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The Influence of Ifrs Convergence, Political Connections, Whistleblowing Systems, and Official Competence On Fraud Prevention and Earnings Management: Audit Quality as A Moderating Variable

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ABSTRACT

Fraud prevention and the mitigation of earnings management are critical components in maintaining financial reporting integrity and capital market trust. This study aims to empirically analyze the impact of International Financial Reporting Standards (IFRS) convergence, political connections, whistleblowing systems, and official competence on fraud prevention and earnings management, with audit quality serving as a moderating variable. Grounded in agency theory, corporate governance theory, and fraud theory, this study evaluates how accounting standards, external/internal power dynamics, and human resource capacities interact to constrain managerial opportunistic behavior.A quantitative explanatory research design was employed. Data were gathered through a hybrid approach combining secondary financial statement data and primary survey data from listed companies on the Indonesia Stock Exchange (IDX). Data analysis was conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM) to evaluate complex structural relationships and moderation effects.The empirical findings indicate that IFRS convergence, an effective whistleblowing system, and official competence exert a positive and significant influence on fraud prevention, while significantly reducing earnings management practices. Conversely, political connections negatively affect fraud prevention and exacerbate earnings management due to heightened moral hazard and political shielding mechanisms. Furthermore, the moderation tests demonstrate that high audit quality significantly reinforces the positive effects of IFRS convergence, whistleblowing systems, and official competence on fraud prevention. Crucially, audit quality mitigates the adverse impacts of political connections on opportunistic earnings management. The practical implications highlight the necessity of strengthening external audit independence and internal control infrastructures to counteract political interference in emerging markets.

Keywords: IFRS Convergence, Political Connections, Whistleblowing System, Official Competence, Fraud Prevention, Earnings Management, Audit Quality.

INTRODUCTION

Financial reports are the main transparency and accountability instrument that connects business entities with stakeholders, such as investors, creditors, government, and the general public (Panjaitan &

Muslih, 2019). Accurate, relevant, and reliable financial information serves as the basis for rational decision-making in the allocation of global economic resources. However, in the reality of business practice, financial reporting is often tainted by opportunistic management actions that ignore faithful representation. The practice of fraudulent financial reporting (*financial statement fraud*) and earnings manipulation or earnings management (*earnings management*) are latent challenges that threaten the integrity of global financial markets (Dechow et al., 2010; Healy & Wahlen, 1999). Cases of large-scale corporate scandals, both global such as Enron and WorldCom and in the domestic context, show that distortion of accounting information not only harms shareholders financially but also destroys the credibility of the accounting system itself (Schipper, 1989; Watts & Zimmerman, 1986).

Theoretically, the emergence of earnings management and accounting fraud can be explained through Agency Theory, pioneered by Jensen and Meckling (1976). This theory assumes that agency relationships arise when shareholders (*principals*) delegate authority to manage the company to managers (*agents*). Conflicts *of interest* arise because both *principals* and *agents* seek to maximize their personal *utility*. Because managers have direct access to the company's daily operations, information asymmetry occurs, where managers know the entity's true condition much better than shareholders (Eisenhardt, 1989). This information asymmetry gap is what managers exploit to carry out earnings management—either through discretionary accruals *or* real earnings management as well as fraudulent actions in order to achieve bonus targets, maintain share prices, or fulfill debt covenants (Healy & Wahlen, 1999; Jones, 1991).

In response to the high risk of fraud and profit manipulation, regulators in various countries are encouraging the adoption and convergence of international accounting standards, namely *International Financial Reporting Standards* (IFRS). IFRS convergence is designed to improve the quality, transparency, and comparability of financial reports globally through principle *-based standards* (Barth et al., 2008). The basic principles of IFRS limit the excessive use of accounting method choices that were previously often used for earnings manipulation. Various empirical studies have shown that IFRS convergence can improve the quality of accounting information and reduce earnings manipulation in many countries (Ball, 2006; Houqe et al., 2012). However, the adoption of IFRS does not automatically eliminate opportunistic management behavior.The nature of IFRS which provides broader *managerial judgment in several transactions actually has the potential to become a new loophole for management to disguise the economic reality of the entity if it is not balanced with strict supervision (Zang, 2012; Zahratun & Wardhani, 2019).*

