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# Detecting Financial Statement Fraud Using the Hexagon Fraud Theory Approach in Financial Sector Companies

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**ABSTRACT:** Good companies do not commit fraud and provide accurate and relevant information. Therefore, financial reports must be made as well as possible in order to provide accu-rate information to its users. This research is quantitative in nature to analyze the influence of the Fraud Hexagon Theory which is proxied by sixteen variables, consist-ing of four variables from the stimulus element (financial targets, external pressure, financial stability, personal financial needs), three variables from the opportunity ele-ment (supervision ineffectiveness, auditor quality and nature of the industry), two variables from the rationalization element (auditor turnover and value accruals), two variables from the capability element (director turnover and CEO education), two variables from the ego element (CEO duality and the number of CEO photos in the annual report), and three variables from collusion elements (political connections, audit fees and collaboration with government projects) on fraudulent financial statements. This research uses secondary data with purposive sampling. In 2019-2022, there are 63 financial sector companies listed on the Indonesian Stock Exchange. The results of this research prove that financial targets, financial stability, supervisory ineffective-ness, nature of industry and CEO duality influence financial report fraud.

**Keywords: fraud, hexagon theory, financial statement**

## INTRODUCTION

Accounting on financial statements provides information about the company's performance and financial condition to stakeholders (Sari, Mahardika, Suryandari, & Raharja, 2022). Fraud can occur, even though financial reports are very important to the company (Faradiza, 2019). According to ISA (2007), it is very important to make a distinction between intentional acts, willful misconduct, and fraud. According to the Association of Certified Fraud Examiners (ACFE), financial statement fraud occurs when someone intentionally reports or omits facts or data that can be misleading (ACFE, 2022). If users of financial statements do not consider all the information, they may make the wrong decision. Fraud occurs in all lines of business, no matter how big the company is (Asmah, et al., 2022).

The ACFE Year 2022 survey results show that the three main fraud categories (asset misappropriation, corruption, and financial statement fraud) show the lowest worldwide case rate in financial statement fraud. These accounted for 9% of all cases surveyed. Yet it suffered the largest loss of $593,000 (ACFE, 2022). The 2019 ACFE Indonesia survey results in the Indonesian fraud survey showed that financial statement fraud had a percentage of 9.25 with a total number of cases of 22 out of 329 total fraud cases overall and caused the greatest loss

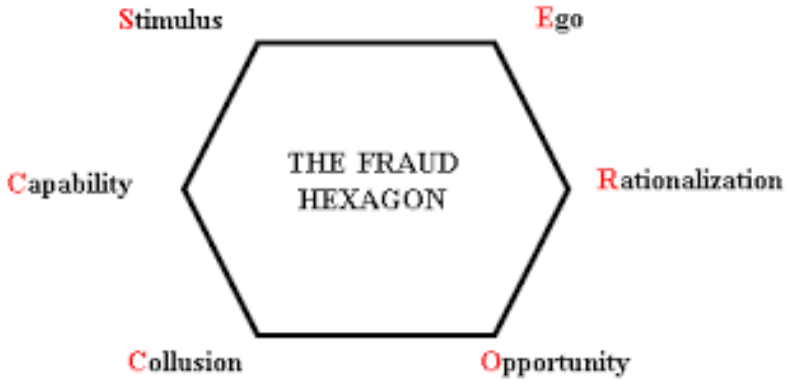
of Rp242,260,000.00. With a percentage of 41.45%, the financial sector in Indonesia is the most harmed by fraud. Losses can include loss of shareholder value, loss of share value, liquidation, and bankruptcy (ACFE, 2019).

The Enron case in America in 2011 was one of the biggest financial statement fraud cases. Since 1997, Enron and its accounting firm Arthur Adlersson have been accused of inflating its finances by $586 billion. This fraud scandal caused investors to lose $32 billion and thousands of employees to lose $1 billion in pension funds. After this case was revealed, Enron's shares immediately fell and went bankrupt, and also had an impact on investor confidence in general. In Indonesia, the financial statement fraud case that has become a hot topic is the PT Jiwasraya case in 2020. PT Jiwasraya is known to have committed acts of financial statement accounting engineering, corruption, and money laundering. PT Jiwasraya's problems have occurred since 2006. PT Jiwasraya still recorded profits, but they were false profits due to accounting engineering, in which the company had already suffered losses. PT Jiwasraya failed to pay JS Saving Plan policies amounting to Rp12.45 trillion in 2019.

Cressey (1953) first proposed the Fraud Triangle Theory, which consists of stimulus or pressure, opportunity, and rationalization. Pressure is the reason someone commits fraud. These pressures include lifestyle, economic needs, and financial and non-financial problems. When a person believes that he is under pressure, this belief can lead to fraud. When a person realizes that there is an opportunity to commit fraud, he must take advantage of the opportunity to make it happen. Opportunities can occur due to ineffective internal controls or poor governance systems. The third element is rationalization, an action that states that fraud is not a crime (Fitriyah & Novita, 2021).

