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Factors That Influence Fraud Heptagon Theory On Financial Statements Fraud (Empirical Study on the Mining Sector Listed on the Indonesia Stock Exchange for the Period 2018-2022)

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ABSTRACT: This research was conducted on Mining Sector companies listed on the Indonesia Stock Exchange from 2018 to 2022. The purpose of this study was to determine the effect of Fraud Heptagon Theory on Financial Statement Fraud using the F-Score Model partially and simultaneously. This study used quantitative methods, namely data obtained from secondary data in the form of annual reports. The sample in this study were 25 mining sector companies on the Indonesia Stock Exchange with a purposive sampling method. The data analysis used is data panel regression using the Eviews 12 application program. The results of the research on partially, pressure and ignorance has an effect on financial statement fraud, while opportunity, rationalization, competence, arrogance, and greed have no effect on financial statement fraud. Simultaneously, pressure, opportunity, rationalization, competence, arrogance, ignorance, and greed have no effect on financial statement fraud. Based on the results of research and discussion on Fraud Heptagon Theory towards Financial Statement Fraud, it can be concluded that partially Pressure and ignorance have a significant effect on Financial Statement Fraud.
Keywords: financial statement fraud, fraud heptagon theory

INTRODUCTION

Multinational companies have experienced significant development with expansion to various countries around the world. These multinational companies (MNCs) have a high operational complexity, which includes various legal jurisdictions, tax regulations, and different accounting standards. In addition, national companies have also experienced rapid development in terms of innovation, technology, and market expansion. Both multinational and national companies face great pressure to produce reliable and accurate financial reports to meet the needs of various stakeholders, including investors, creditors, regulators, and the public. However, operational complexity and pressure to achieve high financial targets often drive *fraud* in financial statements.

Fraud consists of 3 (three) components, namely pressure related to urgent financial or personal needs that encourage individuals to commit *fraud*, opportunity which is a situation or environment that allows individuals to commit *fraud* without being found

out and rationalization (rationalization)) which is a justification made by the perpetrator to consider their actions as something acceptable. Of these three components, it is known as the *Fraud Triangle Theory* developed by (Cressey Donald, 1953). This theory has undergone a development known as the *Fraud Diamond Theory* which was initiated by Wolfe and Hermanson in 2004. The addition in this *fraud* component is capability, which means the ability or skill possessed by an individual to carry out *fraud.* (Marks, 2012) added two components in detecting individuals or groups to commit *fraud*, including competency which includes the technical ability to commit *fraud* and ego (*arrogance*) which includes an attitude of superiority that feels that the rules do not apply to them. This theory is called *the Fraud Pentagon Theory*. (Vousinas, 2019) developed this theory as the S.C.O.R.E. Model, namely the components of *pressure*, *opportunity*, *capability*, rationalization, *and ego*.An additional component in *the Fraud Hexagon Theory* by (Vousinas, 2019) is the *collusion* component which is the cooperation between two or more individuals to obtain something for personal benefit or a group by committing *fraud*. Furthermore, this theory developed into the *Fraud Heptagon Theory* developed by (Reskino, 2022) by adding two dimensions of *fraud* that come from religious and cultural factors. Individuals who have been radicalized by certain religious ideologies may commit *fraudulent* or criminal acts in the belief that they are doing something right or ordered by God. This can be seen in the context of extremists who use religion as a justification for various illegal acts. Meanwhile, a culture with a high level of tolerance for *fraud* can create an environment where such behavior is more common and accepted.

Based on research conducted by (Carla & Pangestu, 2021) states that the arrogance of being a *CEO duality* can affect *fraudulent financial statements*, as evidenced by the existence of a kinship relationship between the board of commissioners and the president director which makes the function of the board of commissioners not optimal so that there is a sense of arrogance in the president director. The results of the research by (Nurardi & Wijayanti, 2021) stated that *pressure* has an effect on the detection of *financial statements*. (Rukmana, 2018) said that when arrogance increases, cheating also increases. Research conducted by (Khamainy, Amalia, Cakranegara, & Indrawati, 2022) explains that pressure, collusion and opportunity have predictive relevance to financial statement fraud. Although out of ten hypotheses only three are proven, these results imply that the company is facing a difficult situation and is unable to achieve its financial targets. In contrast to the research conducted by (Yadiati & Rezwiandhari, 2023) explained that simultaneously financial stability (stimulus), external pressure (stimulus), the nature of the industry (opportunities), auditor changes (ability), directors changes (rationalization), a lot of CEO images (arrogance), and cooperation with government projects (collusion) have a positive effect on detecting fraud in SOE financial statements.

The Association of Certified Fraud Examiners (ACFE) describes three main *groups of fraud* that generally occur in a pattern called "*The Fraud Tree*", including corruption*, asset misappropriation,* and fraudulent *statements*.

