

Analysis of fraudulent financial report from the perspective of a fraud hexagon

M. Faqih Nadhim^{a*}, Catur Ragil Sutrisno^b, Dina Amalia Mahmudah^c

^{abc} Department of Accounting, Faculty of Economics and Business, Universitas Pekalongan

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ABSTRACT

This study aims to test the effect of the fraud hexagon theory on the Fraudulent Financial Report. The fraud hexagon theory is composed of six elements: pressure, capability, collusion, opportunity, rationalization, and ego. Measurement of elements through variables of financial targets, financial stability, ineffective monitoring, CEO education, political connections, external auditor quality, rationalization, and CEO duality. The population used in the study were State-Owned Enterprises (BUMN) listed on the Indonesia Stock Exchange (IDX) for the period 2017 to 2021. The data used were secondary data in the form of company financial reports. The sampling technique used was purposive sampling, while the analysis technique used was partial least squares structural equality modeling (PLS-SEM). Based on purposive sampling, there were 21 companies selected for five years, or 105 observations, as research samples. This study found that financial targets, financial stability, rationalization, and CEO duality had a positive effect on financial statement fraud, and CEO education, political connections, and external auditor quality were proven to have no effect on financial statement fraud. While ineffective monitoring had a negative effect on financial statement fraud. Theoretically, this study contributes to agency theory and fraud theory for the discussion of financial statement fraud. Practically, this study can be a consideration for current and prospective investors to be more careful in choosing companies to invest in, especially in State-Owned Enterprises (BUMN).

1. Introduction

In the current era of rapid industrial progress, competition between companies often occurs. One way to maintain the credibility of the company is to present fair financial reports and show good management performance. The demand for presenting fair financial reports provides encouragement for company management not to commit fraud. The act of manipulating financial reports so that the company continues to look healthy is one form of fraud or cheating that can occur in a company (Nur Inayanti & Sukirman, 2016). Association of Certified Fraud Examiners / ACFE (2018) found that financial

*Corresponding author:

Email address: faqihnadhim.46@gmail.com, ragilcatur802@gmail.com, dinaamalia14@gmail.com

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reporting fraud is quite common in various corporate sectors. Audit firms involved in financial reporting fraud reflect a very concerning situation.

In 2017, there was a case involving Price Waterhouse Cooper (PWC) and British Telecom, a giant British company that experienced financial reporting fraud in one of its business lines in Italy. Price Waterhouse Cooper (PWC), as an audit firm, failed to detect financial reporting fraud. After changing its audit firm to Klynveld Peat Marwick Goerdeler (KPMG), it was detected that there was an increase in profits through fake contract extensions, invoices, and fake transactions with vendors. As a result of this case, British Telecom had to reduce 530 million pounds sterling and cut its 2017 cash flow projection by 500 million pounds sterling to pay undeclared debts. In addition, British Telecom also suffered losses due to paying income tax on unavailable profits. The Financial Reporting Council (FRC), as an anti-fraud agency in the UK, then imposed a fine of 129 million pounds sterling on former British Telecom executives for alleged fraud (Harman, 2021). Meanwhile, in 2022, the public accounting firm PwC was fined 1.8 billion pounds sterling by the FRC (Financial Reporting Council) in the UK. (Sweney, 2022). Fraud cases do not only occur in England, but they also occur in many countries, including Indonesia. In 2001, PT Kimia Farma reported a loss of more than 32.6 billion rupiah in its financial report. Another financial report fraud is the case of Garuda Indonesia, which misrepresented income in its financial report, resulting in losses for investors who invested in the Garuda company (Anisykurlillah, 2016).

According to a survey conducted by the Association of Certified Fraud Examiners (ACFE) Indonesia in 2019, three main categories of fraud occurred most often, namely corruption, asset misappropriations, and financial statement fraud. Research on the factors that influence financial statement fraud has been conducted by previous researchers, such as research conducted by Dewi & Anisykurlillah (2021) and Sasongko & Wijyantika (2019). The study showed different results regarding the influence of research variables taken from the Pentagon fraud theory on financial statement fraud. Based on existing research, researchers have raised more theories about pentagon fraud, diamond fraud, and triangle fraud, while the hexagon fraud theory is still rarely found.

