

## EXAMINING ETHICAL AWARENESS AND PROFESSIONAL COMMITMENT IN PREDICTING FINANCIAL STATEMENT FRAUD IN RURAL BANKS: THE MODERATING ROLE OF ETHICAL DILEMMAS

### ANÁLISE DA CONSCIÊNCIA ÉTICA E DO COMPROMISSO PROFISSIONAL NA PREVISÃO DE FRAUDES EM DEMONSTRAÇÕES FINANCEIRAS EM BANCOS RURAIS: O PAPEL MODERADOR DOS DILEMAS ÉTICOS

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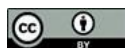
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#### Abstract

This study examines whether ethical awareness and professional commitment help reduce financial statement fraud in Rural Banks in Bali Province, Indonesia, and whether ethical dilemmas moderate those relationships. Grounded in ethical behavior and professional identity perspectives, the study adopts a quantitative approach using purposive sampling of accounting staff working in Rural Banks across Bali Province. The final sample consisted of 105 respondents, and the data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with WarpPLS 8.0. The findings show that ethical awareness lowers the tendency to engage in fraudulent financial reporting, whereas professional commitment has a weaker effect. Ethical dilemmas also strengthen the relationship between ethical awareness and financial statement fraud, indicating that the ability to recognize moral issues becomes more crucial when employees face conflicting values and competing pressures. However, ethical dilemmas do not significantly alter the relationship between professional commitment and fraud. This study makes three contributions: extending empirical evidence on financial statement fraud in Rural Banks as community-based financial institutions in

#### Resumo

*Este estudo examina se a consciência ética e o compromisso profissional contribuem para reduzir a fraude nas demonstrações financeiras dos bancos rurais da província de Bali, na Indonésia, e se os dilemas éticos moderam essas relações. Baseado nas perspectivas do comportamento ético e da identidade profissional, o estudo adota uma abordagem quantitativa utilizando amostragem intencional de funcionários da área contábil que trabalham em bancos rurais em toda a província de Bali. A amostra final consistiu em 105 respondentes, e os dados foram analisados utilizando a Modelagem de Equações Estruturais por Mínimos Quadrados Parciais (PLS-SEM) com o WarpPLS 8.0. Os resultados mostram que a consciência ética diminui a tendência de se envolver em relatórios financeiros fraudulentos, enquanto o comprometimento profissional tem um efeito mais fraco. Os dilemas éticos também fortalecem a relação entre a consciência ética e a fraude nas demonstrações financeiras, indicando que a capacidade de reconhecer questões morais se torna mais crucial quando os funcionários enfrentam valores conflitantes e pressões concorrentes. No entanto, os dilemas éticos não alteram significativamente a relação entre o compromisso profissional e a fraude.*



developing economies; integrating ethical awareness and professional commitment in one explanatory model; and clarifying ethical dilemmas as relevant boundary conditions with implications for ethics training and governance strengthening to enhance reporting integrity.

**Keywords:** Ethical Awareness. Professional Commitment. Ethical Dilemma. Fraud Financial Statements.

*Este estudo traz três contribuições: amplia a evidência empírica sobre fraudes em demonstrações financeiras em bancos rurais como instituições financeiras comunitárias em economias em desenvolvimento; integra a consciência ética e o comprometimento profissional em um único modelo explicativo; e esclarece os dilemas éticos como condições de contorno relevantes, com implicações para o treinamento em ética e o fortalecimento da governança, a fim de aumentar a integridade dos relatórios.*

**Palavras-chave:** Consciência Ética. Comprometimento Profissional. Dilema Ético. Fraude em Demonstrações Financeiras

## 1 INTRODUCTION

Financial statements are structured reports that present information about the financial position, performance, and cash flow of an entity in a certain period, prepared in accordance with applicable accounting standards, to support the economic decision-making of stakeholders. In an era of high market volatility, the quality of financial reporting is not only an instrument for evaluating profitability, but also a key determinant in reducing information asymmetry and capital costs (Ho et al., 2022; Liu & Shen, 2025; Houque et al., 2017). In the modern digital-based reporting paradigm, reliability and faithful representation remain pillars of market efficiency, supporting strategic decision-making by investors and regulators (Khan, 2024). Thus, financial statements function as a governance infrastructure to maintain global capital market stability.

However, the integrity of financial statements remains vulnerable to opportunistic practices such as profit management and financial reporting fraud (Amar et al., 2022; Ho et al., 2022). Evidence from executive reports shows that various forms of reporting manipulation persist and are very difficult to detect directly, suggesting that formal compliance is not necessarily aligned with the substantive quality of reporting (Cade & Gunn, 2025). Empirical research on cases of reporting violations also documents a “slippery slope” pattern, in which early involvement in profit management practices can escalate into fraudulent reporting when repeated pressure and self-justification strengthen (Amar et al., 2022). Furthermore, when violations are revealed, the net expected payoff

to the perpetrator under certain conditions can remain positive, suggesting that an approach that relies solely on detection and enforcement may be inadequate without upstream preventive interventions (Amiram et al., 2020). Conceptually, the discretionary space in accounting valuation and estimation introduces subjectivity; theoretical-empirical evidence suggests that reporting discretion can be used opportunistically when short-term incentives are dominant, making managerial appraisal a point prone to violations (Jiang & Xin, 2022).