Wolfe & Hermanson (2004) developed the Fraud Triangle Theory into the Fraud Diamond Theory by considering the Capability element. A person's ability to control the social environment that can benefit him, infiltrate the company's internal controls, and create complex fraud strategies is referred to as capacity (Antawirya, Putri, Wirajaya, Suaryana, & Suprasto, 2019). The Fraud Diamond Theory was updated by Crowe (2011), adding an ego element (arrogance), which is part of the Fraud Pentagon Theory. Arrogance is an individual's desire to strengthen power. The formation of the arrogance factor is influenced by perpetrators who are mostly Chief Executive Officers (CEOs) and Chief Financial Officier (CFOs) and have large fraud schemes.

Vousinas (2019) added the element of collusion, which contributes to fraud, without removing the existing theory. Fraud Hexagon Theory is the name of this theory. Collusion is a conspiracy of two or more parties to do something that harms a third party (Handoko, 2021). So that in the Fraud Hexagon Theory, six elements encourage fraud, namely stimulus/pressure, opportunity, rationalization, capability, ego, and collusion.




Source: Vausines (2019)

According to the F-Score model found by Dechow et al. (2011), accrual and financial information can help discover fraud in financial statements. Unlike the M-Score model, this model aims to allow users to F-Score for individual companies and simplify the assessment of whether a company is misrepresenting its financial statements.

This topic has been studied by several previous researchers with a variety of different proxies to represent each element in the Fraud Hexagon theory. The results of several previous researchers showed some differences. According to (Tarjo, Anggono, & Sakti, 2021) and (Sagala & Siagian, 2021) financial targets, external pressure and stability affect financial statement fraud. Different results were shown in research (Handoko, 2021) and (Sholikatun & Makaryanawati, 2023) found that financial stimulus or the need for personal gain did not affect financial statement fraud.

In research conducted (Nugroho & Diyanty, 2022) Opportunity proxied by the nature of the industry affects financial statement fraud. However, research (Tarjo et al., 2021), and (Octani, Dwiharyadi, Djefris, Akuntansi, & Padang, 2022) found that the possibility caused by Ineffective Monitoring and auditor quality did not affect financial statement fraud.

Research (Sihombing & Eirene Panggulu, 2022) found that rationalization represented by the value of accruals affects the level of financial statement fraud. However, other studies (Tarjo et al., 2021), (Octani et al., 2022), (Handoko, 2021) found that rationalization proxied by auditor turnover does not affect the level of financial statement fraud.

According to research (Siregar & Murwaningsari, 2022), capability proxied by CEO education affects financial statement fraud. However, other studies (Octani et al., 2022) and (Setyono, Hariyanto, Wahyuni, & Pratama, 2023) found that auditor changes do not affect financial statement fraud.

Financial statement fraud is influenced by Ego which is proxied by CEO Duality (Tarjo et al., 2021). Conversely, financial statement fraud is not influenced by Ego which is proxied by the number of CEO photos in the annual report (Lastanti, Murwaningsari, & Umar, 2022) and (Sagala & Siagian, 2021).

The difference in research results also occurs in the collusion element. Research (Sihombing & Panggulu, 2022) shows that collusion proxied by audit fees affects financial statement fraud. On the other hand, research (Sagala & Siagian, 2021) found that collusion at marginal cost does not affect financial statement fraud.

Based on the different research results, it encourages researchers to conduct research again on this topic. In this study, researchers combine elements of the Fraud Hexagon Theory with other elements that they have used previously in research (Tarjo et al., 2021), (Handoko, 2021), (Octani et al., 2022), and (Sihombing & Panggulu, 2022).

Financial targets, external pressures, financial stability, and personal financial needs are stimulus and pressure elements in this study. This proxy was previously used in research (Tarjo et al., 2021) and (Sagala & Siagian, 2021).

Opportunity is proxied by supervisory ineffectiveness, auditor turnover, auditor quality (Tarjo et al., 2021), and (Octani et al., 2022) and the nature of the industry (Nugroho & Diyanty, 2022). The use of this proxy is based on the fact that the perpetrator commits fraud by taking advantage of existing opportunities. Failure to detect fraud can be caused by a lack of supervision within the company, a change of auditors to cover up fraud, poor quality external auditors, and poor company conditions.

Rationalization is proxied by auditor changes previously used in research (Handoko, 2021) and accrual values previously used in research (Sihombing & Panggulu, 2022).

Perpetrators always have reason to act fraudulently, such as blaming the company for changes in auditor changes.

Capability is proxied by CEO education (Siregar & Murwaningsari, 2022) and director turnover (Octani et al., 2022) and (Setyono et al., 2023). Director turnover in the company will reduce performance because it takes longer for all employees to adjust to the new culture. In addition, more educated CEOs will be more likely to prioritize their interests by committing fraud.

Ego is proxied by the number of CEO photos in the company's annual report (Sagala & Siagian, 2021) and CEO duality (Tarjo et al., 2021). Many photos of the CEO in the company's annual report will show the company's arrogance. According to (Handoko, 2021), arrogant behavior will encourage individuals to do various ways to maintain their position and status.

Collusion is proxied by audit fees (Sihombing & Panggulu, 2022), marginal costs (Tarjo et al., 2021), and government projects (Octani et al., 2022) and (Setyono et al., 2023). High audit costs can encourage auditors to maintain a good relationship with clients or companies by providing an unqualified opinion. Some examples of inter-company conspiracies include increasing the price of products to be sold and trying to show good performance so that the company can participate in government projects.

