

## Budget participation and financial information asymmetry: Behavior of budget users and financial report fraud



Seri Suriani<sup>1+</sup>

Indrayani Nur<sup>2</sup>

Sukmawati Mardjuni<sup>3</sup>

Sitti Mujahida

Baharuddin<sup>4</sup>

Abdul Karim<sup>5</sup>

<sup>1</sup>Department of Financial Management, Faculty of Economic and Business, University Bosorwa Makassar City, 90231, Indonesia.

<sup>2</sup>Email: [seri.suriani@universitasbosorwa.ac.id](mailto:seri.suriani@universitasbosorwa.ac.id)

<sup>2,3,5</sup>Department of Management, Faculty of Economics and Bussines, University Bosorwa Makassar City, 90231, Indonesia.

<sup>2</sup>Email: [indrayani.nur@universitasbosorwa.ac.id](mailto:indrayani.nur@universitasbosorwa.ac.id)

<sup>3</sup>Email: [sukmawati@universitasbosorwa.ac.id](mailto:sukmawati@universitasbosorwa.ac.id)

<sup>4</sup>Email: [abdul.karim@universitasbosorwa.ac.id](mailto:abdul.karim@universitasbosorwa.ac.id)

<sup>4</sup>Department of Management, Faculty of Economics, Institute of Economic Science AMKOP Makassar City, 90231, Indonesia.

<sup>5</sup>Email: [mujahida\\_41@yahoo.com](mailto:mujahida_41@yahoo.com)



(+ Corresponding author)

### ABSTRACT

#### Article History

Received: 30 April 2024

Revised: 22 August 2024

Accepted: 17 September 2024

Published: 14 October 2024

#### Keywords

Employee performance

Financial reports

Fraudulent financial statements

Information asymmetry

Moral equity

Participatory budgeting.

#### JEL Classification:

E 16; E20; E39.

Financial statement fraud is a problem often faced by organizations that can reduce their performance. An organization that successfully achieves its goals must be aware of information asymmetry and the need for moral justice in managing its finances. The research population comprises employees of the finance, planning, reporting, and budget preparation sections of the Gowa Regency regional performance unit. This research selected a saturated sample of 76 employees from the total population. The results show that participatory budgeting has a significant effect on financial report fraud and that information asymmetry has a substantial influence on financial statement fraud. The research results show that moral justice moderates the effect of participatory budgeting on financial report fraud. Moral justice cannot moderate the influence of information asymmetry on financial statement fraud. Employees must still have good moral justice in participatory budgeting to minimize the possibility of fraudulent financial reports. It is hoped that the findings of this research will enable organizations to create innovative information facilities to reduce information asymmetry so that organizational performance can be achieved.

**Contribution/Originality:** This study aims to provide knowledge on limiting the use of financial budget realization and creating integrated regional financial management in the Gowa Regency. The institutional synergy between the central, provincial, and district governments is needed to create regional financial governance. Through all regional apparatus, organizations are regulated in various laws and regulations governing state/regional financial management. Regional financial management officials and heads of regional financial management work units as budget users are accounting entities that are required to prepare financial reports.

## 1. INTRODUCTION

A successful financial plan to achieve an organization's future goals relies heavily on a good budget. Budget management has various important organizational functions, such as planning, implementation, coordination, supervision, and serves as a guide for organizational performance. Implementing a performance-based budgeting system is expected to overcome the weaknesses of traditional budgeting systems to improve organizational performance (Mogues & Olofinbiyi, 2020; Nguyen, Evangelista, & Kieu, 2019). A financial plan is outlined in a detailed

budget that is formally expressed in quantitative, financial, and non-financial measures. Regarding the acquisition and use of organizational resources and responsibility, businesses carry out their activities within a certain period, generally one year, to achieve organizational goals. Participatory budgeting has positive and negative impacts that may arise due to the budget preparation process involving subordinates (Surya, Menne, et al., 2021; Tyas & Mardiaty, 2021). Subordinates make the best estimate of the organization's budget, tending to set an amount that is easy to achieve to make performance look good (Akbar, Africano, & Isrodinata, 2021; Daumosser, Hirsch, & Sohn, 2018). The income budget is set lower, and the costs or expenses are set higher, which creates the opportunity for financial statement fraud.

Since regional autonomy was established, regional governments have been required to realize good governance (Karim, Asrianto, Ruslan, & Said, 2023). Regional governments use a performance-based budget system, which is an efficient and participatory development process and uses performance as a benchmark in achieving regional budget targets. The budget gap or budgetary slack is the difference between the budget amount reported by the agent and the best estimate from the company or local government (Karim, Syamsuddin, & Asrianto, 2023). Agents tend to submit budgets by lowering revenues and increasing costs compared to the best estimates submitted so that targets are more easily achieved. Also, budgetary slack often occurs at the planning and preparation stages of regional budgets because it is dominated by executive and legislative interests and does not reflect community needs (Shu, Chen, & Chen, 2023; Wahyuni, Kalsum, Asmara, & Karim, 2022). The regional income and expenditure budget is a planning tool as well as a control tool for regional government. The budget also functions as a control tool because it can be used as a benchmark for the performance of each responsibility center in local government (Wijekoon, Sharma, & Samkin, 2024). The existing paradigm in the budgeting process in regional government is that employees assume that the amount of planned income is contained in the regional income and expenditure budget. The lowest limit that must be achieved and the amount of planned expenditure is the highest limit, thereby triggering accounting fraud (Dewi, Mahmudi, & Maulana, 2021).

Accounting fraud is a form of misrepresentation that is intentionally carried out to cause losses. Budgetary slack will result in the budget being used as a tool to assess a person's performance so that it does not function properly because the budget does not reflect the actual abilities of the person (Bahtiar & Karim, 2021). A bigger problem that will occur is that budgetary slack will affect the preparation of the next period's budget. On an ongoing basis, a budget that was not optimal in the previous period will affect the budget needs for the next period. Budgetary gaps can occur due to inadequate attention to decision makers, communication, budget approval processes, and unselective leadership. Fraud has occurred in various regional government work unit offices in Gowa Regency, South Sulawesi Province (Karim, Musa, Sahabuddin, & Azis, 2021). As a result of the investigation, Sub-directorate III of the Corruption Eradication Committee of the Special Criminal Investigation Directorate of the South Sulawesi Regional Police on May 14, 2019, traced the alleged increase in financial plans to the acquisition of Imtaq teaching aids carried out by the Gowa Regency education office. The cash used to purchase the props in question was only IDR 1,500,000,000.00, but the financial plan allocated for this exercise was IDR 5,609,681,992. Not only that, but this group also postponed work. In February 2019, there were still product deliveries from Yogyakarta to Makassar, while information on the handover of work was 100% calculated to be precise in September 2018. It was found that the expected acquisition of Imtaq teaching aids for 82 elementary schools spread across 18 sub-districts in Gowa Regency used a financial plan amounting to IDR 5,609,681,992, which was obtained from the regional revenue and expenditure budget for the 2018 fiscal year (Menne et al., 2022).

