

## The Effect Of Islamic Work Ethic and Islam Corporate Governance On Financial Reporting Quality with Fraud Prevention as Moderating Variable

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Article Info	Abstract
<p><b>Keywords:</b></p> <ul style="list-style-type: none"><li>○ Islamic Work Ethic,</li><li>○ Islam Corporate Governance,</li><li>○ Financial Reporting Quality,</li><li>○ and Fraud Prevention.</li></ul>	<p><b>Purpose</b> – This study aims to obtain empirical evidence on the influence of Islamic Work Ethic, Islam Corporate Governance, on Financial Reporting Quality with Fraud Prevention as variable moderating.</p> <p><b>Design/methodology/approach</b> – The research uses a quantitative method with primary data. The population in this study comprises employees incorporated in islamic financial institutions banks scattered in Bekasi City and in Sampit City. The sampling technique used is random sampling and snowball sampling, resulting in questionnaire data of 60 respondents. The analytical technique used to test the hypothesis is multiple regression analysis using Partial Least Square (PLS).</p> <p><b>Findings</b> – The results of this study indicate that the variables of Islamic Work Ethic and Islam Corporate Governance have a positive and statistically insignificant effect with Fraud Prevention worked out as a moderator which strengthens Islamic Work Ethic and Islam Corporate Governance on Financial Reporting Quality.</p> <p><b>Research limitations/implications</b> – This study examines how the enforcement of ethical accounting based on islamic values and islamic corporate governance in islamic financial institutions can affect the quality of their financial reporting. This study focuses on Islamic financial institutions and uses questionnaire data from 60 respondents.</p>
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## INTRODUCTION

The quality of financial statements is a reflection of whether the financial statements prepared contain actual information and as it is. A financial report can be considered qualified if it fulfills the qualitative requirements of financial statements) (Rahmadieni & Qizam, 2019). However, the opposite is the case, not all business



entities present financial reports properly and in accordance with their actual financial condition (Hisamuddin & Pricilia, 2015).

Financial reporting is defined as the process of recording the company's financial transactions, presenting the company's financial position for an accounting period, and providing an overview of the company's performance during a certain period (Wicaksono et al., 2022). The preparation of financial reports that meet the qualitative characteristics of financial information is able to prepare these financial reports to be useful for decision making. In other words, financial reports will be able to be used as material in decision making and are considered quality if they meet the qualitative characteristics of financial information (Kuraesin & Yadiati, 2021).

Deviated ethics may cause scandals over financial reports that are not true. One of the phenomena that occurred was related to the deviant ethics of financial reporting at PT Indofarma Tbk (INAF). As one of the largest producers of medicines and medical devices in Indonesia, INAF has an important role in providing access to health products for the community. As a public company listed on the stock exchange, INAF has an obligation to maintain transparency, accountability and integrity in its financial management. However, a recently uncovered financial scandal has shaken the foundations of this company. The scandal highlights the failure of effective oversight and corporate governance systems. Despite audit and supervisory mechanisms that should mitigate the risk of fraud, this incident shows that there are still gaps that can be exploited for financial manipulation. Lack of internal control enables company executives to carry out manipulative actions without being detected. The Board of Commissioners, which should act as the main supervisor in the management of the company, is unable to carry out its functions effectively. Lack of transparency in financial management is a major problem in many companies. Low transparency hinders accountability and opens opportunities for practices that are not in accordance with the principles of good corporate governance (kompasiana.com). Improper financial reporting or poor quality of financial statements can lead to a decrease in investor confidence and taint the company's reputation as happened to PT Indofarma Tbk (INAF) which will cause sustainable consequences such as difficulties in making decisions in the future, sanctions from relevant authorities, and also the company's operational activities are likely to be disrupted.

The results of previous research on the Islamic work ethic and financial reporting quality were not consistently the same. According to the research findings of (Koufie et al., 2024), (Yanti, 2019), (Aifuwa, H. O., Embele, K., & Saidu, 2018), (Bhegawati & Ni Nyoman Ari Novarini, 2021), and (Osunwole et al., 2020) showed the code of ethics or accounting ethics has a positive and significant impact. (Raharjo & Dewayanto, 2024) additionally discussed the findings of his research, which showed that corporate governance significantly influences the quality of financial reporting, nevertheless, it is important to note that some other corporate governance mechanisms have characteristics whose roles are inconsistent. Furthermore, there is research by (Wibowo, 2022) which

found that Islamic corporate governance has a positive and significant impact on financial reporting. (Umar et al., 2019) shown that preventing fraud enhances the quality of financial reports. Local financial statements are more affected by fraud prevention. Fraud prevention has a considerable positive impact on the quality of financial statements. The quality of the financial statements increases with the effectiveness of fraud prevention measures. Any attempt to prevent fraud in the banking system will affect the quality of its financial reports, all of which are supported by a good internal control system and good corporate governance (Christinawati & Setiyawati, 2022).