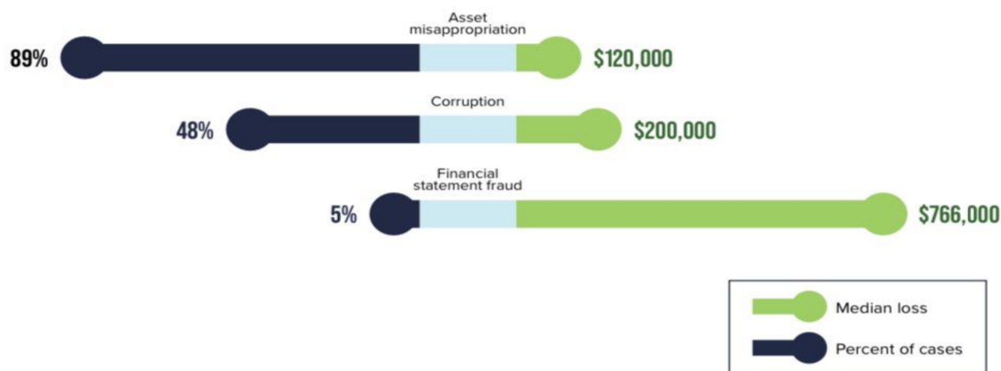

Figure 1
Categories of Occupational Fraud
Source : *Association of Certified Fraud Examiners* (ACFE), 2024

Based on the ACFE survey contained in the *Report to The Nations* 2024, cases of *financial statement fraud* that deliberately cause misrepresentation or material negligence in an organization's *financial statements* are a rare category with a percentage of 5% but cause the largest median loss of $766,000. In addition, from a case perspective, the mining sector (mining) is in first place with an average loss of $550,000 and 24 cases have occurred.

One example of a case that occurred in the mining sector is a fraud case involving Vale SA, a large mining company in Brazil that faced allegations of manipulating financial statements after the Brumadinho dam disaster in 2019. Internal documents show that Vale classified dam 1 at the Corrego do Feijao mine as twice as likely to fail than the maximum level of risk that can be tolerated under the company's own dam safety policy. The previously unreported document is the first evidence that Vale has been concerned about the safety of the dam. This raises the question of why audits conducted around the same time actually ensure the stability of the dam. In addition, why did Vale not take precautions, such as moving the Company's canteen that was on the slopes. From the case, the investigation revealed that the company had hidden important information about the actual condition of the dam (News.Detik.com, 2019).

Most financial *statement* fraud scandals are one of the important reasons to be analyzed, in order to minimize financial statement fraud, and not add to state losses. The measuring tool used to detect financial statement fraud is the method popularized by Beneish in 1999. There are two methods used, namely, *Beneish M-Score* and *F-Score*. *Beneish M-Score* is a financial statement fraud prediction model, where the ratios contained in it have been proven to have the ability to predict financial statement fraud (Beneish, 1999). Meanwhile, *the F-Score* model is a development of *M-Score* which is made specifically to get a score directly without using an index.

The difference between this study and the previous study lies in the independent variables where the previous researcher used the culture *and religiosity variables* in testing *fraud heptagon theory* while the researcher used the variables *ignorance* and *greed*. In addition, the research method used in the form of a questionnaire was disseminated to auditors in DKI Jakarta while the researcher used the mining sector listed on the Indonesia Stock Exchange as an empirical study in this study.

This paper aims to convey the results of research on Factors Influencing *Fraud Heptagon Theory* Towards *Financial Statement Fraud* (Empirical Study on Mining Sector Companies Listed on the Indonesia Stock Exchange for the 2018-2022 Period).

Literature Review and Hypothesis

Stakeholder Theory

The term *stakeholder* was first developed by R. Edward Freeman in his book entitled "*Strategic Management*: *A Stakeholder Aprroach*" published in 1984. Freeman introduced this concept to describe and analyze how the various groups and individuals who have an interest in an organization influence and are influenced by the decisions and actions of that organization. According to (Budi, 2021), *stakeholder* theory explains that the relationship between companies and stakeholders arises due to the growing awareness that companies have stakeholders, that is, all stakeholders have the same right to contribute to decision-making.

Fraud Heptagon Theory

The theory of *fraud* was first introduced by (Cressey Donald, 1953) in his research entitled "*Other People's Money: A Study in the Social Psychology of Embezzlement*". In his research, it was explained that there are three factors in the *fraud* situation, including:

1. *Pressure*

   Pressure can occur when a related party, either employees or management, wants to hide the fraud committed which is caused by pressure from good factors *financial* and *non-financial* (Skousen, Smith, & Wright, 2009). According to Albrecht *et al* (2017:356) Stress can be divided into four main groups: (1) financial pressure, (2) pressure to commit evil deeds, (3) work-related pressure, and (4) other pressure.

2. *Opportunity*

   Opportunity is an opportunity for someone to commit *fraud*. The condition that *encourages* someone to commit *fraud* is the absence of good control so that they feel there is an opportunity to commit fraud without being detected (Mulya et al, 2019). *Statement on Auditing Standard* No.99 in Rahmatullah (2019) states that opportunities for financial statement fraud can occur in three categories, namely:

   a. *The nature of industry* is a situation related to the occurrence of risks for companies in an industry that involves subjective estimates and considerations so that it can provide opportunities for *fraud to occur*.
   b. *Ineffective monitoring*, is a situation where the company does not have enough supervision to monitor the company's performance so that it provides opportunities for management to commit *fraud*.
   c. *Organizational structure,* a complex and unstable organizational structure, is one of the opportunities for someone to commit *fraud*.