The factor that causes employees in regional work units to commit fraudulent financial reporting is information asymmetry. Information asymmetry can occur if the manager knows more information than the principal (Surya, Salim, et al., 2021). In addition to budget participation and information asymmetry, another individual behavioral factor is moral equity, which can weaken or strengthen the occurrence of fraud. Moral equity represents an element of ethics as a whole and is an important criterion in ethical assessment (Anggraini, Salsabila, & Chairina, 2023).

Therefore, this moderating variable is used to determine whether the existence of moral equity, budget participation, and information asymmetry toward financial statement fraud will be higher or lower (Abdel-Rahim & Stevens, 2018). This gap is characterized by the behavior of lowering income targets as a way to facilitate the achievement of regional government budgets. Budget gaps like this are caused by individual behavior in trying to prepare a budget that is felt to be easier to achieve, and safe when holding the budget accountable (Frihatni & Abbas, 2020). There are five measurement indicators, according to budget standards, that can increase productivity: budget achievement, monitoring costs due to budget constraints, demands on the budget, budget targets causing efficiency, and budget targets that are difficult to achieve. Budget participation will not only affect budget targets but also organizational goals. Usually, employees will target income lower than their capacity to achieve the target easily; this will make the employees' performance look better. The cost budget will be prepared to be larger than the actual needs to make it appear that employees are making savings on the financing side. This motivates employees to plan budgets that do not follow their abilities so that they get more incentives.

This research found that the level of financial report fraud in the Gowa Regency government in South Sulawesi Province was influenced by several factors. Information asymmetry occurs as a result of a subordinate having better information than his superior (Park & Jang, 2021). When a subordinate knows better what is needed in an organization, they provide biased information by reporting a budget below the expected performance and create a budget target that is easy to achieve to trigger budgetary slack. There is an influence of information asymmetry on the emergence of budgetary slack, namely that budgetary slack will be greater in conditions of information asymmetry because information asymmetry encourages budget implementers' subordinates to create budgetary slack (Wardani, 2021). Information asymmetry is also explained in agency theory, which underlies the relationship between principals and agents. According to this theory, an agent has more information and understands the organization better, giving rise to information asymmetry.

The problem that arises from the principal and agent relationship is that the principal is neutral toward risk while the agent is averse to effort and risk. A subordinate sometimes creates budgetary slack because he wants to avoid risks by providing biased information, so there is a possibility that information asymmetry is the trigger for budgetary slack. If subordinates become more technically familiar with the work and employees have an understanding of what can be achieved in their respective areas of responsibility, the budget gap will decrease (Ababneh & Aga, 2019). Evaluation of a person's performance is determined based on whether or not the budget target is achieved, where subordinates are rewarded if the budget plan is achieved and sanctioned if the budget plan is not achieved (Achmad, Ghozali, & Pamungkas, 2022). Such budget emphasis will encourage subordinates to create slack to increase compensation prospects and avoid sanctions. Budget emphasis is pressure placed on subordinates by superiors to implement the budget. With the various phenomena described above, this research aims to analyze the impact of participatory budgeting and information asymmetry on financial report fraud, as well as the interaction between moral justice and participatory budgeting and information asymmetry on financial report fraud in the Gowa Regency government in realizing good governance.

## 2. LITERATURE REVIEW

### 2.1. Participative Budget

Participatory budgeting is a process in which individuals are involved and have an influence on the preparation of budget targets and whose performance will be evaluated and possibly rewarded for their budget achievements (Karim, Syamsuddin, et al., 2023). Participatory budgeting is a creative innovation in the process of making policies. In this case, the community is directly involved in policymaking. Budget participation is a process in an organization that involves all parties in determining the budget objectives for which they are responsible. The regional budgeting process using a performance approach set out in the Ministry of Home Affairs that contains guidelines for drafting regional income and expenditure budgets which are implemented by the executive budget team together with regional

organizational units. Government officials run the government bureaucracy and are the key to implementing the policies and systems that have been established. Weak human resources cause poor bureaucratic services in Indonesia. The low quality of human resources is reflected in three things, namely welfare, reward, and punishment (Hasniati, Indriasari, Sirajuddin, & Karim, 2023). Salary as a support for performance is currently being debated because salaries do not reflect the truth, in other words, salaries do not fully reflect the level of education, loyalty, achievement, discipline, or productivity of an employee as they should.

Budget participation is a process where the individuals involved influence the budget targets (Sandi, Yunita, Heikal, Ilham, & Sinta, 2021). Participatory budget preparation is expected to improve employee performance; this is based on the idea that when a goal or standard designed in a participatory manner is approved, employees will be serious about achieving the goals that have been set because they have a sense of personal responsibility for participating in the budget preparation (Lata, 2020). The most important role of the budget is acting as the main tool used by a company for planning and control. Budgets in an organization function as a tool for assessing manager performance and, thus, one way to align goals is to increase manager involvement in the organization (Al-Ameedee & Moradi, 2023). Budgeting management concerns various aspects, namely budget participation, clarity of budget targets, feedback based on the budget, performance evaluation based on the budget, and the level of difficulty of the budget targets (Surya et al., 2022). Much of the research on budgets focuses on managers' involvement in the budget process. Real participation means that individuals can spontaneously or freely carry out discussions or provide input, whereas in pseudo-participation, managers do not agree on what is decided, but they state that they agree because the company or organization requires approval (Daga, Karim, Nawir, Lutfi, & Jumady, 2024).

Fiscal transparency has long been considered an important component for reducing corruption and building a democratic system that is fair and equal in the world of public financial management. However, the importance of the government's role in providing opportunities for the public to participate in the fiscal process has become increasingly recognized in recent years (Huang, Cheng, Chung, Wang, & Wang, 2021). Participation can be a frustrating endeavor for citizens. Participatory budget preparation can provide direct influence and power to citizens. Participatory budgeting can reduce feelings of powerlessness to influence or change government and serve as a tool to focus democracy on the needs and priorities of each citizen, rather than on particular interests (Hassan & Basiruddin, 2023). The participatory budget project strategy determines that the government designs the participatory budget preparation process so that it covers as much as possible by emphasizing the participation of citizen groups who have not been historically involved in the general election and democratic processes (Riyadh, Nugraheni, & Ahmed, 2023). The project began by establishing a steering committee consisting of local community members. This committee acts as a leader to guides the project toward implementation.