This study uses the moderating variables of Fraud Prevention to address the conflicting results of previous research on the effect of Islamic work ethic and Islam Corporate Governance on the Quality of Financial Reporting. Previous research' results were inconsistent, some of them revealing a significant influence ((Ajibade et al., 2022), (Cahyadi & Kuraesin, 2022), (Kuraesin & Yadiati, 2021), (Kuraesin & Yadiati, 2021)) while (Raharjo & Dewayanto, 2024) shows inconsistencies. This suggests that, in attempt to explain stronger correlations, moderation variables are required. Fraud prevention was chosen because if fraud can be controlled, the quality of the financial statements will be better, which has an impact on the better accountability of the entity (Christinawati & Setiyawati, 2022). Through the addition of fraud prevention as a moderating it will enrich the literature because the topic discussing financial reporting with fraud prevention utilized as a variable that strengthens the relationship.

## LITERATUR REVIEW

### Islamic Worldview

In general, worldview often means philosophy of life or principles of life. Every belief, nation, culture or civilization and even every person has their own worldview. If the worldview is associated with a culture, then the spectrum of meaning and also the term will follow the culture. As a framework or way of seeing, worldview has certain aspects that become the matrix or benchmark of a way of seeing. Naquib al-Attas has determined the basic aspects of the Islamic worldview by limiting them specifically and among them are the concepts of: (1) God, (2) Revelation or al-Qur'an, (3) Creation or Nature, (4) Human Soul, (5) Science, (6) religion, (7) freedom, (8) values and virtues, (9) happiness and many more. From this we can identify that the five important aspects of worldview are the concept of God, the concept of reality, the concept of science, and the concept of ethics or values and virtues and the concept of the human self. (Muslih et al., 2015).

### Sharia Enterprise Theory

Sharia Enterprise Theory (SET) is a development of Sharia Accounting theory. Accounting theory. (Triyuwono, 2015) explains that although Islamic Accounting theory has been developed since 1997. The elements of GCG in Islam are more perfect. It's just that general conventional GCG has differences in terms of who should be responsible, the objectives of its achievement, ownership, and control. The responsibility of management in capitalism's Good Corporate Governance is solely for the welfare of shareholders (Shareholders) only. In contrast to what we encounter in Shariah Enterprise Theory (SET)



or which means God as the center, that the responsibility that must be prioritized first is the responsibility to God. Therefore, stakeholders in Shari'ah Enterprise Theory are said to be broader. Here God is the highest stakeholder that must be fulfilled before humans and nature. Because the rules of law that must be fulfilled come from the rules or laws of God. The second responsibility of the company in Shari'ah Enterprise Theory is to fellow humans. Shariah Enterprise Theory here balances material (masculine) and spiritual (feminine) values. This means that sharia GCG does not merely seek material benefits, but also achieves spiritual values (Pahlevi, 2020).

Corporate governance mechanisms in Islam based on Shariah enterprise theory based on nubuwwah moral more see corporate control as self control carried out by individuals who manage the company itself. Individuals who have a system of life values and belief in God and the end of the day and the day of reckoning, will make a person always control himself and this point of view is found in islamic literature. Thus the concept of Islamic GCG with shariah enterprise theory concept requires complete interaction to regulate a company, both internally and externally to complement sharia awareness mechanisms in corporate governance. The most important Islamic corporate governance is a guide to the formation of behavioral preferences based on the systematic meaning of the unity of organic knowledge with complementary and relational interrelationships (Anwari & Dzikrulloh, 2023).

### Islamic Work Ethic

Based on what (Andriani, 2023) states in her book that Islamic work ethic is defined as a habit based on the Al-Quran and Sunnah based on the advice of the Prophet Muhammad SAW. Islamic work ethic is an ethic that is formed by emulating the attitudes and behavior of the prophet Muhammad SAW and policy makers Business decisions according to generally accepted provisions while still prioritizing al-Hadist and al-Qur'an as the source of all sources of truth.

Work ethics in Islam means carrying out work according to halal and haram rules, if you have adhered to Islamic values and only expect the Ridha Allah SWT, then there is no need to worry. Islamic work ethics rests on akhlakul karimah, such as the attitudes and traits that are often taught by the Prophet Muhammad in his daily life, therefore every work done is always principled minallah, fi sabilillah, ilallah (from Allah, in the way of Allah, and for Allah). He always believes that work is an act of worship, always striving within himself to always improve himself and appear as the best people. Every Muslim who has a high work ethic will always set goals, make work plans, and then evaluate the results of his work (Badriati, 2021). Based on the understanding that has been described, the application of Islamic work ethic is divided into 8 dimensions (Ibrahim & Kamri, 2013) including religiosity, effort, competition, work obligations, quality, collectivity, equality, and advantage.

