Islamic Work Ethics, Good Corporate Governance Practices and Fraudulent Financial Statements

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ABSTRACT

This study examined the effects of Islamic work ethics (IWE) and good corporate governance (GCG) on fraudulent financial statements (FFS) in Islamic financial institutions (IFIs). The study used a questionnaire survey to examine the relationship between IWE and GCG practises on FFS in IFIs. The finding revealed that IWE and GCG practices significantly influenced FFS through fraud prevention. This study gives banking and insurance professionals a practical grasp of the aspects to consider in the fight against fraud in financial statements. This is the first study that gives empirical evidence of the importance of Islamic work ethics in fraud prevention and its impact on FFS in IFIs in the context of Indonesia, the country with the highest Muslim population. This study suggests that policymakers and the financial services authorities should redouble their efforts to prevent fraudulent financial statements by instituting an effective anti-fraud strategy and integrating Sharia compliance auditing standards. These findings can also assist internal auditors around the globe in identifying the indicators that management may be considering FFS, thereby decreasing the likelihood of fraud occurring.

Keywords: Islamic works ethics (IWE), good corporate governance (GCG) practices, fraud prevention, fraudulent financial statements (FFS), and Islamic financial institutions (IFIs)

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INTRODUCTION

Islamic financial institutions (IFIs) are financial institutions that base their business operations on the Qur'an, Hadith, and Ijma of the scholars (Dowell-Jones, 2013; and Maradita, 2014). IFIs collect customer or community funds and distribute loans to customers or the general public (Kidwell et al., 2007). Along with the development, numerous IFIs, such as Islamic banking and insurance, have emerged in the community (Musari, 2016). IFIs are organisations whose operations abide by and are in accordance with Shariah law and regulations. IFI's principles eliminate Islam-prohibited elements and replace them with Shariah or traditional Islamic contracts (Mardani, 2017).

The establishment of the IFIs is based on the prohibition of riba (usury) in financial and non-financial transactions [...God has permitted buying and selling and forbids riba (QS. Al-Baqarah (2): 275)]. In addition, establishing IFIs, especially Islamic banks, improves some of the weaknesses in the conventional system (Arifin, 2009), namely, (1) Interest-based transactions violate justice or business fairness, which is clearly against the norms of justice in Islam; (2) The inflexible interest-based transaction system that causes bankruptcy; and (3) The issue of bank's commitment to the security of depositors' money along with the interest that makes the bank anxious to return the principal interest (Machmud, 2010). The development of IFIs has implications for how IFIs can maintain customer trust and loyalty (Aman, 2019). As a result, it is necessary to improve IFIs' image and reputation in clients' eyes (Andaleeb et al., 2016), which is one of the issues confronting IFIs today (Falikhatun & Assegaf, 2012).

Financial and accounting fraud is a seemingly infinite phenomenon, including fraud in Islamic financial organisations (Reskino et al., 2021; Hamidah & Reskino, 2021). The question therefore becomes, have Sharia principles been applied to IFIs to ensure they are free of fraud? (Aziz et al., 2019; Fakhfakh et al., 2017; Mujib et al., 2017). Many incidents demonstrate that IFIs are not immune to fraud, such as the case of PT. Bank Syariah Mandiri, which provided bogus loans to 197 fictitious customers, resulting in a Rp102 million loss. In another case, Syariah is still embroiled in a fake credit case for 548 billion at PT Bank Jawa Barat and Banten (BJB).

These cases prove there is no guarantee that IFIs, particularly Islamic banks and insurance companies, are exempt from fraud. Analyses conducted by various organisations and regulators found that cases in banking and insurance were caused mainly by ineffective internal factors, such as Islamic work ethics (IWE) and good corporate governance (GCG) practices. Various acts of fraud still occur because the management of IFIs has not been able to guarantee Sharia compliance for every product and service IFIs provided, so fraud cannot be avoided (Anugrah, 2014).

Has management implemented GCG effectively? Previously, Brief et al. (1996) lamented the ethical vacuum at the heart of big business corporations. They asserted that, while most managers know right and wrong as humans, they do not feel obligated to act on that basis as managers. As a result, it makes GCG practices questionable. Therefore, the regulator requires Islamic banking to apply the principles of GCG (Alhammadi et al., 2020; Jan et al., 2021), which is the embodiment of the responsibility to improve the performance of IFIs. In addition, Islamic work ethics is a seldom-discussed topic in a fraudulent financial statement. There is still a lack of empirically validated findings. Given these gaps, this study examined the influence of Islamic work ethics and good corporate governance on fraudulent financial statements.

This study also investigated the role of fraud prevention in mediating the relationship between IWE and fraudulent financial statements. Four hypotheses were tested to answer four (4) research questions: do IWE and GCG influence fraudulent financial statements? Do IWE and GCG influence fraud prevention? Does fraud prevention influence fraudulent financial statements? This study enriches the previous studies on fraudulent financial statements concerning the theory, framework, and study sample. The findings will contribute significantly to internal auditors worldwide in recognising the signs that can trigger management motivation to engage in fraudulent financial statements, thereby increasing the likelihood of preventing fraud.