Budgeting participation is considered a factor that can influence the occurrence of budget gaps. Budgeting participation is a process in which work units, both superiors and subordinates, are involved and have an influence in determining budget targets (Meutia & Hermanda, 2022). The higher the involvement in budget preparation, the more individuals will be encouraged to create budgetary slack (Ngo, Doan, & Huynh, 2017). In preparing the budget, individuals abuse their authority to make it easier to achieve targets, which can be detrimental to the organization (Ferguson & Lam, 2023). Individuals feel the pressure of tight budgets and anxiety over poor performance reports, so budgets can often hinder their career advancement. Budgeting participation influences budget gaps (Jatmiko, Laras, & Rohmawati, 2020). The higher the individual involvement in budget preparation, the higher the practice of budget slack. Organizational culture is a factor that influences budgetary slack. In organizational culture, bureaucracy is closely related to public services because the activities of public officials must be guided by normative regulations that have been established by public organizations (Silva, Mota, & Moreira, 2022).

Organizational culture has become a way of doing work and responding to organizational environmental conditions, in this case the budget preparation process. Theoretically, organizations that have a decentralized structure can provide public services effectively and efficiently. This will minimize the role gap between the central

organization and the activity implementation organization (Sugiyono, 2019). The organizational culture in the Indonesian government is that of a bureaucratic model. Bureaucratic culture can shape individual identity within the organization and for the organization itself. This identity differentiates one organization from another, and this differentiation can function as a controller for the behavior of organizational members (Felix Júnior, Costa, Guimarães, Pereira, & El-Aouar, 2020). Organizational culture is a collection of attitudes, perspectives, and habits in responding to environmental situations which can be used as a driver of employee commitment.

Theoretically, it can be said that if budgetary participation is not implemented well, it can encourage budget implementers to create budget gaps, leading to fraud. This has negative implications, such as the misallocation of resources and bias in evaluating subordinates' performance in their unit of responsibility (Major, 2019). A budget can be used as a tool to plan expenses and income, and to control, coordinate, communicate, motivate, and evaluate the achievements of subordinates. There are two important elements of the budget, namely (1) how the budget is made, related to the mechanism for making the budget, and (2) how the budget is implemented as an organizational plan, related to the reactions and attitudes of subordinates toward the existing budget system in the organization (Jordan, Yusuf, Berman, & Gilchrist, 2017). Empirically, participatory budgeting can be used as positive communication between superiors and subordinates, because with participation there will be mechanisms regarding work plans. Superiors give authority to subordinates so that they will do their best for the company (Rezaei, Nasser, & Maazallahi, 2024). However, participatory budgeting can also cause problems, for example: (1) superiors or subordinates will set budget standards that are too high or too low, (2) subordinates will create budgetary slack by allocating resources above what is needed, and (3) there is pseudo-participation. Budgetary slack is the difference between the budget amount proposed by subordinates and the company's best estimate. Subordinates tend to submit budgets by lowering income and increasing costs compared to the best estimates so that targets can be more easily achieved (Yuhertiana, Bastian, & Sari, 2019).

## 2.2. Information Asymmetry

Information asymmetry refers to a situation in which one party in a transaction has better or more complete information than the other party. Information asymmetry occurs when there is an imbalance of knowledge regarding a product or service between the two parties engaged in an economic transaction (Zhyber, Pyslytsya, Zavystovska, Tymchenko, & Shchur, 2024). In a financial context, information asymmetry occurs when one party in a transaction has access to better information about relevant assets, liabilities, or conditions than the other party. Minimizing information asymmetry can increase the likelihood of success for projects launched on the Crowdfunder platform. Information asymmetry can occur in various situations, such as buying and selling transactions, offering products or services in consumer markets, or contract negotiations between citizens and agencies (María del Carmen, Bolivar, & Hernandez, 2014).

The existence of information asymmetry is considered a cause of earnings management in an organization (Shen, Choi, & Minner, 2019). The more information about the internal company that is owned by managers rather than shareholders, the more managers will have the opportunity to carry out earnings management (Vosooghizaji, Taghipour, & Canel-Depitre, 2020). In presenting accounting information, especially in preparing financial reports, agents also have asymmetric information so that they can more flexibly influence financial reporting to maximize their interests (Abad, Cutillas-Gomariz, Sánchez-Ballesta, & Yagüe, 2018). Budget preparation in regional government must focus on the welfare of the community and not just serve personal or group interests (Cheynel & Levine, 2020). For this reason, truly accurate information is needed in preparing regional government budgets (Fisher, Mitchell, Peffer, & Webb, 2019), lest the proposals submitted by the community are not accommodated in the budget. Local information is an example of information asymmetry that arises when subordinates have appropriate information in the regional budget decision-making process (Asongu & Odhiambo, 2018). Budgets provide several advantages for an organization, including forcing managers to plan, providing standards for performance evaluation,

and improving communication and coordination (Chod & Lyandres, 2021). Budgets are used by top-level managers as a tool to implement organizational goals in quantitative and time dimensions and communicate them to the heads of regional work units at lower levels as long-term and short-term work plans.

Two types of participation methods can be used in budget preparation, namely the top-down and bottom-up methods. The top-down method is almost entirely carried out by upper-level management, while middle- and lower-level management only implement the budget (Ali & Haliah, 2021). Meanwhile, the bottom-up method is carried out by lower-level management, then continued by middle-level management and approved by upper-level management (Busch & Strehl, 2019). A bottom-up budgeting system can improve the performance of managers or subordinates. Budgets require a sense of responsibility among lower-level managers and encourage activity. However, some managers may prepare budgets that are too high or too tight, which can reduce performance levels. A gap can also be interpreted as the difference between the reported budget and the budget that is following the company's best estimate, namely when the revenue budget is lower and the expenditure budget is higher than the actual estimate (Khoo, Rahman, & Kamil, 2024).

Regarding company information, the party with better information can use it to their advantage, while the other party may be harmed. In certain organizations, subordinates have more precise data that can influence execution estimates (Iznillah & Basri, 2018). Subordinates who have individual data about the organization take part in the administrative control framework by submitting or entering data to be combined with the government's financial plan guidelines to decide on government implementation. Vertical information asymmetry is specific data flowing from lower levels to more significant levels (Putri & Trisnaningsih, 2024). Each subordinate can have a legitimate justification for requesting or providing data to superiors. Horizontal information asymmetry is specific data that flows from one individual to another, or places with levels of power or data that move between individuals and positions that are no better or lower than each other, and they involve different functional areas in the organization but at a similar level (Lee, Zhao, & Hassna, 2016).