3. *Rationalization*

   Rationalization can be interpreted as individuals who commit fraud will seek justification for activities that contain *fraud*. This action is believed to have occurred because the perpetrator *fraud* demanding that more profits must be generated in return for the actions taken (Andriani, 2019). *Statement on Auditing Standard* No.99 in (Rahmatullah, 2019) states that rationalization in companies can be measured by the auditor turnover cycle (*change in auditor*), the audit opinion obtained by the company and the total accrual state divided by total assets. Three factors *fraud* by Cressey which

has been described above depicted in the picture 3

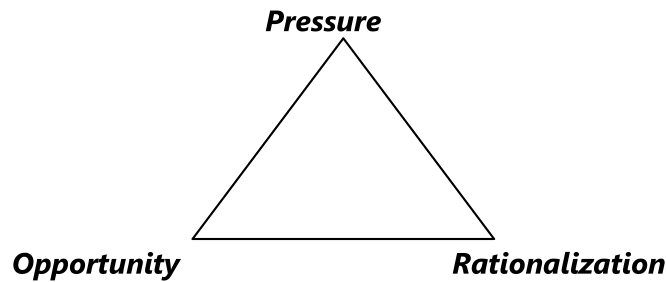

Figure 2
Fraud Triangle Theory
Source : *Fraud Triangle Theory* by Cressey, 1953

Fraud theory has developed with the emergence of *the fraud diamond theory* developed by (Wolfe & Hermanson, 2004). *Fraud diamond* is a refinement of the *fraud triangle* carried out by (Cressey Donald, 1953) by adding one component that is believed to be influential in detecting fraud, namely *capability*. Fraud will not happen without the right person with the right ability to carry out every detail of the fraud. Traits that reflect the ability of the perpetrator of fraud include position, intelligence, and coercion ability. The description of *diamond fraud* is as follows:

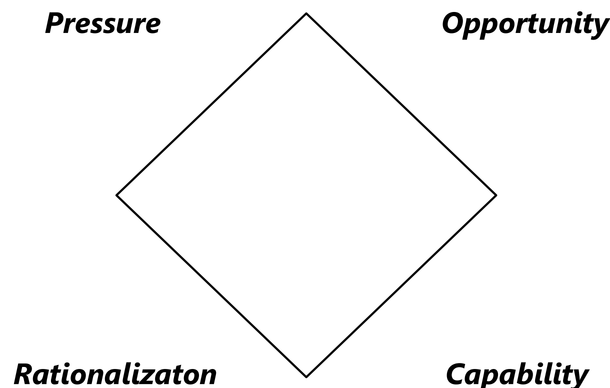

Figure 3
Fraud Diamond Theory
Source : *Fraud Diamond Theory* by Wolfe & Hermanson, 2004

The next development of the theory is *the Fraud Pentagon Theory* proposed by Marks in 2012, an *in-charge partner* at Crowe Horwarth LLP. The *fraud pentagon* theory is a development of previous theories that originated from the *fraud triangle* theory by Cressey in 1953, then developed by Wolfe and Hermanson in 2004 into *the fraud* diamond theory. *Fraud pentagon* adds components in detecting *fraud*, namely competence and *arrogance*.

4. *Competence*

According to (Marks, 2012), competence is the ability of employees to override internal controls, develop concealment strategies, and to control social situations for their own benefit by selling them to others.

5. *Arrogance*

The next component is *arrogance*. (Marks, 2012) explained that arrogance is an attitude of superiority over the rights they have and feels that internal control or

company policies do not apply to them. The term arrogance in the Great Dictionary of Indonesian is "arrogance and arrogance" which means the attitude towards the actions of a person who wants to show the public about status or position. The description of *the pentagon fraud* is as follows:

Figure 4
Fraud Pentagon Theory
Source : *Crowe's Fraud Pentagon Theory* by Marks, 2012

6. *Collusion*

The latest theory about fraud is the *Fraud Hexagon Theory* put forward by Georgios L. Vousinas from *the National Technical University of Athens, Athens, Greece* in 2019 in his article entitled "*Advancing Theory of Fraud: The* S.C.O.R.E. *Type*. The component added to the *fraud hexagon theory is the* collusion *component*. According to (Vousinas, 2019) in (Kusumosari & Solikhah, 2020), collusion is a collaboration carried out by several parties, both by individual groups and parties outside the organization, as well as between employees within the organization. When collusion fraud occurs, honest employees will participate in cheating due to an dishonest environment. Collusion can also be done by utilizing the ability to take the position of others. These six factors can be seen in thefollowing figure:

Figure 5
Fraud Hexagon Theory
Source : *Fraud Hexagon Theory* by Vousinas, 2019

Fraud Heptagon Theory is an evolution of the theory *fraud* developed by (Yusof, 2016) in his dissertation entitled "*Fraudulent Financial Reporting*: *An Application of Fraud Models to Malaysian Public Listed Companies*". This theory explains that there are two

factors that cause *fraud* that is *ignorance* and *greed*. *Ignorance* (ignorance) is represented as "*lack of knowledge or information*" according to Oxford (2008:502) in (Yusof, 2016). (Kruger & Dunning, 1999) describes the situation of ignorance as someone who mistakenly believes that he or she is knowledgeable and will not seek clarification on his beliefs, but instead relies on his position of ignorance. As a result, the person may also reject valid but contradictory information, without realizing its importance or understanding it. In contrast to *greed* (greed) which is generally related to "*desire for possessions, wealth or power*" according to Oxford (2008:441). Greed as part of personal financial pressure related to employee motivation to commit fraud (Rae & Subramaniam, 2008) in (Yusof, 2016).