The reference in this study is research by Muhandisah & Anisykurlillah (2016). The difference between this study and previous studies lies in the theory used and the research variables. This study uses elements or variables in the fraud hexagon theory, in contrast to previous studies that used the fraud pentagon or fraud diamond theory. The addition of the collusion element proposed by Vousinas (2019), will be an update on this study. Based on the arguments described, this study examines the influence of the fraud hexagon theory on financial reporting fraud in state-owned enterprises listed on the Indonesia Stock Exchange for the period 2017–2021.

2. Theoretical Framework and Hypotheses Development

2.1. Theoretical Framework

2.1.1 Agency Theory

Agency theory was first proposed by Jensen & Meckling (1976), which stated that the relationship between principal and agent is complex because of the conflict of interest between them. Shareholders as principals want the company's financial performance to increase so that the rate of return on their investment is high. While the management, who act as agents, tend to want their welfare to get the greatest possible profit from management performance. According to Eisenhardt (1989), this conflict of interest can be divided into three aspects, assumptions about human nature, assumptions about organizational information, and assumptions. Assumptions of this nature refer to the personal interests of individuals, and organizational assumptions refer to organizational conflicts that end in information asymmetry between principals and agents. While information assumptions explain that information is viewed as a commodity that can be traded. The limitations of the principal in knowing information about this company cause information asymmetry that risks accidents by the agent.

2.1.2 Fraud Theory

Association of Certified Fraud Examiners (2020), states that fraud is an act of deception or error made by a person or entity consciously. Meanwhile, fraud based on the international standard statement on Auditing no. 240 is defined as an intentional activity to result in losses or statements that are not those stated in the financial statements. According to Bologna *et al* (1993), fraud is "criminal deception intended to financially benefit the deceiver," which means fraud is a criminal act intended to benefit the party committing the fraud. The definition of fraud is also in accordance with that of Bambang (2004), who explains that fraud can be interpreted as an error in presenting financial statements with the aim of gaining profit for one party and loss for the other party. So, it can be concluded that fraud is an unlawful act that is done intentionally to deceive another party for a certain purpose.

2.1.3 Hexagon Theory

Fraud hexagon is a development of previous fraud theories, including fraud triangle, fraud diamond, and fraud pentagon. The difference with previous theories is the addition of a collusion component. According to Vousinas (2019), collusion is cooperation by several parties, either by a group of individuals with parties outside the organization or between employees within the organization. Overall, the components in the fraud hexagon theory consist of pressure (stimulus), capability, collusion, opportunity, rationalization, and ego. The variables used in this fraud hexagon component cannot be measured directly; each component must be proxied. Pressure is proxied by financial targets and financial stability; capability is proxied by CEO education; collusion is proxied by political connections; opportunity is proxied by ineffective monitoring and the

quality of external auditors; rationalization is measured by total accrual value; and ego is proxied by CEO duality.

2.2. Hypotheses Development

2.2.1 Effect of Financial Targets on Fraudulent Financial Reporting

Based on agency theory, shareholders as principals want the company's financial performance to increase so that the rate of return on investment is high. So that financial targets are always prioritized by the management board so that the company's performance looks good (Nugraheni & Triatmoko, 2017). This is in line with the opinion of Skousen et al. (2009), who stated that companies with growth below the industry average encourage management to manipulate financial reports to beautify the company's performance through financial reports, and the form of manipulation carried out is related to the growth of company assets in the form of profits obtained by the company using return on assets (ROA). The pressure on management makes them only oriented towards high-profit targets without considering the right actions. Thus, it can be said that the higher the ROA targeted by a company, the greater the possibility of financial reporting fraud. High ROA assumes that the company's management is working under pressure, and the resulting report does not explain the actual data. Studies conducted by Sari & Lestari (2020), support that fraudulent financial reports can be influenced by financial targets in a positive direction. Based on these arguments, hypothesis 1 can be explained as follows: *H1: Financial targets have a positive effect on Fraudulent Financial Reports.*