### 3. RESEARCH METHODOLOGY

#### 3.1. Type of Research

This study employs a quantitative research method, which uses numbers and statistical calculations. Quantitative research can be interpreted as a method used to examine a particular population or sample. Sampling techniques are generally carried out randomly, data collection uses research instruments, and data analysis is quantitative or statistical with the aim of testing predetermined hypotheses. Quantitative research involves collecting and analyzing numerical data, which is used to identify patterns, make predictions, assess cause-and-effect relationships, and generalize research results to a wider population (Sugiyono, 2019). In quantitative research, data is analyzed by considering certain variables. The participants in this research consisted of staff members in two finance-related departments, namely the finance and planning and reporting sections, as well as staff involved in budgeting in the Regional Work Unit in Gowa Regency. The saturated sampling method was used to select the participants.

#### 3.2. Data Collection Method

To collect data, a survey method in the form of a questionnaire was used, which is a list of written statements relating to the research variables. Because this study used a questionnaire, an instrument test was carried out to confirm its validity and reliability. Respondents' answers (ordinal data) were tabulated and converted into interval data. As a requirement to fulfill the regression test, the classical assumption test (normality and heteroscedasticity test) is first performed.

3.3. Data Analysis Method

Moderated regression analysis was used to test the hypotheses. The multiple regression model and its moderation are shown below:

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + e \quad (1)$$

$$Y = a + \beta_1ZX_1 + \beta_2ZX_2 + \beta_3ZM + 4 |ZX_1 - ZM| + \beta_5 |ZX_2 - ZM| + e \quad (2)$$

Where:

Y = Financial statement fraud.

ZX1 = Participatory budget.

ZX2 = Information asymmetry.

ZM = Moral equity.

|ZX-ZM| = The interaction as measured by the absolute value of the difference between ZX and ZM.

a = Constant.

β = Regression coefficient.

e = Error term.

The research design uses quantitative data processing and analysis methods to determine the extent of the influence of the independent variables on the dependent variable. Determining the dependent variable in this research is influenced by one or several independent variables, as shown in Figure 1.

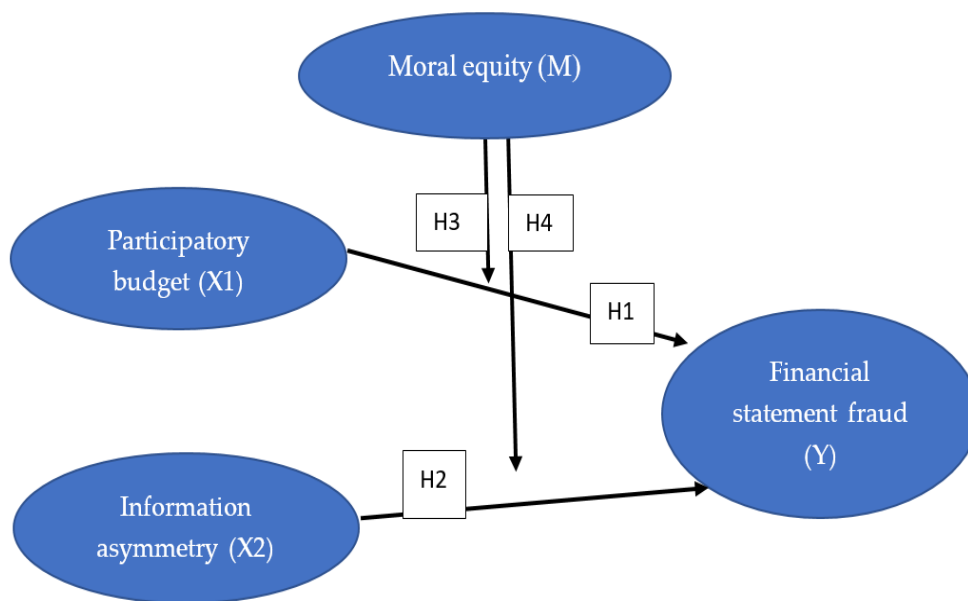


Figure 1. Research design.

The hypotheses formulated for this research are as follows:

H1: Budget participation influences financial report fraud.

H2: Information asymmetry influences financial statement fraud.

H3: Budget participation influences fraudulent financial statements with moral equity as a moderator variable.

H4: Budget participation influences financial statement fraud with moral equity as a moderator variable.

4. RESULTS AND DISCUSSION

4.1. Results

In this study, 76 employees were respondents, of which 65% were male and the remaining 35% were female. Of the respondents, 72.44% were categorized as executors, while 27.56% held functional positions. In terms of age distribution, 7.09% were 25 or younger, 11.42% were between 26 and 30, 20.08% fell within the 31 to 35 age group,

23.62% belonged to the 36 to 40 category, 16.54% were between 41 and 45 years old, 12.99% were between 46 and 50 years old, and the remaining 8.27% were above 50 years of age.

In this survey, 87.80% of the respondents were married and 12.20% of them were single. Of the respondents who were married, 85.83% had children, and 14.17% of the respondents did not have any children. Additionally, 61.81% of the participants reside with their family, parents, or siblings, while the remaining 38.19% did not live with them. Of the respondents who were married, 47.64% of their partners worked, while 52.36% were unemployed. Only 17.32% of the respondents had an additional source of income, while the majority (82.68%) did not. Furthermore, 43.70% of the respondents actively engaged in community activities, while the remaining 56.30% did not participate in such activities.

The survey found that 24.41% of the respondents had a diploma, while 52.36% of them had a bachelor's degree (S-1), 21.26% had a master's education (S-2), and only 1.97% had another educational background. Regarding work experience, 7.87% of the respondents had less than five years' experience, 17.72% had worked for 5–10 years, 24.02% had worked for 11–15 years, 20.87% had worked for 16–20 years, and 29.53% had more than 20 years' of work experience.

#### 4.2. Descriptive Analysis of Variables

The descriptive variables of the 76 samples in the study are shown in the following table:

**Table 1.** Descriptive statistics test results.

Variable	n	Minimum	Maximum	Mean	Std. deviation
Participatory budgeting	76	6.00	30.00	23.0	5.95
Information asymmetry	76	6.00	30.00	19.6	7.10
Financial statement fraud	76	7.00	35.00	30.5	6.56
Moral equity	76	8.00	25.00	22.3	3.61
Valid n (Listwise)	76	0.00	0.00	0.00	0.00

Table 1 presents the descriptive statistics for each variable studied. Participatory budgeting shows a minimum value of 6.00 and a maximum value of 30.00, giving an average of 23.0263, and the standard deviation is 5.95981. Information asymmetry shows a minimum value of 6.00 and a maximum value of 30.00, giving an average of 19.6447, and the standard deviation is 7.10250. Financial statement fraud has a minimum value of 7.00 and a maximum value of 35.00, giving an average value of 30.5395, and the standard deviation is 6.56545. Finally, moral equity has a minimum value of 8.00 and a maximum value of 25.00, giving an average of 22.3684, and a standard deviation of 3.61420.