The findings shift the analysis's focus from the effectiveness of formal surveillance mechanisms to the underlying determinants of individual behavior. The *behavioral ethics* literature shows that unethical decisions are not solely a response to weak control but are rooted in cognitive processes and moral reasoning shaped by organizational contexts, performance pressures, and rationalization mechanisms (C. Tang et al., 2023). Under such conditions, strengthening regulation and formal supervision does not automatically eliminate violations, as actors can still justify or normalize deviant behavior within their cognitive frameworks (Cremer & Moore, 2020). At the organizational level, strengthening culture and ethical systems is also relevant because they shape procedural conditions that encourage (or weaken) ethical behavior in the workplace (Roy, 2024; Fein et al., 2023). In the accounting domain, perceptions of the effectiveness of ethical infrastructure components (e.g., codes of conduct, training, incentive-sanctions, reporting channels, and review systems) as well as professional autonomy are associated with the quality of ethical considerations of accounting professionals (Seifert et al., 2023). Nevertheless, such structural influences operate through psychological mechanisms at the individual level. Two crucial proximal determinants in this context are the capacity to recognize the moral dimension of a situation (*ethical awareness*) and the level of commitment to professional norms.

Conceptually, *ethical awareness* represents an individual's ability to identify that a reporting decision has moral implications and consequences for stakeholders. Without this awareness, individuals do not activate the ethical evaluation process. In the context of financial reporting, a higher level of ethical awareness is expected to lower tolerance for manipulation as individuals are more sensitive to informational and reputational consequences. However, awareness alone is not always enough. Performance pressures and normalization of deviations can hinder the translation of moral judgments into action.

This is where professional commitment serves as an anchor for normative identity, reinforcing consistency between moral judgment and actual behavior. Experimental evidence suggests that auditors with high professional commitment are less likely to accommodate unethical requests (Lowe et al., 2023). These findings affirm professionals' commitment to working through the internalization of norms, professional pride, and sensitivity to public responsibility.

However, the effectiveness of professional commitment is context-dependent, especially when individuals face ethical dilemmas and value conflicts that demand compromise among professional norms, organizational goals, and personal interests. The ethical dilemma enlarges the space for rationalization, and performance pressure can encourage expediency behavior through moral decoupling, which is the separation of moral judgment from performance judgment, so that deviant actions feel “justified” for the sake of the target (Zhu et al., 2023). In addition, experiments on internal auditors show that framing language in the presentation of dilemmas can shift the consistency of ethical considerations and the tendency to report violations, confirming the sensitivity of ethical decisions to situational contexts (Pan & Patel, 2024). Therefore, ethical dilemmas should be considered a moderating variable that can weaken the protective influence of ethical awareness and professional commitment against fraudulent reporting practices.

The urgency of this model is greater in Rural Banks that operate close to communities and often face limited governance resources compared to large banks. A study in the context of Rural Banks in Bali, Indonesia, shows that a combination of pressure, opportunity, rationalization, and capacity of perpetrators contributes to the occurrence of fraud; as a result, strengthening procedures alone is not enough without strengthening individual integrity as the last line of defense (Hidajat, 2020). In the context of Rural Bank, failure to report integrity issues can undermine local depositors' trust and trigger systemic impacts on regional intermediation.

Based on these gaps, this study examines the influence of ethical awareness and professional commitment on the practice of financial statement fraud in BPRs, with ethical dilemmas as a moderation variable. The contribution of this study is to enrich the literature on behavioral accounting through modeling the interaction of situational individual factors in the context of rural banking in developing countries, particularly in the province of Bali, Indonesia, as well as provide practical implications for the design of

ethics programs, anti-rationalization training, and the strengthening of professional autonomy as a component of integrity-based internal control.

## **2 LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**

### **2.1 Moral development theory**

Moral Development Theory posits that the quality of ethical decision-making reflects individuals' moral maturity (Kohlberg, 1958; Kohlberg, 1981). Kohlberg conceptualized moral development as a progressive sequence of three stages, namely preconventional, conventional, and postconventional, each representing a qualitatively different mode of moral reasoning. These stages capture how individuals interpret, evaluate, and justify their actions in light of evolving moral principles. At a higher (postconventional) level, ethical judgment is based on universal ethical principles and justice-oriented values, rather than on personal interests, conformity, or external authority.

In the accounting profession, moral maturity is an important determinant of ethical awareness and professional commitment. Ethical behavior is not solely a function of obedience to rules, but is shaped by moral sensitivity, moral judgment, moral motivation, and moral character (Sennetti & Shawver, 2015). These dimensions collectively influence how individuals recognize ethical issues, evaluate alternative actions, prioritize moral values over competing interests, and act consistently with ethical standards. As a result, accountants with higher levels of moral development are more likely to uphold integrity when faced with ethical dilemmas, whereas individuals with lower levels of moral reasoning may be more susceptible to organizational pressures and rationalization processes that facilitate violations (Johnson et al., 2021; Habbe et al., 2020).

## 2.2 Hypothesis development

### 2.2.1 *The influence of ethical awareness on financial statement preparation fraud*

Ethical awareness in the accounting profession reflects an individual's ability to recognize moral issues and to evaluate actions in accordance with professional ethical principles. Ishwara & Mekonnen (2024) argue that the ability to recognize ethical issues is a key component of accountants' ethical decision-making and contributes to moral judgment and intent. In addition, the accounting ethics literature emphasizes that ethics education not only improves technical skills but also strengthens *accountants' ethical sensitivity* in facing financial reporting dilemmas and conflicts of interest (Poje & Groff, 2022; Bérubé & Gendron, 2023).