2.2.2 Effect of Financial Stability on Fraudulent Financial Reporting

According to Sasongko & Wijayantika (2019), fraudulent financial reports can occur when an economic situation and poor company management disrupt financial stability. Financial stability is also related to the interests between agents and principals, where investors want a large return on their investment. With the aim of the principal's interests, management as an agent will do everything possible to make the report always look good, one of which is by manipulating data. This is the reason for committing fraud even though the conditions of financial stability are not good. Studies conducted by Nur Inayanti & Sukirman, (2016); Muhandisah & Anisykurlillah (2016); and Utomo (2018), support that fraudulent financial reports can be influenced by financial stability in a positive direction. Based on these arguments, hypothesis 2 can be explained as follows:

H2: Financial stability has a positive effect on fraudulent financial reports

2.2.3 Effect of CEO Education on Fraudulent Financial Reporting

According to the Indonesian fraud survey (2016), the education of fraud perpetrators in Indonesia is a bachelor's degree or above. This result is in line with the Report to the Nations 2018, which states that most fraud perpetrators are carried out by someone with a minimum of a bachelor's degree. The majority of fraud perpetrators are graduates, but the perpetrators who cause the most

losses are people with higher education, or at least a master's degree (S2). CEO education is related to agency theory because in agency theory there is a difference in interests between agents and principals. CEOs as agents have an interest in improving their welfare, resulting in a mismatch in expectations with the principal (shareholders). Soselisa (2008) argues that a master's education increases self-interested behavior. In addition, as the top position holder, the CEO is very knowledgeable about many things in the company. This theory can be supported by the results of previous research conducted by Ying & Mei (2014), which revealed that CEO education has a positive effect on fraudulent financial reports. Based on these arguments, hypothesis 3 can be explained as follows:

H3: CEO education has a positive effect on fraudulent financial reports

2.2.4 Effect of Political Connections on Fraudulent Financial Reporting

Political connections are related to agency theory, namely the privileges that company management has or can use to commit financial reporting fraud by manipulating. The privileges that may be obtained are easy access to bank loans and easier access to government contracts, and when experiencing financial distress, it will be easier to be bailed out by the government (Chaney *et al.*, 2011). The difference in interests that occurs between agents and principals, namely the agent's desire to achieve personal welfare so that the political connections they have will be helpful. Studies conducted by Faccio *et al.* (2006), state that companies that have political connections will produce poor performance compared to companies that do not have political connections. Based on these arguments, hypothesis 4 can be explained as follows:

H4: Political Connections has a positive effect on fraudulent financial reports

2.2.5 Effect of Ineffective monitoring on Fraudulent Financial Reporting

Ineffective monitoring is related to agency theory, namely the existence of differences in interests between the principal and the agent. This makes the principal supervise the agent to prevent the agent from committing fraudulent acts that are selfish. Supervisory mechanisms need to be implemented to minimize fraudulent practices Skousen *et al.* (2009). According to Martantya & Daljono (2013), the high level of fraudulent financial reporting in Indonesia is due to low supervision, so it is prone to fraud. Ineffective supervision allows management to do anything, including committing fraud to make the report look attractive to investors. The better the level of supervision carried out, the less the level of fraudulent financial reports carried out by managers; this is in line

with Martantya & Daljono (2013), which shows a positive effect of ineffective monitoring on financial reporting fraud. Based on these arguments, hypothesis 5 can be explained as follows:

H5: Ineffective monitoring has a positive effect on fraudulent financial reports

2.2.6 Effect of External Auditor Quality on Fraudulent Financial Reporting

According to Lennox & Pittman (2010), auditors at the big four KAP (public accounting firms) can detect fraud better than non-big four KAP. For companies that use audit services from the big four KAP in auditing their financial statements, the possibility of detecting fraudulent financial reports will be greater so that fraud can be found before it harms many parties outside the company. The higher the quality of the auditor, the lower the fraudulent financial reports, which is reinforced by research from Lennox & Pittman (2010), which states that auditor quality has a negative effect on fraudulent financial reports. Based on these arguments, hypothesis 6 can be explained as follows:

H6: External Auditor Quality has a negative effect on fraudulent financial reports

2.2.7 Effect of Rationalization on Fraudulent Financial Reporting

According to Skousen *et al.* (2009), the forms of rationalization carried out by fraudsters can be in the form of rationalization of subjective assessments. Rationalization is related to the agency theory carried out by management, namely modifying financial reports because they feel they have been given trust by the principal. The encouragement of interest from the principal so that the company always has good performance is the cause of the agent committing the fraudulent act. The large amount of income in the total accrual value can cause the company to be indicated as committing fraudulent financial reports, which is reinforced by research from Septriani & Handayani (2018), which states that the total accrual value is greater than cash, thus creating the possibility of large income manipulation, where the total accrual ratio can be used to describe the rationalization related to the use of the accrual principle by management. Based on research by Septriani & Handayani (2018), it is also seen that the rationalization of fraudulent financial reports has a positive effect. Based on these arguments, hypothesis 7 can be explained as follows:

H7: Rationalization has a positive effect on fraudulent financial reports

2.2.8 Effect of CEO duality on Fraudulent Financial Reporting

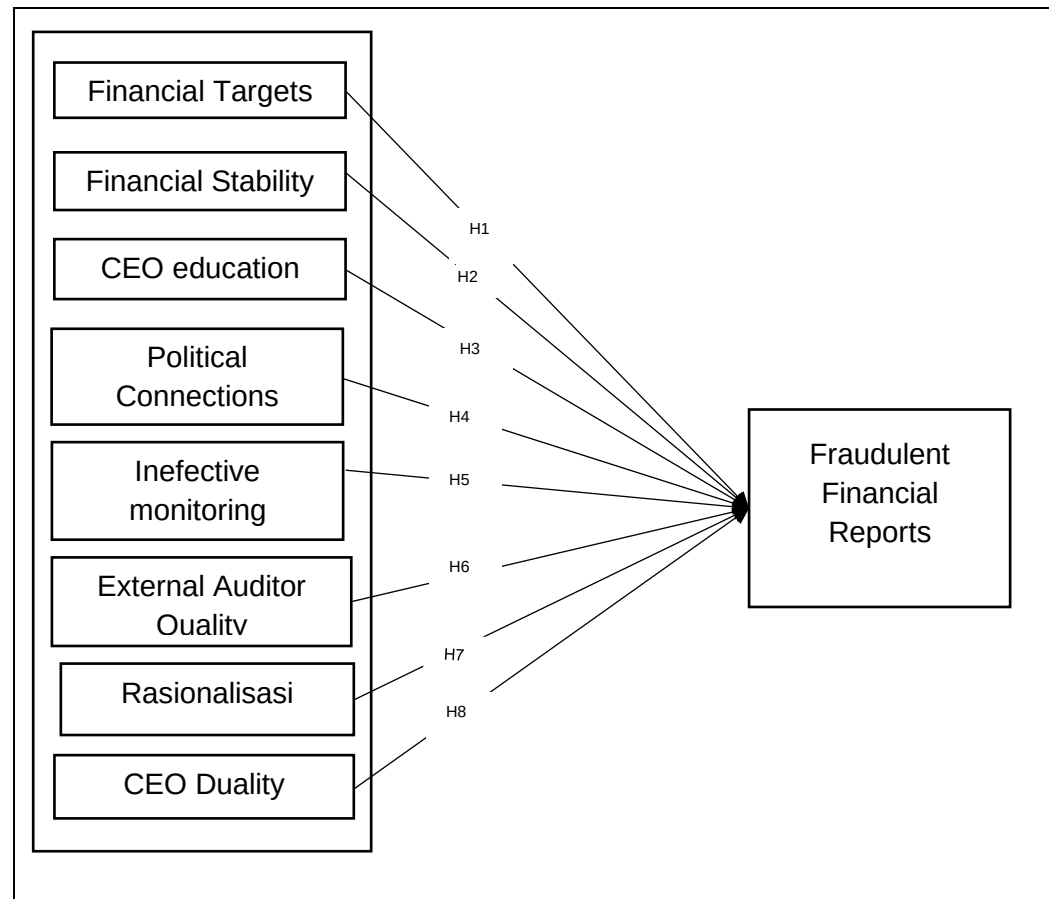
CEO duality is a situation where the power of the CEO or someone who holds more than one position is dominant (Sasongko & Wijayantika, 2019). CEO duality is related to agency theory because of the difference in interests between the agent and the principal, where the CEO as an agent will prioritize personal interests, and this condition can affect the supervision carried out by the CEO to be low. Low supervision will cause poor corporate governance, so a separation of duties is needed so that the supervisory function in the company can run