The current research is critical because GCG practises and IWE are critical internal factors in IFIs. After all, the weakness of these internal factors can open the door to fraud. Second, the researcher wanted to know whether GCG practises and IWE at Indonesian IFIs affect fraud prevention and whether fraud prevention can reduce the company's high level of fraudulent financial statements.

LITERATURE REVIEW

Fraud is an illegal conduct (Dinapo, 2008) committed to harm others. Fraud is the intentional theft of assets or rights by individuals or groups in the financial and non-financial sectors, according to Tunggal (2012). One party or individual commits fraud to profit, avoid obligations or cause financial or non-financial losses to others. Kennedy (2018) believes fraudsters do it for themselves. Fraud is a severe problem in the company (Comer, 2017) and has become difficult for all stakeholders to eliminate (Olaoye et al., 2014). Eradicating fraud from its roots (Sari et al., 2020) necessitates not only considerable work (Prabowo, 2014) but also an intense desire to do so (Pancasilwati, 2020).

Agency Theory

Jensen and Meckling (1976) defined the Agency Theory as shareholders as principals and management as agents working together. The principal hires the agent to perform duties and make decisions on their behalf (Purdwiastuti & Nofiyanti, 2012). Through information asymmetry, agents may utilise their information for their profit (self-interest), causing financial harm to the principal and enterprises in Sharia banking and insurance.

Fraudulent Financial Statements

A company's financial statement signals to investors that certain information owned by management will soon be made public. Depending on the company's state, investors could be given either good or bad news from management (Reskino, 2015). However, fraudulent financial statements have caused widespread alarm among investors and government agencies like the SEC (Rezaee, 2004). According to the ACFE-created "fraud tree," financial statement fraud is a branch of the more common types of fraud, including corruption, asset misappropriation, and financial statement manipulation (ACFE, 2016).

The Association of Certified Fraud Examiners defines financial statement fraud as the intentional, deliberate misstatement or omission of material facts or accounting data that, when considering all the information available, would cause the reader to change or alter his or her judgement or decision. Several reputable academic journals and textbooks define financial statement fraud. Academic literature written by academics, professional literature written by practitioners, and official statements made by reputable authorities all provide various definitions of financial statement fraud.

Based on the preceding statement, a fraudulent financial statement is a presentation of financial statements that contain elements of misstatement in order to deceive users of financial statements for the personal benefit of the party committing fraud, with a presentation that is not based on actual financial conditions and thus cannot produce the right decision from interested stakeholders.

Islamic Work Ethics

Early ethics were based on the Qur'an (Bektovic, 2016; Nugraha, 2018). The Qur'an is the guideline for Muslim life in all aspects (Aldulaimi, 2016; Wakhidah & Erman, 2022). IWE values fairness, hard work, honesty, commitment, and work dedication. Working to instil IWE can help to keep someone from committing fraud. If someone has instilled Islamic values in his work, he/she will not commit fraudulent acts detrimental to the company.

Several previous researchers conducted a literature review and developed a conceptual framework for Sharia compliance implementation. Employees must work and behave in an Islamic manner as part of Sharia compliance (Ayedh et al., 2019; Shamsudheen & Muneeza, 2022). In testing the conceptual framework of IWE, Kamaluddin and Manan (2010) concluded that the role of IWE in shaping employee moral hazard is critical. The current literature supports Kamaluddin and Manan's (2010) statement, which shows that studies on IWE (Nasution & Rafiki, 2020; Norziaton et al., 2020; Salin et al., 2017) have been gaining popularity among researchers for a long time.

In an Islamic context, IWE is defined by Beekun (1996) as a set of moral principles that distinguish right from wrong. Yousef (2001) defines

IWE as hard work, commitment, dedication to work, work creativity, avoidance of unethical wealth accumulation methods, cooperation, and competitiveness in the workplace. Furthermore, using IWE will result in socio-economic transformation by contributing to community welfare (UL Hassan, 2010). This is because Islam ensures that humans have a sustainable life in which their needs are constantly met and fulfilled (Salin et al., 2017).

According to Amilin et al. (2018), for good governance to coexist peacefully with the ideals espoused in the Quran and Hadith, professional accountants should pay more attention to the importance of Islamic work ethics in organisational working environments. Because they believe that rewards will naturally follow when employees perform to their highest potential, Islamic work ethics emphasise receiving blessings from Allah rather than just rewards.

According to the above definition, IWE is a set of moral principles that distinguish between right and wrong, emphasising hard work, commitment, dedication to work, work creativity, avoidance of unethical wealth accumulation methods, cooperation, and competitiveness in the workplace, which leads to social transformation economy through its contribution to society's welfare.

Good Corporate Governance Practices

Corporate governance is the framework by which business corporations are directed and governed. The corporate governance structure lays out the rights and obligations of the Board of directors, managers, shareholders, and other stakeholders, as well as the rules and procedures for making decisions and conducting business. It also offers the structure through which the company's objectives are determined and the means of achieving them and measuring performance (OECD, 2004).

