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Proposing Religiosity as a Moderating Variable to Determine Factors in Fraud Intention from the Fraud Triangle Theory Perspective

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Abstract

The fraud scandals in Malaysia among public servants provide a chance to understand why fraudsters could be motivated to commit fraud. The purpose of the paper is to review and propose religiosity as a moderating variable in determining the influence of each element of the Fraud Triangle Theory (pressure, opportunity, and rationalisation) on fraud intention. This paper will give contributions in terms of reasons for religiosity as a moderating variable for understanding fraud intention among public service in Malaysia.

Keywords: Fraud Triangle Theory; Religiosity; Public Sector; Fraud Intention

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1.0 Introduction

Corruption and fraud have become significant problems globally, affecting organisations, countries, and nations. Fraud, which involves dishonest and deceptive means to gain an advantage over others, poses a significant risk to the global economy. The acceptance of fraud as normal by some public sector employees contributes to the perpetuation of this problem. ACFE (2020) mentions fraud as a widespread problem affecting organisations worldwide. Individuals and organisations have different definitions and perceptions of fraud (Buldock, 2016). The author added that this variability arises from contextual factors and the complex nature of fraud, making it challenging to establish a standardised framework for its definition.

Similarly, Lokanan (2015) emphasised the importance for organisations to establish clear guidelines and protocols to detect and prevent fraud due to these variations in perception and understanding. Fraud not only leads to direct financial losses but also has collateral effects such as damaging external business relationships, lowering employee morale, and harming a firm reputation and branding (Bierstaker et al., 2006). The definition of fraud used in this study aligns with Albretch 2015) description of fraud as the violation

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of trust and confidence, encompassing all deceptive means through which an individual gains an advantage over another through false representation. Fraud is also defined as making false statements to gain personal benefits or cause harm to others (Abdullahi & Mansor, 2018a). It encompasses dishonest means, the intentional withholding of required information, and any actions aimed at gaining an unfair advantage through deception or causing harm to others (Istifadah & Senjani, 2020). Despite various efforts to combat fraud, its severity and frequency continue to increase (Wolfe & Hermanson, 2004). The acceptance of fraud as a normal occurrence among public sector employees contributes to the suffering of governments (Zahari et al., 2022).

In Malaysia, fraudulent conduct was identified as a significant issue, with a KPMG survey in 2013 revealing that 83% of respondents considered fraud a major problem in Malaysian firms. The Global Economic Crime survey conducted by PricewaterhouseCoopers (PwC) in 2014 highlighted asset misappropriation, procurement fraud, bribery and corruption, cybercrime, and accounting fraud as commonly reported types of fraud. Malaysia has experienced increased economic crime, with 41% of respondents reporting fraudulent activities in 2018, compared to 28% in 2016. Fraudulent activities in the public sector have long been a concern in Malaysia, and the number of cases continues to rise yearly. Since 2015, Malaysia has experienced a series of high-profile corruption scandals involving staggering amounts of money. These scandals tarnish the country's reputation and raise questions about the effectiveness of the Malaysian Anti-Corruption Commission (MACC) in ensuring accountability. The impact of these scandals goes beyond financial losses, as they erode public trust and undermine the integrity of institutions entrusted with combating corruption.

Despite the Malaysian government's efforts to combat fraud through initiatives such as operational audits, internal control systems, and codes of conduct, the frequency of fraudulent activities continues to rise. The Auditor General Report 2012 raised concerns about the growing corruption cases involving public sector employees, ministries, and government-affiliated businesses. Previous studies have examined fraud using the Fraud Triangle Theory (FTT), which explores the components of opportunity, incentive or pressure, and rationalisation. Pressure often manifests as the misuse of authority by low-level and mid-level public officials, while opportunity arises from system weaknesses. Uncertainty serves as a rationalisation for engaging in fraudulent actions. Religion and religiosity have been explored as factors that can influence fraud.

Fraud cases in the public sector of Malaysia have been steadily increasing, as evidenced by Malaysia's ranking in the Transparency International 2021 Corruption Perception Index. This issue is a growing concern and encompasses various fraudulent activities, such as bribery, abuse of power, and conflict of interest. The Association of Certified Fraud Examiners (2022) has reported significant global losses due to fraud, and Malaysia has experienced increased economic crimes, including asset misappropriation, procurement fraud, and cybercrime. Studies by Zahari, Said & Arshad (2019) have shown that a weak internal control system and a lack of policy provisions contribute to the rising number of fraud cases. While research on fraud has mainly focused on private businesses, there is a need to address fraud in the public service sector (Asmah et al., 2019; Zahari et al., 2020).