#### 4.3. Hypothesis Test Results

Data analysis used simple linear regression to determine the partial influence between the variables of information asymmetry and budgetary slack. Hypothesis testing in this research uses two methods based on the coefficient of determination and the t-test.

**Table 2.** Partial regression test results (t-test).

Model	Unstandardized coefficients		Standardized coefficients	t	Sig.	
	B	Std. error	Beta			
1	(Constant)	9.814	2.257	0.000	4.347	0.000
	Participatory budgeting	0.763	0.087	0.692	8.715	0.000
	Information asymmetry	0.162	0.073	0.175	2.207	0.030



Table 2 shows that the participatory budget variable has a t-value of 8.715. This value is greater than the critical t-value of 1.993 from the t-table (Sig. = 0.05 and df = n-k, namely 76-3 = 73). This variable has an unstandardized beta coefficient of 0.763. The significance level of 0.000 is smaller than the predetermined threshold of 0.05, so H1 is accepted. In other words, budget participation has a significant effect on financial statement fraud and the first hypothesis is accepted. Furthermore, from Table 2 it can be seen that the information asymmetry variable has a t-value of 2.207, which is greater than the t-table value of 1.993 (Sig. = 0.05 and df = n-k, namely 76-3 = 73) and has a calculated t-value of 2.207. The unstandardized beta coefficient is 0.162 and the significance level is 0.030, which is smaller than 0.05. Therefore, H2, which states that there is a significant influence of information asymmetry on financial statement fraud is supported.

Table 3. Partial regression test results (t-test).

Model		Unstandardized coefficients		Standardized coefficients	t	Sig.
		B	Std. error	Beta		
1	(Constant)	-7.435	5.851	0.000	-1.271	0.208
	Participatory budget	1.728	0.342	1.560	4.884	0.000
	Information asymmetry	-0.784	0.445	-0.859	-1.743	0.086
	Moral equity	1.035	0.295	0.569	3.513	0.001
	X1_M	-0.049	0.016	-1.158	-3.004	0.004
	X2_M	0.037	0.020	1.042	1.851	0.068

The test results in Table 3 show that the unstandardized beta coefficient is -0.049 and the significance level is 0.004, which is smaller than 0.05. This shows that Islamic religion moderates the relationship between participatory budgeting and financial report fraud, so H3, which states that the moderating influence of Islamic faith (moral equity) on the relationship between budget participation and financial statement fraud, is confirmed. The results of the different value tests in Table 3 also show that the variable X2\_M has a relationship between t-count of 1.851 < t-table of 1.993 (Sig. = 0.05 and df = n-k, namely 76-3 = 73). The unstandardized beta coefficient is 0.037, and the significance level of 0.068 is greater than 0.05, so hypothesis H4 is rejected. Thus, it can be concluded that the moral equity variable does not moderate the relationship between information asymmetry and financial statement fraud.

#### 4.4. Discussion

The results of the analysis of the first hypothesis (H1) show that participatory budgeting has a positive influence on financial statement fraud. This indicates that people who participate more in budgeting tend to agree that the occurrence of unethical behavior leads to increased accounting fraud. This finding shows that the higher the budget participation, the higher the level of financial statement fraud. Based on the partial test results for the Gowa Regency government, every budget participant has the opportunity to commit financial statement fraud. Financial statement fraud can cause inefficiency in an organization if each party has different desires and interests. Financial stability and external pressure have a positive effect on financial statement fraud (Achmad et al., 2022). The emergence of financial statement fraud, which is a variable in this research, can be explained using agency theory. The budget can be increased if superiors realize that the information their subordinates have is important for the budget being prepared. When subordinates have more confidential information that is not provided to the organization, superiors cannot always check the work carried out by their subordinates, so this will trigger financial statement fraud. The results of this research are consistent with previous research by Sabirin and Herfian (2021) who found that budget participation and information asymmetry have a significant positive effect on budget gaps and the tendency for financial report fraud.

The second hypothesis (H2) states that information asymmetry significantly influences financial statement fraud, and the results of the analysis confirm that information asymmetry has a positive influence on financial statement

fraud. Information asymmetry happens when parties within the Gowa Regency government have access to more information than parties outside the organization. In this situation, the opportunity to commit fraud becomes easier. Fraud occurs whenever there is an opportunity for employees to convey incorrect information. Based on the analysis results, it is known that when there is an increase in information asymmetry, it will increase financial statement fraud. So, the higher the level of information asymmetry, the higher the possibility of financial statement fraud. This explains that the imbalance in information acquisition between the leadership as the information provider (preparer) and stakeholders will have an impact on the possibility of differences in the budget amount proposed by subordinates with the best-estimated amount from the organization. This finding is supported by Sari, Pradnyani, and Cahyadi (2023) who found that information asymmetry positively influences the tendency of accounting fraud.

The third hypothesis (H3) states that moral equity can moderate the relationship between budget participation and financial statement fraud, and the results of the analysis confirm this. This means that employees who have strong moral equity have strong self-control to prevent and minimize acts of accounting fraud. Moral equity is proven to be a moderator between participative budgeting and financial statement fraud. Therefore, financial statement fraud can be reduced by increasing participatory budgeting through moral equity. Ethics serve as a guide for humans regarding appropriate behavior. It concerns the values and norms that regulate every human behavior, and ethics encourages humans to act freely but responsibly, so it can strengthen the participatory influence of the budget to reduce the possibility of financial statement fraud. This is consistent with the Islamic view which emphasizes the importance of Aqidah, Sharia, and ethics in individual actions. People with honorable personalities can help prevent fraud through reflection and activities that are imbued with the qualities of faith, ethics, and moral equity (Sylvyani & Ramli, 2023).

The fourth hypothesis (H4) states that moral justice can moderate the relationship between information asymmetry and financial statement fraud. However, the results of the analysis show that moral justice cannot moderate this relationship, so moral justice cannot be used as a basis for preparing financial reports. Moral justice encourages people to act in a way that avoids conflict and ensures that mistakes do not occur in economic, budgetary, and financial fields. However, moral justice also allows space for human development by providing values and decisions to prevent harming each other by providing the same information to interested parties. Moral justice does not limit space for development but provides values and decisions to prevent financial statement fraud.