GCG provides a framework for the equitable distribution of rights and responsibilities among the Board, executives, and other stakeholders (Firmansyah & Devi, 2017; Sarbah & Xiao, 2015). According to Syakhroza (2003), GCG practice is a system used to direct and control and supervise (directing, controlling, and supervising) the management of organisational resources efficiently, effectively, economically, and productively (E3P) following the principles of transparency, accountability, responsibility, independent, and fairness (TARIF) in order to accomplish organisational objectives. Rules and decision-making procedures are established to provide a framework for company objectives and performance monitoring (Priantara, 2017). Moreover, Reskino (2022) states that corporate governance protects businesses and public sector organisations from fraud.

GCG is a system designed by the regulator that aims to direct the management of the company professionally based on the TARIF principles (transparency, accountability, responsibility, independence, and fairness), which outline the rights and responsibilities of directors, managers, shareholders, and other stakeholders, as well as the rules and procedures that must be adhered to when making decisions and conducting business.

Fraud Pentagon Theory

According to Horwath (2011), fraud arises from five factors: pressure, opportunity, rationalisation, competence, and arrogance. The pressure, opportunity, and rationalisation factors are the same as the fraud triangle theory because each person has pressure so that there is an impetus to commit fraud, someone has the opportunity to commit fraud due to weak supervision, and someone seeks justification for the fraud. Furthermore, the other two factors are competence and arrogance. Competence is similar to the ability or capability described in the fraud diamond theory. Competence is the ability of employees to ignore internal supervision, develop concealment strategies, and control social situations for personal gain (Horwath, 2011). The arrogance factor, namely, the attitude of superiority over the rights holder and that internal control or company policy does not apply to him.

Based on the description above, it can be concluded that anyone can commit fraudulent acts, from the top management level to line staff. Therefore, it must first be understood what factors are behind the occurrence of fraud to minimise the tendency to commit fraud. Several steps that can be taken to minimise a person's tendency to commit fraud are to improve GCG, raise awareness of anti-fraud, conduct training and improve employee competence, build good individual morality, provide appropriate compensation, improve compliance with regulations, and implement GCG practices.

Hypothesis Development

Islamic Work Ethics on Fraud Prevention

Beekun (1996) defined ethics as moral principles or guidelines distinguishing good from bad. Islamic rules outlined in the al-Quran and hadith are sources of ethics intended to be principles in human actions to maintain integrity. As a universal religion, Islam is a complete and comprehensive source of ethics for humans in various aspects of life, including organisational assets and finances (Chapra, 1979). When individual morality is in line with Islamic ethics and is practised, it can prevent or minimise cases of accounting fraud (Dolgoff et al., 2011)

Urumsah et al. (2018) showed that religious traits and attitudes could prevent someone from committing fraud. However, these conditions cannot occur consistently. Religious beliefs can change if individuals are under pressure, thus ignoring their religiosity. In addition, anti-fraud promotion has not been widely implemented in organisations. Hamdani (2015) also stated that implementing IWE can reduce a person's desire to commit internal fraud, evidenced by the negative influence of implementing IWE on internal fraud.

According to Salin et al. (2017), substantial consideration should be given to Islamic-based ethics to stop corporate fraud and malpractice. This is because Islamic morals are dedicated to and confidence in God (Aldulaimi, 2016). Thus, both societal welfare and well-being can be attained in addition to the goal of profit maximisation. Islam is also a comprehensive way of living because it regulates every facet of life, including trade and business. Islamic ethics ensures the correct operation of the market and the proper fulfilment of the linked people's interests. The discussion supports the premise that IWE affects fraud prevention:

H1a: There is a significant relationship between Islamic work ethics and fraud prevention.

Good Corporate Governance Practices on Fraud Prevention

Gusnardi's (2011) research showed that GCG could prevent company fraud. The results of this study were also supported by (Kwatingtyas, 2017; Nadia et al. 2018; Soleman, 2013), with the research results that GCG has a positive effect on fraud prevention.

The studies conducted by Husna (2013) and Saputra (2017) also showed that the better the implementation of GCG practices, the level of fraud will decrease. As indicated by the research results, namely GCG practices has a significant negative effect on fraud. This study showed that fraud prevention could be done by eliminating the driving factors for fraud by applying the GCG practices, namely transparency, accountability, fairness, integrity, and participation.

In'airat (2015), on the other hand, demonstrated that the existence and implementation of GCG are insufficient to reduce fraud due to a lack of understanding and inadequate application of GCG. As a result of the inconsistency of the findings of the research results, the authors developed the following research hypothesis:

H1b: There is a significant relationship between good corporate governance and fraud prevention.

Islamic Work Ethics on Fraudulent financial statements

Maharani (2013) showed that Islamic business ethics significantly negatively affect accounting fraud in financial reporting; this indicates that increasing Islamic business ethics will reduce the tendency of accounting fraud in financial reporting. Conversely, the decline in Islamic business ethics will increase the tendency of fraudulent accounting in financial reporting. Based on the discussions, it can be concluded that IWE affects fraudulent financial statements; the hypothesis formulated in this study was as follows:

H2a: There is a significant relationship between Islamic work ethics and fraudulent financial statements.

