“The effect of political will, information technology, and the quality of financial reporting information on fraud prevention”

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THE EFFECT OF POLITICAL WILL, INFORMATION TECHNOLOGY, AND THE QUALITY OF FINANCIAL REPORTING INFORMATION ON FRAUD PREVENTION

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Abstract

This study aims to analyze the effect of political will and information technology on fraud prevention either directly or through the quality of financial reporting information. This study uses a survey method that intentionally targets five village officials responsible for village financial administration. The survey was conducted in Pangkep Regency, South Sulawesi Province, Indonesia. Data collection was carried out using a questionnaire with a total research sample of 325 respondents. Data analysis was conducted using partial least squares structural equation modeling with the help of the SmartPls 4.0 application. The results showed that political will had a positive and significant effect on fraud prevention ($\beta = 0.198$; t-value $= 3.230 > 1.97$) but had no effect on the quality of financial reporting information ($\beta = 0.053$; t-value $= 0.696 < 1.97$). Information technology had a significant negative effect on fraud prevention ($\beta = -0.198$; t-value $= 3.019 > 1.97$) and a significant positive effect on the quality of financial reporting information ($\beta = 0.186$; t-value $= 2.863 > 1.97$). Fraud prevention has a positive and significant effect on the quality of financial reporting information ($\beta = 0.161$; t-value $= 2.598 > 1.97$). Political will has no significant effect on fraud prevention through the quality of financial reporting information ($\beta = 0.009$; t-value $= 0.628 < 1.97$), while information technology has a positive and significant effect on fraud prevention through the quality of financial reporting information ($\beta = 0.029$; t-value $= 2.093 > 1.97$).

Keywords political will, information technology, financial reporting quality, fraud prevention, village governments

JEL Classification H72, M41, M48, K42

INTRODUCTION

Fraud is an existing threat to effective resource utilization, usually carried out by a person or group of people to gain personal or group benefits. In an entity, no one is completely free from the possibility of fraud. Not seeing the perpetrator in terms of position, both staff and leaders, can result in fraud. Fraud has caused many losses in the government sector, especially for the community. Bribery, abuse of authority, embezzlement of state assets, and extortion are forms of fraud that occur in the public sector. This is evidenced by corruption cases with various forms of irregularities in the government sector. This deviation is detrimental to state finances, which is very large, so the community is disadvantaged. These deviations occur at the village government level, especially regarding the management of village funds.

The opportunity for fraud in the allocation of village funds by certain parties is massive, especially for parties trusted by the community. Of course, fraud prevention actions are needed to prevent things that harm the state and society from fraudulent practices. Various variables can affect fraud prevention. In this study, the influencing factor is the development of information technology, which is believed to assist the government in carrying out its daily operations and make performance even better. Apart from information technology, another factor that is no less important in fraud prevention is accounting reporting. Accounting reporting is an essential component of creating organizational accountability. On the other hand, political support also affects fraud prevention. Organizational efforts in seeking legitimacy are not free from the influence of political factors that control the environment in which the organization is located. This confirms the importance of political factors in creating good public organizations because they can encourage the implementation of good financial reporting transparency.

1. LITERATURE REVIEW

In Indonesia, both central and local governments need responsible financial management to facilitate effective and efficient resource allocation (Indonesia's Law, 2022). Village governance, in particular, plays a pivotal role in executing these principles at the local level. Nonetheless, several problems persist in achieving effective financial management for village governments to enhance local community services (Ginting et al., 2023). Despite the fact that the Pangkep Regency received a favorable evaluation from The Audit Board of Indonesia (BPK) in the financial audit for 2020–2021, this presents a number of challenges. They include the public's perception of the credibility of the information in the village government financial reports and the accountability for the quality of these financial report disclosures.

Although there is robust political will shown by the government's dedication to enforcing anti-fraud measures, it is imperative to improve e-government systems to reduce instances of fraud. The establishment of a dependable information system relies on the assistance of information technology (IT) applications that uphold the system, guaranteeing its transparent and accountable operation (Sofyani et al., 2020). For example, information technology can improve communication between organizational units and project teams (Corsi et al., 2017), oversee and evaluate employee work activities, facilitate management control and monitoring objectives (Liew, 2019), and diminish opportunities for fraud. The integration of IT in financial reporting and related tasks may be conducted online, facilitating verification and monitoring. Furthermore, information technology enables the establishment of secure and anonymous whistleblowing platforms, which encourages the reporting of fraudulent activities by both the public and employees without concern for negative repercussions. The Policy Institution for Procurement of Government Goods and Services (LKPP) in Indonesia has implemented the incorporation of information technology into the e-procurement system, which has resulted in the meticulous monitoring of procurement phases. Consequently, the likelihood of collusion and fraud has been reduced.

