 2(1), 1–12.
- Baker, E. R., D'Esterre, A. P., & Weaver, J. P. (2021). Executive function and Theory of Mind in explaining young children's moral reasoning: A Test of the Hierarchical Competing Systems Model. *Cognitive Development*, 58, 101035. <https://doi.org/https://doi.org/10.1016/j.cogdev.2021.101035>
- Bierstaker, J. L., Brody, R. G., & Pacini, C. (2006). Accountants' perceptions regarding fraud detection and prevention methods. *Managerial Auditing Journal*, 21(5), 520–535. <https://doi.org/10.1108/02686900610667283>

- Bjørnskov, C., & Pfaff, K. (2021). Differences matter: The effect of coup types on physical integrity rights. *European Journal of Political Economy*, 69, 102027. <https://doi.org/https://doi.org/10.1016/j.ejpoleco.2021.102027>
- Chen, J., Cumming, D., Hou, W., & Lee, E. (2013). Executive integrity, audit opinion, and fraud in Chinese listed firms. *Emerging Markets Review*, 15, 72–91. <https://doi.org/https://doi.org/10.1016/j.ememar.2012.12.003>
- Cooper, D. J., Dacin, T., & Palmer, D. (2013). Fraud in accounting, organizations and society: Extending the boundaries of research. *Accounting, Organizations and Society*, 38(6), 440–457. <https://doi.org/https://doi.org/10.1016/j.aos.2013.11.001>
- Corcoran, R. P., O’Flaherty, J., Xie, C., & Cheung, A. C. K. (2020). Conceptualizing and measuring social and emotional learning: A systematic review and meta-analysis of moral reasoning and academic achievement, religiosity, political orientation, personality. *Educational Research Review*, 30, 100285. <https://doi.org/https://doi.org/10.1016/j.edurev.2019.100285>
- Cui, Y., & Jiao, H. (2019). Organizational justice and management trustworthiness during organizational Change: Interactions of Benevolence, Integrity, and managerial approaches. *Information Processing & Management*, 56(4), 1526–1542. <https://doi.org/https://doi.org/10.1016/j.ipm.2018.10.008>
- DUONG, T. T. N., PHAN, H. T., HOANG, T. N., & VO, T. T. T. (2020). The Effect of Financial Restructuring on the Overall Financial Performance of the Commercial Banks in Vietnam. *The Journal of Asian Finance, Economics and Business*, 7(9), 75–84.
- Eka Putra, I. P. A. P., & Latrini, M. Y. (2018). Pengaruh Pengendalian Internal, Budaya Organisasi, dan Moralitas pada Kecenderungan Kecurangan (Fraud) di LPD se-Kabupaten Gianyar. *E-Jurnal Akuntansi*, 25, 2155. <https://doi.org/10.24843/eja.2018.v25.i03.p20>
- Hardcopf, R., Liu, G. (Jason), & Shah, R. (2021). Lean production and operational performance: The influence of organizational culture. *International Journal of Production Economics*, 235, 108060. <https://doi.org/https://doi.org/10.1016/j.ijpe.2021.108060>
- Henderson, R. (2020). Using graph databases to detect financial fraud. *Computer Fraud & Security*, 2020(7), 6–10. [https://doi.org/https://doi.org/10.1016/S1361-3723\(20\)30073-7](https://doi.org/https://doi.org/10.1016/S1361-3723(20)30073-7)
- Heryanto Eka Pradana, H., Hasbi Almaududi, Y., & Dicky Prasetya, M. (2018). Efektivitas Pengendalian Internal, Moralitas dan Integritas terhadap Pencegahan Fraud (Studi Kasus pada Driver Go-Jek Magelang). *Jurnal Bisnis Dan Ekonomi*, 25(2), 104–111.
- Khusnah, H., & Agustina, H. (2019). Dampak Mediasi Moral Reasoning Pada Pengaruh Organizational Ethical Culture Terhadap Kecenderungan Kecurangan Akuntansi. *Accounting and Management Journal*, 3(2), 69–76. <https://doi.org/10.33086/amj.v3i2.1403>
- Law, P. (2011). Corporate governance and no fraud occurrence in organizations: Hong Kong evidence. *Journal of Business and Industrial Marketing*, 26(6), 501–518. <https://doi.org/10.1108/02686901111142558>
- Liu, G., Tsui, E., & Kianto, A. (2021). Knowledge-friendly organisational culture and performance: A meta-analysis. *Journal of Business Research*, 134, 738–753. <https://doi.org/https://doi.org/10.1016/j.jbusres.2021.05.048>
- Liyanarachchi, G., & Newdick, C. (2009). The impact of moral reasoning and retaliation on whistle-blowing: New Zealand evidence. *Journal of Business*

- Ethics*, 89(1), 37–57.