Good Corporate Governance Practices on Fraudulent financial statements

A growing number of researchers are discovering that poor GCG practices, financial statement manipulation, and dissatisfied stakeholders are the primary contributors to poor performance. Companies and regulators are now attempting to identify and correct flaws in their reporting systems (Eferakeya et al., 2016)

According to a study conducted by Martins and Junior (2020) on corporate governance and the mitigation of fraudulent financial reporting, the corporate governance structure impacts the mitigation of FFS, either directly or indirectly, by reducing the possibility of bankruptcy or earnings manipulation. Furthermore, their findings show that board-related governance practises are more effective at predicting bankruptcy, while audit-related practises are associated with less revenue manipulation.

Rohmatin et al. (2021) previously investigated the relationship between the causes of fraud, good corporate governance, and fraud. Even though good corporate governance can reduce the impact of opportunity and rationalisation on fraud, it also strengthens the competence Impact on Fraud. Meanwhile, good corporate governance does not mitigate pressure and arrogance. Based on the research findings, this study developed the following research hypothesis:

H2b: There is a significant relationship between good corporate governance practices and fraudulent financial statements.

Fraud Prevention on Fraudulent financial statements

According to Zager et al. (2016), fraudulent activities such as fraudulent financial reporting and asset misappropriation are significant issues confronting businesses worldwide. In general, fraud against fraudulent financial statements is less common than fraud against misappropriated assets; however, fraud in financial statements causes tremendous loss. In response to the rising rate of financial statement fraud, the SEC has taken several steps to strengthen regulations (Rezaee, 2004).

Management and all organisation members carry primary responsibility for fraud prevention to ensure that financial reports are presented reliably. As a result, it is critical to develop various internal solid company systems to prevent fraud. Based on the above description, it is possible to conclude that fraud prevention affects FFS; thus, the hypothesis formulated in this study was as follows:

H3: There is a significant relationship between fraud prevention and fraudulent financial statements.

The Mediating Effect of Fraud Prevention on the Relationship between Islamic Work Ethics and Fraudulent Financial Statements

Islamic business ethics is a way out of a culture of corruption and unprofessionalism. As a result, it is hoped that implementing Islamic business ethics will reduce financial reporting fraud. Islamic business ethics significantly negatively impact financial reporting fraud (Maharani, 2013b). According to Zager et al. (2016), the employee's code of ethics influences fraud prevention and reduces financial statement fraud. Based on the preceding discussion, it is possible to conclude that IWE and fraud prevention have an impact on fraudulent financial statements; the hypothesis formulated in this study was as follows:

H4a: Fraud prevention mediates the relationship between Islamic work ethics and fraudulent financial statements.

The Mediating Effect of Fraud Prevention on the Relationship between Good Corporate Governance and Fraudulent Financial Statements

Implementing GCG can help to reduce fraud, particularly one of the most detrimental to the company, FFS. Prior research by Bhasin (2017), Eferakeya et al. (2016), and Halbouni et al. (2016) demonstrated that GCG has a positive effect on fraud prevention. According to Maryana et al. (2018), applying GCG principles significantly impacts the quality of financial statements. According to the discussion, using GCG principles in a corporation can deter fraud and lower the danger of fraudulent financial statements. As a result, the financial reports are of the highest quality and dependability. The following hypotheses wasdeveloped in this study:

H4b: Fraud prevention mediates the relationship between good corporate governance and fraudulent financial statements.

METHODOLOGY

Data Collection

Finance staff with the following qualifications were drawn from the population as a sample: (1) finance staff working in Sharia banking and

Sharia insurance in the DKI Jakarta area. (2) Finance staff with at least one year of experience were considered to have sufficient knowledge of the company. Questionnaires were distributed to 200 employees in the DKI Jakarta area who worked as finance staff in Sharia banking and Sharia insurance. There were 98 questionnaires returned, which were all processed.

Instrumentation, Data Measurement and Analysis Procedure

This study employed the Questionnaire survey as the research instrument. Previous studies were used to obtain the measurement used to operationalise the constructs. An ordinal (Likert) scale from 1 to 5 was used to evaluate each statement. The responses received were given the following ratings: (1) strongly disagree, (2) disagree, (3) neutral, (4) agree, and (5) strongly agree. The study's hypotheses were tested using partial least square (PLS) -SEM.

RESULTS AND DISCUSSION

Two hundred survey forms were distributed to targeted respondents as of March 2019. The data collection took about two months, and researchers were able to retrieve 98 survey forms. As a result, the response rate was 84.48%.

Test Results of Research Instruments

The outer model was examined in this study, utilising convergent validity, discriminant validity, and reliability. IWE, GCG practises, fraud prevention, and fraudulent financial statements were all assessed descriptively. Findings revealed that most respondents "agree" with the factors IWE, GCG, fraud prevention, and fraudulent financial statements.

Outer Model or Measurement Model Test Results

The correlation between the item score or component score estimated by the SmartPLS software was used to assess the convergent validity of the indicator reflective measurement model. The individual reflective measure is high if the correlation with the measured construct is 0.70. A loading factor limit of 0.50 was used in this study.

Discriminant validity is used to ensure that each latent variable concept is distinct from the concepts of other variables. The model has excellent discriminant validity if each loading value is the greatest compared to other loading values for other latent variables. Each indicator of each latent variable examined in this study already had an enormous loading factor value compared to the loading factor value of other latent variables. Therefore, it was concluded that all latent variables had good discriminant validity.