Political will is the determination of government leaders and policymakers to fix problems. Political will helps create and enforce financial reporting standards that encourage transparency, accountability, and honesty (Siddiquee, 2010). The determination of political will is crucial in the development and implementation of accounting standards. The phrase "politicization of accounting," as defined by Solomon, refers to the inherent involvement of political concerns in the formulation of accounting standards for financial reporting (Collier, 2006). Robust political will guarantees that accounting rules are not only meticulously defined but also efficiently enforced, therefore diminishing prospects for financial misreporting and fraud. Consequently, the rules governing the compilation of high-quality financial reports are profoundly affected by the political will or procedures of a government. Political considerations have been demonstrated to influence both the quality of financial reporting and the performance of an organization (Haliah, 2021; Imran et al., 2014). In order to establish an environment that is conducive to the success of fraud prevention measures, political leaders must be committed to upholding transparency, accountability, integrity, and governance (Maulidi & Ansell, 2021).

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Political leaders who are deeply dedicated to safeguarding citizens from misconduct are more likely to incorporate non-compensatory regulations into their decision-making processes. This is in accordance with the results of Ahmed et al. (2013) and Christensen et al. (2015), who have shown that regulators believe that the implementation of accounting standards has the potential to reduce the risk of fraud by improving transparency, enhancing the comparability of financial statements, and increasing the quality of financial reporting information.

According to Child (1988), the term "information technology" refers to a wide category encompassing technologies, systems, and instruments used to manage, process, and store information. IT is a term that is used in the context of financial reporting to refer to the exploitation of computer systems, software, and networks for the purpose of collecting, storing, and analyzing financial data. This makes compiling and distributing financial reports easier (Ariyanto et al., 2022; Monteiro & Cepêda, 2021). The utilization of information technology (IT) enables the compilation of periodic financial reports with minimal delays, ensuring that stakeholders receive the most current information (Barrane et al., 2021). According to Trigo et al. (2014), information technology simplifies the administration and reporting of real-time data. Information technology simplifies accounting and financial reporting automation, thereby reducing human error and improving data accuracy (Spilnyk et al., 2020). It also ensures that the data are accurate and dependable, which enhances the credibility of financial reports (Roszkowska, 2021). The Regional Government Financial Reports (LKPD) of Indonesian local governments rely on information technology to be open and accountable (Atiningsih, 2020). This is what happened because the LKPD is in charge of IT. The rapid compilation and presentation of this report, which outperforms manual approaches in terms of efficiency, allows for the supervision and confirmation of changes in financial data. The use of information technology significantly influences the quality of financial reporting information in local government (Setiyawati & Doktoralina, 2019). Consistent with those findings, Thoa and Nhi (2022) determined that the accessibility and efficacy of hardware devices, software, and communication networks greatly elucidate the extent of diversity in the quality of financial accounting information.

Moreover, IT lets one monitor real-time transactions (Ariyaluran Habeeb et al., 2022). Modern information systems include transaction monitoring systems and risk management tools that may spot unusual behavior (Taherdoost, 2021). For example, data analytics in IT enables companies to spot trends and abnormalities suggesting fraud. However, the usage of IT, including electronic access control and document management systems, also assists in stopping illegal access and data tampering. Using IT in e-purchasing greatly improves efficiency in the procurement of government goods and services in the framework of Indonesian local government and helps to lower and stop fraud. Akartuna et al. (2022) propose three criteria to support affordable, user-friendly, and creative ideas that will enhance the detection of money laundering and prevent it from becoming mainstream, particularly in the context of money laundering false activities. These criteria include automated transaction monitoring, advanced analytics, and improved regulatory compliance. This is consistent with Yasaka (2020), who stated that the systematic administration of technology, data, and information is significantly beneficial in the prevention of money laundering.

The caliber of financial reporting information is essential for fraud prevention. The qualitative features of financial reporting information include relevance, timeliness, comparability, verifiability, faithful representation, understandability, and transparency as provided in financial statements (Chen, 2012). Accurate information enables stakeholders to make informed decisions and mitigates the likelihood of fraud. Accurate and transparent financial accounts may reveal abnormalities or atypical patterns indicative of fraudulent operations (Ahmed et al., 2016; Lokanan, 2019). Moreover, prompt financial reporting guarantees that the information used in decision-making is up-to-date, hence diminishing the chances for fraudsters to exploit system vulnerabilities (Rustiarini et al., 2019). The quality of financial reporting information is essential for public authorities to mitigate fraud and improve the integrity of the public sector financial management system.