### Islam Corporate Governance

The term corporate governance arises because of agency theory where management

and company owners are separated or in some other words corporate governance is a system that controls a company. Corporate governance is a basic guideline for an organization or a company in every company development because it is an important role to design and implement the principles of corporate governance. The broad definition of corporate governance is a set of relationships between management, directors, board of commissioners, shareholders and other stakeholders that regulate and direct the company's activities. Every company needs to ensure that the principles of corporate governance are applied to every aspect of the business and at all levels of the company. The principles of corporate governance according to the National Committee on Governance Policy (KNKG), namely transparency, accountability, responsibility, independence and fairness and equality are needed to achieve the sustainability of the company's business by paying attention to stakeholders (Pahlevi, 2020).

Corporate governance in an Islamic perspective or can be termed Islamic corporate governance always links all concepts and behaviors in business governance with transcendental matters and faith. This is a consequence of a Muslim's faith in Allah SWT. So from here we recognize the value of tawhid as the basis for all beliefs, thoughts and behavior of a Muslim, including in understanding corporate governance. One of the principles that is the biggest derivative of the value of tawhid is the principle of justice. Islamic teachings always encourage its ummah to be fair in every matter, both in matters of aqidah, sharia, and morals as a consequence of faith and to achieve the degree of piety. As in the word of Allah SWT in QS. Al-Maidah verse 8 which means, "O you who believe, be you enforcers (truth) for Allah (and) witnesses (who act) fairly. Do not let your hatred of a people encourage you to be unfair. Be just, for that is closer to piety. Fear Allah. Verily, Allah is Exhaustive of what you do." (Pahlevi, 2020). Adopting from previous research (Maysyaroh et al., 2024) there are 6 dimensions in Islamic Corporate Governance, namely transparency (*shiddiq*), accountability (*amanah*), responsibility (*tabligh*), independence (*hurriyah*), fairness (*tawazzun*), and shariah compliance.

## Financial Reporting Quality

Financial reporting can also be defined as the process of recording a company's financial transactions, presenting the company's financial position for an accounting period, and providing an overview of the company's performance during a certain period (Wicaksono et al., 2022). Financial statements are one of a variety of entity financial information ranging from the identification of an event or transaction to the disclosure of financial information and other business information required by users. These users are mainly users outside the company, namely investors and creditors. In order for the purpose of preparing the report to be achieved, namely that it can be used as material in decision making, several institutions, including the IASB, have compiled criteria known as the qualitative characteristics of financial information (Kuraesin & Yadiati, 2021). This means that the preparation of financial statements that meet the qualitative characteristics of financial information can make these financial statements useful for decision making formulated by the IASB, namely relevance, faithful representation, understandability, and





comparability (Abed et al., 2022).

### Fraud Prevention

Fraud is a deviant attitude in any field that can certainly harm all parties and is carried out by the perpetrator on the basis of his own ego without thinking about the impact both short and long term. The existence of fraud prevention implemented in an organization or company is a more effective step to increase awareness and detect fraud signals. Fraud prevention is all efforts to ward off potential perpetrators, narrow the space for movement, and identify activities that are at high risk of fraud (Nengseh et al., 2023). Research (Anggraeni et al., 2021) explained that fraud prevention is a form of effort to restrain and reject all forms of fraudulent acts that can harm both oneself and the company. Along with the opinion of the results of this study (Lestari & Ayu, 2021) explains that fraud prevention is an effort to reduce the triggers for fraud and minimize the opportunities for fraud.

The quality of the financial statements increases with the effectiveness of fraud prevention measures. Any attempt to prevent fraud in the banking system will affect the quality of its financial reports, all of which are supported by a good internal control system and good corporate governance (Christinawati & Setiyawati, 2022). The implementation of fraud prevention in the workplace could provide a solid moral foundation that encourages people to act ethically in everything they do. Behavior that is constantly alert and foresees the most minor suspicious behaves can be used as an example of how fraud protection is implemented in a corporation that has system controls and rules in place to prevent fraud. In the fraud prevention variable, there are 4 dimensions (Lestari & Ayu, 2021) including establishment of anti-fraud policy, standard prevention procedure, control techniques, and sensitivity to fraud.

### Hypothesis Development

#### Islamic Work Ethic on Financial Reporting Quality

Work ethics as a form of value from a person requires deep understanding and experience for overall application, with this it is recommended for humans to uphold honesty, justice, work enthusiasm, creating a sense of peace in the work environment. Unlike work ethics without Islamic values in it, Islamic work ethics is an example of the application of noble and professional morals that have been taught to humans since the time of the prophet where its application is listed in the holy book of the Qur'an. These opinions and theories are supported by research by (Aifuwa, H. O., Embele, K., & Saidu, 2018) accounting ethics practices have a significant relationship with the quality of financial reporting. This study recommends that accountants must uphold high ethical standards and further research should be conducted to determine the effect of religiosity on the quality of financial reporting.