<https://doi.org/10.1007/s10551-008-9983-x>
- M. Noor, N., Nisbet, A., Hussein, M., Chu S, S., Kadni, T., Abdullah, N., & Bradley, D. A. (2017). Dosimetry audits and intercomparisons in radiotherapy: A Malaysian profile. *Radiation Physics and Chemistry*, 140, 207–212.
<https://doi.org/https://doi.org/10.1016/j.radphyschem.2017.03.046>
- Mahmoudi, F., & Bagheri Majd, R. (2021). The effect of lean culture on the reduction of academic corruption by the mediating role of positive organizational politics in higher education. *International Journal of Educational Development*, 80, 102319.
<https://doi.org/https://doi.org/10.1016/j.ijedudev.2020.102319>
- Mishra, D., Akman, I., & Mishra, A. (2014). Theory of Reasoned Action application for Green Information Technology acceptance. *Computers in Human Behavior*, 36, 29–40.
<https://doi.org/https://doi.org/10.1016/j.chb.2014.03.030>
- Near, J. P., & Miceli, M. P. (2013). Organizational dissidence: The case of whistle-blowing. *Citation Classics from The Journal of Business Ethics: Celebrating the First Thirty Years of Publication*, 4, 153–172.
https://doi.org/10.1007/978-94-007-4126-3_8
- Ngai, E. W. T., Hu, Y., Wong, Y. H., Chen, Y., & Sun, X. (2011). The application of data mining techniques in financial fraud detection: A classification framework and an academic review of literature. *Decision Support Systems*, 50(3), 559–569.
<https://doi.org/10.1016/j.dss.2010.08.006>
- Norman, C. S., Rose, A. M., & Rose, J. M. (2010). Internal audit reporting lines, fraud risk decomposition, and assessments of fraud risk. *Accounting, Organizations and Society*, 35(5), 546–557.
- Noviriantini, K., Darmawan, N. A. S., & Werastuti, D. N. S. (2015). Pengaruh Budaya Etis Organisasi dan Moralitas Aparat terhadap Kecenderungan Kecurangan (Fraud) Akuntansi (Studi Empiris pada Satuan Kerja Perangkat Daerah Kabupaten Jembrana). *Jurnal Ilmiah Mahasiswa Akuntansi*, 3(1), 1–12.
- Nunner-Winkler, G. (2015). *Kohlberg, Lawrence (1927–87)* (J. D. B. T.-I. E. of the S. & B. S. (Second E. Wright (ed.); pp. 119–122). Elsevier.
<https://doi.org/https://doi.org/10.1016/B978-0-08-097086-8.61069-3>
- Ongsakul, V., Chatjuthamard, P., Jiraporn, P., & Chaivisuttangkun, S. (2021). Corporate integrity and hostile takeover threats: Evidence from machine learning and “CEO luck.” *Journal of Behavioral and Experimental Finance*, 100579.
<https://doi.org/https://doi.org/10.1016/j.jbef.2021.100579>
- Oriade, A., Osinaike, A., Aduhene, K., & Wang, Y. (2021). Sustainability awareness, management practices and organisational culture in hotels: Evidence from developing countries. *International Journal of Hospitality Management*, 92, 102699.
<https://doi.org/https://doi.org/10.1016/j.ijhm.2020.102699>
- Otoritas Jasa Keuangan. (2019). *Peraturan Otoritas Jasa Keuangan Republik Indonesia Nomor 39/POJK.03/2019 tentang Penerapan Strategi Anti Fraud Bagi Bank Umum*. 2.
<https://www.ojk.go.id/id/regulasi/Pages/Penerapan-Strategi-Anti-Fraud-Bagi-Bank-Umum.aspx>
- Papík, M., & Papíková, L. (2022). Detecting accounting fraud in companies reporting under US GAAP through data mining. *International Journal of Accounting Information Systems*, 45, 100559.