In addition, the theory *fraud* also developed by (Reskino, 2022) in his dissertation entitled "*Fraud Prevention Mechanisms and their Influence on Perfomance of Islamic Financial Institutions*". This theory intends to fill in the gaps in the previous literature that slightly explained the occurrence of *fraud* from religious and cultural factors. According to the Great Dictionary of the Indonesian Language, religion is a teaching, a system that regulates the system of faith (belief) and worship to God Almighty as well as rules related to the association of humans and humans as well as humans and their environment. The previous five dimensions, namely pressure, opportunity, rationalization, competence and arrogance, are derived from theory *fraud* previously. (Reskino, 2022)explains that this theory is based on the premise that a person or group of people *fraud* Because of weak faith and the lack of a good culture in a company.

Financial Statement Fraud

Based on the Auditing Standard (SA) section 316 paragraph 04, misrepresentation arising from fraud in financial reporting is a misrepresentation of intentional omission of amounts or disclosures in financial statements to deceive users of financial statements. According to SA section 316 fraud in financial statements can concern actions as presented below:

1. Manipulation, falsification, or alteration of accounting records or supporting documents that are the source of data for the presentation of financial statements;
2. Misrepresentation in or omission from financial statements of events, transactions, or significant information; and
3. Misapplication of intentional accounting principles relating to amounts, classifications, ways of presentation, or disclosure.

Framework of Thought

Based on the explanation that has been described, the framework of thinking in this study is as follows:

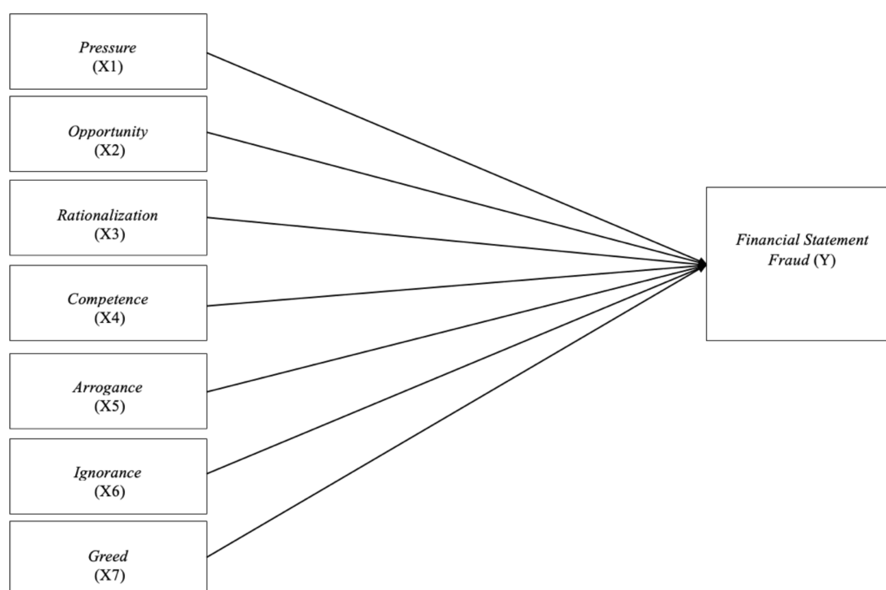

Figure 6
Framework of Thought
Source: Data processed, 2024

Hypothesis development

Effect of *Pressure* on *Financial Statement Fraud*

Based on research conducted by (Handoko & Angelyca, 2023), it shows that pressure proxied with *financial pressure* has no effect on *fraudulent financial reporting*. Research conducted by (Rahma & Sari, 2023) shows that *financial stability* has an effect on *financial statement fraud*, while *external pressure* and *financial targets* have no effect on *financial statement fraud*. Research conducted by (Handayati, 2023) shows that *stimulus* has a positive effect on fraud. In line with research conducted by Hakim *et al* (2023), it shows that pressure proxied by *government projects* has a significant effect on *fraudulent financial statements* , while *financial target* and *financial stability* do not have a significant effect on *fraudulent financial reports in non-cyclicals*. (Handayani, Evana, & Prasetyo, 2022) showed that *external pressure* is positively correlated with *fraudulent financial reports*. Based on this description, the following hypothesis is formulated:

H1 : *Pressure* has a positive effect on *financial statement fraud*

The Effect of *Opportunity* on *Financial Statement Fraud*

Based on research conducted by (Azizah & Reskino, 2023), it shows that *opportunity* has no effect on the detection of fraudulent financial statements. In line with the research conducted by (Rahma & Sari, 2023), it shows that *the nature of industry* and *effective monitoring* have no effect on *financial statement fraud*. Research conducted by (Handayati, 2023) shows that *opportunity* has a positive effect on fraud. Research conducted by (Khamainy et al., 2022) shows that *the nature of industry* as a proxy *of opportunity* has predictive relevance to *financial statement fraud*. The same results were also carried out by (Lauwrens & Yanti, 2022) showing that opportunity has a significant effect on the likelihood of financial statement fraud. In contrast to the research conducted by (Inawati & Arief, 2022) shows that partially *the nature of industry* has no

effect on *financial statement fraud*. Based on this description, the following hypothesis is formulated:

H2 : *Opportunity* has a positive effect on *financial statement fraud*

The Effect of *Rationalization* on *Financial Statement Fraud*

Based on research conducted by (Azizah & Reskino, 2023), (Rahma & Sari, 2023) shows that rationalization has no effect on the detection of fraudulent financial statements. In contrast to research conducted by (Handoko & Angelyca, 2023) showing that *change in auditors* affects *fraudulent financial reporting*. Research conducted by (Handayati, 2023) shows that *rationalization* has a positive effect on fraud. (Khamainy et al., 2022) showed that *change in auditor* has no predictive relevance to *financial statement fraud*. In line with research conducted by (Chantia, Guritno, & Sari, 2021) shows that *rationalization* does not have a significant effect on *fraudulent financial statements*. Meanwhile, research conducted by (Nugroho & Diyanty, 2022) shows that *rationalization* is proven to affect the occurrence of *fraudulent financial statements*. (Wicaksono & Suryandari, 2021) showed that *change of auditors* has no effect on *fraudulent financial reports*. Based on this description, the following hypothesis is formulated:

H3 : *Rationalization* has a positive effect on *financial statement fraud*

The Effect of *Competence* on *Financial Statement Fraud*

Based on research conducted by (Azizah & Reskino, 2023), it shows that *competence* has no effect on the detection of fraudulent financial statements. In line with research conducted by (Handoko & Angelyca, 2023) shows that *change in directors* has no effect on *fraudulent financial* reporting. (Handayati, 2023) show that *capability* is detrimental to fraud. Research conducted by (Khamainy et al., 2022) shows that *change in directors* does not have predictive relevance to *financial statement fraud*. (Inawati & Arief, 2022) showed that *change in directors* has a negative impact. (Handayani et al., 2022) showed that *the proxied capability* with *good corporate governance* showed zero correlation. (Lauwrens & Yanti, 2022) showed that competence has a significant effect on the likelihood of financial statement fraud. In contrast to research conducted by (Mukaromah & Budiwitjaksono, 2021) shows that *change of directors* has no effect on *fraudulent financial statements*. Based on this description, the following hypothesis is formulated:

H4 : *Competence* has a positive effect on *financial statement fraud*

The Effect *of Arrogance* on *Financial Statement Fraud*

Based on research conducted by (Azizah & Reskino, 2023), it shows that *arrogance* has a great influence on the detection of fraudulent financial statements. This is in line with research conducted by (Rahma & Sari, 2023) showing that ego or *arrogance* has an effect on *financial statement fraud*. (Handayati, 2023) showed that *arrogance* has a positive effect on fraud. Meanwhile, research conducted by Hakim *et al* (2023) shows that *the number of* CEO's *pictures* does not have a significant effect on *fraudulent financial reports in non-cyclicals*. The same research was also conducted by (Khamainy et al., 2022) showing that *the number of* CEO's *pictures* does not have predictive relevance to *financial statement fraud*. (Agung, Pranyanita, Mediatrix, & Sari, 2021) showed that CEO *duality* has no effect on *financial statement fraud.* Based on this description, the following hypothesis is formulated:

H5 : *Arrogance* has a positive effect on *financial statement fraud*

The Effect of *Ignorance* on *Financial Statement Fraud*

A corporate management system called "*good corporate governance*" is a system developed to achieve these goals in terms of improving business performance and strengthening compliance with ethical standards and legal requirements (Rodriguez-Fernandez, 2016). Corporate governance refers to the company's efforts to do this in order to build a pattern of beneficial relationships between stakeholders by increasing the company's value through the financial security of its owners (Kesuma, Risanty, Mubarok, & Marisa, 2020). Therefore, one of the causes of people committing fraud because they do not know the situation in their company, this is important to reduce ignorance of superior corporate governance. Based on research conducted by (Handoko & Angelyca, 2023), it shows that *corporate governance policies* have no effect on *fraudulent financial reporting*. Based on this description, the following hypothesis is formulated:

H6 : *Ignorance* has a positive effect on *financial statement fraud*

The Effect of *Greed* on *Financial Statement Fraud*

The *greed* variable is proxied with *remuneration* which is an incentive or a kind of encouragement that can be given to the board of directors so that they can carry out their duties in accordance with the provisions of the interests of shareholders. However, compensating directors opens the door to greed fraud (Handoko & Angelyca, 2023). Based on research conducted by (Handoko & Angelyca, 2023), it shows that *remuneration* has no effect on *fraudulent financial reporting*. (Majdi & Rahman, 2013) explain that companies limit executive compensation to improve business performance and also to control in the behavior of executive directors to prevent fraud. Based on this description, the following hypothesis is formulated:

H7 : *Greed* has a positive effect on *financial statement fraud*

RESEARCH METHODOLOGY

This study is intended to find out the factors that affect fraud heptagon theory on financial statement fraud. The unit of analysis used in this study is mining sector companies listed on the Indonesia Stock Exchange for the 2018-2022 period.

The independent variables contained in this study include:

1. *Pressure*

   The *pressure* variable is proxied with *the external pressure* which describes the entire obligation of the entity. The formula used in measuring *external pressure* is:

   $$Leverage = \frac{Total\ Debt}{Total\ Assets}$$

2. *Opportunity*

   The *opportunity* variable is proxied with *ineffective monitoring* which explains the ineffectiveness during the supervision process carried out by the board of commissioners and the audit committee in carrying out their duties and functions. The formula used in measuring opportunities is:

   $$BDOUT = \frac{Number\ of\ Independent\ Commissioners}{Total\ Board\ of\ Commissioners}$$

3. *Rationalization*
   The *rationalization* variable is proxied by *the total accrual* using the formula, namely:
   $$Total\ Accrual = \frac{Income\ From\ Operating_t - Cash\ Flow\ From\ Operating_t}{Total\ Asset_t}$$
4. *Competence*
   The *competence* variable is proxied by *change of directors* which is measured using a dummy variable, if there is a *change of directors* it is marked 1, but if it is not given a code of 0.
5. *Arrogance*
   The *arrogance* variable is proxied by *the frequent number of* CEO'*s picture* which is measured by looking at the number of CEO photos that appear in *the entity*'*s* annual report.
6. *Igronance*
   The ignorance variable is proxied with *corporate governance policies* which is measured by looking at if training provided to employees or directors between 2018 and 2022 is marked 1, but if it is not given a code of 0.
7. *Greed*
   The *greed* variable is proxied with *remuneration* measured by measuring using a dummy variable, if there is a remuneration greater than the total average remuneration for the period 2018 – 2022 at that time coded 1, but otherwise, coded 0.

