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The Effect of Religiosity and Rationalization on Fraud on the Quality of Financial Reports

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Abstract

This study aims to examine the effect of religiosity and rationalization on the quality of financial reports. The research uses a quantitative approach with primary data collected through questionnaires. The population consists of 28 villages located in Baki District and Gatak District, Sukoharjo Regency. The sampling technique used is purposive sampling, resulting in 100 respondents who are village officials. Data analysis was carried out using Multiple Linear Regression Analysis. The results show that the religiosity variable has a significant influence on the quality of financial reports, indicating that the higher the level of religiosity among village officials, the better the quality of the financial reports produced. On the other hand, the rationalization variable does not have a significant influence on the quality of financial reports, meaning that the tendency of individuals to justify inappropriate actions does not have a real effect on the quality of financial reporting. These findings emphasize the importance of religious values in maintaining accountability and integrity in public sector financial reporting.

Keywords

Financial Reports, Religiosity, Rationalization, Report Quality

1. Introduction

In general, accounting and village governance to solve the problem of accounting fraud by providing accounting standards to create good governance to prevent and detect fraud (Caniago et al., 2023). According to Handayani et al. (2023) accounting fraud has gained a lot of public attention and has become familiar to the business community worldwide. Fraud or cheating in accounting is a deliberate act of deception, causing loss to the victim and gain to the perpetrator (Purwaningsih et al., 2022). Fraud cases often occur due to accounting fraud that leads to corruption (Yaya & Wahyuli, 2019; Wardani & Hasibuan, 2024). Based on Amaliah & Murtini (2017) empowerment of rural communities in development is a long note on sustainable villages. With empowerment, village communities can become better. According to Widaryani (2020) Government Regulation Number 71 of Government Accounting Standards is a general rule for preparing and submitting financial reports and is obliged to publish explanations regarding financial reports that are useful for decision-making principles. Based on the BPK audit, the regional government has achieved an Unqualified Opinion (*Wajar Tanpa Pengecualian/WTP*) on their financial reports from 2015 to 2020. However, there are still several problems related to the quality of financial accounting reporting in various Regional Work Units (*Satuan Kerja Perangkat Daerah/SKPD*). Several indicators that cause problems with the quality of SKPD financial reports include the lack of accountants who have the competence to manage assets effectively, the implementation of government accounting standards in SKPD is not optimal, and not all government employees understand the accounting system well (Siti Rahayu et al., 2022; Alkatiri et al., 2023).

According to Anggriawan & Yudianto (2018), financial reports are explanatory notes of a company's finances during an accounting period which are useful for explaining the company's capabilities. Gunanti et al. (2024) states without the necessary data and information, it is difficult to fully understand the financial condition. The quality of financial reports is a sufficient and transparent explanation that is made not fail for users. Purnamasari et al. (2024) states the rationalization of financial statement fraud that is outlined in the perspective of entrepreneurial theory rooted in Austrian economics. Since the proportion of creditors and investors who have a personal interest in the framework of financial statement fraud is lower, it can be concluded that the process of detecting financial statement fraud in government tends to show lower "vigilance" than in the private sector context. According to Putri et al. (2024) an exponent of a person's religiosity, which is believed to influence an individual's attitudes and actions. Religiosity is explained as the relationship between humans and God Almighty through communication, which is structured and useful as a guideline for life to maintain order and avoid chaos in worship with God Almighty. Therefore, the lower the exponent of a person's religiosity, the higher the tendency to commit fraud. According to Basri et al. (2023) many studies have been conducted on the issue of village funds in Indonesia, but most only trace these factors in the period before the Covid-19 pandemic. Therefore, the findings of this study cannot be widely applied either before or after the Covid-19 pandemic.

The purpose of this study is to analyze efforts to strengthen village governance through the implementation of proper accounting standards to prevent and detect accounting fraud. This research aims to identify the factors that contribute to fraud in financial reporting at the village government level and within SKPD, including the lack of understanding among government personnel regarding the accounting system, the shortage of competent accountants, and the suboptimal application of government accounting standards. Additionally, this study seeks to explore the role of individual religiosity in influencing the tendency to commit fraud, as well as to examine the impact of community empowerment in sustainable village development

as part of fraud prevention. Through this approach, the study is expected to contribute to improving the quality of transparent and accountable village financial reporting and to support the creation of good governance within village administrations.