H<sub>1</sub>: Islamic Work Ethic has a positive effect on Financial Reporting Quality.

## Islam Corporate Governance on Financial Reporting Quality

Corporate governance in an Islamic perspective or can be termed Islamic corporate governance always links all concepts and behaviors in business governance with transcendental matters and faith. This is a consequence of a Muslim's faith in Allah SWT. So from here we recognize the value of tawhid as the basis for all beliefs, thoughts and behavior of a Muslim, including in understanding corporate governance. The implementation of the principles of Good Corporate Governance is a must for an institution, including sharia institutions. This is more aimed at public accountability related to operational activities. The operation of this institution is inseparable from the demands for the implementation of good corporate governance and based on sharia principles referred to as Islamic Corporate Governance (Pahlevi, 2020). This opinion theory is supported by the results of research by (Ajibade et al., 2022) that the existence of Corporate Governance has a significant effect on trusted representations of Financial Reporting Quality.

H<sub>2</sub>: Islam Corporate Governance has a positive effect on Financial Reporting Quality.

## Fraud Prevention moderates Islamic Work Ethic on Financial Reporting Quality.

Technically, disclosure is the final step in the accounting process which is the presentation in the form of a full set of financial statements. Disclosure means providing information in financial statements, including the report itself, notes to the report, and additional disclosures related to the report. The report in finance is a document that must be able to provide complete information regarding the development of the company (Wicaksono et al., 2022). Financial reporting also has a function for accountability and is a tool to increase company value. In general, quality financial reporting that is free from fraud will result in more informed economic decisions for users (Kaplan et al., 2010). This is in line with the research of (Koufie et al., 2024) which states that the practice of accounting ethics has a positive and significant effect on the quality of financial reporting. This means that the implementation of strict fraud prevention can support a person to prevent violations of work ethics values in himself which affect the quality of financial reporting. It can be concluded that fraud prevention strengthens the relationship between Islamic work ethic and financial reporting quality.

H<sub>3</sub>: Fraud Prevention moderates Islamic Work Ethic on Financial Reporting Quality.

## Fraud Prevention moderates Islam Corporate Governance on Financial Reporting Quality.

Through the characteristics of the board of directors used to explain how good corporate governance plays a role in corporate financial reporting. The presence of supervisory board members with overseas experience can shorten financial reporting time and can improve the quality of financial reporting. For supervisory board members to be classified as international experts, they must be foreigners who have overseas business experience of the company or citizens who have at least five years of work experience in overseas foreign companies. Although, in his research there are several mechanisms such as company share ownership, audit committees, and public



accounting firms that are positively and negatively correlated with financial reporting quality (Dobija & Puławska, 2022). This is in line with the research of (Ajibade et al., 2022) which states that corporate governance has a significant effect on honest representation of financial reporting quality. The results of research by (Umar et al., 2019) show that fraud prevention has a positive effect on the quality of financial statements. It can be interpreted that the implementation of fraud prevention will strengthen the relationship between Islamic corporate governance and the quality of financial reporting..

H<sub>4</sub>: Fraud Prevention moderates Islam Corporate Governance on Financial Reporting Quality.

## RESEARCH METHOD

The study utilizes hypothesis testing, namely to determine the effect between the independent variables of Islamic work ethic and Islamic corporate governance on the dependent variable, namely the quality of financial reporting and fraud prevention as a moderating variable. The type of investigation used in this research is a correlational study to find important variables related to the problem or identify important factors related to the problem, correlational studies are always conducted in unplanned situations (Sekaran, 2009). For the level of intervention, researchers use minimal intervention. The source of the data contained in this research is primary data where the data is obtained not through intermediaries but directly from the source. In other words, respondents will be the direct source of the research (Yanti, 2019).

**Table 1. Operational Variable Definition**

Dependent Variable		
Variable	Dimension	Indicator
	Relevance	a. The annual report reveals forward-looking information about the Financial Institution.. b. he bank uses fair value and not historical precedent. c. The cost of preparing financial statements. d. Transparent statements help develop user expectations and predictions regarding the future of Islamic Financial Institutions. e. The presence of non-financial information regarding business opportunities and risks complements financial information.
	Faithful Representations	a. The annual report highlights both positive and negative events in a balanced manner while discussing the annual results.