optimally. It's so that with the existence of CEO duality in the company, the possibility of fraud in the company is greater, which is reinforced by research from Harman & Bernawati (2021), and Yang *et al.* (2017), which states that CEO duality has a positive effect on the fraudulent financial reports. Based on these arguments, hypothesis 8 can be explained as follows:

H8: CEO duality has a positive effect on fraudulent financial reports

The relationship among those concepts has to be depicted in the form of a conceptual framework, as example shown in the Figure 1 below.

Figure 1.
Conceptual
Framework



3. Research Method

3.1. Data Sample Collection

This research was conducted with a quantitative approach that uses data in the form of numbers in statistical analysis. This research is quantitative causal associative research, namely to determine the relationship between two or more variables. The population used in this study are state-owned enterprises (BUMN) listed on the Indonesia Stock Exchange for the 2017–2021 period. Samples were taken using purposive sampling techniques, and 21 companies were obtained with a research period of 5 years, thus obtaining 105 observations

that can be processed. The sample collection through purposive sampling used in this study is summarized in Table 1 below.

Number	Criteria	Amount
1.	State-Owned Enterprises companies that are listed on the Indonesia Stock Exchange for the 2017–2021 period	26
2.	State-Owned Companies that did not provide complete annual reports for the 2017-2021 period	0
3.	State-Owned Companies whose data is not related to the research variables are available in full for the 2017-2021 period	(5)
Total Sample		21
Observation Period		5
Total Sample Processed		105

Table 1.
Purposive
Sampling

3.2. Technical Analysis and Variable Measurement

3.2.1 Technical Analysis

The data analysis method in this study is PLS-SEM using WarPLS version 8 software. According to Sholihin & Ratmono (2013), SEM-PLS is a multivariate analysis method in the social sciences. Multivariate analysis is used to test hypotheses developed based on existing theories.

3.2.2 Variable Measurement

3.2.2.1 Fraudulent Financial Reports

The dependent variable in this study is fraudulent financial reports measured by the fraud score model (F-score) by Dechow in 2009. With the following formula:

$$F\text{-SCORE} = \text{ACCRUAL QUALITY} + \text{FINANCIAL PERFORMANCE}$$

The F-Score model is the sum of two components, namely accrual quality, which is proxied by RSST, and financial performance, which is proxied by changes in accounts receivable, changes in inventory accounts, changes in cash sales accounts, and changes in earnings before interest and taxes (Nur Inayanti & Sukirman, 2016).

$$RSST\text{ ACCRUAL} = \frac{\Delta WC + \Delta NCO + \Delta FIN}{\text{AVERAGE TOTAL ASSET}}$$

WC = Current Asset – Current Liabilities

NCO = (Total Asset – Current Asset – Investment and Advanced) – (total liabilities – current liabilities)

FIN = Total Investasi – Total Liabilities

ATS = (Beginning total asset + end total asset)/2

Notes:

WC: Working capital

NCO: Non-current operating accrual

FIN: Financial Accrual

ATS: Average total asset

FINANCIAL PERFORMANCE = CHANGE IN RECEIVABLE + CHANGE IN INVENTORY + CHANGE IN CASH SALES + CHANGE IN EARNINGS

Change in inventory: total inventory / average total asset

Change in cash sales: (total sales/sales (t)) – (total Receivable/Receivable(t))