2. Methods

This type of research uses a quantitative approach because it quantifies qualitative data as data in the form of numbers. Primary data is data that is collected exclusively using researcher. The main objective of this research is to be able to test the estimates or hypotheses that have been established. Population refers to all groups of people, events, or things of interest to researchers who want to create conclusions. In the context of this study, the population consists of several villages in Indonesia. A sample is a subset of a population. It consists of several members selected from it. In other words, some but not all elements of the population create a sample. In this study, the samples used were several villages in Indonesia. The sample criteria used were village officials including the village head, village secretary, village treasurer, and head of planning affairs and involvement in financial reports. The data collection technique used was a survey method through the distribution of general news to respondents, namely with several villages in Indonesia with a total of 28 villages and a total of 112 people. From the explanation of the population and sample above, it can be stated that the data collection technique used is a survey method through the distribution of general news to respondents, namely with several villages in Indonesia with a total of 28 villages and a total of 112 people. A questionnaire is one of the techniques in data collection that involves delivering several questions or written statements to respondents to be answered. In this study, synchronous tactics can be applied, namely general news becomes a system for collecting facts based on or about people to explain, describe, or compare both knowledge, attitudes, and behavior.

3. Results

According to Saeed et al. (2015), validity test is declared valid if the questionnaire questions can convey something that is to be measured by the questionnaire. Validity test is done by comparing the calculated r value with r table. If r count $>$ r table and the value is positive, then the questionnaire questions are declared valid. However, if r count $<$ r table then the questionnaire questions are declared invalid. Based on the validity test result table on the Religiosity variable, there are 6 statements declared valid. Each valid variable has a calculated r value on all statement indicators that have been tested, the value is positive, and the value is greater than the r table in this study obtained from $df (n-2) = 98$ with a significance level of 0.05 so that the value of r table is 0,1966. because the overall r calculated value is greater than r table, it is concluded that all Religiosity statement indicators are said to be valid and suitable for use.

Table 1. Validity

Item	R Count	R Table	Description
X1.1	0.458	0.1966	Valid
X1.2	0.591	0.1966	Valid
X1.3	0.503	0.1966	Valid
X1.4	0.420	0.1966	Valid
X1.5	0.516	0.1966	Valid
X1.6	0.587	0.1966	Valid
X2.1	0.716	0.1966	Valid
X2.2	0.791	0.1966	Valid
X2.3	0.653	0.1966	Valid
X2.4	0.767	0.1966	Valid
Y.1	0,880	0,1966	Valid
Y.2	0,795	0,1966	Valid
Y.3	0,768	0,1966	Valid
Y.4	0,741	0,1966	Valid

Based on the validity test result table on the Rationalization variable, there are 4 statements declared valid. Each valid variable has a calculated r value on all statement indicators that have been tested, the value is positive, and the value is greater than the r table in this study obtained from $df(n-2) = 98$ with a significance level of 0.05 so that the value of r table is 0,1966. because the overall r calculated value is greater than r table, it is concluded that all Rationalization statement indicators are said to be valid and suitable for use.

Based on the validity test result table on the Quality of Financial Reports variable, there are 5 statements declared valid. Each valid variable has a calculated r value on all statement indicators that have been tested, the value is positive, and the value is greater than the r table in this study obtained from $df(n-2) = 98$ with a significance level of 0.05 so that the value of r table is 0,1966. because the overall r calculated value is greater than r table, it is concluded that all Quality of Financial Reports statement indicators are said to be valid and suitable for use.

Table 2. Reliability Test

Variable	Criteria Cronbach's Alpha	Value	Description
Religiosity	>0.60	0.677	Reliable
Rationalization	>0.60	0.785	Reliable
Quality of Financial reports	>0.60	0.801	Reliable

In the reliability test result table, the calculated value of Cronbach's alpha in the variable shows a number >0.60. So, reliability can be accepted, so in this study the variable shows Cronbach's alpha >0.60, it can be concluded that each variable is declared to have passed the reliability test or is reliable. The normality test used to test the normality of the residuals is the Central Limit Theorem (CLT) method. The Central Limit Theorem is one of the concepts that has resulted in many dependent statistics. CLT is considered one of the most important theorems in statistics. This method is a theorem that explains the behavior of the distribution of the average sample of a population when the sample size taken is large enough. The CLT states that, no matter what the shape of the original population distribution is, the distribution is normal when the sample size increases. If the normality test shows that study tends to be abnormal, then the Central Limit Theorem (CLT)

assumption can be used, namely if the number of observations is large enough ($n > 30$), then the normality assumption can be ignored (Fischer, 2011).