Understanding the factors contributing to fraud is crucial for combating it, and the Fraud Triangle Theory by Donald R Cressey, which examines perceived pressure, perceived opportunity, and the rationalisation of fraudulent behaviour, is instrumental in analysing fraud in the public sector. Awalludin et al. (2022) found that the pressure contributing to fraud can arise from someone grappling with gambling, addiction, or personal difficulties. The author also added that the opportunity for fraud emerges when someone exhibits unethical behaviour. At the same time, rationalisation plays a crucial role in fraud by reassuring criminals and convincing them that their actions are right. The reassuring element can be seen in the tendency to commit fraudulent behaviour concealed within an individual's behaviour and personality traits (Sayal & Singh, 2020). Voon et al. (2008) emphasise the importance of understanding fraud and the underlying reasons behind its occurrence to combat it effectively. It is critical to comprehend the motivations behind fraudulent behaviour to prevent fraud. Lin, Huang, Liao, Liu & Zhou (2022) note the lack of research on the factors that motivate people to commit fraud, which leaves the question of what drives Malaysian public servants to engage in fraudulent activities unanswered. Therefore, this study proposes justifications for the moderating variable of religiosity in examining the factors influencing fraud intentions in the context of Malaysian public service.

2.0 Literature Review

Fraud is the intentional use of a trick, deception, or any other dishonest conduct to deny another person their lawful authority, money, or assets (Ernst and Young, 2005). ACFE (2022) claimed that fraud has been split into three primary classifications: corruption, asset misappropriation, and financial statement fraud. Abdullahi & Mansor (2018) added based on the previous existing cases there are several ways for fraud to be committed, extending from the basic violation of trust to the advanced computer-based crime. Bhasin (2013) listed the causes for the emergence of fraud cases as bad corporate governance and accounting mistakes. He maintains that bad corporate governance may provide someone or a group of people with the same interests to take advantage of them and engage in fraudulent activity within the firm.

The Fraud Triangle Theory was established by Cressey 1953 through his book 'Other Peoples' Money'. Typically, the Fraud Triangle is used to determine and evaluate the risk of fraud. According to Cressey, people who committed fraud are doing so due to three circumstances which are pressure, opportunity, and rationalization. Hasnan, Abdul Rahman & Mahenthiram (2008) defined pressure of frauds as pressure from the external environment to accomplish a specific income aim or an internally produced desire to achieve a specific financial target to gain points. Someone may be under a financial strain or other sorts of pressure when they decide to commit fraud (Asmuni, Marziana, Muhaiza and Balkish, 2022). Fraudulent organizations include those that are under external pressure to get finance and have unrealistic financial goals. Next, a chance to make unjustified gains or get unauthorised in financial access called opportunity. The method in which fraud crimes are conducted is frequently described as being motivated by opportunity—a perceived opportunity. Turner, Mock, and Srivasta (2002) found that a fraudster need not have personal motivations if there is a potential to

succeed. Albrecht et al. (2011) stated that an opportunity is a situation in which a person believes that a set of circumstances and factors will allow somebody to commit fraud and go undetected. Lastly, rationalization states the personal reason for acting independently. This argument suggests that a fraudster must provide a variety of ethically acceptable behaviours as part of the fraud process to justify their scheme before breaching trust.

Bergan and McConatha (2000) defined "religiosity" as referring to a range of characteristics connected to religious activity and beliefs. The effects of religion on subjective well-being, happiness, health, and social engagement have all been studied. In addition, the measure to which a certain employee observes the relevant teachings of the relevant religion and engages in the relevant activities is referred to as their level of religiosity. Instead of being meaninglessly and superficially religious, religiosity means being really and passionately religious (Iddagoda & Opatha, 2017). Since this involves a state that pushes a person to think, react, and act according to his beliefs, religiosity is how a person comprehends, internalises, and integrates religious rules into himself and makes them into their personality (Hayati & Ikklmatus, 2021). Religion holds significance in Malaysia, influencing people's lives and behaviours (Loser et al., 2008). Integrating religious values into social life is suggested as an effort to prevent fraud (Arfriani et al., 2020). However, the absence of religious beliefs, honesty, ethics, and integrity among individuals can lead to corruption, misuse of authority, and resource misappropriation (Sham & Yusuf, 2015). Despite the integration of Islamic values into administration through the Islamic Value Policy, issues like corruption and a lack of integrity among civil servants persist in Malaysia (Kasim & Hoesni, 2021).