The reliability criterion can be seen in each construct's composite reliability and Cronbach alpha values. A construct is highly reliable if its composite reliability value is greater than 0.70 and its Cronbach alpha value is greater than 0.60.

Table 1: **Composite Reliability and Cronbach Alpha**

	Composite Reliability	Cronbach Alpha
IWE	0.890	0.864
Good Corporate Governance Practice	0.901	0.880
Fraud Prevention	0.895	0.869
FFS	0.875	0.839

Source: Primary data that is processed

As shown in Table 1, the variable IWE was 0.890, the GCG practises variable was 0.901, the fraud prevention variable was 0.895, and the FFS variable was 0.875. The results of the composite reliability above showed that all variables had a composite reliability value above 0.70, and it was concluded that all constructs met the reliability criteria.

The Cronbach alpha variable for IWE was 0.864, the fraud prevention variable was 0.869, and the FFS variable was 0.839. The results of the Cronbach alpha above indicated that all variables already had a Cronbach alpha value above 0.60, thus indicating that the level of consistency of respondents' answers in each construct had good reliability.

Inner Model or Structural Model Test Results

The inner or structural models must be tested to see the relationship between significant value constructions and R-Square. Therefore, the R-Square for the dependent construct, the t-test, and the significance of the structural path parameter coefficients were all used to evaluate the structural model.

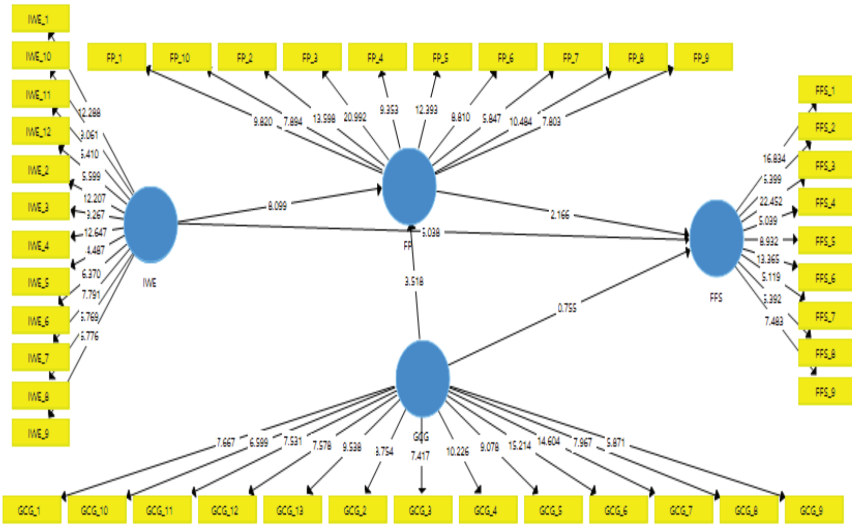

Figure 1: Structural Model of Bootstrapping Results
Source: *Primary data that is processed*

Based on the picture above, it can be explained that model assessment with SmartPLS begins by looking at the R-Square for each latent dependent variable. The goodness fit model test is the result of estimating the R-Square using SmartPLS.

Table 2: R-Square Value

	R-Square
Fraud Prevention	0.696
FFS	0.653

Source: Primary data that is processed

As shown in Table 2 above, the R-Square value for the fraud prevention variable was 0.696, and the FFS variable was 0.653. These results indicated that the variables IWE and GCG practices can simultaneously explain the fraud prevention variable by 69.6%. The remaining 30.4% was explained by other variables not hypothesised in the model.

The subsequent results for the variables IWE and GCG practices can explain the FFS variable by 65.3%; the remaining 34.7% is explained by other variables not hypothesised in the model. According to (Baron & Kenny, 2013), this R-Square value is moderate to high.

The result of the calculation of Q-Square in this study was 0.704, which meant that 70.43% of the independent and intervening variables were feasible in explaining the dependent variable, namely the FFS.

The final model evaluation was by looking at the GoF of the model. Evaluation of the goodness of fit model is carried out to purify and refine the validity or reliability test of the (Purwohedi & Imam Ghozali 2015) construct (2015). The GoF validates the inner and outer models' combined performance. GoF values ranged from 1 to 0 with interpreted values of 0.1 (small GoF), 0.26 (moderate GoF), and 0.36 (large GoF) (Wetzels et al., 2009) in (Yamin et al, 2011). The results of the GoF calculation in this study showed a value of 0.5489. This GoF value was greater than 0.36. Therefore, it can be said that this research model had a high ability to explain the empirical data.

Hypothesis Test Results

The basis for testing the hypothesis is the value of the output path coefficient for testing the structural model. The t-statistic value compared with the t-table specified in this study is 1.9850, where it is known that the df value is 96 (the number of samples is reduced by two: 98 – 2) and α is 0.05 (two-tailed). The limit for accepting and rejecting the proposed hypothesis is + 1.9850, where if the t-statistic value is in the range of -1.9850 and 1.9850, then the hypothesis will be rejected or, in other words, accept the null hypothesis (H0).