RESULT AND DISCUSSION

Descriptive Statistical Analysis

Table 2
Results of Descriptive Statistical Analysis

	Y	X1	X2	X3	X4	X5	X6	X7
Mean	0.174444	0.554148	0.411185	-0.062000	0.474074	2.829630	0.925926	0.511111
Maximum	10.36000	1.290000	0.800000	0.260000	1.000000	6.000000	1.000000	1.000000
Minimum	-14.27000	0.050000	0.200000	-0.370000	0.000000	1.000000	0.000000	0.000000
Std. Dev.	2.505495	0.239861	0.103217	0.086609	0.501187	0.796829	0.262867	0.501738
Observation	135	135	135	135	135	135	135	135

Source : *Data processed*, 2024

Panel Data Regression Analysis

The regression analysis of panel data in this study was used as a benchmark to obtain a regression coefficient whether the hypothesis that had been made would be accepted or rejected. In determining the regression analysis of panel data, it is necessary to carry out three approach models, namely (1) *Common Effect*, (2) *Fixed Effect*, and (3) *Random Effect*.

1) Estimation results with *the Common Effect model*

Table 3
Common Effect Model *Estimation Results*

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Decription
C	1.676806	1.646165	1.018614	0.3103	
X1	-1.571152	0.955024	-1.645144	0.1024	Ha Rejected

X2	-0.822602	2.236347	-0.367833	0.7136	Ha Rejected
X3	1.238408	2.662675	0.465099	0.6427	Ha Rejected
X4	-0.122305	0.451619	-0.270814	0.7870	Ha Rejected
X5	-0.065071	0.303610	-0.214324	0.8306	Ha Rejected
X6	-0.141539	0.879478	-0.160936	0.8724	Ha Rejected
X7	0.306147	0.453212	0.675505	0.5006	Ha Rejected

Source : *Data processed,* 2024

By value *p-value* Of the seven independent variables, there is not a single variable that has a significant effect because the value of *p-value* > 0.05.

2) Estimated Results with *Fixed Effect Model*

Table 4
Fixed Effect Model *Estimation Results*

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Description
C	12.52867	2.962741	4.228743	0.0001	
X1	-6.149462	2.364504	-2.600741	0.0107	Ha Accepted
X2	-1.864450	2.727461	-0.683585	0.4958	Ha Rejected
X3	3.838563	3.145964	1.220155	0.2252	Ha Rejected
X4	-0.015721	0.444516	-0.035367	0.9719	Ha Rejected
X5	-0.303192	0.366791	-0.826606	0.4104	Ha Rejected
X6	-7.784534	1.910558	-4.074482	0.0001	Ha Accepted
X7	0.257062	0.478769	0.536924	0.5925	Ha Rejected

Source : *Data processed,* 2024

By value *p-value* Of the seven independent variables, there are two variables that have a significant effect, namely *Pressure* and *ignorance* that has value *p-value* < 0.05, while *opportunity*, *rationalization*, *competence*, *arrogance*and *greed* is not significant because the value *p-value* > 0.05.

3) Chow Test (*Common Effect* and *Fixed Effect*)

Table 5
Chow Test Results

Redundant Fixed Effects Tests			
Equation: Untitled			
Test cross-section fixed effects			
Effects Test	*Statistics*	*D.F.*	*Prob.*
Cross-section Chi-square	49.455114	26	0.0036

Source : Data processed, 2024

Output Eviews It shows that *Cross-section Chi-square* 0.0036 is smaller than 0.05. The value means that the model *Fixed Effect* better compared to the model *Common Effect*. So from the test, *Fixed Effect* to be the best model in this research. Results from estimation using the *fixed effect* then the following equation is formed:

FSF = 12.52867 – 6.149462 (*pressure*) – 1.864450 (*opportunity*) + 3.838563 (*rationalization*) – 0.015721 (*competence*) – 0.303192 (*arrogance*) – 7.784534 (*ignorance*) + 0.257062 (*greed*)

The value of the constant in the equation of 12.52867 shows that if all variables are considered to be worth 0, then the magnitude of the value *Financial Statement Fraud* is

12.52867. Coefficient value *Pressure* negative 6.149462 means that every increase of 1 will decrease *pressures of 6.149462 assuming the other variables are considered constant. Opportunity coefficient value* negative 1.864450 means that every increase of 1 will decrease *opportunity* 1.864450 assuming other variables are considered constant. Coefficient value *rationalization* by 3.838563 means that every increase of 1 will increase *rationalization* 3.838563 assuming other variables are considered constant. Coefficient value *competence* negative 0.015721 means that every increase of 1 will decrease *competence* of 0.015721 assuming the other variables are considered constant. Coefficient value *arrogance* negative 0.303192 means that every increase of 1 will decrease *arrogance* by 0.303192 assuming the other variables are considered constant. Coefficient value *ignorance* negative 7.784534 means that every increase of 1 will decrease *ignorance* of 7.784534 assuming other variables are considered constant. Coefficient value *greed* 0.257062 means that every increase of 1 will increase *greed* of 0.257062 assuming the other variables are considered constant.