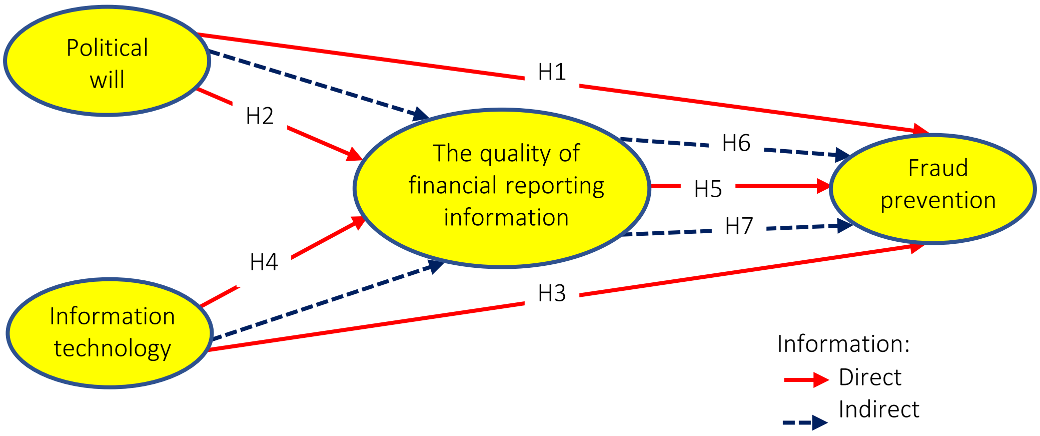

Figure 1. Theoretical model

Based on the literature review, the hypotheses (Figure 1) include:

H1: Political will positively influences fraud prevention.

H2: Political will positively influences the quality of financial reporting information.

H3: IT positively influences fraud prevention.

H4: IT positively influences the quality of financial reporting information.

H5: The quality of financial reporting information positively influences fraud prevention.

H6: The relationship between political will and fraud prevention is mediated by the quality of financial reporting information.

H7: The relationship between IT and fraud prevention is mediated by the quality of financial reporting information.

2. METHODS

The study uses a survey method that deliberately targets five village officials who are responsible for the administration of village finances. The survey is conducted in the Pangkep Regency region of South Sulawesi Province, Indonesia. These officials are representatives of the governments of each village. The research project used the aid of the administration of the regency to disseminate a total of 325 questionnaires via email and WhatsApp. A valid sample of 262 questionnaires was obtained after the screening of incomplete or non-qualifying responses, which corresponds to an 81% response rate. The research instrument was partitioned into two components. The initial phase aimed to collect fundamental demographic data regarding the respondents, such as their gender, age, education level, and duration of public service. The second section is intended to evaluate the primary constructs: political will, information technology, the integrity of financial reporting information, and fraud prevention.

This inquiry used variance-based structural equation modeling (VB-SEM) for data analysis and hypothesis testing. VB-SEM, often known as PLS-SEM, is a methodology celebrated for its versatility and capacity to tackle practical data issues such as skewness, missing data, and noise. Additionally, this approach is advantageous for investigating mediation effects and can be implemented with a variety of sample sizes, including both small and large examples. This study employs Smart PLS 4.0 software to further validate mediation effects, including the direct effect of each construct, by incorporating the PLS algorithm testing and a bootstrapping method with 5,000 sub-samples. Hair et al. (2019) establish guidelines for the interpretation of the findings, which are divided into two phases. The initial phase evaluates the measurement model of each construct to guarantee its accuracy and relevance to theoretical concepts. The second phase verifies the hypotheses' validity

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by initially assessing the structural model, which includes PLS-predict values, R-square, and effect size, to guarantee that the model has substantial explanatory power and predictive relevance (Hair et al., 2019).