The dynamics of fraud prevention and earnings management are increasingly complex with the presence of non-financial variables and environmental governance factors, one of which is political connections. In many developing countries, relationships between company management or controlling shareholders and bureaucrats, politicians, and government officials are commonplace (Faccio, 2006; Joni et al., 2020).Based on the Theory of Political Intermediation and the Theory of Opportunistic Efficiency, political connections provide multiple benefits to entities, such as easier access to state-owned bank loans, regulatory ease, and obtaining government projects (Chaney et al., 2011). However, political connections are often a double-edged sword. Politically connected firms *tend* to have low levels of transparency and are immune to legal sanctions (*political shielding*) (Ahmad et al., 2023; Leuz & Oberholzer-Gee, 2006). This encourages managers to engage in further earnings manipulation to conceal rent -*seeking* and reduces the effectiveness of fraud prevention within the organization (Baig et al., 2023; Nugrahanti, 2020).

In addition to external factors and the political environment, fraud prevention mechanisms within an entity are significantly influenced by the internal oversight system, namely *the Whistleblowing System* (WBS). The WBS is a governance infrastructure that provides a mechanism for submitting complaints regarding suspected violations, fraud, or unethical actions safely and confidentially (Near & Miceli, 1985). Referring to *the Fraud Triangle Theory* developed by Cressey (1953) and refined in *the Fraud Diamond Theory (*Wolfe & Hermanson, 2004), fraud occurs due to pressure*,* opportunity*,* rationalization, and capability*.* An effective *whistleblowing system cuts out the "opportunity" element by increasing the risk of disclosure (detection risk*) for fraud perpetrators (Al-Absy et al., 2019; ACFE, 2020). Early detection of violations *facilitated* by the WBS has been shown to be effective in preventing greater material losses and suppressing managers' intentions to manipulate accounting figures (Sutrisno, 2017).

In addition to a structured prevention system, the success of a supervisory system is highly dependent on the human element as implementers, which is projected through the variable of official competence*.* Official competence includes technical understanding of accounting, investigative skills, understanding of auditing standards, and the moral integrity of internal supervisors, audit committees, and auditing officials (DeZoort et al., 2002).No matter how well-designed IFRS accounting standards or WBS complaint systems are, these infrastructures will not function optimally if supervisory officials lack the competency to identify fraud *red flags* and complex earnings management schemes (Subramaniam et al., 2009; Rakhman & Wijayana, 2024). Competent officials are able to detect hidden loopholes in financial reporting, thus strengthening an organization's defenses against fraud (Spencer & Spencer, 1993).

Although independent factors such as IFRS convergence, political connections, WBS, and apparatus competence have a direct relationship to fraud prevention and earnings management, the effectiveness of their enforcement often requires a high level of oversight from an independent external party (DeAngelo, 1981). In this context, audit quality *plays* a crucial role as a moderating variable.Audit quality is defined as the combined probability that an auditor is able to detect violations in a client's accounting system (*competence*) and report those violations objectively (*independence*) (DeAngelo, 1981; Francis, 2004). High-quality auditors generally projected by *Big Four* accounting firms or industry specialist auditors have a reputation, resocialization, and stricter work methods in limiting opportunistic management behavior (Becker et al., 1998; Krishnan, 2003).

Conceptually, audit quality is strongly suspected of moderating (strengthening or weakening) the influence of independent variables on fraud prevention and earnings management. High-quality external auditors can act as *enforcers*, ensuring that IFRS standards are applied in accordance with their substance, not merely by formal compulsion (Bachtijeva et al., 2024; Zahratun & Wardhani, 2019). Audit quality can also reduce exposure to fraud risks due to political connections by applying greater professional skepticism *toward* politically involved entities (Baig et al., 2023; Khalil et al., 2022).In addition, independent and qualified auditors will align their findings with reports received from the *whistleblowing* system and utilize the competency capacity of internal officials to uncover accounting manipulation (Al-Absy et al., 2020; Farooq & Benali, 2012).

The urgency of this research is based on the existence of research gaps *and* inconsistencies in results (*research gaps/inconsistencies).* previous literature. Research on the impact of IFRS convergence on earnings management has produced contradictory findings; some studies find that IFRS reduces discretionary accruals (Barth et al., 2008; Houqe et al., 2012), while others find that IFRS actually provides more flexibility in real-world manipulation (Ahmed et al., 2013; Zang, 2012). Similarly, regarding the influence of political connections, some studies find that political connections negatively impact reporting quality (Chaney et al., 2011; Leuz & Oberholzer-Gee, 2006), while others suggest that tight shareholder control can neutralize this negative impact (Joni et al., 2020; Saeed et al., 2019). This inconsistency in empirical findings provides a strong indication that there are moderating variables—such as audit quality—that mediate or moderate the relationship between these variables (Baron & Kenny, 1986).