The F-Score measurement model is used in this study to evaluate the level of financial statement fraud. The financial sector was chosen as the subject of research analysis. Because the financial sector is the company most affected by fraud and the most harmed by fraud in Indonesia. Therefore, the purpose of this study is to determine whether companies in the financial sector are involved in financial statement fraud. This research will use the F-Score model and elements of the Fraud Hexagon Theory.

The results of this study are expected to be able to prove fraud factors based on the Fraud Hexagon Theory, add insight into decision-making for users of financial statements, and become additional literature to develop research on similar topics.

**Hypothesis Development**

**Financial Targets**

Financial targets and profit objectives put pressure on management to do their best to achieve their goals. Bonuses and incentives are usually based on the usual number of sales or profits earned (SAS No. 99). The more able a company is to achieve its financial targets, the better its performance (Bawekes et al., 2018). If the company is not doing well, management may experience pressure to achieve the financial targets set (Sihombing & Panggulu, 2022). In addition, there may be an increased likelihood of financial statement fraud if management is incentivized to achieve financial targets. Research (Sagala & Siagian, 2021) and (Sihombing & Panggulu, 2022) found that financial targets affect financial statement fraud. These results differ from research (Handoko, 2021) which shows that financial targets do not affect financial statement fraud.

$H_1$: Financial targets have a positive influence on Financial Statement Fraud.

**External Pressure**

Excessive pressure on management to meet the requirements or expectations of third parties is known as external pressure (Yesiriani & Rahayu, 2017). In addition, pressure to remain competitive drives managers to acquire debt or equity (Skousen et al., 2011). This pressure can arise both when the company is just starting to borrow and when it has been borrowed. This can cause financial statements because managers will change the data to give the impression that the company looks stable. This is in line with the findings of previous research (Tarjo et al., 2021) which found that external pressure affects financial statement fraud. On the other

hand, research (Octani et al., 2022) found that external pressure did not lead to financial statement fraud.

$H_2$: External Pressure has a positive influence on Financial Statement Fraud.

**Financial Stability**

Financial stability indicates how financially stable a company is. The size of a company's assets attracts the interest of stakeholders, including investors, creditors and owners. When the financial stability and profitability of the company are not in good condition, managers are pressured to commit fraud and change financial statements. (Skousen et al., 2008), companies with below industry average are at risk of altering their financial statements to improve their performance. This ensures that users of financial statements can always assess the company's performance. Sagala and Siagian's research (2021) concluded that financial stability affects financial statement fraud.

$H_3$: Financial stability has a positive influence on Financial Statement Fraud.

**Personal Financial Needs**

Personal financial needs occur when business executives also influence corporate finances (Skousen et al. 2008). Share ownership by the board of a company creates a claim on the company's income and wealth. Financial statement fraud is positively correlated with the ratio of executive share ownership, which means that financial statement fraud increases along with this ratio. Research by (Octani et al., (2022) found that personal financial needs affect financial statement fraud.

$H_4$: Personal financial needs have a positive influence on Financial Statement Fraud

**Supervisory Ineffectiveness**

Supervisory ineffectiveness leads to Ineffective Monitoring which allows managers to act fraudulently as representatives of the company. According to research (Skousen et al., 2011) this is due to the dominance of individuals or small groups in company management, the absence of compensation control, the absence of responsibility for financial statements, internal control and other aspects by the board of directors. According to (Wijayani et al., 2020) the existence of a board of commissioners has the most important role in supervising the company. The number of independent commissioners indicates the level of responsibility for overseeing overall management policy. Research conducted (Agusputri, 2019) suggests that supervisory ineffectiveness affects financial statement fraud.

$H_5$: Supervisory ineffectiveness has a positive effect on Financial Statement Fraud.

**Nature of Industry**

Like Industry, companies can increase their cash by minimizing the number of receivables (Sasongko & Wijayantika, 2019). However, companies are not always at their best. According to (Ijudien & Didin, 2018) the unfavorable state of the company increases the possibility of financial statement fraud. In the financial statements, accounts receivable and inventory balances are calculated based on estimates, evaluating estimates of inventory and bad debts allows management to make changes such as changing the useful life of assets (Annisya & Asmaranti 2016). Research (Setyono et al., 2023) proves that the nature of industry affects financial statement fraud.

$H_6$: The Nature of Industry has a positive effect on Financial Statement Fraud.

**Auditor Quality**

Auditor quality is defined as the auditor's ability to find and report audit results. (Siddiq, Achyani, & Zulfikar., 2017). External audits from Big Four public accountants (Deliotte, Ernest & Young, PWC, KPMG) and Non-Big Four have sufficient ability and skills to audit financial statements. Big Four KAP members have more ability to find financial statement fraud if the

company chooses to use this KAP. According to research (Lennox & Pattman, 2010), the quality of external auditors affects the level of financial statement fraud.

$H_7$: Auditor Quality has a positive effect on Financial Statement Fraud.

**Auditor Turnover**

Auditors who change workplaces may indicate fraud (Skousen et al., 2008). The most experienced auditors are the best to discover management fraud because auditors have a greater chance of discovering the fraud. Company management often changes external auditors to cover up the fraud. According to research (Sihombing & Panggulu, 2022), auditor turnover affects financial statement fraud.