The development of ethical awareness is inseparable from the ability *to engage in ethical reasoning*, which is the cognitive capacity to analyze moral dilemmas and determine actions in accordance with ethical principles. The study by Marzuki & Safeei (2025) provides empirical evidence that accounting ethics education plays a significant role in improving ethical reasoning, thereby strengthening the quality of ethical decision-making and professional integrity.

Ethical awareness is an important component of accounting professionals' ethical behavior, as it relates to the rejection of **manipulative practices in financial reporting**. Bibliometric studies show that **ethical accounting and financial reporting fraud are growing and increasingly** relevant research areas in the accounting literature. However, there has been little empirical research that examines these relationships exclusively, underscoring the importance of ethical awareness in improving reporting integrity and transparency of financial statements. The study findings indicate that greater ethical awareness encourages stronger adherence to professional ethical principles and reduces the tendency to commit financial statement fraud (Walter et al., 2023). Meanwhile, individuals with a strong ethical conscience are better able to resist such rationalizations and maintain professional standards. Recent studies have also shown that the quality of moral reasoning and ethical orientation of auditors contribute to the ability to detect fraud and maintain professional independence (Almalki et al., 2025). Thus, the higher the

ethical awareness, the lower the tendency to commit fraud in financial preparation and reporting.

### **H1: Ethical Awareness Negatively Affects Financial Statement Preparation Fraud**

#### *2.2.2 Influence of professional commitment to financial statement preparation fraud*

Professional commitment describes the degree of identification and uniqueness individuals have with professional values, standards, and obligations, which ultimately shape behavioral boundaries when they face conflicts of interest and organizational pressure. In the context of financial reporting, performance pressures, targets, or demands of superiors can create conditions that encourage individuals to normalize deviations and consider report manipulation as a pragmatic “solution”.

The contemporary deception literature confirms that pressure not only affects deceptive intentions directly but also operates through rationalization (justification), a psychological pathway that allows individuals to maintain their self-image despite committing a violation. Empirical evidence suggests that pressure increases the intent to commit fraud and that this effect is partly mediated by rationalization and perceptions of opportunity (Kon et al., 2024). More specifically, in the context of fraudulent financial reporting (FFR), it was found that accountants can rationalize FFR and that the assessment of the moral dimension of an action is significantly related to the level of rationalization (Oboh et al., 2025). These findings reinforce the idea that reporting is not just a technical problem but also a cognitive-ethical one, triggered by pressure and facilitated by justification.

On the other hand, professional commitment serves as an identity-based control mechanism, increasing behavioral consistency with professional standards and reducing tolerance for violations. When professional commitment is high, individuals tend to weigh the ethical consequences and the profession’s reputation, making them more resistant to pressure and to rationalizations that legitimize manipulation. The dynamics of pressure are also evident in the context of auditing: professional standards demand skepticism to detect fraud, but social-organizational pressures can arise when supervisors “punish” the proper application of skepticism, creating ethical conflicts for auditors

(Brazel et al., 2025). This evidence makes it clear that organizational pressure can erode behaviors that protect the quality of reporting, so professional commitment is important as an anchor of value to maintain assessment independence and decision integrity.

Thus, when individuals have strong professional commitments, they are less likely to accept a justification narrative (e.g., “everyone does,” “only temporarily,” or “for the sake of saving the company”) and are more likely to resist pressure to report irregularities. Therefore, professional commitment is expected to reduce the tendency to cheat when preparing financial statements.

**H2: Professional commitment hurts fraudulent preparation of financial statements.**

### *2.2.3 The role of ethical moderation dilemma in the relationship of ethical awareness to financial statement preparation fraud*

Ethical dilemmas arise when accountants face conflicts between client interests, organizational pressures, and responsibilities to external stakeholders. In the context of financial reporting, this often involves pressure to achieve profit targets, maintain a company’s reputation, or meet management expectations, which can drive the manipulation of financial statements. Recent literature shows that organizational pressure increases an individual’s tendency to engage in moral rationalization, which, in turn, mediates fraudulent intentions (Kon et al., 2024). Thus, ethical dilemmas reinforce the complexity of the decision-making process and create space for justifying deviant behavior.

Within the framework of *ethical decision-making theory* and the perspective of moral intensity, individuals’ ability to recognize the moral dimension of an action (moral recognition) is an important determinant of their willingness to reject manipulative practices. Recent research shows that the moral intensity of a situation influences ethical evaluations and behavioral intentions, especially when individuals face conflicts of interest in financial reporting (Johari et al., 2019; Ishwara & Naod, 2024). In addition, recent empirical studies have found that the quality of ethical reasoning and professional identity significantly reduces tolerance for opportunistic profit management practices

(Simon & Kanyunyuzi, 2025). These findings indicate that ethical awareness serves as a protective mechanism under increased pressure.

Interestingly, empirical evidence suggests that ethical dilemmas do not necessarily undermine ethical awareness. Shwara & Naod (2024) found that although accountants face conflicts of interest and reporting pressures, ethical awareness remains a key determinant of the integrity of professional decisions. In line with this, Huda et al. (2026) report that under conditions of organizational pressure, individuals with high ethical awareness still maintain consistency in maintaining professional standards.

Based on this argument, it can be said that ethical dilemmas strengthen the role of ethical awareness in suppressing cheating tendencies. Under conditions of high dilemma, individuals with a strong ethical conscience will increasingly demonstrate a commitment to integrity and be more resistant to rationalization and external pressure. Therefore, ethical dilemmas are predicted to strengthen the negative relationship between ethical awareness and fraud in the preparation of financial statements.