Based on the theoretical, empirical, and business phenomena background, this study was conducted to comprehensively examine how the interaction between IFRS convergence, political connections, *whistleblowing systems, and apparatus competence impacts the effectiveness of fraud prevention and the suppression of earnings management, by placing audit quality as a moderating variable. This study is expected to provide theoretical contributions to the development of behavioral accounting and auditing science, as well as practical contributions to regulators and corporate* governance policymakers in designing an integrated fraud prevention system.

RESEARCH METHODS

This quantitative study applies a hybrid design to examine the effect of IFRS convergence, the effectiveness of *the whistleblowing system* (WBS), the competence of officials, and political connections on the effectiveness of fraud prevention and earnings management, with audit quality as a moderating variable. The study population includes manufacturing companies listed on the Indonesia Stock Exchange (IDX) and State-Owned Enterprises (SOEs) that publish audited annual financial statements and implement WBS. Sampling was conducted using a *purposive sampling* technique to produce a final sample of **120 companies** (95 manufacturing companies and 25 SOEs) with an observation period of 3 years, resulting in a total of **360 secondary data observations**.

Primary data collection was conducted through the distribution of questionnaires to the management and internal audit units (Head/Member of SPI, Audit Committee, and Finance Manager) in the sample entities. Of the total 360 questionnaires distributed (3 questionnaires per company), 288 **valid questionnaire responses** were collected and declared eligible for further analysis, reflecting a response rate *of* 80%.

The integration challenge between secondary firm-level financial metrics and primary individual - level perception data is addressed through a *data alignment* mechanism. Individual respondents' perception scores for the WBS and Apparatus Competence variables are aggregated into an entity-wide average score *after* ensuring consistency through inter-rater agreement testing (metric$r_{WG} > 0{,}70$). These firm-level average perception scores are then precisely combined with secondary financial data (Earnings Management via *Discretionary Accruals*, IFRS convergence, and political connection *dummy*) based on the pair of entity codes and observation years.

Hybrid dataset aligned at the entity level ($N = 120$company /$n = 360$The analysis unit) was then analyzed using *Partial Least Squares Structural Equation Modeling* (PLS-SEM) through SmartPLS to test six main hypotheses: (H1) IFRS convergence has a positive effect on fraud prevention and suppresses earnings management; (H2) WBS effectiveness has a positive effect on fraud prevention and suppresses earnings management; (H3) apparatus competence has a positive effect on fraud prevention and suppresses earnings management; (H4) political connections have a negative effect on fraud prevention and increases earnings management; (H5) audit quality strengthens the positive influence of IFRS, WBS, and apparatus competence on fraud prevention and suppresses earnings management; and (H6) audit quality weakens the negative impact of political connections on fraud prevention and increases earnings management. The evaluation was carried out through testing *the Outer Model* (validity and reliability) and *the Inner Model* (path coefficients,R^2,f^2, and *product-indicator approach* for moderation hypothesis).

RESULT AND DISCUSSION

Results

Evaluation of Measurement Model (*Outer Model*)

Outer model testing was conducted to ensure that the instruments and indicators used met the criteria for convergent validity, discriminant validity, and construct reliability. The results of the Partial Least Squares (PLS-SEM) analysis showed that all indicators for the variables of IFRS convergence, political connections, *whistleblowing system* (WBS), apparatus competence, audit quality, fraud prevention, and earnings management had *outer loading* values above 0.70. In addition, *the Average Variance Extracted* (AVE) values for all variables were above the minimum criterion of 0.50, confirming that this research model has very adequate convergent validity (Hair et al., 2019).

Discriminant validity tests evaluated using the Fornell-Larcker and *Heterotrait-Monotrait Ratio* (HTMT) criteria showed that the square root of the AVE of each variable was greater than the correlation between that construct and other constructs, with the HTMT value below the threshold of 0.85. Furthermore, construct reliability testing produced *Composite Reliability* (CR) and *Cronbach's Alpha* values that consistently exceeded 0.70 for all variables. This proves that the research instrument is free from measurement problems and has a high level of internal consistency (Chin, 2010; Ringle et al., 2020).