## 5. CONCLUSION

The findings of this research show that the involvement of various parties, especially stakeholders in budgeting, has an important impact on the occurrence of financial report fraud in various government sectors. This means that everyone can participate in monitoring the use of the budget, which can prevent the tendency for unethical behavior. The impact of information asymmetry on financial statement fraud is large, which suggests that information differences are greater. Leaders and subordinates can increase the possibility of fraudulent financial reports. Moral justice can moderate the relationship between budget participation and financial report fraud in every government and private agency. This means that if someone has high moral equity, they will have strong self-control and can prevent and minimize financial statement fraud. Moral equity does not moderate the correlation between information asymmetry and financial statement fraud. If a person has high or low moral equity, he is unable to prevent information asymmetry within an organization as a means of preventing financial statement fraud.

Information asymmetry is the difference in the information that the heads of Gowa Regency regional work units have with their subordinates due to differences in sources and access to information. Participation of subordinates in preparing the budget can provide an opportunity to include local information. In this way, subordinates can convey some of their personal information which may be included in the budget. The preparation of budgets in government must truly focus its objectives on the welfare of society and not just realize personal or group interests. For this reason, truly accurate information is needed in preparing regional government budgets, lest proposals submitted by

the public are not accommodated in the budget. There is a need for restrictions so that subordinates prepare budgets according to proportions or predetermined plans and strategies to reduce the incidence of financial statement fraud.

**Funding:** This research is supported by the Institute for Research and Community Service, Bosowa University Makassar (Grant number: PG225-013/LPPM-Unibos/VI/2023).

**Institutional Review Board Statement:** The Ethical Committee of the Bosowa University, Indonesia has granted approval for this study on 28 June 2023 (Ref. No. 073/E5/PG.02.00.PM/2023).

**Transparency:** The authors state that the manuscript is honest, truthful, and transparent, that no key aspects of the investigation have been omitted, and that any differences from the study as planned have been clarified. This study followed all writing ethics.

**Data Availability Statement:** The corresponding author can provide the supporting data of this study upon a reasonable request.

**Competing Interests:** The authors declare that they have no competing interests.

**Authors' Contributions:** All authors contributed equally to the conception and design of the study. All authors have read and agreed to the published version of the manuscript.

## REFERENCES

- Ababneh, T. A. M., & Aga, M. (2019). The impact of sustainable financial data governance, political connections, and creative accounting practices on organizational outcomes. *Sustainability*, 11(20), 5676. <https://doi.org/10.3390/su11205676>
- Abad, D., Cutillas-Gomariz, M. F., Sánchez-Ballesta, J. P., & Yagüe, J. (2018). Real earnings management and information asymmetry in the equity market. *European Accounting Review*, 27(2), 209-235. <https://doi.org/10.1080/09638180.2016.1261720>
- Abdel-Rahim, H. Y., & Stevens, D. E. (2018). Information system precision and honesty in managerial reporting: A re-examination of information asymmetry effects. *Accounting, Organizations and Society*, 64, 31-43. <https://doi.org/10.1016/j.aos.2017.12.004>
- Achmad, T., Ghozali, I., & Pamungkas, I. D. (2022). Hexagon fraud: Detection of fraudulent financial reporting in state-owned enterprisesIndonesia. *Economies*, 10(1), 1-16. <https://doi.org/10.3390/economies10010013>
- Akbar, D. A., Africano, F., & Isrodinata, R. (2021). Can fraud diamond affect fraud financial statement in Sharia commercial banks? *Jurnal Reviu Akuntansi Dan Keuangan*, 11(1), 40-57. <https://doi.org/10.3390/jrfm16030195>
- Al-Ameedee, S. M. M., & Moradi, M. (2023). The effect of ethics in business on happiness, aggressiveness and inconsistency of efforts and rewards. *Journal of Risk and Financial Management*, 16(3), 195. <https://doi.org/10.3390/jrfm16030195>
- Ali, Y., & Haliah, H. (2021). Implementation of new public management concept in budget preparation in Indonesia *International Journal of Social Science Research and Review*, 4(3), 28-36. <https://doi.org/10.47814/ijssrr.v4i3.95>
- Anggraini, D. T., Salsabila, Z. A., & Chairina, S. W. (2023). The determinants of budgetary slack with information asymmetry as a moderation. *Jurnal Penelitian Teori & Terapan Akuntansi* 8(1), 46-66. <https://doi.org/10.51289/peta.v8i1.677>
- Asongu, S. A., & Odhiambo, N. M. (2018). Information asymmetry, financialization, and financial access. *International Finance*, 21(3), 297-315. <https://doi.org/10.1111/inf.12136>
- Bahtiar, A. S., & Karim, A. (2021). The role of BUMDes in sustainable economic development at Enrekang regency. *Journal of Logistics, Informatics and Service Science*, 1, 117-132. <https://doi.org/10.33168/liss.2021.0108>
- Busch, D., & Strehl, W. (2019). Budget preparation and forecasting in the federal Republic of Germany. *The Palgrave Handbook of Government Budget Forecasting*, 71-87. [https://doi.org/10.1007/978-3-030-18195-6\\_4](https://doi.org/10.1007/978-3-030-18195-6_4)
- Cheyne, E., & Levine, C. B. (2020). Public disclosures and information asymmetry: A theory of the mosaic. *The Accounting Review*, 95(1), 79-99. <https://doi.org/10.2308/accr-52447>
- Chod, J., & Lyandres, E. (2021). A theory of ICOs: Diversification, agency, and information asymmetry. *Management Science*, 67(10), 5969-5989. <https://doi.org/10.1287/mnsc.2020.3754>
- Daga, R., Karim, A., Nawir, F., Lutfi, A., & Jumady, E. (2024). Analysis of social media marketing technology and online-based consumer purchase interest in South Sulawesi. *Quality-Access to Success*, 25(199), 330-337. <https://doi.org/10.47750/QAS/25.199.36>