**H3: Ethical Dilemma reinforces the negative influence of Ethical Awareness on Financial Statement Preparation Fraud.**

#### *2.2.4 Moderation of ethical dilemmas in the relationship between professional commitment and financial statement preparation fraud*

Ethical dilemmas in the accounting profession arise when accountants experience tension between organizational demands and their obligations under the profession's code of ethics. This dilemma often includes a conflict between **the professional obligation to report objectively** and the pressure to “present the desired outcome” by management or stakeholders (Bierstaker et al., 2024). In situations like these, accountants need to reassess their moral priorities, including how committed they are to professional obligations relative to situational pressures.

Professional commitment is the main determinant of accountants' ethical decision-making because it reflects individuals' identification with professionally internalized principles and standards (Ajzen, 1991; Jones, 1991). This level of commitment is associated with moral sensitivity, ethical judgment, and resistance to rational justification, which can drive cheating behavior (Ishwara & Mekonnen, 2024).

Thus, professional commitment serves as an internal cornerstone for rejecting unethical practices that undermine the accuracy of financial statements.

The ethical dilemma exacerbates the complexity of the decision-making process by introducing contradictory moral considerations in financial reporting. When the dilemma increases, for example, when there is strong pressure from management over the adjustment of financial statement figures, accountants with high professional commitment tend to use professional standards and ethical values as the main criteria in their assessments. In contrast, individuals with weak commitment are more susceptible to cognitive justifications that can drive cheating (Singh et al., 2025). When this moral conflict is high, professional commitment acts as a moderator, amplifying the negative impact on the intention or tendency to cheat. That is, the stronger an individual's professional commitment, the less likely they are to succumb to the urge to deviate from accounting standards (Bierstaker et al., 2024).

Given that ethical dilemmas trigger a need for more careful ethical judgment, they reinforce the negative influence of professional commitment on fraudulent tendencies in financial reporting. Individuals with high professional commitment tend to uphold the principles of integrity, objectivity, and public responsibility, enabling them to withstand pressures that may lead to unethical behavior. Based on these theoretical reasons and empirical findings, the following hypotheses are proposed:

**H4: Ethical Dilemmas Reinforce the Negative Influence of Professional Commitment on Financial Statement Preparation Fraud.**

### **3 RESEARCH METHOD**

This study uses a quantitative approach with the population of Rural Bank's employees in Bali Province, Indonesia, and the sample is the accounting department that compiles financial statements, selected through purposive sampling. Referring to Hair et al. (2021) and Kock & Hadaya (2018), adequate sample sizes are in the range of five to ten times the number of indicators. This study uses a minimum sample size of five times the number of indicators, yielding a total of 105 respondents. The data collection technique used online questionnaires and Google Forms. The variables in ethical awareness research were measured using 5 indicators adopted from Forsyth (1980) and

McCrae & Costa (1987). The variables of professional commitment were measured by 5 indicators adopted from Hall (2014) and Aranya et al (1981). The variables of ethical dilemmas are measured using 5 indicators adopted from T. L. Tang (1992) and Forsyth (1980). The fraud variable in the preparation of financial statements is measured using 6 indicators adopted from Vousinas (2017). Each question uses a five-point Likert scale measure, from 1 (strongly disagree) to 5 (strongly agree).

Data were analyzed using *Partial Least Squares Structural Equation Modeling* (PLS-SEM) with WarpPLS 8. The analysis was carried out with two main stages, namely the Outer Model to test the validity and reliability of the construct and *the Inner Model* to test the relationship between variables, including the direct influence and moderation interaction of ethical dilemmas on the relationship of ethical awareness to fraudulent preparation of financial statements (Kock, 2022).

## 4 RESULTS AND DISCUSSION

### 4.1 Profile responden

The profiles of respondents who participated in this study are presented in Table 1.

**Table 1**

*Respondent Profile*

Description	Category	Amount	Percentage
Age	< 25 Year	19	18,1
	25-30 Year	34	32,4
	31-35 Year	26	24,8
	36-40 Year	14	13,3
	> 40 Year	12	11,4
Work Experience	<5 Year	30	28,6
	5-10 Year	47	44,8
	11-20 Year	26	24,8
	> 20 Year	2	1,9
Gender	Male	65	61,9
	Female	40	0,38
Education level	Bachelor	82	78,1
	Diploma	15	14,3
	SMU Equivalent	4	3,8
	Magister	4	3,8

Table 1 shows that respondents are predominantly in the 25–30-year (32.4%) and 31–35-year (24.8%) age groups. The majority have 5–10 years of work experience (44.8%), with the proportion of >20 years of experience at least (1.9%). The gender composition showed male dominance (n = 65) compared to females (n = 40). In terms of education, most respondents had a Bachelor's (S1) degree (78.1%), followed by a Diploma (14.3%), with S2 and SMU at 3.8% each.

## 4.2 Measurement model evaluation

The evaluation of the outer model in the PLS-SEM approach aims to ensure that the latent construct is accurately represented by its reflective indicators. This stage includes testing for convergent validity, discriminant validity, internal reliability, and potential multicollinearity. Rigorous evaluation at the measurement stage is essential to ensure that structural relationship estimates in subsequent models are not distorted by measurement error (Sarstedt et al., 2022; Hair et al., 2021).

### 4.2.1 Convergent validity and internal consistency reliability

Convergent validity was evaluated through outer loading and Average Variance Extracted (AVE) values. Referring to Hair et al. (2021), the reflective indicator is declared to meet the convergent validity if it has an outer loading  $\geq 0.70$ , while the construct is declared adequate if it has an AVE of  $\geq 0.50$ . An outer loading value of  $\geq 0.70$  indicates that the indicator explains at least 49% of the variance in the latent construct ( $0.70^2$ ). In contrast,  $AVE \geq 0.50$  indicates that the construct, on average, explains more than half of the variance in the indicators. The results of the convergent validity and internal reliability tests are presented in Table 2.