Structural Model Evaluation (*Inner Model*) and Hypothesis Testing

Evaluation of the structural model is carried out to see the magnitude of the variance of the dependent variable that can be explained by the independent variable through the *R-squared value* (R^2), as well as the strength of the structural path through the *bootstrapping* procedure with *a sample* of 5,000. The results of the analysis produced a valueR^2The coefficients were 0.684 for the fraud prevention variable and 0.612 for the earnings management variable. This indicates that 68.4% of the variation in fraud prevention and 61.2% of the variation in earnings management can be explained by a combination of IFRS convergence, political connections, WBS, apparatus competence, and audit quality, while the remainder is influenced by other factors outside the research model.

Table 1

Results of Direct Effect and Moderation Hypothesis Testing (PLS-SEM)

Hypothesis	**Relationship Path Between Variables**	**Path Coefficient (β)**	**T-Statistics**	**P-Values**	**Information**
H_1a	IFRS Convergence→Fraud Prevention	0.285	4,215	0,000	Accepted
H_1b	IFRS Convergence→Earnings Management	-0.241	3,892	0,000	Accepted
H_2a	Political Connections→Fraud Prevention	-0.312	4,810	0,000	Accepted
H_2b	Political Connections→Earnings Management	0.354	5,124	0,000	Accepted
H_3a	*Whistleblowing System* →Fraud Prevention	0.224	3,450	0.001	Accepted
H_3b	*Whistleblowing System* →Earnings Management	-0.198	2,981	0.003	Accepted
H_4a	Competence of Apparatus→Fraud Prevention	0.268	3,921	0,000	Accepted
H_4b	Competence of Apparatus→Earnings Management	-0.215	3,112	0.002	Accepted
H_5a	IFRS×Audit Quality→Fraud Prevention	0.185	2,754	0.006	Accepted
H_5b	WBS×Audit Quality→Fraud Prevention	0.162	2,410	0.016	Accepted
H_5c	Apparatus Comp.×Audit Quality→Fraud Prevention	0.174	2,580	0.010	Accepted
H_6a	Political Connections×Audit	0.195	2,891	0.004	Accepted

	Quality→Fraud Prevention				
H_6b	Political Connections×Audit Quality→Earnings Management	-0.232	3,512	0,000	Accepted

Based on the test summary table above, all hypotheses (H_1untilH_6) is proven to be statistically significant at the level of significance$\alpha = 5\%$(*p-value* $< 0{,}05$). The convergence of IFRS, WBS, and apparatus competence is proven to have a positive path coefficient on fraud prevention and a negative path coefficient on earnings management. In contrast, political connections consistently show the opposite direction of influence, namely reducing the level of fraud prevention and triggering an increase in earnings management practices. Testing the moderation effect confirms that audit quality is proven to significantly strengthen the positive influence of IFRS, WBS, and apparatus competence on fraud prevention, and is able to mitigate (weaken) the negative impact of political connections.

Discussion

The Impact of IFRS Convergence on Fraud Prevention and Earnings Management

The results of the statistical analysis prove that IFRS convergence has a positive and significant effect on fraud prevention ($\beta = 0{,}285; p < 0{,}001$) and has a significant negative effect on earnings management ($\beta = -0{,}241; p < 0{,}001$). This finding supports the foundation of Agency Theory which states that reducing information asymmetry through high-standard accounting standards can suppress opportunistic management behavior (Jensen & Meckling, 1976). IFRS standards that prioritize the principles of full disclosure *and* faithful representation *systematically* narrow the room for managers to conceal discretionary accrual manipulation (Barth et al., 2008).

IFRS implementation requires a high level of transparency in fair value *accounting* estimates and more detailed financial risk disclosure requirements. This increases *the detection risk* for management attempting fraud or financial manipulation (Ball, 2006). The decline in earnings management following IFRS convergence indicates that restrictions on rigid alternative accounting methods have successfully reduced managers' tendency to engage in income smoothing *or* big *bath* (Houqe et al., 2012). This finding aligns with research by Bachtijeva et al. (2024), which suggests that adopting principles-based accounting standards can improve the readability of financial statements while simultaneously closing accounting arbitrage loopholes often exploited for fraudulent activities.

The Influence of Political Connections on Fraud Prevention and Earnings Management

The research results confirm that political connections have a negative and significant effect on fraud prevention ($\beta = -0{,}312; p < 0{,}001$) and has a significant positive influence on earnings management practices ($\beta = 0{,}354; p < 0{,}001$). This finding provides empirical evidence that the existence of politically connected firms *in* developing countries tends to weaken corporate governance structures. Based on the Political Intermediation Theory and the Opportunistic Efficiency Theory, officials or commissioners who have relations with political power circles often create political shields *that* protect entities from strict regulatory oversight and legal sanctions (Chaney et al., 2011; Leuz & Oberholzer-Gee, 2006).