<b>Financial Reporting Quality</b>  Abed, I.A.; Hussin, N.; Haddad, H.; Almubaydeen, T.H.; Ali, M.A (2022)		b. The principles of accounting are strictly followed in our Sharia Financial Institution. c. This annual report broadly discloses information regarding corporate governance issues. d. This annual report broadly discloses information regarding corporate governance issues e. The annual report explains accounting choices.
	Understandibility	a. To what extent is the annual report well-prepared b. The notes to the financial statements are clear. c. The use of language and technical jargon is easy to follow in the annual report. d. The use of language and technical jargon is easy to follow in the annual report. e. he use of graphs and tables in financial reports enhances the quality of financial reporting.
	Comparability	a. The notes on the revision of estimates and accounting considerations explain the implications of the revision. b. The results of the current accounting period are compared with the results of the previous accounting period. c. The information in the annual report is comparable to the information provided by other organizations. d. The annual report presents financial index figures and ratios. e. Industry comparison improves the quality of financial reporting.
<b>Independent Variable</b>		
<b>Islamic Work Ethic (IWE)</b>  Ibrahim et al., (2014).	Religiousity	a. Facilities for worship b. The product meets the requirements of Sharia. c. Avoiding usury d. Knowledge of Islamic financial institution e. The intention to work and working itself is an act of worship to God. f. Working is one form of worship to God.
		a. Effort in achieving good results



	Effort	<ul style="list-style-type: none"> <li>b. Avoiding laziness</li> <li>c. Work ability</li> <li>d. Overcoming work obstacles</li> <li>e. Various kinds of obstacles</li> <li>f. Progress in work</li> <li>g. Meeting responsibilities</li> </ul>
	Competition	<ul style="list-style-type: none"> <li>a. Improving work quality</li> <li>b. Fair competition</li> <li>c. Justifying any means</li> </ul>
	Work Obligations	<ul style="list-style-type: none"> <li>a. Providing the best service</li> <li>b. Honesty</li> <li>c. Not revealing secrets</li> <li>d. Arrive on time</li> <li>e. Completing tasks on time</li> <li>f. Working sincerely</li> <li>g. Having integrity</li> <li>h. Conducting transparency</li> <li>i. Anti usury</li> </ul>
	Quality	<ul style="list-style-type: none"> <li>a. Be careful in work</li> <li>b. Creative</li> <li>c. Professional</li> <li>d. Not Clumsy</li> </ul>
	Collectivity	<ul style="list-style-type: none"> <li>a. Success in a collective is more important.</li> <li>b. Helping a coworker</li> <li>c. Cooperation</li> <li>d. Teamwork to form a collective.</li> <li>e. Having a good relationship with colleagues</li> <li>f. Contributing</li> </ul>
	Equality	<ul style="list-style-type: none"> <li>a. Respecting customers</li> <li>b. Treating customers fairly</li> <li>c. Treating employees fairly</li> <li>d. Humble in work</li> </ul>
	Advantage	<ul style="list-style-type: none"> <li>a. Consideration of matters</li> <li>b. Providing benefits</li> <li>c. Contributing to society</li> <li>d. Developing oneself</li> <li>e. Improvement of social relationships</li> <li>f. Working hard</li> <li>g. Benefits of working</li> <li>h. Independent in working</li> </ul>
Islamic Corporate	Transparency (Shiddiq)	<ul style="list-style-type: none"> <li>a. Islamic financial institutions have easy access to service information.</li> <li>b. The delivery of information about sharia financial institution services is quite clear.</li> </ul>

<p><b>Governance (ICG)</b></p> <p><b>Maysyaroh et al., (2024)</b></p>		c. Timely and adequate delivery of information on Sharia financial institution services
	Accountability (Amanah)	<p>a. The delivery of information about Sharia financial institution services is quite accurate.</p> <p>b. Complete information on Sharia financial institution services.</p> <p>c. The policies of Islamic financial institutions are communicated to the public.</p> <p>d. The policies of Islamic financial institutions are consistent and in accordance with the applicable regulations.</p>
	Responsibility (Tabligh)	<p>a. Islamic financial institutions comply with the applicable laws and regulations.</p> <p>b. Islamic financial institutions care about society and the environment.</p> <p>c. Islamic financial institutions are responsible for the services provided to customers.</p>
	Independence (Hurriyah)	<p>a. Sharia financial institutions protect all customer interests.</p> <p>b. Sharia financial institutions are always objective in making decisions.</p>
	Fairness (Tawazun)	<p>a. All customer interests are treated equally.</p> <p>b. Islamic financial institutions provide an opportunity to give feedback or criticism (complaints).</p> <p>c. Islamic financial institutions follow up on customer complaints.</p>
	Shariah Compliance	<p>a. There is no usury, uncertainty, and gambling in transactions of Islamic financial institutions.</p> <p>b. Sharia financial institutions conduct business based on halal profits.</p> <p>c. Sharia financial institutions carry out the mandate entrusted by their customers.</p> <p>d. DPS plays an effective role in supervising the products/services of Islamic financial institutions.</p> <p>e. Sharia financial institutions manage zakat, infaq, and shadaqah with trust.</p>
<b>Moderating Variable</b>		
		a. The company has established an anti-fraud policy.