$H_8$: Auditor turnover has a positive influence on Financial Statement Fraud.

**Accrual Value**

Rationalization is based on the thinking of the perpetrators of fraud. One part of the financial statements that is recorded with the decision of management is the accrual value. Accruals will be recorded as accruals if management judges them to be so. Therefore, management decisions are important in this regard. In this condition, management judgment may arise, which value can be said to be accrued and not. Management may say accruals to increase company value and beautify financial statements because they think it is true. Research (Sihombing & Panggulu, 2022) shows that the value of accruals affects financial statement fraud.

$H_9$: Accrual value has a positive effect on Financial Statement Fraud

**Change of Directors**

(Wolfe & Hermanson, 2004) suggest that the change of directors is one type of conflict of interest. Directors commit financial statement fraud because they think it is important for the company. Seeing the impact of this fraud can show how much change is made by the board of directors and its staff. Financial statement fraud increases along with the level of change in directors (Primastiwi & Ayem, 2021).

$H_{10}$: Change of directors has a positive effect on financial statement fraud

**CEO Education**

Educated, experienced, and insightful leaders are expected to maximize the chances of future success (especially financial performance) by finding, analyzing and making the right policies (Jannah, 2017). If a CEO is in control of managing the company's operations and finances, they have a greater opportunity to prioritize personal interests by fabricating financial statements. Therefore, it is possible that the higher the CEO's education, the greater the financial statement fraud in the company.

$H_{11}$: CEO education has a positive influence on Financial Statement Fraud

**CEO Duality**

CEO duality emphasizes the power of CEOs who are in multiple places or business environments. CEOs with multiple job positions when evaluating performance tend to complicate disclosure and be dishonest. As a result, CEO duality leads to poor management, making financial statement fraud possible.

$H_{12}$: CEO duality has a positive influence on Financial Statement Fraud

**The number of CEO photos in the annual report**

Every CEO has the desire to display his status and position in the financial statements to be recognized by the public. The number of CEO photos in the financial statements has an impact on the CEO's attitude and behavior to become increasingly arrogant. The CEO can ignore internal controls and company regulations because of his higher status and position

and trigger fraud. This is supported by research (Tessa & Harto, 2016) which shows that the more pictures of the CEO in the report can show arrogance toward the company.

$H_{13}$: The number of CEO photos in the annual report has a positive influence on Financial Statement Fraud

**Political Connections**

A company may have political connections or relationships with politicians and the government (Purwoto, 2011). Companies with strong political connections often receive benefits such as easy access to bank loans, government contracts, and government assistance in the event of a financial crisis. Companies with political connections tend to commit financial statement fraud because management utilizes this convenience to alter their financial statements.

$H_{14}$: Political connections have a positive influence on Financial Statement Fraud

**Audit Fees**

According to (Iskak, 2015), the costs associated with financial statement audit services that must be paid by the company to the Public Accounting Firm are known as audit fees. The number of audit fees incurred by the company in return for the examination can affect the results of the audit examination that has been carried out by the external auditor. According to research conducted by Sihombing & Tanggulu (2022), audit fees affect financial statement fraud.

$H_{15}$: Audit Fees have a positive influence on Financial Statement Fraud.

**Cooperation with Government Projects**

Companies that cooperate with government projects strive to participate in these projects to obtain high profits, which are expressed in good results. Other research (Handoko, 2021), shows that government projects affect financial statement fraud.

$H_{16}$: Cooperation with government projects has a positive influence on Financial Statement Fraud.

## RESEARCH METHODOLOGY

This research uses a quantitative approach that uses secondary data obtained from the company's website and the Indonesia Stock Exchange (IDX). This study involved data on 105 financial companies listed on the IDX in the period 2019 to 2022. The purposive sampling method was used to identify the relationship between the research variables. The criteria used as samples in this study are companies engaged in the financial sector and publish their annual reports on the IDX website or company website in the 2019-2022 period, companies made a profit during the study period, companies that have managerial share ownership, and companies have complete information on the variables studied. Table 1 shows the sample selection results.

**Table 1. Sample Selection Results**

| Criteria | Sample Quantity |
|---|---|
| Financial sector companies listed on the Indonesia Stock Exchange (IDX) | 105 |
| Companies that do not publish financial reports in the research period | (9) |
| Companies that experienced losses during the Research Period | (33) |
| Sample Total | 63 |
| Research Period | 4 |
| Total Observations | 248 |

This study uses several multiple linear regression analysis methods to predict how the independent variables and the dependent variable affect each other. The following is the regression equation model used in this study:

$$F-SCORE = \beta 0 + \beta 1\ Roa + \beta 2\ Lev + \beta 3\ Achange + \beta 4\ Oship + \beta 5\ Bdout + \beta 6\ Receivable + \beta 7\ Aq + \beta 8\ Audchange + \beta 9\ Tata + \beta 10\ Dchange + \beta 11\ CEOedu + \beta 12\ Dceo + \beta 13\ Nop + \beta 14\ Political + \beta 15\ Lnfee + \beta 16\ Pc + e$$

Description:

β0 = Constant regression coefficient; β1-16 = regression coefficient of each proxy; roa = return on assets ratio; lev = ratio of total liabilities per total assets; achange = ratio of changes in total assets; oship = managerial share ownership ratio; bdout = ratio of independent board of commissioners; receivable = ratio of changes in trade receivables; aq = external auditor quality; audchange = external auditor turnover; tata = ratio of total accruals per total assets; dchange = board of directors turnover; ceoedu = ceo education; dceo = ceo duality; top = total ceo photos in annual report; political = political connections; lnfee = audit fees; cg = cooperation with government; e = error.