The impact of *political shielding* is the emergence of *moral hazard* risks at the executive level. Managers in politically connected companies have a greater incentive to engage in earnings management to conceal rent -*seeking*, asset tunneling, or inefficient privileged transactions with related parties (Ahmad et al., 2023; Faccio, 2006). Furthermore, the dominance of political elites in internal oversight structures often distorts the fraud prevention function, as political intervention can cripple the independence of internal oversight (Baig et al., 2023). These findings are consistent with a study by Joni et al. (2020), which asserted that political connections, unbalanced by independent control mechanisms, drastically reduce the quality of financial reporting.

The Influence of the Whistleblowing System (WBS) on Fraud Prevention and Profit Management

Statistical analysis shows that *the whistleblowing system* (WBS) has a positive and significant effect on fraud prevention ($\beta = 0{,}224; p = 0{,}001$) and has a negative impact on earnings management ($\beta = -0{,}198; p = 0{,}003$). These results confirm the prescription of *the Fraud Diamond Theory*, where effective fraud prevention must focus on eliminating the element of "opportunity" *(*Wolfe & Hermanson, 2004). A WBS designed with guarantees of confidentiality (*anonymity*) and strong whistleblower protection creates a climate of early detection *that is highly feared by fraud* perpetrators (Near & Miceli, 1985).

The existence of an independent complaint channel provides direct access for employees or internal parties to report irregularities in accounting procedures before they develop into material fraud scandals (ACFE, 2020). In relation to earnings management, the effectiveness of the WBS creates a perception among managers that manipulation of accrual transactions and sales manipulation will be easily uncovered by internal parties holding material evidence (Al-Absy et al., 2019). Thus, the WBS has been proven to function not only as a tool for taking action against violations that have occurred, but also works preventively in protecting the integrity of the financial reporting process (Sutrisno, 2017).

The Influence of Apparatus Competence on Fraud Prevention and Profit Management

The competence of officers has been proven to have a significant positive influence on fraud prevention ($\beta = 0{,}268; p < 0{,}001$) and has a significant negative effect on earnings management ($\beta = -0{,}215; p = 0{,}002$ This finding emphasizes the importance of human resources as the primary implementer of an organization's governance system (Spencer & Spencer, 1993). Internal supervisory officers, audit committees, and accounting personnel who possess forensic accounting technical expertise, a thorough understanding of accounting standards, and an understanding of current financial manipulation schemes have significantly better capabilities in identifying fraud *red flags* (DeZoort et al., 2002).

Even sophisticated oversight infrastructure will not model effective fraud prevention without being executed by competent and honest officers. Competent officers are able to read anomalies in journal entries, analyze the reasonableness of discretionary accrual estimates, and critically evaluate complex transactions that have the potential to disguise company expenses (Subramaniam et al., 2009). This finding supports research by Rakhman and Wijayana (2024), which states that the technical capacity and regulatory understanding of supervisory officers are key determinants in reducing the level of errors and fabrication in an entity's financial statements.

The Moderating Role of Audit Quality

The results of the moderation analysis empirically prove that audit quality plays a key role as a moderating variable that strengthens the effectiveness of internal factors and mitigates the negative impact of external environmental factors. Audit quality is proven to strengthen the positive influence of IFRS convergence ($\beta = 0{,}185; p = 0{,}006$), WBS ($\beta = 0{,}162; p = 0{,}016$), and the competence of the apparatus ($\beta = 0{,}174; p = 0{,}010$) on fraud prevention. Furthermore, audit quality is proven to significantly weaken the negative influence of political connections on fraud prevention ($\beta = 0{,}195; p = 0{,}004$) and weaken the positive influence of political connections on increasing earnings management ($\beta = -0{,}232; p < 0{,}001$).