3.2.2.2 Financial Targets (X1)

The proxy used to measure financial targets in this study is the return on asset (ROA). ROA is a ratio that measures a company's ability to generate profits using its assets (Skousen *et al.*, 2009). The formula for calculating return on assets (ROA) is as follows:

$$ROA = \frac{NET\ PROFIT}{TOTAL\ ASSET}$$

3.2.2.3 Financial Stability (X2)

The proxy used to measure financial stability in this study is the asset value change ratio, or ACHANGE, with the following formula:

$$ACHANGE = \frac{Total\ asset\ t - Total\ asset\ t-1}{Total\ asset\ t-1}$$

3.2.2.4 CEO Education (X3)

The measurement of the CEO education variable uses a dummy variable, with a value of 1 if the CEO has a master's degree or above and a value of 0 if he does not.

3.2.2.5 Political Connections (X4)

The measurement of the political connection variable uses a dummy variable, a value of 1 if it has political relations and a value of 0 if the company does not have political relations. The criteria for a company to have political relations are ensured through the president, commissioner, and/or independent commissioner having closeness to politicians, being a member of a political party, and so on.

3.2.2.6 Ineffective Monitoring (X5)

The proxy used to measure the Ineffective Monitoring variable is the percentage of the number of independent commissioners in the company (PDKI). The formula for finding the percentage of the number of independent commissioners is as follows:

$$PDKI = \frac{Total\ of\ Independent\ Commissioners}{Total\ Board\ of\ Commissioners} \times 100\%$$

3.2.2.7 External Auditor Quality (X6)

Measurement of the External Auditor Quality variable uses a dummy variable, a value of 1 if using the services of a big four KAP, and a value of 0 if using a non-big four KAP audit.

3.2.2.8 Rationalization (X7)

Rationalization can be calculated from the company's total accrual because subjective assessment and decision-making will be seen in the company's accrual value. The calculation formula for total accrual according to Skousen et al. (2009) is as follows:

$$TACC = \frac{\text{Total Accrual}}{\text{Total Asset}}$$

3.2.2.9 CEO Duality (X8)

CEO duality is measured using a dummy variable, with a value of 1 if the CEO also holds a managerial position and a value of 0 if the CEO does not hold a managerial position.

4. Results and Discussion

4.1 Descriptive Statistics

	Min	Max	Mean	Std. Deviation
Variabely	-0.675	2.045	0.215	0.6
ROA	-0.499	0.222	0.021	0.078
ACCHANG	-0.468	1.097	0.131	0.221
RAS	-1.868	7.430	0.378	1.027
KD	0	1.000	0.533	0.501
PDKI	0.2	0.8	0.462	0.122
PEND.CEO	0	1.000	0.781	0.416
KON.POL	0	1.000	0.962	0.192
CEODUAL	0	1.000	0.21	0.409

Table 2.
Descriptive
Statistics

Based on Table 2, it can be seen that fraudulent financial reports has a minimum value of -0.675, a maximum value of 2.045, an average value of 0.215, and a standard deviation of 0.6. The standard deviation of 0.6 is above the average value of 0.215, which indicates that the level of variation of this variable data is quite high. The financial target measured by ROA in this study has a minimum value of -0.499, a maximum value of 0.222, an average value of 0.021, and a standard deviation of 0.078. The standard deviation of 0.078 is above the average value of 0.021, which indicates that the level of variation of this variable data is quite high. Financial stability, as measured by the ratio of changes in asset value, or ACHANGE, in this study, has a minimum value of -0.468, a maximum value of 1.097, an average value of 0.131, and a standard deviation