<b>Fraud Prevention</b>  <b>Melindawati et al (2023)</b>	Establishment of Anti-Fraud Policy	b. The existence of a commitment between management and the company's employees to carry out anti-fraud activities.
	Standard Prevention Procedure	a. With the separation of internal control functions, conditions for mutual checks between functions can be created. b. The computer system is adequate for financial reviews. c. The existence of procedures to automatically detect fraud in the system.
	Control Techniques	a. The company provides a clear division of tasks. b. The company implements computer controls for those who have access to computers. c. The company implements a control manual for the files used in computer processing.
	Sensitivity to Fraud	a. The company has qualifications for prospective employees that require special attention. b. Every employee is always reminded and encouraged to report any suspicious transactions/activities of other employees. c. Employees are not allowed to work overtime without adequate supervision. d. Employees are required to take annual leave.

### Population and Sample

Uma Sekaran & Roger Bougie, (2013) state that population is the whole object or individual that has one or more characteristics studied. With this understanding, it is known that the population used in this study are employees who are members of Islamic financial institutions banks spread across Bekasi City and its surroundings. Sample is a representative part of the population. A sample consists of a few members selected from the population. In other words, some, but certainly not all, elements of the population will form the sample (Sekaran, 2006). In this study, simple random sampling and snowball sampling were used. The method of sampling with this simple random sampling technique is to give a different number to each member of the population, then select a sample using random numbers. Snowball sampling is a sampling technique that is initially small and gradually increases in size like a snowball rolling, it will get bigger and has a limit or quota for the number of subjects. This method is a sample method obtained by rolling from one respondent to another. In general, this method is used to explain the social or communication patterns of a particular community, because it underrepresents

independent opinions and overrepresents groups or viewpoints, the sample may be biased. The criteria applied by the authors to determine the sample were employees belonging to Islamic financial institutions banks throughout Bekasi City and its surroundings, resulting in questionnaire data of 60 respondents. Although still comparatively small, it is suggested that future researchers use a bigger number of respondents to conduct research on similar topics.

## Analysis Method

This study uses the Partial Least Square (PLS) approach for data analysis. Compared to other structural equation modelling (SEM) approaches, PLS is a method for solving SEM that is more suitable for this study. Because it is not predicated on numerous assumptions, such that data must be normally distributed and that there are no issues with multicollinearity among dependent variables, (Ghozali, 2016) contents that PLS is a potent analytical technique that is frequently referred to as "soft modelling." PLS is useful for verifying ideas and explaining whether there are correlations between latent variables (prediction).

## RESULTS

### Respondent Demographics

This researcher in 4 Islamic financial institutions were selected as samples for this study. With 24 male and 35 female respondents, the majority of respondents were between the ages of 20 and 25. Of them, 58 had a bachelor's degree and 1 had a master's degree. The respondents' position levels include employees and managers, the majority of whom have between 1 and 10 years of work experience in their current positions. The employee and manager categories are further divided into operations, sales, marketing, business development, finance, information systems, retail banking, and digital banking into job function categories.

### Convergent Validity, Discriminant Validity and Reliability Testing

The measurement model is a measurement to assess the validity and reliability of the model. The R<sup>2</sup> value, a prediction model accuracy parameter, is one of the measurement model parameters (convergent validity, discriminant validity, composite reliability, and Cronbach's alpha) that are obtained through the algorithm iteration process (Abdillah & Jogiyanto, 2015). The outer model meets the convergent validity criteria for reflective constructs, that outer loading > 0.7, and average variance extracted (AVE) > 0.5, so the items on these variables are considered to meet sufficient convergent validity criteria (Hair, J. F., C. et al., 2011). Convergent validity results with loading factors are obtained in accordance with the table's results; all indicator loading factors yield values greater than 0.7, indicating their validity. In addition, it was found that the AVE value of each variable had a value of more than 0.5. Thus, it can be concluded that the data satisfy the requirements for convergent validity. According to the table's findings, every item has the highest correlation value with the other constructs. In addition, based on the discriminant validity table with the Fornell Larcker criterion, the AVE square root of each variable is more than the correlation between the two variables in the model. Thus, it can be said that the variables in





this study satisfy the requirements for discriminant validity. Cronbach's alpha and composite reliability are the two methods used for reliability testing in PLS, the reliability test is reinforced by the anticipated cronbach's alpha value of 0.7 for each indicator (Abdillah & Jogiyo, 2015). The reliability test results also demonstrate that every variable in this study has cronbach's alpha and composite reliability values, each of which is more than 0.7, indicating that they have satisfied the reliability test requirements.