Before testing the model using multiple linear regression. This study carried out the classic assumption test stages, namely the normality test, heteroscedasticity test, multicollinearity test and autocorrelation test.

**Dependent Variable**

The dependent variable in this study is financial statement fraud. To identify financial statement fraud, this study uses the f-score model, which is the sum of two variables, namely financial performance and accrual quality. An f-score value of more than 2.45 indicates a "high risk" fraud risk, a value of 1.85 indicates a "substantial risk" fraud risk and a value of more than 1 indicates an "above normal risk" fraud risk and an f-score value of less than 1 indicates a "normal or low risk" fraud risk. This f-score value can be described in the following equation:

$$F-Score = Accrual\ Quality = Financial\ Performance$$

Accrual quality and financial performance are two components of the f-score variable that can be seen in the financial statements.

$$RSST\ accrual\ \frac{\Delta WC + \Delta NCO + \Delta FIN}{Average\ Total\ Assets}$$

***Financial Performance = Change in receivable + Change in inventories + Change in cash sales + Change in earnings***

**Independent Variable**

**Financial Targets**

Financial targets are conditions where management is under greater pressure to achieve goals, which can lead to financial statement fraud. Financial targets are measured by return on assets (roa) using the following formula:

$$\text{ROA} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

**External Pressure**

One way to measure external pressure is to use the leverage ratio. High leverage indicates greater pressure from creditors. To meet external information needs, management must convince creditors that the company can pay its debts. Leverage is calculated using the following formula:

$$\text{Lev} = \frac{\text{Total of Debt}}{\text{Total Assets}}$$

**Financial Stability**

Companies that have stable financial conditions are known as Financial Stability (Pulukadang et al., 2014). When the ratio of changes in total assets in a company increases,

the possibility of fraud also increases. Using the following formula, financial stability can be calculated by calculating the asset change ratio over two years:

$$\text{Achange} = \frac{\text{Total Assets t} - \text{Total Assets t} - 1}{\text{Total Assets t}}$$

**Personal Financial Needs**

Management who own shares in a company are responsible for the company's profits and assets. The managerial share ownership ratio is correlated with financial statement fraud so the percentage of financial statement fraud increases along with the increase in the share ownership ratio. This shows that personal financial needs can be calculated based on share ownership.

$$\text{Oship} = \frac{\text{Managerial Share Ownership}}{\text{Total Number of Shares}}$$

**Ineffectiveness of Supervision**

If the board of commissioners and audit committee do not properly supervise the company's financial reporting procedures, fraud can occur. One way to find out how effective supervision is is to use the following formula (Skousen, Smith, & Wright, 2008).

$$\text{Bdout} = \frac{\text{Total Independent Commissioners}}{\text{Total Board of Commissioners}}$$

**Nature of Industry**

Nature Of Industry is calculated by looking at the company's receivables ratio. If the receivables ratio increases, the value of credit sales will increase, and will reduce the value of cash sales which will result in a decrease in the company's cash value for operational activities. This makes the company's conditions not ideal. The Nature of industry can be calculated using the following formula:

$$\text{Receivable} = \frac{\text{Receivables t}}{\text{Sale t}} - \frac{\text{Receivables t} - 1}{\text{Sale t} - 1}$$

**Auditor Quality**

Auditors can be assessed based on their performance. Auditor performance can be assessed by determining whether they are members of the Big Four (Deloitte, Ernest & Young, PWC, KPMG) or non-Big Four. Companies that use KAP audit services from Big Four members are given a score of 1, while companies that do not use them are given a score of 0.

**Change of Auditor**

According to SAS No. 99 AICPA, (2002), changing auditors can result in inaccurate financial reports. The number of auditor changes is calculated using a dummy variable and looks at the company's change of Public Accounting Firm from 2019 to 2022. If the company changes Public Accounting Firm, it is given a value of 1, and a value of 0 if the company does not do so.

**Accrued Value**

According to Skousen et al. (2009), management's assessment of the company's implicit accrual value and decision making can be influenced by the TATA ratio which is the ratio of total accruals to total assets. The variable total accruals to total assets (TATA) is calculated using a ratio scale and can be found using the formula (Situngkir and Triyanto, 2020) as follows:

$$\text{TATA} = \frac{\text{Total Accruals}}{\text{Total Assets}}$$

**Change of Directors**

Changes in directors can increase the likelihood of fraud during periods of stress (Wolfe & Hermanson, 2004). The company could see a change in directors. This can be done by using

a dummy variable to measure turnover from 2019 to 2022. Companies are given a value of 1 if there is a change in directors, and a value of 0 if there is no change.

**CEO Education**

CEO education covers the abilities and skills a CEO needs to manage the company's overall operations. Dummy variables can be used to measure CEO education variables. If the CEO has a master's educational background, he will be given a value of 1. But if he does not have it, he will be given a value of 0.