**Table 2***Convergent Validity Test Results and Internal Reliability*

Construct	Item	Factor loading	AVE	Composite reliability	Cronbach'	Full Collin. VIF
Ethical Awareness (Et_A)	X1.1	0.853	0.726	0.930	0.905	1.421
	X1.2	0.884				
	X1.3	0.877				
	X1.4	0.877				
	X1.5	0.763				
Professional Commitment (Pr_C)	X2.1	0.925	0.821	0.958	0.945	1.167
	X2.2	0.947				
	X2.3	0.858				
	X2.4	0.927				
	X2.5	0.870				
Ethical Dilemmas (Et_D)	Z.1	0.970	0.801	0.952	0.935	1.193
	Z.2	0.965				
	Z.3	0.937				
	Z.4	0.718				
	Z.5	0.862				
Fraud in Financial Reporting (FFR)	Y.1	0.800	0.796	0.959	0.947	1.780
	Y.2	0.796				
	Y.3	0.935				
	Y.4	0.940				
	Y.5	0.932				
	Y.6	0.935				

Table 2 shows that all indicators have outer loadings above 0.70, ranging from 0.718 to 0.970. The results show that all indicators meet the criteria of convergent validity. In addition, all constructs have AVE values exceeding the minimum threshold of 0.50: 0.726 for Ethical Awareness, 0.821 for Professional Commitment, 0.801 for Ethical Dilemmas, and 0.796 for Fraud in Financial Reporting. The test results confirm that each construct has adequate explanatory capabilities for its indicators.

The internal reliability of the construct was evaluated using Composite Reliability (CR) and Cronbach's Alpha. In the context of PLS-SEM, a CR value of  $\geq 0.70$  indicates good internal consistency, with a range of 0.70–0.95 considered very adequate (Hair et al., 2021). The entire construct shows CR values ranging from 0.930 to 0.959 and Cronbach's Alpha values ranging from 0.905 to 0.947. These values substantially exceed the minimum threshold and indicate very strong internal consistency, without showing any indication of excessive indicator redundancy (a CR value of  $< 0.95$  is still acceptable in the context of a reflective construct with a wide conceptual scope).

#### 4.2.2 Collinearity assessment

The potential for multicollinearity was evaluated using the Full Collinearity Variance Inflation Factor (VIF). The VIF for the entire construct is 1.167 to 1.780, well below the conservative threshold of 3.3. These results show that the model is free of multicollinearity and does not indicate significant common-method bias.

#### 4.2.3 Discriminant validity

Discriminant validity aims to ensure that an empirical construct is conceptually and statistically different from other constructs in the model. The evaluation was carried out using the criteria of Fornell & Larcker (1981), namely by comparing the square root of each construct's AVE with the correlation between constructs. The validity of the discriminant is fulfilled if the square root of AVE is greater than the correlation between constructs. The test results are presented in Table 3.

**Table 3**

*Correlations among l.vs. with sq. rts. of AVEs*

	Et_A	Pr_C	Et_D	FFR	Et_C*Et	Et_C*Pr
Et_A	<b>0.852</b>	0.297	0.103	-0.489	0.351	0.221
Pr_C	0.297	<b>0.906</b>	-0.010	-0.290	0.233	-0.026
Et_D	0.103	-0.010	<b>0.895</b>	-0.324	-0.033	0.142
FFR	-0.489	-0.290	-0.324	<b>0.892</b>	-0.458	-0.216
Et_C*Et	0.351	0.233	-0.033	-0.458	1.000	0.192
Et_C*Pr	0.221	-0.026	0.142	-0.216	0.192	1.000

Note: Square roots of average variances extracted (AVEs) shown on the diagonal.

Table 3 shows that the entire square root value of AVE on the main diagonal is greater than the correlation between constructs in the same row and column. Thus, the measurement model meets the criteria for discriminant validity under the Fornell–Larcker approach.

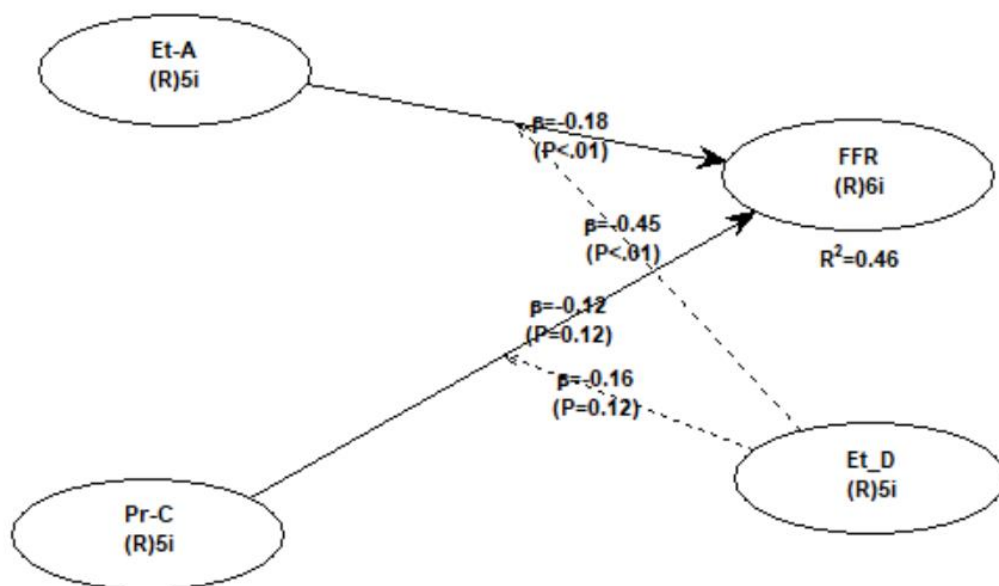
Overall, the results of the measurement model evaluation indicate that all constructs in this study meet the criteria for convergent and discriminant validity, internal reliability, and are free of multicollinearity. Thus, the measurement model is declared valid, reliable, and feasible for use in structural model testing at the next stage of analysis.