- Daumoser, C., Hirsch, B., & Sohn, M. (2018). Honesty in budgeting: A review of morality and control aspects in the budgetary slack literature. *Journal of Management Control*, 29, 115-159. <https://doi.org/10.1007/s00187-018-0267-z>
- Dewi, H. R., Mahmudi, M., & Maulana, R. (2021). An analysis on fraud tendency of village government officials. *Jurnal Akuntansi dan Auditing Indonesia*, 25(1), 33-44.
- Felix Júnior, L. A., Costa, W. P. L. B. D., Guimarães, L. G. D. A., Pereira, G. R. B., & El-Aouar, W. A. (2020). Social participation in the definition of budgetary instruments. *Transforming Government: People, Process and Policy*, 14(5), 737-755. <https://doi.org/10.1108/TG-12-2019-0118>
- Ferguson, A., & Lam, P. (2023). Information asymmetry, financial intermediation, and wealth effects of project finance loans. *The Review of Corporate Finance Studies*, 12(3), 656-711. <https://doi.org/10.1093/rcfs/cfab022>
- Fisher, J. G., Mitchell, W. T., Peffer, S. A., & Webb, R. A. (2019). Inequity aversion, incentives, and personal norms: The effects on budget preparation and use. *Journal of Management Accounting Research*, 31(1), 105-128. <https://doi.org/10.2308/jmar-52033>
- Frihatni, A. A., & Abbas, A. (2020). The effect of environment dimensions of contingency on budgetary slack. *Ekspansi: Jurnal Ekonomi, Keuangan, Perbankan, dan Akuntansi*, 12(2), 179-194. <https://doi.org/10.35313/ekspansi.v12i2.2059>
- Hasniati, H., Indriasari, D. P., Sirajuddin, A., & Karim, A. (2023). The decision of women in Makassar city to entrepreneur. *Binus Business Review*, 14(1). <https://doi.org/10.21512/bbr.v14i1.8936>
- Hassan, A. F., & Basiruddin, R. (2023). The moderating effect of environmental uncertainty on the relationship between budgetary participation and budget quality. *Journal of Financial Reporting and Accounting*. <https://doi.org/10.1108/JFRA-03-2023-0162>
- Huang, M. J., Cheng, K. C., Chung, S. H., Wang, H. M., & Wang, K. H. (2021). Budget participation capacity configuration (Bpcc), budgeting participation requirement and product innovation performance. *Sustainability*, 13(10), 5614. <https://doi.org/10.3390/su13105614>
- Iznillah, M. L., & Basri, Y. M. (2018). Analysis of transparency and accountability of village fund management in Bengkalis Sub-district. *Journal of Economics, Business, and Government Challenges*, 1(2), 135-142. <https://doi.org/10.33005/ebgc.v1i02.341>
- Jatmiko, B., Laras, T., & Rohmawati, A. (2020). Budgetary participation, organizational commitment, and performance of local government apparatuses. *The Journal of Asian Finance Economics and Business*, 7(7), 379-390. <https://doi.org/10.13106/jafeb.2020.vol7.no7.379>
- Jordan, M. M., Yusuf, J. E., Berman, M., & Gilchrist, C. (2017). Popular financial reports as fiscal transparency mechanisms: An assessment using the fiscal transparency index for the citizen user. *International Journal of Public Administration*, 40(8), 625-636. <https://doi.org/10.1080/01900692.2016.1186175>
- Karim, A., Asrianto, A., Ruslan, M., & Said, M. (2023). Gojek accelerate economic recovery through the digitalization of MSMEs in Makassar. *The Winners*, 24(1), 23-31. <https://doi.org/10.21512/tw.v24i1.9388>
- Karim, A., Musa, C. I., Sahabuddin, R., & Azis, M. (2021). The increase of rural economy at Baraka sub-district through village funds. *The Winners*, 22(1), 89-95. <https://doi.org/10.21512/tw.v22i1.7013>
- Karim, A., Syamsuddin, I., & Asrianto, A. (2023). Profitability ratio analysis profit growth pt Gudang Garam tbk on the idx for the 2014-2021 period. *International Journal of Economics, Business and Accounting Research*, 7(2), 649-660.
- Khoo, S. V., Rahman, N. H. A., & Kamil, N. L. M. (2024). An evaluation of the influence of budgeting process on budget performance in Malaysia. *Public Administration and Policy*, 27(1), 31-44. <https://doi.org/10.1108/PAP-03-2023-0035>
- Lata, P. (2020). The influences of participatory management and corporate governance on the reduction of financial information asymmetry: Evidence from Thailand. *The Journal of Asian Finance, Economics and Business*, 7(11), 853-866. <https://doi.org/10.13106/jafeb.2020.vol7.no11.853>
- Lee, C. H., Zhao, J. L., & Hassna, G. (2016). Government-incentivized crowdfunding for one-belt, one-road enterprises: Design and research issues. *Financial Innovation*, 2, 1-14. <https://doi.org/10.1186/s40854-016-0022-0>