Table 3: Path Coefficients (Mean, STDEV, T-Value)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T-Statistic (IO/stdev)	P-Value
IWE FP	0.551	0.561	0.080	6.873	0.000
GCG FP	0.208	0.202	0.086	2.423	0.016
IWE FFS	0.480	0.493	0.099	4.835	0.000
GCG FFS	-0.017	-0.011	0.095	0.173	0.863
FP FFS	0.245	0.221	0.113	2.172	0.030
IWE → FP → FFS	0.211	0.209	0.055	3.802	0.000
GCG → FP → FFS	0.905	0.905	0.079	11.506	0.000

Source: Primary data that is processed

As shown in Table 3, the effect of IWE on fraud prevention was 0.551 and significant at 0.5 (6.873> 1.9850). The effect of GCG on fraud prevention was 0.208 and significant at 0.5 (2.423> 1.9850). The effect of IWE on fraudulent financial statements was 0.480 and significant at 0.5 (4.835> 1.9850). The effect of GCG on fraudulent financial statements was -0.017 and not significant at 0.5 (0.173 <1.9850). The effect of fraud prevention on fraudulent financial statements was 0.245 and significant at 0.5 (2.172> 1.9850).

Intervening Effect Test Results

The table above (Table 3) shows the test results through the intervening test, namely 3.802 <1.985 for the IWE variable, so it may be concluded that the intervening variable influenced fraud prevention on the indirect relationship between IWE variables and fraudulent financial statements. Furthermore, GCG had obtained t-count results significant of 0.05, namely 11.506 <1.9850. So, it was concluded that the intervening variable influenced fraud prevention on the indirect relationship between GCG variables and fraudulent financial statements.

RESULTS AND DISCUSSION

The Effect of Islamic Work Ethics on Fraud Prevention

Hypothesis 1 tested the effect of Islamic work ethics (IWE) on fraud prevention. Table 3 shows that the IWE path coefficient on fraud prevention was positive with a t-statistic value (0.551) smaller than 1.96 and a probability value> 0.05. Thus, it can be concluded that IWE had a significant effect on the fraud prevention. This study proved that IFIs in Indonesia had implemented religious values to prevent someone from committing fraud. If someone works based on Islamic values, they will consider committing fraud because Allah will see it even if people do not know it. In this context, Islamic ethics can offer a good solution, especially for Indonesia, where most citizens are Muslims, and Islam has been declared the national religion in the constitution.

This finding is consistent with prior research examining the influence of IWE on fraud prevention, such as in Urumsah et al. (2018)

and Hamdani (2015), who both state that IWE affects fraud prevention. Following the variables tested, namely banking and Sharia insurance, IWE had the greatest statistical t value in this study compared to other variables. However, Hamdani (2016) findings show that Sharia-compliant banking has not eliminated fraud within the organisation. Internal fraud arises as a result of pressure, opportunity, rationalisation, a lack of internal control, and the implementation of ethical values. According to Mulia et al. (2017), a person's morale impacts whether or not they will commit fraud.

The Effect of Good Corporate Governance on Fraud Prevention

Table 3 displays the statistical findings of the association between good corporate governance (GCG) and fraud prevention. The GCG had a path coefficient value of 0.208 and a t-statistic value of 2.423. This value exceeds the t-table value of 1.9850. According to the third hypothesis, the findings showed that GCG practises significantly affected fraud prevention.

This study justifies the theory that companies can prevent fraud by decreasing the potential for fraud by applying the principles of GCG. The principles of GCG align with the analysed fraud prevention indicators. The principle of transparency and accountability can be seen yearly in that Islamic banking and insurance companies publish financial reports useful for users of financial statements, both internal and external parties. The principle of accountability can prevent someone from committing fraud because procedures and policies are carried out simultaneously by all organisational members. The principle of independence can be carried out by each employee working by their respective roles and duties to make decisions objectively on their duties. The principle of fairness is carried out by providing fair services to all organisational members.

According to Anugrah (2014), fraud prevention can be minimised by minimising the causes that drive fraud; one is through adopting the GCG principles of transparency, accountability, responsibility, independence, and fairness. This study is consistent with empirical investigations on GCG in fraud prevention by Enofe et al. (2016), Gusnardi (2011), and In'airat (2015), all of which show that GCG affects positive fraud prevention. Eferakeya et al. (2016) state that effective corporate governance procedures prevent fraud.

Good governance procedures include an effective internal audit function, audit committee, external auditor, and Board of directors. This governance mechanism is beneficial and must be reinforced to avoid fraud.

This result is not in line with In'airat (2015), which states that the existence and application of GCG are not enough to reduce fraud. This is due to a lack of understanding. In addition, the implementation of GCG has not been maximised, so continuous improvement is needed under the principles of GCG.

The Effect of Islamic Work Ethics on the Fraudulent financial statements

Hypothesis 3 tested the effect of Islamic Work Ethics (IWE) on fraudulent financial statements (FFS). In Table 3, it can be seen that IWE on FFS showed a path coefficient value of 0.480 with a t-statistic value of 4.835. This value was greater than the t-table 1.9850. This means that IWE had a significant influence at 0.05 on fraudulent financial statements.