### 4.3 Evaluation of the inner model

Internal model tests were conducted to evaluate structural relationships and test research hypotheses. This evaluation includes *path coefficients*, statistical significance (p-values), coefficient of determination ( $R^2$ ), effect size ( $f^2$ ), and predictive relevance ( $Q^2$ ). The path coefficient assesses the direction and strength of influence between constructs, while the p-value determines the significance of the hypothesized relationship. The value of  $R^2$  reflects the predictive ability of exogenous constructs against endogenous constructs. Next,  $f^2$  evaluates the relative contribution of each construct, and  $Q^2$  (Stone–Geisser) assesses the model’s predictive relevance. This evaluation procedure follows the PLS-SEM guidelines recommended by Hair et al. (2011). The results of the model test are shown in Figure 1.

**Figure 1**

*WarpPLS Bootstrapping Structural Model*



**Table 4**

*A Theoretical Model For The Direction*

Independent Variable	Dependent Variabel	Hypotheses	Relevant path	Path coefficient	p-value	Remarks
Et_A	FFR	H1	-0.180	Et_A → FFR	P<0.001	Supported
Pr_C	FFR	H2	-0.210	Pr_C → FFR	P=0.121	Not Supported
Et_D*Et_A	FFR	H3	-0.445	Et_D*Et_A → FFR	P<0.001	Supported
Et_D*Pr_C	FFR	H4	-0.156	Et_D*Pr_C → FFR	P=0.124	Not Supported

*4.3.1 Hypothesis testing*

Figure 1 and Table 4 show that Et\_A has a statistically significant negative effect on FFR ( $\beta = -0.18, p < 0.001$ ), thus supporting H1. The results indicate that greater ethical awareness is associated with a lower propensity to commit financial statement fraud.

In contrast, Professional Commitment Pr\_C did not significantly affect Fraud in Financial Reporting (FFR) ( $\beta = -0.21, p = 0.121$ ), thus failing to receive H2. Despite the negative coefficient, the association did not reach conventional statistical significance ( $p < 0.05$ ), indicating insufficient empirical support.

Moderation analysis revealed that Et\_D significantly moderated the relationship between Et\_A and FFR ( $\beta = -0.445, p < 0.001$ ). The strong negative interaction effect provides strong support for H3. These findings suggest that the impact of Et\_A on FFR becomes substantially stronger under higher Et\_D levels. The magnitude of this interaction suggests a meaningful moderation effect in structural models.

However, the interaction between Et\_D and Pr\_C did not significantly affect FFR ( $\beta = -0.156, p = 0.124$ ), thereby failing to support H4. Therefore, Et\_D does not moderate the relationship between Pr\_C and FFR.

*4.3.2 R-square (R2)*

R-Square is used to assess how much variation in the dependent variables is explained by the independent variables. This test is important for assessing how well the research model explains the relationships among variables. Higher R<sup>2</sup> values indicate that the model has good explanatory abilities. If the R<sup>2</sup> value of 0.25 is considered weak, 0.50 moderate, and 0.75 strong. The results of the R-Square test are shown in Table 5.

**Table 5***R-Square Test Results*

	R-square	R-square adjusted
Financial Statement Preparation Fraud (FFR)	0,456	0,434

Based on Table 5, the adjusted R-square value of 0.434 indicates that the model has moderate explanatory ability. The  $R^2$  value indicates that 43.4% of the variance in fraud in financial statement preparation is explained by the variables included in the model. In comparison, 56.6% are influenced by other factors outside the study.

*4.3.3 Uji effect size*

Effect size ( $f^2$ ) indicates the extent to which the independent variable influences the dependent variable in the research model. This test assesses the variables that have a dominant influence on the model. If the  $f^2$  value of 0.02 is considered small, 0.15 medium, and 0.35 large (Hair, 2021). The test results are shown in Table 6.

**Table 6***Effect size test results*

Predictor → FFR	Effect Size ( $f^2$ )	Interprets
Et-A → FFR	0.091	small
Pr-C → FFR	0.039	small
Et D*Et → FFR	0.268	medium
Et D*Pr → FFR	0.058	small

Table 6. It shows that the values of  $f^2$  Et-A (0.091) and Pr-C (0.039) have a small effect on FFR, thus acting as supporting predictors. The Et\_DEt interaction (0.268) was in the moderate category, indicating substantive moderation and a conditional relationship. In contrast, Et\_DPr (0.058) remains small. The dominance of the interaction effect indicates that the model is context-dependent and potentially underspecified without a moderator. In practice, interventions targeting the main variables need to account for moderating mechanisms to optimize their impact on FFR.

#### 4.3.4 Predictive relevance value analysis

Predictive relevance ( $Q^2$ ) is used to assess the model's predictive ability outside the sample. The value of  $Q^2$  must be positive and greater than 0 (zero) for the model to be considered to have good predictive relevance. The  $Q^2$  test yielded a value of 0.458, indicating that the proposed model has predictive capabilities.