Hypothesis Testing

T Test Results

Table 6
Fixed Effect Model *Estimation Results*

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Description
C	12.52867	2.962741	4.228743	0.0001	
X1	-6.149462	2.364504	-2.600741	0.0107	H1 Accepted
X2	-1.864450	2.727461	-0.683585	0.4958	H2 Rejected
X3	3.838563	3.145964	1.220155	0.2252	H3 Rejected
X4	-0.015721	0.444516	-0.035367	0.9719	H4 Rejected
X5	-0.303192	0.366791	-0.826606	0.4104	H5 Rejected
X6	-7.784534	1.910558	-4.074482	0.0001	H6 Accepted
X7	0.257062	0.478769	0.536924	0.5925	H7 Rejected

Source : *Data processed,* 2024

Test Results F

Table 7
Test Result F

R-squared	0.329611	Mean dependent var	0.174444
Adjusted R-squared	0.110573	S.D. dependent var	2.505495
S.E. of regression	2.362918	Hannan-Quin criter	5.068563
Sum squared resid	563.9217	Durbin-Watson stat	1.721178
F-statistic	1.504811		
Pro(F-statistic)	0.062984		

Source : *Processed Data,* 2024

Table 7 shows that *pressure, opportunity*, *rationalization*, *competence*, *arrogance, ignorance* and *greed* towards *Financial Statement Fraud* measured using *F-Score* has a significant value of 0.062984 which is greater than the significant level of 0.05. Based on this, it can be concluded that *pressure, opportunity*, *rationalization*, *competence*,

arrogance, ignorance and *greed* does not have a significant effect simultaneously on *Financial Statement Fraud*, in other words H8 is rejected.

Determination Coefficient Test Results (R2)

Based on the explanation above, *Adjusted R-squared* of 0.110573. meaning 0.11 *Financial Statement Fraud* Influenced by *pressure, opportunity*, *rationalization*, *competence*, *arrogance, ignorance* and *greed*. The remaining 0.89 was influenced by other variables that were not included in the research model.

Discussion

The Effect of *Pressure* on *Financial Statement Fraud*

Stress is a situation that makes a person feel compelled to commit *fraud*. Pressure can come from a variety of sources, including personal financial problems, work demands, unrealistic performance targets and a desire to maintain a certain lifestyle. According to TMbooks (2021), there is enormous pressure for management to meet the requirements or expectations of third parties due to the following:

1. Expectations of profitability levels or *trends* from investment analysts, significant creditors, or other external parties (especially aggressive and unrealistic ones), including expectations that management makes in messages on press releases or annual reports that are overly optimistic;
2. The need to obtain additional debt or capital financing to remain competitive, including financing research and development or large capital expenditures;
3. Marginal ability to meet the requirements of listing on the capital market, debt repayment, or other debt agreements.
4. The detrimental impact of poor reporting of financial results on significant transaction delays, such as business combinations or *contract awards*.

There is enormous pressure on management or individuals to achieve financial targets set by the party responsible for governance, including sales or profitability targets. Based on the regression analysis of the panel data used in this study , the pressure that is proxied with *external pressure* using the *fixed effect* model has a significant effect on *financial statement fraud.* This is seen from the profitability value of 0.01, which is smaller than the significant level of 0.05.

The Effect of *Opportunity* on *Financial Statement Fraud*

Opportunities arise when there are weaknesses in the internal control system of a business entity. The lack of clear and structured procedures and policies can make it easier for individuals or groups to carry out *fraud*. In situations where monitoring of the company's expenses is not done carefully, a management can feel there is an opportunity to misuse the company's funds for personal gain. In addition, a work environment that does not respect ethics and integrity can signal to employees that fraudulent actions are acceptable or will not be followed up seriously. According to TMbooks (2021), opportunities to commit fraud can occur such as:

1. Significant transactions with related parties that are not conducted in ordinary business or with related entities without being audited or audited by another public accounting firm;
2. Strong financial ability to dominate certain industry sectors that allow entities to dictate terms or conditions to suppliers or customers that lead to *non-arm's length transactions*;

3. Assets, liabilities, revenues, or expenses established on the basis of significant estimates involve subjective considerations or uncertainties that are difficult to support with evidence;
4. Significant operations located or carried out in the jurisdiction of other countries with different environments and cultures.

Based on the regression analysis of panel data used in this study, *opportunities* that are proxied with *ineffective monitoring* using *a fixed effect* model do not have a significant effect on *financial statement fraud.* This is seen from the profitability value of 0.49 greater than the significant level of 0.05.

The Effect of *Rationalzation* on *Financial Statement Fraud*

Rationalization refers to the process by which an individual or group justifies a fraudulent act with a reason or justification that makes the act seem acceptable or at least not so bad. It is the way an individual or group copes with the moral or ethical tension felt when committing fraud. Rationalizing cheating can create an entity culture that is permissive to unethical behavior so that it can lead to the spread of cheating behavior at various levels of the organization, aggravating the situation and making cheating more systemic and difficult to overcome. According to TMbooks (2021), the ability to rationalize fraud can occur such as:

1. Communication, implementation, support, or enforcement of the entity's values or ethical standards by ineffective and appropriate management;
2. Excessive participation or intervention of non-financial management in the selection of accounting policies or the determination of significant estimates;
3. History of violations of laws and regulations regarding the capital market or others as well as regulations or demands against entities, their senior management, or parties responsible for governance due to suspected fraud or violations of laws and regulations;
4. Excessive management interest in maintaining or increasing stock prices or *profit trends* .