**CEO Duality**

When evaluating duality, it is important to note that CEOs working at the company in the reference year may have held other job positions. Dummy variables can be used to measure the CEO duality variable. If there is CEO duality during the observation year, it will be given a value of 1 and if there is none, it will be given a value of 0 (Imtikhani & Sukirman, 2021).

**Number of CEO photos in annual reports**

Shareholders trust the main director or CEO to oversee the company's operations. The categories for the number of photos displayed in the annual financial report are shown in Table 2. The number of photos in the company's annual report from 2019-2022 can be calculated by counting the number of photos of the CEO (Tessa & Harto, 2016).

**Table 2. Categories of Number of CEO Photos in Annual Financial Reports.**

| | |
|---|---|
| 1 | Does not display photos of directors |
| 2 | 1 to 4 photos |
| 3 | 5 to 8 photos |
| 4 | 9 to 12 photos |
| 5 | 13 to 16 photos |

**Political Connections**

Dummy variables can be used to measure the level of political connection. According to (Sahla, W. A., & Ardianto, 2022), a value of 1 is given to commissioners who have political connections and hold multiple positions. On the other hand, a value of 0 is given to commissioners who do not have political connections and hold concurrent positions. Political connections are defined as close relationships between corporations and the government consisting of public officials or politicians, this results in profits for the company in terms of permits and loan funds (Vousinas, 2019).

**Audit Fees**

Audit fees are the total financial report costs that clients must pay to KAP (Iskak, 2015). Calculate this audit fee using the natural logarithm, with the following audit fee formula:

$$\text{Lnfee} = \text{Ln}\left(\text{Audit Fees}\right)$$

**Cooperation with Government Projects**

Whether or not there is a government project in a company can be measured with a dummy variable. Companies will be given a score of 1 if they collaborate with government projects during 2019-2022, but a score of 0 if they do not.

## RESULT AND DISCUSSION

### Descriptive Statistical Analysis

The minimum value, maximum value, average value, and standard deviation of the dependent and independent variables are presented in the following descriptive analysis:

**Table 3. Descriptive Statistical**

| Variabel | Min | Max | Mean | Std. Dev |
|---|---|---|---|---|
| F-score | -2.9147 | 5.181 | .6719 | 1.1844 |
| Roa | .0004 | 4.9632 | .6658 | 1.1303 |
| Lev | .0024 | .9446 | .6678 | .2305 |
| Achange | -.5788 | .6709 | .0795 | .15549 |
| Oship | .0000 | 2.9254 | .0897 | .3922 |
| Bdout | .2000 | 1.0000 | .5157 | .1279 |
| Receivable | -2.9009 | 3.2489 | -.0277 | .6106 |
| Aq | .0000 | 1.0000 | .4166 | .4939 |
| Audchange | .0000 | 1.0000 | .0515 | .2216 |
| Tata | -.5314 | .5068 | .0130 | .1352 |
| Dchange | .0000 | 1.0000 | .3888 | .4884 |
| CEOedu | .0000 | 1.0000 | .6309 | .4835 |
| Dceo | .0000 | 1.0000 | .2579 | .4383 |
| Nop | .0000 | 5.0000 | 2.0277 | .8103 |
| Political | .0000 | 1.0000 | .0674 | .2513 |
| Lnfee | 14.4600 | 23.4900 | 20.6620 | 1.5869 |
| Pc | .0000 | 1.0000 | .4007 | .4910 |

Source: SPSS version 25, 2024 (processed by the author)

As a result of the financial statement fraud F-Score value which shows a standard deviation greater than the mean, it can be concluded that the company data studied is heterogeneous and not clustered. Larger standard deviation values were found in the variables financial targets, financial stability, personal financial needs, nature of industry, quality of auditors, change of auditors, accrual value, change of directors, CEO duality, political connections, and cooperation with government projects. This shows that the data is heterogeneous and not grouped.

### Classic assumption test

Based on the results of the data normality test using the Kolmogorov-Smirnow test method, it appears to have a significance value of 0.20 > 0.05 so that the data is normally distributed. The results of the heteroscedasticity test carried out using the Glejser test method show a significance value of > 0.05, namely > 0.05. the data model passes the heteroscedasticity test.

The results of the multicollinearity test show that all variables pass the multicollinearity test because the tolerance value is > 0.10 and the variance inflation factor value is < 10.00. The results of the autocorrelation test using the Brausch-Gldfrey test (LM Test) show the chi-square probability value < chi-square table (17.71< 26.29) so there is no autocorrelation in the test.

### Hypothesis testing

Table 4 below shows the results of the regression analysis. The results of the analysis show that financial target variables, supervisory ineffectiveness, industry nature, and CEO duality have an influence on financial statement fraud.