The findings, as shown in Table 3, are consistent with those reported by Maharani (2013b), Mayhew and Murphy (2009), and Rahma and Yulianti (2018), which state that IWE affects the tendency of accounting fraud. This result indicated that Islamic banking and insurance companies in Indonesia had implemented IWE, evident by the financial staff who have understood and implemented IWE. If employees, especially financial staff, have implemented IWE well, they will present financial reports reliably and under actual conditions. Thus, FFS can be minimised because the main task of the financial staff is to make the company's financial statements.

The findings are supported by research conducted by Mayhew and Murphy (2009), who found that ethics education should be taught at a young age to prevent someone from committing fraud. The findings revealed that when participants were anonymous, the misreporting rate was nearly the same regardless of ethics programme participation. On the other hand, participants who completed the ethics programme misreported at a considerably lower incidence than those who did not receive it when their reporting conduct was made public to the cohort. The findings indicated that while ethical education does not always result in internalised ethical beliefs, it can impact ethical behaviour.

The Effect of Good Corporate Governance Practice on the Fraudulent financial statements

Hypothesis 4 tested the effect of good corporate governance (GCG) on fraudulent financial statements (FFS). Table 3 shows that GCG on FFS showed a path coefficient value of -0.017 with a t-statistic value of 0.173. This value was smaller than the t-table 1.9850. This means that GCG practices do not have a significant effect of 0.05 on FFS, which follows the eighth hypothesis.

Employees lack to understand the corporate governance guidelines, which regulate in detail the rights and obligations of workers, so these regulations are not implemented properly. This will result in when the employee is under pressure, they are vulnerable to fraud. In addition, employees at work do not adhere to the precautionary principle and have not complied with the laws and regulations, articles of association, and company regulations, so this triggers fraud. Widodo and Syafruddin (2017) examined the disclosure of corporate governance structure on fraudulent financial statements. They found that board members with international experience, audit committee effectiveness, internal audit effectiveness, and the existence of Big-4 audit firms have a significant positive effect in reducing the likelihood of fraudulent financial reporting. However, the number of Board of Commissioners members has no significant effect on the likelihood of fraudulent financial reporting.

Maryana et al. (2018) believed effective company governance affects financial report quality. Good financial reports avoid misstatements and accurately portray the company’s finances. Martins and Junior (2020) suggest corporate governance practises can prevent fraudulent financial reporting, bankruptcy, and earnings manipulation. Board of directors’ practises mitigating bankruptcy better than other corporate governance practises.

This study contradicts Razali and Arshad (2014) but agrees with Citra (2013) that the GCG mechanism, as measured by transparency, accountability, responsibility, independence, and fairness, does not significantly affect financial statement integrity. Poor financial statements might contain fraud. Thus, financial statements must be accurate.

The Effect of Fraud Prevention on Fraudulent Financial Statements

Fraud prevention with a positive path coefficient of 0.245 had a t-count of 2.172>t-table of 1.98, then H5 was accepted, which means fraud prevention had a significant positive effect on fraudulent financial statements. This is in line with Zager et al. (2016), which stated that fraud prevention can reduce fraudulent financial statements.

According to the Association of Certified Fraud Examiners (ACFE) findings in 2018, a fraudulent financial statement is one of the frauds that does not often occur but causes the most significant losses. The most commonly used technique is presenting excessive assets to look like the company is healthy. Fraud prevention is very effective if it starts from within the company because internal parties have an essential role. Therefore, the company must build a sound internal control system to prevent fraud. Management is primarily responsible for preventing fraud but must also be assisted by all organisational members to ensure that financial statements are presented reliably and are free of misstatements.

The findings of this study suggest that efforts to reduce fraud in financial statements are significantly impacted by fraud prevention. These findings are in line with research by (Paranoan et al., 2022) and (Schuchter & Levi, 2016), which finds that preventive measures have an enormous impact on attempts to reduce fraud and that they also have a significant beneficial impact on efforts to reduce fraud in financial statements. This is because people know that committing fraud can result in punishments, such as dismissal, which will serve as a deterrent. Good corporate governance (GCG), deployment of a sound internal control system, and adequate supervision within the organisation or institution are all necessary for fraud prevention to impact efforts to reduce fraudulent financial statements. Mohamed (2013) offers anti-fraud programs, particularly concerning the prevention, detection, and response strategies, as part of a company's efforts to mitigate financial statement fraud.

The Effect of Islamic Work Ethics on Fraudulent financial statements through Fraud Prevention

The sixth hypothesis examined is the influence of Islamic work ethics on fraudulent financial statements through fraud prevention. The outcome revealed a significant t-value of 0.05, meaning 3.802>1.9850. This hypothesis demonstrated that fraud prevention could be employed as an intervening variable in the indirect influence of IWE on fraudulent financial statements. Kuncoro and Wibowo (2019), and Hamdani (2015) generally agree that IWE has affected fraud prevention.