Based on the regression analysis of the panel data used in this study, *rationalization* proxied with *total accrual* using *a fixed effect* model did not have a significant effect on *financial statement fraud.* This is seen from the profitability value of 0.22 greater than the significant level of 0.05.

The Effect of *Competence* on *Financial Statement Fraud*

Competency refers to the ability of an individual or organization to identify, prevent, manage, and address fraud effectively. Involves a deep understanding of the principles of ethics, law, and good governance. A person who has competence is the same as someone who has ability. The higher a person is competent, the higher the ability he has. This is one of the factors why companies need someone who has competence. Competence that is proxied by *change of directors* can affect policies in a company. If the company often replaces the position of the board of directors, it can cause changes and arrangements in the company's policies. This can be an opportunity to commit *fraud.* According to (Ulfah, Nuraina, & Wijaya, 2017), the higher the ability of the directors, the higher the level of prudence in working. The results of the calculation of competencies show that each company conducts three to four changes of directors.

Based on the regression analysis of the panel data used in this study, *the competence* proxied by *change of directors* using the *fixed effect* model did not have a significant effect on *financial statement fraud.* This is seen from the profitability value of 0.97 greater than the significant level of 0.05.

The Effect of *Arrogance* on *Financial Statement Fraud*

Arrogance can occur when a person makes a moral excuse or justification for an act of cheating, assuming that it is just "part of the business" or "everyone is doing the same thing". Arrogance towards fraud creates an environment where an unethical environment can flourish unhindered and can undermine the integrity of the organization as a whole. (Rahmatullah, 2019) mentioned that there is another proxy of *arrogance* , namely the CEO politician which means that a CEO who is also a politician will have many connections that will foster arrogance or arrogance in a CEO so that it legalizes all means to cover up the fraud he commits and take advantage of his wide connections.

Based on the regression analysis of the panel data used in this study, *arrogance* proxied with *frequent number of* CEO's *picture* using *a fixed effect* model did not have a significant effect on *financial statement fraud.* This is seen from the profitability value of 0.41 greater than the significant level of 0.05.

The Effect of *Ignorance* on *Financial Statement Fraud*

Ignorance or neglect in the Great Dictionary of the Indonesian Language refers to looking down, not caring and not holding onto. An attitude or circumstance in which an organization or individual chooses to ignore or disregard policies that have been established to prevent fraud can occur when there is a failure to implement good corporate governance policies that are supposed to reduce the risk of fraud. In addition, an organizational culture that does not place integrity as a primary value and does not emphasize high business ethics can create an environment where fraud is considered acceptable or ignored.

Based on the regression analysis of the panel data used in this study, *ignorance* which is proxied with *corporate governance policies* using *a fixed effect* model has a significant effect on *financial statement fraud.* This is seen from the profitability value of 0.00 which is smaller than the significant level of 0.05.

The Effect of *Greed* on *Financial Statement Fraud*

Greed or greed refers to a strong drive or motivation to achieve personal gain, the need to satisfy the ego, to the detriment of others in a dishonest way. When greed affects an individual or organization in financial statements, it can lead to manipulative practices that aim to improve financial performance in an illegitimate or misleading manner. Greed can also be triggered by pressure from stakeholders such as investors, financial analysts or the board of directors to provide financial statements that meet or exceed expectations, regardless of the actual circumstances.

Based on the regression analysis of panel data used in this study, *greed* that is proxied with *remuneration* using *a fixed effect* model does not have a significant effect on *financial statement fraud.* This is seen from the profitability value of 0.59 greater than the significant level of 0.05.

CONCLUSION

Based on the results of research and discussion on Fraud Heptagon Theory towards Financial Statement Fraud, it can be concluded that partially Pressure and ignorance have a significant effect on Financial Statement Fraud. While opportunity, rationalization, competence, arrogance and greed does not have a significant effect on Financial Statement Fraud. Simultaneously shows that pressure, opportunity, rationalization, competence, arrogance, ignorance and greed does not have a significant effect on Financial Statement Fraud.

The limitations in this study are: first, data on annual reports are obtained through observation results by searching for the name of each issuer and then comparing which reports have been audited and which have not been audited. Second Research in the mining sector has a tendency towards selection bias, generalization of results or difficulties in measuring complex and multi-dimensional variables so that it is necessary to make other measurements on Fraud Heptagon, especially in companies in Indonesia. Therefore, it is hoped that future researchers will be able to conduct research in other sectors, such as the government sector by using qualitative methods in the form of direct interviews with informants or conducting mixed method between qualitative and quantitative methods. This is recommended because many elements fraud which is difficult to measure if only using quantitative methods.

In addition, for potential investors It is necessary to look at the condition of the company's financial position first, before making an investment. This is done in order to obtain better profits and also to avoid irregularities stemming from fraud in the company's financial statements. And mining sector companies need to carry out better internal control procedures, so as to avoid financial stability, ineffective Monitoring and Collusion.

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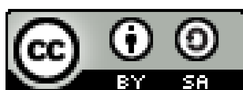

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