## 5 DISCUSSION

The results of the first hypothesis test (H1), which stated that ethical awareness harmed fraud in the preparation of financial statements, were accepted. These results indicate that individuals with higher ethical awareness are less likely to engage in financial reporting manipulation. Within the framework of Moral Development Theory (MDT), ethical awareness reflects the level of development of an individual's moral reasoning. Individuals at both the post-conventional and conventional stages not only consider instrumental consequences but also base their decisions on principles of integrity, fairness, and public responsibility (Fang et al., 2017; Emler et al., 2007). In line with this, the behavioural ethics literature emphasizes that recognizing moral issues is a prerequisite for normative evaluation, thereby limiting the space for justifying deviant actions (Cremer & Moore, 2020). In the context of accounting, moral sensitivity has been shown to lower tolerance for the manipulation of financial statements (Fiolleau & Kaplan, 2017).

Additionally, individuals with higher moral maturity tend to be resistant to moral release under performance pressure (Zhu et al., 2023). Thus, these results support the MDT that an increase in individuals' moral capacity reflects greater space for fraudulent rationalization. Preventing incidents through structural supervision is not enough; it requires ethical awareness as an internal control mechanism grounded in moral development.

The results indicate that professional commitment does not have a significant effect on fraud in financial statement preparation, thereby rejecting H2. These insignificant results are consistent with several studies showing that professional commitment does not necessarily directly predict actual behavior without support from

contextual factors, such as organizational pressure or ethical norms in the work environment (Yulianti et al., 2023). On the other hand, *professional commitment* can, through indirect mechanisms, enhance an individual's ability to reject unethical practices when combined with ethical sensitivity or a commitment to the profession's code of ethics (Rogošić & Perica, 2023).

Although traditional theories assume that strong professional commitment encourages adherence to professional ethical standards, recent literature indicates that this relationship is often moderated or mediated by other variables, such as ethical commitment and locus of control (Yulianti et al., 2023). In addition, research on fraud detection indicates that professional commitment is more effective at preventing manipulative practices when combined with institutional supports, such as effective internal controls and a strong ethical culture (Rustiarini et al., 2020). Thus, these results enrich the literature by confirming that professional commitment *is not universally predictive of Fraudulent Financial Reporting (FFR) behavior*, but is highly dependent on the organizational context and the support of other control mechanisms. This insignificance can also be explained through the perspective of contingency theory, which emphasizes that the effectiveness of a psychological variable depends on certain environmental conditions (Otley, 1980; Otley, 2016).

The results of the third hypothesis test (H3), which stated that **ethical dilemmas reinforce the negative influence of ethical awareness on fraud in the preparation of financial statements, were accepted**. These findings indicate that as ethical dilemmas increase, the protective effect of ethical awareness strengthens: individuals with high ethical awareness are more likely to resist fraudulent reporting in situations of conflict of interest or under pressure to meet targets. Within the framework of Moral Development Theory (MDT), ethical dilemmas serve as a “moral reasoning test” that forces individuals to activate higher-level normative considerations. At conventional and post-conventional levels, decisions are based on principles of integrity and public responsibility, not on short-term instrumental benefits. *The behavioral ethics literature* emphasizes that introducing moral issues is a prerequisite for moral reasoning to work effectively, especially when individuals face conditions that encourage rationalization (Cremer & Moore, 2020).

Experimental evidence in the reporting context suggests that ethical sensitivity to misreporting is not static, but depends on the context of judgment and “psychological distance”; in certain scenarios, individuals with reporting responsibilities become more sensitive to identifying misreporting as an ethical issue (Hunt et al., 2022). In line with this, research on internal auditors shows that exposure to ethical dilemmas can change the tendency to report *wrongdoing* through cognitive mechanisms (e.g., language bias/framing), reinforcing the argument that ethical dilemmas actually highlight the role of moral capacity in maintaining professional behavior (Pan & Patel, 2024). Thus, these moderation findings are consistent with the MDT: ethical dilemmas do not automatically undermine integrity, but for ethically conscious individuals, they emphasize commitment to principle and narrow the space for rationalizing cheating.

The results of the fourth hypothesis test (H4), which stated that the ethical dilemma reinforces the negative influence of professional commitment on the preparation of fraudulent financial statements, were not supported. The results provide empirical evidence that ethical dilemmas do not consistently moderate the relationship between professional commitment and fraud tendencies. In other words, professional commitment in this context emerges as a stable main effect, regardless of variations in the degree of ethical dilemmas. According to *Moral Development Theory* (Kohlberg, 1958), the ability of individuals to maintain ethical behavior in the face of value conflicts depends more on the level of moral reasoning than on mere identification of the profession’s role.

These findings align with empirical evidence that professional commitment is directly associated with the application of accounting ethical principles, such as integrity, objectivity, and professional responsibility, thereby reducing unethical behavior in professional accountants’ practice (Rogošić & Perica, 2023). Other research has also shown that a high level of professional commitment correlates with a stronger perception of the importance of accounting ethical principles, which, in turn, leads to more ethical behavior and greater resistance to the rationalization of fraudulent acts (Rogošić & Perica, 2023). Conceptually, when individuals have strong professional commitments but face ethical dilemmas, the principle-based reasoning of MDT becomes crucial for resisting rationalizations that encourage cheating rather than merely structural attachments to the profession.