Employees can accomplish their responsibilities by working tirelessly to conduct tests on documents and information obtained to reduce financial statement fraud through implementing anti-fraud control programmes based on company values. Furthermore, employees can work to the best of their abilities to predict types of fraud in order to reduce fraudulent financial statements by raising awareness of fraud in the organisation. Likewise, employees believe that the agency's employee relationships should be given special attention since they attempt not to take fictitious payments to reduce fraudulent financial statements by being honest, open, and helpful to one another.

The findings demonstrated that fraud prevention can be used as an intervening variable in the indirect effect of IWE on fraudulent financial statements. Rahma and Yulianti (2018) and Maharani (2013a) stated that IWE affects FFS. Hamdani (2015), Kuncoro and Wibowo (2019), and Urumsah et al. (2016) all agree that IWE has an impact on fraud prevention.

Based on the findings from this study, IWE can prevent someone from committing fraud at work, reducing numerous frauds such as fraudulent financial statements, corruption, and asset misuse. Because the number of Islamic financial institutions in Indonesia is identical to Islamic law, it is critical for management and all members of the organisation to maintain Sharia institutions' good name so that acts of fraud do not taint them.

Several previous research investigated how IWE directly influenced fraudulent financial statements without accounting for the indirect relationship (Intervening) between IWE and fraudulent financial statements.

As a result, this research contributes to the body of knowledge by investigating the indirect relationship between IWE and fraudulent financial statements, with fraud prevention as a mediator.

Effect of Good Corporate Governance Practice on Fraudulent financial statements through Fraud Prevention

Hypothesis testing using the single test method showed a significant t-value at 0.05, 11.506 <1.9850. This hypothesis proved that fraud prevention could be used as an intervening variable in the indirect effect of GCG on fraudulent financial statements.

The results indicated that the practice of GCG directly affects fraudulent financial statements. With the addition of the intervening variable, namely fraud prevention, the research results can mediate the relationship between GCG practices and fraudulent financial statements. This results did not support the research conducted by Rohmatin et al., (2021).

Financial statements need to be presented accurately and on time to users of financial statements. The aim is to convey an overview of the actual condition of the company. What is the position of assets, liabilities, and equity in a period? Before issuing financial statements, the company will test the documents and information obtained to minimise fraudulent financial statements.

Based on respondents' answers, the company had provided complete information to users of financial statements. Submitting this complete information can reduce the misuse of company assets because the company is a law enforcer who can build a culture of honesty and openness. In addition, employees must work according to standard operating procedures (SOPs) and applicable regulations so that with SOPs, companies can examine documents and information obtained to minimise financial statement fraud. Specific components that apply to bank operational procedures at all levels of the organisation are governed by good corporate governance. For the vision and goals of an organisational unit to be achieved collaboratively, superior corporate governance based on five GCG principles can be applied, namely Transparency, Accountability, Responsibility, Independence, and Fairness (TARIF).

Acceptance of Hypothesis 7 is consistent with the Agency Theory, which holds management accountable to stakeholders to meet their expectations, one of which is the application of good corporate governance, which generates profits that can reduce fraud and lead to maximum profit gain. The implementation of effective GCG can reduce the opportunities for fraud to occur. This ensures that good corporate governance reduces the chances of anyone committing fraud.

Many previous studies tested GCG directly affecting fraudulent financial statements without considering the indirect relationship (Intervening) between GCG and fraudulent financial statements. So, this study contributes to the literature by examining the indirect relationship (intervening) of GCG and fraudulent financial statements with fraud prevention as a mediator.

FUTURE RESEARCH

Future research could be extended to a mixed-methods approach. Integrating quantitative and qualitative methods can provide further insight into issues related to fraudulent financial statements. As the field of study is less explored, especially concerning IWE and fraud, a qualitative approach can gather information directly from IFI practitioners. The mixed-methods approach is predicted to be a worthy effort to strengthen the research design, resulting in more valid and reliable findings. Future research should also explore how the whistleblowing system and internal control factors moderate the relationship between GCG practices and fraudulent financial statements. Furthermore, a study on testing religiosity as a moderator variable that strengthens the relationship between IWE and fraud prevention should be explored. This is based on the premise that religiosity will strengthen the relationship between IWE and fraud prevention.

CONCLUSION

This study contributes significantly to the early detection of organisational financial statement fraud. This research, which is based on the Al-Quran and Hadith, also adds to the development of knowledge on how to work in an Islamic manner. It fills the gap in the literature by applying Islamic work ethics to the preparation of reliable financial statements. Work values derived from the Al-Qur'an and Hadith can be used as a guide when preparing financial reports and are supported by GCG principles such as transparency, accountability, responsibility, independence, and fairness (TARIF), which must be implemented appropriately to prevent financial reporting fraud.

This study adds to the body of knowledge on fraud prevention and fraudulent financial statements from the perspective of the Fraud Pentagon Theory, specifically in Islamic financial institutions. This research also emphasises the importance of fraud prevention in mitigating fraudulent financial statements and moderating the relationship between Islamic work ethics, good corporate governance, and fraudulent financial statements. In addition, it demonstrates that fraudulent financial statements can be combated by applying Islamic work ethics founded on the Qur'an and Sunnah. Employees understand their primary responsibility is not to humans (stakeholders) but God. They will refrain from committing fraud out of dread of sinning when they realise Allah will observe their actions.

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