Table 3. Heteroscedasticity Test

Variable	Sig.	Description
Religiosity	0.968	There is no heteroscedasticity
Rationalization	0.171	There is no heteroscedasticity

The Heteroscedasticity Test is used to test the presence or absence of heteroscedasticity using the Spearman test, which is to regress the absolute value of the residual against the independent variable. Heteroscedasticity does not occur if the significance value is > 0.05 . Conversely, heteroscedasticity occurs if the significance value is < 0.05 . Based on the table in the sig section column, it shows that each independent variable has a significance value of > 0.05 , so that can be concluded that in the study using these variables there were no symptoms of heteroscedasticity and the regression model is feasible to use.

Table 4. Multicollinearity Test

Variable	Tolerance Value	VIF
Religiosity	0.962	1.040
Rationalization	0.962	1.040

Multicollinearity Test can be seen from the tolerance value and variance inflation factor (VIF). The requirement for no symptoms of multicollinearity is if the tolerance value is > 0.10 and all VIF values are < 10 , which means that the regression model in this study does not show symptoms of multicollinearity (Hildayani & Serly, 2021). Based on the table above, it shows that all variables have a tolerance value > 0.10 and a VIF value < 0.10 . So that this multicollinearity test does not show symptoms of multicollinearity and is suitable for use.

Table 5. F Test

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	88.171	2	44.085	9.994	0.000 ^b
Residual	427.869	97	4.411		
Total	516.040	99			

The F test basically shows whether the regression model created by the researchers is good/significant or not good/non-significant or can also be said to be a test of the appropriateness of fit between certain observation results and the frequency of expected values or theoretical frequencies (Marzuki et al, 2023). Based on the table of the F test results above, Fcount is $9.994 > F_{table}$ with a significant level of 0.000. the magnitude of the significance value of 0,000 from the results is < 0.05 . So H_0 is rejected, and H_a is accepted. It can be concluded that the variables of religiosity and rationalization simultaneously (together) affect the quality of village government financial report in Sukoharjo Regency.

Table 6. Determination Coefficient Test (R²)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.413 ^a	0.171	0.154	2.10024

The determination coefficient test is used to measure how far the model's ability to explain related variables (dependent) with values between zero and one. The adjusted value (R²) approaching one means that the independent variable provides almost all the information needed to predict the dependent variable (Dewi et al., 2019). Based on the table, it is known that the R Square value is 0.171 while the Adjusted R Square value is 0.622. This study uses five independent variables, so our focus on the Adjusted R Square value is 0.154. this means that 15.4% of the quality of village government financial reports is influenced by the variables of religiosity and rationalization the remaining 84.6% is influenced by other factors not included in this study.

Table 7. Multiple Linear Regression Analysis

Variable	Regression Coefficient	Standard Error	t-count	Sig.	Description
(Constant)	17.737	2.282	7.772	0.000	
X1	0.249	0.084	2.971	0.004	Accepted
X2	-0.232	0.086	-2.695	0.008	Rejected

Multiple linear regression analysis is used to determine the effect of more than one independent variable on a single dependent variable. This model explains the relationship and the degree of influence that independent variables have on the dependent variable. Based on the regression analysis, the resulting equation is: $Y = 17.737 + 0.249X_1 - 0.232X_2 + e$. From this equation, it can be interpreted that the constant value of 17.737 indicates that when the independent variables (religiosity and rationalization) are considered constant, the average quality of village government financial reports in Sukoharjo Regency is 17.737. The regression coefficient for the religiosity variable (X₁) is 0.249, which means that an increase in religiosity will positively affect the quality of financial reports by 0.249. Meanwhile, the regression coefficient for the rationalization variable (X₂) is -0.232, indicating that negative rationalization tends to reduce the quality of village financial reports by 0.232.

In the t-statistic test, which assesses the individual effect of each independent variable on the dependent variable, the results showed that the religiosity variable has a significant value of 0.004, which is below the threshold of 0.05. Additionally, the t-count value of 2.971 is greater than the t-table value of 1.98472. These results indicate that religiosity significantly and positively influences the quality of local government financial reports, leading to the conclusion that H₀ is rejected and H₁ is accepted. On the other hand, the rationalization variable has a significant value of 0.008, which is above the criterion of 0.05, and a t-count of -2.695, which is less than the t-table value. These results suggest that rationalization does not significantly affect the quality of local government financial reports, thus H₀ is accepted and H₂ is rejected. This implies that in the context of village governance in Sukoharjo Regency, religiosity plays a more important role than rationalization in influencing the quality of financial reporting.