Compared to studies conducted in large financial institutions, this research highlights the unique challenges faced by rural banks, particularly in developing economies. Unlike larger banks, rural banks often operate with limited resources for formal governance mechanisms and are more likely to face pressure to manipulate financial reports. This context underscores the importance of ethical awareness and professional commitment in these institutions. Additionally, while previous studies in corporate environments have focused on the direct impact of professional commitment on fraud prevention, this study reveals that its effects are more contextual. The moderating role of ethical dilemmas in rural banks suggests that environmental factors, such as organizational culture and situational pressures—may have a greater influence on ethical behavior compared to other settings. Future research could further explore these differences by comparing rural and urban banks or other financial institutions in similar developing economies.

## **6 CONCLUSION, MANAGERIAL IMPLICATIONS, THEORETICAL CONTRIBUTIONS, AND LIMITATIONS & FUTURE RESEARCH**

### **6.1 Conclusion**

This study provides empirical evidence that **ethical awareness** is a key determinant of fraud suppression in the preparation of financial statements. The negative and significant relationships found confirm that the individual's capacity to recognize the moral dimension of a decision serves as an effective internal control mechanism. These findings reinforce Moral Development Theory (MDT), which posits that the development of moral reasoning is a key foundation for ethical behavior, particularly in financial reporting.

In contrast, **professional commitment** has not been proven to be a direct predictor of financial reporting fraud. This insignificance suggests that the internalization of professional values does not automatically limit opportunistic behavior without the support of adequate contextual conditions. These results indicate that the effectiveness of professional commitments is contingent on institutional factors, such as organizational pressures, ethical climate, and governance mechanisms. Thus, this study expands the

literature by showing the limitations of universal assumptions regarding the protective role of professional commitment.

Furthermore, this study confirms that **ethical dilemmas** have different moderation roles in each relationship. Ethical dilemmas have been shown to reinforce the protective effect of ethical awareness against cheating, confirming that moral conflicts activate normative reasoning in individuals with high ethical sensitivity. However, ethical dilemmas do not moderate the relationship between professional commitment and cheating, indicating that responses to value conflicts are determined more by individual moral capacity than by the identification of a mere professional role.

Theoretically, these findings confirm that cognitive-moral variables have greater predictive power than professional identity variables in explaining fraudulent behavior. In practice, the results imply that fraud prevention strategies do not place sufficient emphasis on strengthening professional commitment and should instead focus on developing individuals' ethical awareness and moral reasoning capacity. Organizations also need to establish a consistent ethical environment to ensure that an individual's ethical disposition can be actualized in financial reporting behavior with integrity.

## 6.2 Managerial implications

The study's findings confirm that strengthening ethical awareness is a key strategy for mitigating financial reporting fraud. Organizations need to prioritize dilemma-based ethics training to improve moral sensitivity and the quality of normative reasoning. The insignificance of **professional commitment** suggests that internalizing professional values is insufficient without the support of an ethical environment and strong internal controls. Therefore, management must ensure the consistency of ethical culture, clarity of reporting standards, and effective governance mechanisms to limit the scope for fraudulent rationalization.

The findings of this study carry important policy implications for both regulatory bodies and organizational leaders. First, the study highlights the need for ethical awareness programs within organizations, particularly in rural banks where governance resources may be limited. Policies should focus on improving the ethical reasoning capacity of employees, ensuring that they can recognize and act upon moral dilemmas in

financial reporting. Second, given the limited impact of professional commitment in isolation, organizational policies must emphasize the creation of a strong ethical culture alongside professional development programs. This would help ensure that employees are not only committed to professional norms but also supported by an ethical environment that discourages fraudulent behavior. Finally, policymakers should consider integrating ethical dilemmas into ethics training programs, as these dilemmas appear to strengthen the protective effect of ethical awareness. This integration could help employees navigate complex situations that often lead to ethical violations, ultimately contributing to more transparent and accurate financial reporting.

### 6.3 Theoretical contributions

This study strengthens **the Moral Development Theory (MDT)** by demonstrating that ethical awareness has a stable predictive power in relation to cheating tendencies. The results also expand the literature on **professional commitment** by asserting that its effects are contingent, rather than universal. In addition, the role of ethical dilemma moderation integrates MDT and behavioral ethics, confirming that moral conflict can strengthen normative control over individuals with high moral capacity.

### 6.4 Limitations & future research

The main limitation of this study lies in the survey design and perceptual measurements, which limit causal inference. Future studies are suggested to use experimental or longitudinal designs, as well as actual behavioral indicators. Subsequent research should also include organizational contextual variables (e.g., performance pressure, ethical culture) to elucidate the dynamics of the relationship between professional commitment and cheating.

While the use of self-reported data through questionnaires provides valuable insights, one potential limitation of this study is the possibility of self-report bias. Respondents may tend to present themselves in a socially desirable manner, especially in sensitive topics such as ethical behavior and fraud. This bias could result in overreporting ethical awareness or underreporting fraudulent activities, thereby affecting the accuracy

of the findings. Future research could address this limitation by incorporating more objective measures or using experimental designs to reduce the potential for self-report bias.

### **AUTHOR CONTRIBUTED**

The authors contributed equally to the research design, data analysis, and manuscript preparation, ensuring the academic integrity of the study.

### **DATA AVAILABILITY**

To ensure transparency, the entire dataset relevant and analyzed in this study has been fully enclosed in the article.

### **DISCLOSURE STATEMENT**

The authors state that they have no competing financial interests or personal relationships that could influence the work reported in this paper.

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### Authors' Contribution

All authors contributed equally to the development of this article.

### Data availability

All datasets relevant to this study's findings are fully available within the article.

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