- Major, I. (2019). Two-sided information asymmetry in the healthcare industry. *International Advances in Economic Research*, 25(2), 177-193. <https://doi.org/10.1007/s11294-019-09732-9>
- María del Carmen, C. A. B. A., Bolivar, M. P. R., & Hernandez, A. M. L. (2014). The determinants of government financial reports online. *Transylvanian Review of Administrative Sciences*, 10(42), 5-31. <https://doi.org/10.1007/s10551-013-2021-7>
- Menne, F., Surya, B., Yusuf, M., Suriani, S., Ruslan, M., & Iskandar, I. (2022). Optimizing the financial performance of SMEs based on sharia economy: Perspective of economic business sustainability and open innovation. *Journal of Open Innovation: Technology, Market, and Complexity*, 8(1), 18. <https://doi.org/10.3390/joitmc8010018>
- Meutia, R., & Hermanda, S. A. (2022). Does asymmetric information have a moderating effect on budgetary slack in Lhokseumawe City government? *In International Conference on Research and Development*, 1(2), 80-85. <https://doi.org/10.47841/icorad.v1i2.43>
- Mogues, T., & Olofinbiyi, T. (2020). Budgetary influence under information asymmetries: Evidence from Nigeria's subnational agricultural investments. *World Development*, 129, 104902. <https://doi.org/10.1016/j.worlddev.2020.104902>
- Ngo, Q.-H., Doan, T.-N.-N., & Huynh, T.-N. (2017). A study on managers' creation of budgetary slack in emerging economies: The case of Vietnam. *Asian Journal of Accounting Research*, 2(2), 15-28. <https://doi.org/10.1108/ajar-2017-02-02-b003>
- Nguyen, N. P., Evangelista, F., & Kieu, T. A. (2019). The contingent roles of perceived budget fairness, budget goal commitment and vertical information sharing in driving work performance. *Journal of Asian Business and Economic Studies*, 26(1), 98-116. <https://doi.org/10.1108/JABES-06-2018-0026>
- Park, S. J., & Jang, S. (2021). Asymmetric information and excess budget: The influence of performance-based budgeting on budgetary slack in US states. *International Review of Public Administration*, 26(4), 353-372. <https://doi.org/10.1080/12294659.2022.2027599>
- Putri, D. P. A., & Trisnainingsih, S. (2024). Analysis of the effect of budget participation on budgetary slack: Study literature review. *Formosa Journal of Multidisciplinary Research*, 3(3), 263-272. <https://doi.org/10.55927/fjmr.v3i3.8585>
- Rezaei, G., Nasserli, A., & Maazallahi, H. (2024). Investigating the correlation between public hospitals managers' accountability pressure in Kerman city and budgetary slack with focusing on the role of moral intelligence and information asymmetry in 2022: A descriptive study. *Journal of Rafsanjan University of Medical Sciences*, 22(11), 1163-1178. <http://dx.doi.org/10.61186/jrums.22.11.1163>
- Riyadh, H. A., Nugraheni, F. R., & Ahmed, M. G. (2023). Impact of budget participation and leadership style on managerial performance with organizational commitment as intervening variable. *Cogent Business & Management* 10(1), 2175440. <https://doi.org/10.1080/23311975.2023.2175440>
- Sabirin, A., & Herfian, R. H. (2021). The impact of the digital ecosystem on business competition law in Indonesia and optimizing the role of the business competition supervisory commission (KPPU) in the digital economy era. *Jurnal Persaingan Usaha*, 1(2), 75-82. <https://doi.org/10.55869/kppu.v2i.23>
- Sandi, H., Yunita, N. A., Heikal, M., Ilham, R. N., & Sinta, I. (2021). Relationship between budget participation, job characteristics, emotional intelligence and work motivation as mediator variables to strengthening user power performance: An empirical evidence from Indonesia government. *Morfai Journal*, 1(1), 36-48. <https://doi.org/10.54443/morfai.v1i1.14>
- Sari, N. P. Y. T. R., Pradnyani, N. L. P. S. P., & Cahyadi, L. D. C. R. (2023). The effect of individual morality, information asymmetry and organizational culture on the tendency of accounting fraud. *Journal of Applied Sciences in Accounting, Finance, and Tax*, 6(1), 1-9. <https://doi.org/10.31940/jasafint.v6i1.1-9>
- Shen, B., Choi, T. M., & Minner, S. (2019). A review on supply chain contracting with information considerations: Information updating and information asymmetry. *International Journal of Production Research*, 57(15-16), 4898-4936. <https://doi.org/10.1080/00207543.2018.1467062>
- Shu, W., Chen, Y., & Chen, X. (2023). Information technology empowerment and corporate budget control: Evidence from China. *Pacific-Basin Finance Journal*, 82, 102131. <https://doi.org/10.1016/j.pacfin.2023.102131>

- Silva, P., Mota, J., & Moreira, A. C. (2022). Budget participation and employee performance in real estate companies: The mediating role of budget goal commitment, trust and job satisfaction. *Baltic Journal of Management*, 18(2), 226-241. <https://doi.org/10.1108/BJM-03-2022-0118>
- Sugiyono, P. D. (2019). Educational research methods (Quantitative, qualitative, combination, R&D and educational research). *Metode Penelitian Pendidikan*, 67.
- Surya, B., Hernita, H., Salim, A., Suriani, S., Perwira, I., Yulia, Y., & Yunus, K. (2022). Travel-business stagnation and SME business turbulence in the tourism sector in the era of the COVID-19 pandemic. *Sustainability*, 14(4), 2380. <https://doi.org/10.3390/su14042380>
- Surya, B., Menne, F., Sabhan, H., Suriani, S., Abubakar, H., & Idris, M. (2021). Economic growth, increasing productivity of SMEs, and open innovation. *Journal of Open Innovation: Technology, Market, and Complexity*, 7(1), 20. <https://doi.org/10.3390/joitmc7010020>
- Surya, B., Salim, A., Hernita, H., Suriani, S., Menne, F., & Rasyidi, E. S. (2021). Land use change, urban agglomeration, and Urban sprawl: A sustainable development perspective of Makassar city, Indonesia. *Land*, 10(6), 556. <https://doi.org/10.3390/land10060556>
- Sylvyani, N. R., & Ramli, A. H. (2023). Transformational leadership, knowledge sharing dan organizational commitment terhadap job satisfaction. *Jurnal Ilmiah Manajemen Kesatuan*, 11(2), 339-352. <https://doi.org/10.37641/jimkes.v11i2.2001>
- Tyas, H. P., & Mardiaty, E. (2021). Budget participation, information asymmetry, and job insecurity as a predictor of budgetary slack. *International Journal of Research in Business and Social Science (2147-4478)*, 10(8), 158-165. <https://doi.org/10.20525/ijrbs.v10i8.1505>
- Vosooghidizaji, M., Taghipour, A., & Canel-Depitre, B. (2020). Supply chain coordination under information asymmetry: A review. *International Journal of Production Research*, 58(6), 1805-1834. <https://doi.org/10.1080/00207543.2019.1685702>
- Wahyuni, N., Kalsum, U., Asmara, Y., & Karim, A. (2022). Activity-based costing method as an effort to increase profitability of PT Anugrah Ocean Wakatamba. *Jurnal ASET (Akuntansi Riset)*, 14(2), 1-16. <https://doi.org/10.17509/jaset.v14i2.45642>
- Wardani, M. T. (2021). *Participative budget, information asymmetry, and budget emphasis as a predictor of budgetary slack*. Paper presented at the In 7th Regional Accounting Conference (KRA 2020). <https://doi.org/10.2991/aebmr.k.210416.032>.
- Wijekoon, N., Sharma, U., & Samkin, G. (2024). SME owners and accountants' perceptions of financial information in small-and medium-sized entities: A Sri Lanka case study. *Journal of Accounting in Emerging Economies*, 14(2), 422-449. <https://doi.org/10.1108/JAEE-10-2021-0308>
- Yuhertiana, I., Bastian, I., & Sari, R. P. (2019). Financial information and voter's decisions on local government elections. *International Journal of Innovation, Creativity and Change*, 6(9), 245-261.
- Zhyber, T., Pyslytsya, A., Zavystovska, H., Tymchenko, O., & Shchur, R. (2024). Data-driven public budgeting: Business management approach and analytics methods algorithmization in data-centric business and applications: Modern trends in financial and innovation data processes 2023. In (pp. 89-124). Cham: Springer Nature Switzerland. [https://doi.org/10.1007/978-3-031-53984-8\\_5](https://doi.org/10.1007/978-3-031-53984-8_5).

*Views and opinions expressed in this article are the views and opinions of the author(s). The Asian Economic and Financial Review shall not be responsible or answerable for any loss, damage or liability, etc., caused in relation to/arising from the use of the content.*