4. Discussion

Based on the statistical analysis in this study, it was found that H1 was accepted, indicating that religiosity has a positive effect on the quality of village financial reports. This is evidenced by a significant value of 0.004, which is below the 0.05 threshold, and a t-count of 2.971, which is greater than the t-table value of 1.9847. Therefore, with $t\text{-count} > t\text{-table}$, H1 is accepted. The findings also show that 88% of respondents agree that the village government upholds clear religious values, and 89% acknowledge that village heads lead by example in implementing regulations. Additionally, each financial transaction is supported by evidence before being recorded, and 88% of respondents agree that communication and information processes are in place to support this. Furthermore, 90% of respondents agree that the village government provides facilities to assist in reporting and monitoring financial transactions, although 86% of respondents disagree that the local government always evaluates and makes recommendations to improve religiosity. Based on these percentages, it can be concluded that the local governments in Baki and Gatak have implemented religiosity effectively, which in turn minimizes fraud and supports accountable and transparent financial management. This aligns with the findings of Sari Dewi et al. (2020), which state that religiosity has a positive and significant impact on the quality of financial reports. When religiosity is well-practiced and efficiently implemented, it leads to the production of better financial reports. In line with stewardship theory, this suggests that the local governments in Baki and Gatak act as responsible stewards who monitor and control activities to produce quality financial reports, thus reflecting their commitment to religiosity in governance.

In contrast, the study found that H2 was accepted, leading to the conclusion that rationalization does not influence the quality of village financial reports. This conclusion is based on a significance value of 0.008, which is higher than the 0.05 threshold, and a t-count of -2.695, which is lower than the t-table value of 1.9847. Therefore, because $t\text{-count} < t\text{-table}$, H2 is rejected. The lack of influence may be due to village officials' views on rationalization, where they do not perceive fraudulent behavior as normal or justifiable, even in the presence of widespread corruption. Village officials regard fraud as criminal behavior and do not rationalize it as harmless, which contradicts the assumptions of stewardship theory in this context. Rationalization typically reflects an internal conflict in fraud perpetrators who attempt to justify their actions. The results of this study are consistent with the findings of Umar et al. (2019), which also conclude that rationalization does not have a significant effect on the quality of financial reports.

5. Conclusion

This study aims to analyze the influence of religiosity and rationalization on the quality of regional government financial reports, particularly in the context of local governments in Sukoharjo Regency. The findings reveal that religiosity has a significant positive impact on the quality of village financial reports, while rationalization does not demonstrate a notable effect. The implication of this result is that the implementation of strong religious values in governance contributes to enhanced accountability, transparency, and reduced potential for financial fraud. Village officials in Baki and Gatak Districts have shown a commitment to applying religious principles in financial management, such as providing transaction evidence, following regulations, and promoting ethical behavior. These efforts align with the stewardship theory, which emphasizes the responsibility of public officials to act in the best interest of the community. Religiosity, therefore, functions as a moral compass that guides village officials in their financial reporting duties, ultimately fostering public trust and improving the overall governance structure. When these

religious values are internalized and practiced consistently, they can serve as a strong preventive measure against fraud, thereby ensuring the production of high-quality financial reports in the public sector.

From a practical standpoint, several recommendations can be drawn from this study to support future research and governance practices. Researchers are encouraged to expand the scope of their studies by increasing the sample size to include more local governments across Sukoharjo Regency, enabling a broader and more generalizable analysis. Additionally, the timely return of research instruments such as questionnaires is essential for maintaining data validity and optimizing research outcomes. Local governments, particularly those in Baki and Gatak Districts, should continue to uphold and strengthen their religiosity values, as these have proven to positively influence financial report quality. Although rationalization was found to have no significant effect in this study, it should not be neglected entirely; instead, village governments should ensure that rational decision-making processes are aligned with ethical standards and accountability measures. By fostering a culture of integrity and continuous evaluation, local governments can build more robust financial systems. In doing so, they will not only improve the quality of financial reports but also enhance public confidence and support sustainable governance in rural areas.

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