3.0 Findings and Discussion

Whatever the faith is, Islam, Christianity, Hinduism and Buddhism, quantifying and comprehending religiosity is a difficult process. Believing fervently in the existence of a God or Gods is the definition of religiosity. A person's level of dedication to and excitement for religion may be used to define their religiosity (Salleh, 2012). According to the Islamic viewpoint, religiosity is characterised as knowledge of and a desire to find a balance between the wants of this world and readiness to follow Allah's instructions (Ibrahim, Man & Noor, 2013). The goal is to increase piety, obedience, and behaviour preservation (Rikyan & Yuyu, 2020). Religion holds significance in the lives of the Malaysian population, and its influence can be observed in their behaviour and actions (Loser et al., 2008). Integrating religious values into social life is considered an endeavour to prevent fraud (Arfriani et al., 2020). However, the absence of religious beliefs, honesty, ethics, and the ego of individuals often contribute to issues such as corruption, abuse of authority, and misappropriation of resources (Sham & Yusuf, 2015). Despite the Malaysian government's efforts to implement Islamization in various sectors, which involves integrating Islamic values into administration through the Islamic Value Policy (Kasim & Hoesni, 2021), corruption and abuse of power continue to pose significant problems for the country.

Previous research establishes a conceptual link between religiosity and ethical behaviour, indicating that higher religiosity is associated with a lower likelihood of engaging in fraudulent activities (Reidenbach and Robin, 1990). Studies in Indonesia have explored religiosity as a moderator in various contexts, including whistleblowing intention, fraud diamond, and personal ethics (Nopeanti, Tarjo & Haryadi, 2020; Istifadah & Senjani, 2020; Nopeanti, Tarjo & Hariadi, 2019). In Malaysia, research integrating religiosity into the Fraud Triangle Theory for the Royal Malaysian Police and enforcement officers resumed in the 2000s, showing a negative connection between religious practice and the likelihood of employee fraud (Said et al., 2018b). This study aims to examine whether religiosity moderates the effects of the Fraud Triangle Theory.

Nopeanti et al., (2020) mention religiosity has been identified as a contributing factor in reducing the risk of fraudulent behaviour and attitude in several ways. Firstly, religion provides guidance and teachings that discourage deviant behaviour such as stealing through a moral code. It also establishes negative connotations towards such behaviour. Additionally, religion promotes a fear of eternal punishments such as spending an eternity in hell which discourages individuals from engaging in fraudulent behaviour. Secondly, religiosity has been linked to a decrease in criminal activity through socialization with like-minded individuals. This also supported research conducted by Baier and Wright (2001) stated religious individuals tend to associate with those who share similar beliefs and have an anti-deviant attitude which can help reinforce positive behaviours and attitudes.

Thus, this research uses religiosity as a moderating variable to adjust for the influence of three factors that drive fraud. Understanding one's religion is expected to reduce the tendency to cheat when the person has the pressure, opportunity and rationalization that can cause fraud to occur. A study conducted by Istifadah & Senjani (2020) revealed that religiosity has been found to effectively moderate the factors that contribute to fraudulent behaviour including pressure, opportunity, rationalization, ability, and personal ethics. This is proven by the study conducted by Hariyanto et al. (2018) mention that the influence of pressure in dishonest behaviour can be reduced by religiosity as a moderating variable and Indriani (2016) claims that religiosity can lessen the pressure that leads to fraud. Hariyanto et al. (2018) revealed that religiosity is capable of moderating the opportunities for cheating. They suggest that a strong sense of religiosity can help weaken the temptation to engage in fraudulent behaviours. According to Rahmawati & Susilawati (2018) studies mention that religiosity has been found to moderate the factors of rationalization that may lead to fraudulent activities. He mentioned that individuals with a strong sense of religiosity are less likely to engage in rationalization that justifies fraudulent behaviour.

Hence, we conclude to take these discoveries of findings as the primary justifications to offer religiosity as a moderating variable for the proposed study.

4.0 Conclusion

This paper offers attention to focus on religiosity as a moderating variable in examining the factors influencing human behaviours in committing fraud. The proposed study will proceed in designing the detailed and thorough work of research in the form of a framework

underlying theory on Fraud Triangle Theory. This study will contribute to the body of knowledge in providing significant outcome of learning about human behavior towards frauds. This study will try to provide understanding on the motivation side of human in taking money or other people's rights even though that are not theirs possession.

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