3. RESULTS

Table 1 displays the findings of the typical technique bias analysis. This paper used randomized questions and anonymous replies to mitigate typical technique bias and improve data reliability, hence preventing order effects (Kock et al., 2021). This study assessed the likelihood of multicollinearity using the variance inflation factor (VIF), where values over 5 signify multicollinearity (Hair et al., 2019). The findings indicate that all VIF values are under the threshold, concluding that multicollinearity is not violated. Furthermore, to get minimum common method variance, the unmeasured latent common method factor (ULCMF) methodology is used as a confirmatory factor analysis supporting the four-factor model. The results show that the values for the four-factor model (χ/df = 2.500, CFI = 0.950, TLI = 0.940, RMSEA = 0.050) are higher than those for the one-factor model ($\Delta\chi^2$ = 411.200, Δdf = 9, p < 0.001). Compared to the ULCMF model, which shows only slight differences ($\Delta\chi^2$/df = 0.40, ΔCFI = 0.02, ΔTLI = 0.02, and ΔRMSEA = 0.005), this indicates the robustness of the measurements against common method bias.

Table 1. Analysis of common method bias

Model	x²	df	CFI	TLI	RMSEA
Single-factor model	811.200	169	0.800	0.780	0.090
Five-factor model	400.000	160	0.950	0.940	0.050
ULCMF	283.500	135	0.930	0.920	0.045

The reliability and validity of the measurement model utilized in this investigation were assessed. Initially, the reliability of indicators is substantiated by the fact that all items within the four variables have a factor loading greater than 0.7 (Sarstedt et al., 2017). Secondly, the Cronbach's alpha (α) values for all variables exceed 0.8, which is in accordance with the recommended threshold of 0.7. Furthermore, the composite reliability (CR) values for all variables exceed the minimum standard criterion of 0.5, as they exceed 0.8, suggesting that the scale's construct reliability is exceptional (Hair et al., 2019). Third, the indicator variables are capable of accurately reflecting their latent variables, as evidenced by the fact that the average variance extracted (AVE) for all variables exceeds 0.6. This supports the convergent validity of the construct measurements and illustrates excellent reliability and validity (Hair et al., 2019).

The discriminant validity of the variables was also assessed in this study, as illustrated in Table 2. The squared inter-construct correlation for the same construct, as well as all other reflective measures within the model, was compared to the AVE of each construct. The AVE of all model configurations should not be exceeded by the shared variance. The discriminant validity of the scale employed was demonstrated by the fact that all heterotrait-monotrait ratio (HTMT) correlations were below the threshold of 0.85.

Table 2. Discriminant validity

Construct	PW	IT	FRQ	FP
PW	0.833	0.564	0.611	0.719
IT	0.627	0.841	0.647	0.736
FRQ	0.639	0.639	0.793	0.690
FP	0.572	0.571	0.677	0.822

Note: PW: Political will; IT: Information technology; FRQ: Financial reporting quality; FP: Fraud prevention. AVE in diagonal (bold) based on the Fornell-Lacker criterion.

Table 3 displays the results of the hypothesis testing. According to the study results, the direct relationship between political will and fraud prevention has a path coefficient of 0.198 (t = 3.230; p-value = 0.001) when the Bootstrap method is applied to 5,000 sub-samples. This suggests that political will has a positive impact on fraud prevention, thereby supporting *H1*. Nevertheless, the direct relationship between the quality of financial reporting information and political will did not demonstrate a significant influence (β = 0.053; t = 0.696; p-value = 0.486), which does not support *H2*. The t-value is 3.019, and the p-value is 0.003, suggesting that information technology does not affect fraud prevention. As a result, *H3* lacks support. The path coefficient of information technology for fraud prevention is –0.198. *H4* is substantiated by evidence indicating that the quality of financial reporting information is favorably affected by the direct impact of information technology

Table 3. Results of hypothesis testing

Relationship	Path Coefficient	t-value	f^2	95% CI	VIF/VAF	Hypothesis	Supported
Direct					**VIF**		
PW → FP	0.198	3.230**	0.039	[0.267, 0.293]	2.765	H1	Yes
PW → FRQ	0.053	0.696	0.451	[0.300, 0.325]	2.439	H2	No
IT → FP	–0.198	3.019**	0.332	[0.336, 0.365]	1.395	H3	No
IT → FRQ	0.186	2.863**	0.136	[0.278, 0.302]	2.467	H4	Yes
FRQ → FP	0.161	2.598**	0.103	[0.314, 0.346]	1.112	H5	Yes
Indirect					**VAF**		
PW → FRQ → FP	0.009	0.628		[0.367, 0.393]	0.173	H6	No
IT → FRQ → FP	0.029	2.093**		[0.286, 0.315]	0.871	H7	Yes

Note: Samples (n) = 262; * $p < 0.05$, ** $p < 0.01$. PW: Political will; IT: Information technology; FRQ: Financial reporting quality; FP: Fraud prevention.