<https://doi.org/https://doi.org/10.1016/j.accinf.2022.100559>
- Procter, L., Angus, D. J., Blaszczyński, A., & Gainsbury, S. M. (2019). Understanding use of consumer protection tools among

- Internet gambling customers: Utility of the Theory of Planned Behavior and Theory of Reasoned Action. *Addictive Behaviors*, 99, 106050. <https://doi.org/https://doi.org/10.1016/j.addbeh.2019.106050>
- Putu Crysma Virmayani, Ni Luh Gede Erni Sulindawati, dan A. T. A. (2017). BUDAYA ETIS ORGANISASI DAN KOMITMEN ORGANISASI TERHADAP PENCEGAHAN KECURANGAN (FRAUD) AKUNTANSI PADA KOPERASI SIMPAN PINJAM SE-KECAMATAN Universitas Pendidikan Ganesha e-Journal S1 Ak Universitas Pendidikan Ganesha. *E-Journal SI Ak Universitas Pendidikan Ganesha*, 1(3).
- Ramadhaniyati, Y., & Hayati, N. (2014). Pengaruh Profesionalisme, Motivasi, Integritas, Dan Independensi Satuan Pengawasan Internal Dalam Mencegah Kecurangan (Fraud) Di Lingkungan Perguruan Tinggi Negeri. *JAFFA Oktober*, 02(2), 101–114.
- Riyadi, S., Nugroho, M., & Arif, D. (2021). The effect of supply network and management control system on the efficiency and profitability of manufacturing companies. *Uncertain Supply Chain Management*, 9(4), 963–972. <https://doi.org/10.5267/j.uscm.2021.7.004>
- Robbins, S. P., & Coulter, M. (2002). Organizational Structure and Design. *Management. New York: PrenticeHall*.
- Soomro, Z. A., Shah, M. H., & Thatcher, J. (2021). A framework for ID fraud prevention policies in E-tailing sector. *Computers & Security*, 109, 102403. <https://doi.org/https://doi.org/10.1016/j.cose.2021.102403>
- Sulistiyowati, R. (n.d.). *PENERAPAN SISTEM PENGENDALIAN INTERNAL DAN*. 4(2), 157–172.
- Suryono, R. R., Budi, I., & Purwandari, B. (2021). Detection of fintech P2P lending issues in Indonesia. *Heliyon*, 7(4), e06782. <https://doi.org/https://doi.org/10.1016/j.heliyon.2021.e06782>
- Wan, P., Chen, X., & Ke, Y. (2020). Does corporate integrity culture matter to corporate social responsibility? Evidence from China. *Journal of Cleaner Production*, 259, 120877. <https://doi.org/https://doi.org/10.1016/j.jclepro.2020.120877>
- Wang, T. Y., & Winton, A. (2021). Industry informational interactions and corporate fraud. *Journal of Corporate Finance*, 69, 102024. <https://doi.org/https://doi.org/10.1016/j.jcorpfin.2021.102024>
- Wang, Y., Ashton, J. K., & Jaafar, A. (2019). Money shouts! How effective are punishments for accounting fraud? *The British Accounting Review*, 51(5), 100824. <https://doi.org/https://doi.org/10.1016/j.bar.2019.02.006>
- Wang, Z., Chen, M.-H., Chin, C. L., & Zheng, Q. (2017). Managerial ability, political connections, and fraudulent financial reporting in China. *Journal of Accounting and Public Policy*, 36(2), 141–162. <https://doi.org/https://doi.org/10.1016/j.accpubpol.2017.02.004>
- Wilks, T. J., & Zimbelman, M. F. (2004). Decomposition of fraud-risk assessments and auditors' sensitivity to fraud cues. *Contemporary Accounting Research*, 21(3), 719–745.
- Wu, H., Chang, Y., Li, J., & Zhu, X. (2022). Financial fraud risk analysis based on audit information knowledge graph. *Procedia Computer Science*, 199, 780–787. <https://doi.org/https://doi.org/10.1016/j.procs.2022.01.097>
- Wu, Y., Xu, Y., & Li, J. (2019). Feature construction for fraudulent credit card cash-out detection. *Decision Support Systems*, 127, 113155. <https://doi.org/https://doi.org/10.1016/j.dss.2019.113155>
- Wulandari, D. N., & Nuryanto, M. (2018). Pengaruh Pengendalian Internal,

- Kesadaran Anti-Fraud, Integritas, Independensi, dan Profesionalisme Terhadap Pencegahan Kecurangan. *Jurnal Riset Akuntansi Mercu Buana*, 4(2), 117.
<https://doi.org/10.26486/jramb.v4i2.557>
- Zelmiyanti, R., & Anita, L. (2015). Pengaruh Budaya Organisasi Dan Peran Auditor Internal Terhadap Pencegahan Kecurangan Dengan Pelaksanaan Sistem Pengendalian Internal Sebagai Variabel Intervening. *Jurnal Akuntansi Keuangan Dan Bisnis*, 8(1), 67–76.