### The Hypothesis Test

The bootstrapping calculation's output will yield each path's statistical t value, which is then set at a significance level of 0.05. The hypothesis can be accepted if the original sample value is in line with the hypothesis. The results of the calculation using the direct effect of the independent variable on the dependent variable and the moderating variable are obtained as follows:

Path Structure	Hypothesis	Direction	Original Sample (O)	T Statistic	P Values	Result
IWE -> KPK	H1	+	0,078	0,747	0,456	Hypothesis Rejected
ICG -> KPK	H2	+	0,122	0,654	0,514	Hypothesis Rejected
FP*IWE -> KPK	H3	+	0,359	3,055	0,002*	Hypothesis Accepted
FP*ICG -> KPK	H4	+	-0,408	3,049	0,002*	Hypothesis Accepted

Significance level \*0.05

Source: SmartPLS Data Processing Results

Caption: IWE = Islamic Work Ethic; ICG = Islam Corporate Governance; KPK = Financial Reporting Quality; FP = Fraud Prevention

### Explanatory

The results of hypothesis testing the effect of islamic work ethic on financial reporting quality obtained original sample results of 0.078 and p-value of 0.456, meaning that the significance of  $0.456 > 0.05$ , then  $H_1$  is rejected. Hypothesis testing of the effect of islamic corporate governance on financial reporting quality, the original sample result is 0.122 and the p-value is 0.514, meaning that the significance of  $0.514 > 0.05$ , then  $H_2$  is rejected. Test the hypothesis of the effect of islamic work ethic \* fraud prevention on financial reporting quality, the original sample result is 0.359, and the p-value is 0.002, meaning that the significance of  $0.002 < 0.05$ , then  $H_3$  is accepted. Test the hypothesis of the effect of islam corporate governance \* fraud prevention on financial reporting quality, the original sample result is 0.359, and the p-value is 0.002, meaning that the significance of  $0.002 < 0.05$ , then  $H_3$  is accepted.

### DISCUSSIONS

Islamic Work Ethic has a positive and insignificant effect on Financial Reporting Quality

According to (Aifuwa, H. O., Embele, K., & Saidu, 2018) all professional accountants are required by the principle of objectivity to avoid compromising their professional or business judgment because of bias, conflicts of interest, or undue influence from other parties that could override it. As His words in QS. Al-Baqarah (2): 82 which means: *"And those who believe and do good deeds, they are the dwellers of Paradise. They are eternal therein."*. Things that may be insignificant include the employees' lack of professional skills in relation to the Islamic financial institutions. Based on the results of the questionnaire, this inadequacy includes products, salaries, and adequate knowledge of islamic financial institutions. As described by (Aifuwa, H. O., Embele, K., & Saidu, 2018) a professional individual (accountant) has a continuing obligation to maintain professional knowledge and skills at the level necessary to ensure that clients or employers receive competent professional services based on the latest developments in practice, legislation and techniques. However, if other elements such as professional skills that reflect the quality of an individual's work do not meet the standards, the application of Islamic work ethic has an insignificant effect on the quality of financial reporting.

Islam Corporate Governance has a positive and insignificant effect on Financial Reporting Quality

Gardi et al., (2023) stated that encouraging transparency and comparability in financial reporting can be facilitated by ensuring the independence of the audit committee, which has been shown to be positively related to the implementation of strict financial reporting practices. The quality of financial statements is measured by the reliability and accuracy of the company's financial data. These metrics reflect how well the financial statements reflect the economic reality of the company and provide useful information for stakeholders in decision-making. While the results of this study are in line with the results of research by (Hasan et al., 2022) which reveals that the independence of the audit committee does not have an important role on the quality of financial reporting in companies in the UK. According to his findings, in some cases islam corporate governance has a positive and insignificant effect on the quality of financial reporting.

Fraud Prevention moderates the relationship of Islamic Work Ethic on Financial Reporting Quality

The establishment of work ethics allows individuals to create and maintain professional attitudes and behaviors as individuals, thus, the quality of financial reporting produced is valid. Supported by system controls and policies aimed at preventing fraudulent acts in a company, behavior that is always vigilant and anticipates suspicious behavior can provide a strong moral framework for individuals to adhere to ethical principles in all actions. Fraud prevention serves as a moderating variable, strengthening the link between islamic work ethic and financial reporting quality. This means that upholding work ethic and islamic values, combined with strict fraud prevention measures, can result in a professional financial reporting process. When a person values work ethics and fully understands the significance of islamic values in its application, they will act responsibly for his or her company. Furthermore, implementing fraud prevention measures such as strict policies, strict system control or control within the company, and a high



sensitivity to fraud will discourage individuals from engaging in fraudulent behavior, which can lower the quality of financial reporting.