($\beta = 0.186$; $t = 2.863$; p-value = 0.004). The integrity of financial reporting positively influences fraud prevention, shown by a path coefficient of 0.161, a t-value of 2.598, and a p-value of 0.009. This is compatible with *H5*.

The mediation testing findings confirmed the indirect linkages of financial reporting quality among political will, information technology, and fraud prevention. The findings indicated that the quality of financial reporting information did not mitigate the influence of political will on fraud prevention ($\beta = 0.009$; t-value = 0.628; p-value = 0.530; Variance Accounted For (VAF) = 0.173), hence failing to substantiate the suggested *H6*. The path coefficient for the quality of financial reporting information about information technology and fraud prevention was 0.029, with a t-value of 2.093, $p < 0.05$, and a VAF value of 0.871 (VAF > 0.8: Full mediation). The outcome validated *H7*, indicating that the quality of financial reporting information completely mediates the relationship between information technology and fraud prevention.

4. DISCUSSION

This paper identifies numerous critical conclusions about the quality of financial reporting information and fraud prevention in Indonesian village governance. Initially, it was determined that political will positively influences fraud prevention. This signifies that political might and dedication are essential elements in initiatives to thwart fraud. It is consistent with the idea that political leaders who demonstrate a strong commitment to transparency and accountability are more adept at implementing anti-fraud strategies (Maulidi & Ansell, 2022). The lack of significant political will underscores the need for more detailed and targeted laws and regulations to enhance the accuracy of financial reporting. Secondly, it is shown that information technology does not directly impact fraud prevention; nonetheless, it has been proven to enhance the quality of financial reporting information. This suggests that the deployment of information technology must prioritize enhancing the quality of financial information as an initial measure in fraud prevention strategies (Setiyawati & Doktoralina, 2019). This also underscores the need to invest in information technology to improve transparency and precision in financial reporting. The study indicates that high-quality financial reporting enhances fraud prevention, demonstrating that precise and reliable financial information functions as a useful tool for detecting and averting fraudulent activities. This analysis underscores the notion that enhancing the accuracy of financial reporting should be a primary focus in fraud prevention strategies (Ahmed et al., 2016; Lokanan, 2019). It underscores the need to institute stringent financial reporting and accounting rules to ensure the transparency and accountability of financial information.

In conclusion, the findings of the mediation test indicate that the quality of the information that is reported on financial matters does not function as a mediator for the influence that political will has on the prevention of fraud, but it does work as a mediator for the link that exists between information technology and the prevention of fraud. It is clear that even if political will is essential, measures to prevent fraud may not be successful if

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there is not sufficient support for the quality of the information on financial transactions. On the other hand, information technology has the potential to indirectly improve the prevention of fraud by enhancing the quality of financial information. It can be deduced that the employment of information technology makes it possible to conduct a more comprehensive examination of financial data and facilitates the making of better-informed decisions. This also underlines the significant role that effective financial reporting procedures have in combining technical improvements with the progress of technology.

This study offers substantial theoretical contributions to governmental accounting rules and concepts designed to mitigate fraud. The primary results corroborate several pertinent theoretical elements. This study empirically examines the influence of political will and information technology on the quality of financial reporting and the prevention of fraud. Recently, considerable efforts have been undertaken to provide a more robust theoretical framework concerning the attributes of financial reporting quality and the precursors of fraud prevention. No attempts have been made to elucidate the mediating function of financial reporting quality in the relationship between political will, information technology, and fraud prevention. The implications of the village government context on financial reporting quality and the consequences of fraud prevention have been extensively examined (Safkaur et al., 2023); however, the role of financial reporting quality as a mediator between political will, information technology and fraud prevention remains unexamined.

The first theoretical contribution is to enhance the comprehension of how a comprehensive strategy that amalgamates political issues, technology, and reporting quality influences fraud prevention measures. The results indicate that political will is a crucial element in fraud prevention measures. According to Maulidi and Ansell (2022), political leaders who demonstrate a robust commitment to openness and accountability are more proficient in executing anti-fraud strategies. This analysis revealed that fraud prevention initiatives depend not only on the presence of effective regulations but also on the degree of political leaders' support and their continuous implementation of these rules. Consequently, the second theoretical contribution of this study elucidates how robust commitment from political leaders may foster an atmosphere favorable to fraud prevention, including appropriate resource allocation, oversight, and law enforcement. Village officials, particularly the village head and finance personnel, can employ the results to augment the accuracy, precision, and timeliness of financial reporting quality, thereby enhancing fraud prevention and facilitating more effective, transparent, and accountable management of village government finances.