**Table 4. Significance Test**

| | B | St. Error | t | Sig. |
|---|---|---|---|---|
| F-score | 1.482 | .886 | 1.672 | .096 |
| Roa | -.109 | .055 | -1.970 | .050 |
| Lev | .302 | .261 | 1.155 | .249 |
| Achange | -.725 | .372 | -1.947 | .053 |
| Oship | -.087 | .149 | -.585 | .559 |
| Bdout | -.998 | .451 | -2.215 | .028 |
| Receivable | -.274 | .089 | -3.060 | .002 |
| Aq | -.190 | .121 | -1.566 | .119 |
| Audchange | .166 | .252 | .657 | .512 |
| Tata | .483 | .449 | 1.076 | .283 |
| Dchange | -.357 | .112 | -3.173 | .002 |
| CEOedu | -.139 | .115 | -1.206 | .229 |
| Dceo | .059 | .135 | -.442 | .659 |
| Nop | .002 | .070 | .022 | .982 |
| Political | .308 | .229 | 1.342 | .181 |
| Lnfee | -.003 | .041 | -.069 | .945 |
| Pc | -.066 | .112 | -.592 | .555 |

Source: SPSS version 25, 2024 (processed by the author)

**Discussion**

**Financial Targets Against Financial Statement Fraud**

The stimulus variable with a financial target proxy, the significance value is 0.05, so the financial target shows that there is an influence on financial statement fraud and the hypothesis is accepted. If the ROA value targeted by the company is considered too high, the higher the risk of fraud. The overall ROA value cannot be used as an indication of fraud. Unreasonable financial targets can cause management to feel pressured. Apart from that, it is important to determine financial targets correctly and in accordance with management capabilities. Therefore, an increase in profitability can be an indication of financial statement fraud. This finding is in line with (Tarjo et al., 2021) and (Kirana, Toni, Afiezan, & Simorangkir, 2023).

**External Pressure on Financial Statement Fraud**

The stimulus variable as a proxy for external pressure influences financial statement fraud and the hypothesis is accepted, with a significance value of 0.24 > 0.05. This is because the entity is believed to be able to pay off its debts and not create pressure for management to commit fraud (Bawekes et al., 2018). The results obtained from this hypothesis are in line with research (Sihombing & Panggulu, 2022) and (Setyono et al., 2023) that external pressure has no effect on financial statement fraud.

**Financial Stability Against Financial Statement Fraud**

The stimulus variable as a proxy for financial stability has a significance value of 0.05, which means that financial stability has an influence on financial statement fraud and the hypothesis is accepted. To make investors interested, the company displays financial information that shows an increase in the company's prospects even though in reality the company is in an unstable condition by manipulating its financial reports. So that company stability puts pressure on the company and causes management to be motivated to maintain financial stability in the wrong way. The findings of this research are in line with the results of research conducted by (Octani et al., 2022) and (Sagala & Siagian, 2021).

**Personal Financial Needs Against Financial Statement Fraud**

The stimulus variable as a proxy for personal financial needs, the significance value is 0.55 > 0.05, so personal financial needs have no influence on financial statement fraud and the hypothesis is rejected. Low share ownership in a company can be an indication that there is a separation between shareholders and company management, so that management does not have sufficient capacity to commit financial statement fraud (Yesiriani & Rahayu, 2017). Therefore, managerial ownership cannot identify financial statement fraud. The findings of this study are in line with research (Tarjo et al., 2021).

**Ineffective Monitoring of Financial Statement Fraud**

The opportunity variable as a proxy for supervisory ineffectiveness has a significance value of 0.02 < 0.05, this proves that supervisory ineffectiveness has no influence on financial statement fraud and the hypothesis is not accepted. The company's independent commissioner can increase effectiveness in supervising company operations to prevent fraud. The composition of independent commissioners guarantees an increase in better corporate governance and internal control. So the board of commissioners ratio can identify fraudulent financial statements. This finding is in line with research (Lastanti et al., 2022) and (Kirana et al., 2023).

**Nature of Industry Against Financial Statement Fraud**

The opportunity variable with the nature of industry proxy, the significance value is 0.00 < 0.05, this shows that the nature of industry has an influence on financial statement fraud and the hypothesis is accepted. Therefore, if the ratio of changes in trade receivables is high, the opportunity for management to commit financial statement fraud is low. Management is not always motivated to make the company the best it can be by falsifying financial reports due to accounts receivable. The research findings of (Sholikatun & Makaryanawati, 2023), (Tarjo et al., 2021) and (Setyono et al., 2023) are consistent with these findings.

**Auditor Quality on Financial Statement Fraud**

The opportunity variable with a proxy for auditor quality, the significance value is 0.11 > 0.05. This research proves that the quality of the external auditor has no influence on financial statement fraud and the hypothesis is not accepted. Big Four member KAP and non-Big Four KAP have the same duties, namely conducting audits of company financial reports and looking for material misstatements in company financial reports. The findings of this research are in line with research by (Octani et al., 2022) and (Tarjo et al., 2021).

**Change of External Auditor Regarding Financial Statement Fraud**

The rationalization variable as a proxy for changing external auditors, has a significance value of 0.51 > 0.050. This proves that changing external auditors has no influence on financial statement fraud and the hypothesis is not accepted. This change of external auditor was caused by the company's compliance with article 3 (1) of the Regulation of the Minister of Finance of the Republic of Indonesia Number 17/PMK.01/2008 which states that external auditors can work with the same client for six consecutive financial years, three consecutive financial years. -consecutive, and the same auditor for the same client. There is another possibility that the company chose to change external auditors because the company was dissatisfied with the audit services and performance of the previous external auditor. This is not only to cover traces of financial statement fraud that have been previously discovered by external auditors. This finding is in line with research (Handoko, 2021) and (Nugroho & Diyanty, 2022).