## Fraud Prevention moderates the relationship of Islam Corporate Governance on Financial Reporting Quality

Management is obliged to implement elements of good corporate governance with the aim of maintaining operations and reputation. With the implementation of fraud prevention where policies and control systems in the company are getting tighter, it can be ensured that management is unable to commit fraudulent acts that can harm both the company and the client. Because, in essence, professional Islamic corporate governance entails transparency of all company performance to interested parties, accountability for all behavior as company management, impartiality toward any party, and the implementation of Sharia policies that can perfect governance with Islamic values due to a sense of responsibility to Allah SWT as creator. As discussed earlier, system policies aimed at preventing fraud can increase the level of transparency of financial statements, and the accountability of management towards the company's financial statements, which in turn can maintain the quality of financial statements.

## CONCLUSIONS

(1) Islamic work ethic has a positive and statistically insignificant effect on the quality of financial reporting (2) Islam corporate governance has a positive and statistically insignificant effect on the quality of financial reporting (3) Fraud prevention strengthens the relationship between islamic work ethic and financial reporting quality, this means that the more fraud prevention measures are implemented, the stronger the application of Islamic work ethic values will be, optimizing one's performance and improving the quality of financial reporting in the company. (4) Fraud prevention strengthens the relationship between islam corporate governance and financial reporting quality, this means the tighter the policy and control system for fraud prevention, the more professional the company's governance will be.

## Theoretical Implications

The results of this study are expected to contribute to the academic literature and be used to create a more comprehensive theoretical model for understanding similar problems. This study, which discusses how accounting ethics and corporate governance influence financial reporting in islamic financial institutions, is expected to boost transparency and trust in these institutions. This study can be used to test the independent variables of Islamic work ethic and Islamic corporate governance, the dependent variable of financial reporting quality, and fraud prevention as a moderating variable on employees who work for Islamic financial institutions in Bekasi City and surrounding areas.

## Managerial Implications

This research produces findings that are useful for universities and companies where employees who are members of Islamic financial institutions banks scattered in Bekasi City and its surroundings to provide strengthened understanding of the code of ethics and Islamic values in everyday life as an employee, strengthening understanding and

implementing policies on good corporate governance, and strengthening control and alert behavior towards fraud so that there is not the slightest gap to prepare or maintain quality financial reporting. With the implementation of these things, it is able to create information on quality financial statements with a transparent, accountable and objective reporting process. Maintain and even improve an attitude of integrity as individuals who participate in all activities and contribute to the long-term growth of the organization or company.

## Policy Implications

The findings of this research can assist the authority or government in producing and obtaining information results on a company in the form of professional financial statements that are reliable, relevant, understandable, and comparable by developing educational programs to improve education, training, and awareness that strengthen a deep understanding of the importance of work ethics with Islamic values. The government or regulator may also establish company regulations requiring the presence of places of worship in the workplace, allowing the government to demonstrate its commitment to religious values in daily life at work. The government as a regulator needs to carry out a review of policies and controls in corporate governance given the rampant cases of a company's fraud in providing information in the form of financial reports that describe the actual condition of the company, especially for company management and employees so that financial reporting is carried out professionally. The government can also issue company standards to tighten the control system and policies that are aware of fraudulent behavior, ensuring that financial reporting produces objective and relevant information.

## Limitations

The research's limitation is that all research variables, namely Islamic work ethic and Islamic corporate governance variables as independent variables, financial reporting quality as the dependent variable, and fraud prevention as a moderating variable, are measured using a questionnaire, yielding data that represents the respondents' perceptions. Respondents were obtained via WhatsApp and Islamic financial institutions banks, so the questionnaires obtained were not given detailed instructions for filling them out. As a result, there is a possibility of respondent subjectivity to the questions asked, as well as delays in receiving confirmation from respondents. Also, The data collected may be biased as a result of the sampling method used.

## Suggestions

Future researchers are encouraged to conduct additional research because there is still a lack of research on the concept of the correlation of Islamic work ethic and Islamic corporate governance, so that research is not only useful for enriching academic literature but also serves as a foundation for developing ethical business practices in terms of Islamic economics and commerce. Furthermore, future researchers can use a variety of research objects, focus on a specific type of agency, and employ a wider range of respondent criteria. Based on the study's limitations, future researchers are encouraged to include additional moderating variables, such as examples of organizational culture or leadership. Future researchers who wish to use fraud prevention as an assessment variable should employ specific measures such as anti-fraud policies and enhanced training for staff in Islamic



financial institutions. Future researchers are encouraged to conduct additional research because there is still a lack of research on the concept of the correlation of Islamic work ethic and Islamic corporate governance, so that research is not only useful for enriching academic literature but also serves as a foundation for developing ethical business practices in terms of Islamic economics and commerce. Furthermore, future researchers can use a variety of research objects, focus on a specific type of agency, and employ a wider range of respondent criteria. Based on the study's limitations, future researchers are encouraged to include additional moderating variables, such as examples of organizational culture or leadership. Future researchers who wish to use fraud prevention as an assessment variable should employ specific measures such as anti-fraud policies and enhanced training for staff in Islamic financial institutions.

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