The findings emphasize that the financial personnel of village governments must cultivate a robust connection with the village head to bolster fraud prevention initiatives motivated by the village head's political intent. The objective is to attain comprehension and consensus over the anti-fraud initiatives advocated by the village leader. A village head anticipates regular financial reports and updates from the local financial personnel. This cooperation improves the detection of fraud risks more effectively. Although political purpose has no direct bearing on the quality of financial reporting, finance staff in village governments have to give top priority to improving the accuracy and reliability of financial reports. Village financial personnel may adopt actions such as consistently double-checking each financial input to guarantee the precision and integrity of financial reports. It is essential for local finance personnel to use technology for verification purposes. This study's results indicate that the use of contemporary financial management software and tools enables financial personnel to improve the quality of financial reporting information. As such, village financial staff members have to attend training courses on modern financial technology and use these instruments in their daily financial operations. Moreover, the use of technology in daily financial management systems calls for control and prevention of misuse. Village finance staff members may follow a code of ethics and enforce compliance by supporting moral behavior in financial activities.

Financial reporting quality and fraud prevention are two essential components of public sector financial management. Transparency and accountability in financial reporting are crucial for ensuring the effective and efficient use of allotted money. Fraud prevention is essential for preserving the integrity and public faith in a nation's administration (Okafor et al., 2020; Siahaan et al., 2024). Efficient fraud prevention measures may enhance the efficacy of public budget allocation and bolster the government's legitimacy in the eyes of the public. Therefore, understanding the determinants that affect the quality of financial reporting and fraud mitigation in the public sector is essential for establishing open and accountable government.

This study's primary contribution is the finding that political will and information technology indirectly influence the pace of fraud prevention efforts. When political will is merely a formality devoid of concrete action, and the implementation of information technology lacks adequate support and optimal utilization, the quality of financial reporting information will be subpar, leading to compromised data integrity and an inability to effectively mitigate fraud. This is especially pertinent for village government units, where the quality of financial reporting information is essential for maintaining openness and accountability. From an alternative viewpoint, possessing strong political will and effective implementation technology may provide several advantages in generating high-quality financial reporting information for the management of village finances, hence improving transparency, accountability, and fraud prevention.

CONCLUSION

The study aimed to determine the elements capable of maximizing fraud prevention actions and raising the caliber of financial reporting information. The results show the critical role of a strong commitment to fraud prevention and enhanced political will. Therefore, this study advises the leaders of the villages to encourage and implement anti-fraud policies among all the other authorities in order to preserve moral behavior and integrity. Frequent communication with every village authority will also help to avoid, spot, and handle indicators of corruption or fraud events. Second, using GAS-based focused regulations for financial reporting will help to guarantee correctness and dependability. Therefore, this paper advises the heads of the villages to create uniform and unambiguous financial reporting rules and practices. Stated differently, they must ensure these regulations are rigorously observed and shared among all relevant staff members. Finally, by designating funds for contemporary financial management tools and software and making sure these technologies are used efficiently to preserve correct and open financial records, one invests in information technology. Consequently, this study advises village heads to guarantee the acquisition of suitable IT infrastructure and supervise initiatives to guarantee the competency of all village government employees in utilizing this technology.

This study has limitations. It used a cross-sectional sample, indicating that people's perspectives may evolve with time. Such restrictions may impact the comprehension of the developing quality of financial reporting information and fraud mitigation strategies. Studies on fraudulent activities indicate that the implementation of GAS correlates with substantial changes in critical factors, including internal control practices, rules and policies, information asymmetry levels, perceived risk, and the legal environment. These alterations are expected to impact political resolve and information technology inside the governmental sphere, especially concerning village autonomy in Indonesia. Consequently, the current investigation advocates for future research to include village governments in the administration of village money distribution. Future research should expand the study to more communities to check whether the findings are consistent and conduct such studies over many years.

AUTHOR CONTRIBUTIONS

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Data curation: Haliah, Hasnawiya Hasan, Fatmawati, Linda Arisanty Razak.

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Writing – review & editing: Haliah, Hasnawiya Hasan, Syamsuddin, Fatmawati, A. Ratna Sari Dewi, Muhammad Alief Fahdal Imran Oemar, Linda Arisanty Razak.

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