**Accrual Value of Financial Statement Fraud**

The rationalization variable as a proxy for accrual value, the significance value is 0.28 > 0.05 indicating that the accrual value has no influence on financial statement fraud and the hypothesis is not accepted. This is because financial sector companies show a low average accrual value, so it is natural that companies do not carry out earnings management. According to Sholikatun & Makaryanawati (2023), accrual value is not only used to present financial reports fraudulently, but also to present financial performance and status based on transactions. The findings of this research are in line with research by (Lastanti et al., 2022) and (Sholikatun & Makaryanawati, 2023).

**Change Of Directors Regarding Financial Statement Fraud**

The capability variable as a proxy for changing directors has a significance value of 0.02 > 0.05, so that changing directors has an influence on financial statement fraud and the hypothesis is not accepted. When there is a change in the composition of the board of directors, time will be needed to adapt and adapt to the new composition. During this adaptation period, the performance of directors will not be optimal, making it easier for management to manipulate financial reports. These findings are in line with (Utami, 2019) and (Husmawati, P., Septriani, Y., Rosita, I., & Handayani, 2017).

**CEO Education Against Financial Statement Fraud**

The capability variable as a proxy for CEO education, the significance value is 0.22 < 0.05, indicating that it has no influence on financial statement fraud and the hypothesis is rejected. Fraud cannot be detected by a person's level of education. Fraud is an action related to a person's behavior and mentality and a person's high or low education cannot be used as a benchmark for a person's mentality as a perpetrator of fraud. Therefore, CEO education does not influence the occurrence of financial statement fraud. These results are in line with research (Fouziah, Pancasila, Pancasila, Djaddang, & Pancasila, 2019).

**CEO Duality of Financial Statement Fraud**

The ego variable as a proxy for CEO duality, the significance value is 0.65 > 0.05 indicating that CEO duality has no influence on financial statement fraud and the hypothesis is not accepted. When CEOs have more than one position in a company, they have more responsibility for improving the company's performance and effectiveness. By having CEOs in several parts of the company, they can communicate more easily with divisions and make work processes more efficient. These findings are in line with research (Sihombing & Eirene Panggulu, 2022) and (Sari et al., 2022).

**Number Of CEO Photos in Financial Reports of Financial Statemen Fraud**

The ego variable as a proxy for the number of CEO photos in the annual report, has a significance value of 0.98 > 0.05, thus proving that it has no influence on financial statement fraud and the hypothesis is not accepted. Annual financial reports published by companies usually have a picture of the CEO in them. The CEO image displayed on the financial report is only a profile of the leader and an introduction to users. The findings of this research are in line with research conducted by (Antawirya et al., 2019) and (Handoko, 2021).

**Political Connection to Financial Statement Fraud**

The collusion variable with a proxy for political connections has a significance value of 0.18 > 0.05, so it has no effect on financial statement fraud and the hypothesis is not accepted. Political connections have no impact on fraud reporting. Management who is politically connected does not abuse relationships for personal gain so that it does not have an impact on preventing irregularities in financial reports. The company tries to present financial reports honestly in order to maintain its reputation or good relations with the government. With the

hope that the company can get help in overcoming future crisis situations. These findings are in line with research conducted by (Kirana et al., 2023) and (Lastanti et al., 2022).

**Audit Fees for Financial Statement Fraud**

The collusion variable with the audit fee proxy, the significance value is 0.94 > 0.05 and shows that it has no effect on financial statement fraud and the hypothesis is not accepted. Audit fees are a form of cooperation between auditors and management. The audit fees paid depend on how complex and wide the scope of the audit is, as well as the KAP's reputation in the community, government and investors. The findings of this research are in line with research conducted by (Prasetia & Dewayanto, 2021).

**Government Cooperation Against Financial Report Fraud**

The collusion variable with the government project proxy has a significance value of 0.55 > 0.05, which indicates it has no influence on financial statement fraud and the hypothesis is rejected. Companies that carry out government projects are part of a company to make a profit. In reality, if fraud occurs when collaborating with a government project, it will result in the company being blacklisted. The findings of this research are in line with research by (setyono et al., 2023) dan (octani et al., 2022).

## CONCLUSION

The aim of this research is to evaluate the influence of variables that can influence the existence of fraudulent financial statements in financial companies registered on the IDX for the 2019-2022 period. This research uses the fraud hexagon theory approach. The research results prove that the stimulation element supported by financial targets and financial stability has an effect on financial statement fraud. Financial statement fraud is negatively influenced by the element of opportunity which is closely related to the ineffectiveness of supervision and the nature of the industry, and the element of capability which is a proxy for changing auditors.

The stimulus element is proxied by external pressure and personal financial needs, the opportuni-ty element is proxied by auditor quality, the capability element is proxied by CEO education, the rational-ization element is proxied by changing external auditors, accrual value, the ego element is proxied by CEO duality, the number of CEO photos in the financial statements and elements of collusion with audit fee proxies, political connections and collaboration with the government have no effect on financial statement fraud.

This research can serve as a basis for future research on similar topics. Apart from that, this re-search is useful as a reference for investors to consider before investing. and also help financial sector companies consider improving the company's internal controls to prevent fraud.

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