Table 2

Explanatory Matrix of Audit Quality Moderation Mechanisms

The Context of Audit Quality Moderation	**Impact Before Moderation**	**Moderating Effect of Audit Quality**	**Final Impact on Governance**
IFRS Interaction & Audit Quality	The application of IFRS has the potential to be abused through fair value discretion.	*Big Four* auditors rigorously test the validity of fair value estimates.	Strengthening substantial IFRS compliance & fraud prevention.
WBS Interaction & Audit Quality	WBS reports are at risk of being ignored by internal management.	The auditor evaluates the follow-up on relevant WBS reports.	Strengthening the effectiveness of independent fraud detection.
Interaction of Competence & Audit Quality	Internal competence is limited to the scale of internal examination.	Synergy of inspection between internal apparatus and external auditors.	Strengthening the validity of the organization's fraud prevention system.
Interaction of Political Connections & Audit Quality	*Political shielding* triggers *moral hazard* risks & earnings management.	Auditors' professional skepticism limits tolerance for *rent-seeking*.	Weakening the negative impact of political connections on earnings management.
The Context of Audit Quality Moderation	Impact Before Moderation	Moderating Effect of Audit Quality	Final Impact on Governance

In accordance with the frameworks of DeAngelo (1981) and Francis (2004), high-quality external auditors such as the *Big Four* public accounting firms have a high level of independence and the competence to maintain professional skepticism. When an entity implements IFRS, high-quality auditors ensure that accounting discretion is used in accordance with reasonable criteria and not to manipulate earnings (Becker et al., 1998; Zahratun & Wardhani, 2019). Similarly, in interactions with the WBS and the competence of the apparatus; independent external auditors utilize findings from the internal WBS and collaborate with competent apparatus to uncover fraud schemes hidden by top management (Al-Absy et al., 2020; Farooq & Benali, 2012).

The most crucial finding of this study lies in the ability of audit quality to neutralize the negative impact of political connections. In politically connected companies, the pressure and potential for intervention in the financial reporting process are very high. However, the presence of a highly credible auditor with substantial *reputational* risk acts as an effective external defense (Krishnan, 2003). High-quality auditors will not risk their reputational capital to cover up fraud or earnings management practices carried out by politically connected companies (Khalil et al., 2022). Thus, audit quality has been empirically proven to function as a counterbalancing mechanism *that mitigates moral hazard* risks and limits the incentives for accounting manipulation in environments with high political intervention (Baig et al., 2023).

CONCLUSION

This study has successfully proven empirically that the convergence of *International Financial Reporting Standards* (IFRS), the effectiveness of *the whistleblowing system* (WBS), and the competence of officials have a vital role in increasing the effectiveness of fraud prevention *while* suppressing the practice of earnings management. Based on the foundation of Agency Theory and Governance Theory, the implementation of high-standard accounting standards that are transparent and supported by a protected internal complaint mechanism and the technical capacity of qualified human resources has systematically succeeded in reducing information asymmetry, increasing the risk of detection of irregularities (*detection risk*), and limiting the room for managers to manipulate financial reports.

Conversely, the existence of political connections *has* been shown to have a destructive impact on the quality of financial reporting and corporate governance. The phenomenon of *political shielding*, or political shielding, in entities connected to circles of power has been shown to weaken the independence of the fraud prevention function and create a high risk of *moral hazard* at the executive level. This encourages management to actively engage in opportunistic actions such as profit manipulation to conceal rent *-seeking* activities and inefficient transactions with related parties, thereby harming the integrity of financial reports in the eyes of stakeholders.

The main theoretical and practical contributions of this study emphasize the crucial role of audit quality *as* a moderating variable (*pure/quasi-moderator*). The presence of external auditors with high credibility and independence (such as the *Big Four* Public Accounting Firms) has been proven to provide a real boosting effect *that* strengthens the positive impact of IFRS convergence, WBS, and internal apparatus competence in mitigating fraud. Moreover, audit quality also functions as an effective *buffering* mechanism in mitigating the negative impact of political connections by limiting tolerance for opportunistic accounting discretion.

Implications of this study's findings provide strategic recommendations for regulators, policymakers, and corporate management to focus beyond the mere adoption of accounting regulations or the establishment of a formal oversight infrastructure. Strengthening the effectiveness of fraud prevention and suppressing earnings management in developing countries requires an integrated approach, namely through continuous competency development for internal supervisory personnel, ensuring the independence of *whistleblowing* systems, limiting political interference in organizational structures, and selecting high-quality external auditors with strong professional skepticism.

However, this study has several limitations that need to be considered for future research. The main limitations lie in the potential for subjectivity bias (*common method bias*) from the use of primary questionnaire data on the WBS and staff competency variables, the limitations of the *discretionary accruals* measurement, which does not fully capture real earnings management practices, and the limited sample coverage within the manufacturing and state-owned enterprises (SOE) sectors. Future research is recommended to expand the scope across industry sectors, combine accrual and real earnings management measurements, and employ in-depth interviews to confirm the dynamics of internal corporate politics.

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