of 0.221. The standard deviation of 0.221 is above the average value of 0.131, indicating that the level of variation of this variable data is quite high. CEO education measured by a dummy in this study has a minimum value of 0, a maximum value of 1,000, an average value of 0.781, and a standard deviation of 0.416. The standard deviation of 0.416 is below the average of 0.781, indicating that the level of variation of this variable data is quite low. Political connections measured by a dummy in this study have a minimum value of 0, a maximum value of 1,000, an average value of 0.962, and a standard deviation of 0.192. The standard deviation of 0.192 is below the average of 0.962, indicating that the level of variation of this variable data is quite low. Ineffective monitoring, as measured by the percentage of the number of independent commissioners in the company (PDKI) in this study, has a minimum value of 0.2, a maximum value of 0.8, an average value of 0.462, and a standard deviation of 0.122. The standard deviation of 0.122 is below the average of 0.462, indicating that the level of variation of this variable data is quite low. The quality of external auditors as measured by a dummy in this study has a minimum value of 0, a maximum value of 1,000, an average value of 0.533, and a standard deviation of 0.501. The standard deviation of 0.501 is below the average of 0.533, indicating that the level of variation of this variable data is quite low. Rationalization has a minimum value of -1,868, a maximum value of 7,430, an average value of 0.378, and a standard deviation of 1,027. The standard deviation of 1.027 is above the average value of 0.378, indicating that the level of variation of this variable data is quite high. CEO duality has a minimum value of 0, a maximum value of 1.000, an average value of 0.21, and a standard deviation of 0.409. The standard deviation of 0.409 is above the average value of 0.21, indicating that the level of variation of this variable data is quite high.

4.2 Model Fit

Model fit and quality indices	Indeks	p-value	Criteria	Notes
<i>Average Path Coefficients (APC)</i>	0,180	0,005	<0,05	Accepted
<i>Average R-Squared (ARS)</i>	0,456	0,001	<0,05	Accepted
<i>Average Adjusted R-Squared (AARS)</i>	0,410	0,001	<0.05	Accepted
<i>Average Block Variance (AVIF)</i>	1,218	<= 5. Idealnya <=3,3		Ideal
<i>Average full collinearity VIF (AFVIF)</i>	1,289	<= 5. Idealnya <= 3,3		Ideal
<i>Tenenaus GoF (GoF)</i>	0,675	Small >= 0,1; medium >= 0,25; large >= 0,36		Large

Table 3.
Model Fit

The first step in evaluating the structural model is to assess whether the model in this study meets the goodness of fit criteria. Based on the model fit output in Table 3, it can be seen that there are six indicators used in this study that are accepted, and it can be concluded that this fit model is based on a significant P value at the 0.05 level on the APC, ARS, and AARS indicators. This model also does not have vertical collinearity problems (collinearity between independent variables) or lateral collinearity problems (collinearity between independent and dependent variables) based on the path coefficients of the other two indicators, namely the AVIF and AFVIF indicators. Another indicator is the Tenenhaus GoF value criterion of 0.675, which means that the predictive power of the model is relatively large because its value is above 0.36.

4.3 Explanatory Power

R-Squared = 0,456			
Q-Squared = 0,464			
Effect size			
Variables	Path Coefficients	Explanation	Rule of Thumb
ROA	0.111	Weak	> 0.02 weak > 0.15 medium > 0.35 large
ACCHNGE	0.065	Weak	
RAS	0.056	Weak	
KA	0.021	Weak	
PDKI	0.151	Medium	
KP	0.017	Very Weak	
PEND.CEO	0.016	Very Weak	
CEO DUAL	0.02	Weak	

Table 4.
Explanatory Power

The next step is to evaluate the explanatory power of the model. Based on Table 4, the R-square determination coefficient is 0.456, which indicates that 45.6% of the endogenous variation (fraudulent financial reports) can be explained by exogenous variables, namely financial targets, financial stability, CEO education, political connections, ineffective monitoring, external auditor quality, rationalization, and CEO duality. Another indicator that can explain this model is the Q-squared value of 0.464 > 0, which indicates that this model has predictive relevance. Another explanatory model indicator is the effect size to explain the individual contribution of each exogenous (independent) variable to the endogenous (dependent) R-square value. The ROA effect size value of 0.111, or 11.1%, means that the absolute value of the individual contribution of the financial target variable to the R-square value of the dependent variable is considered weak in practice. The ACCHNGE effect size value of 0.065, or 6.5%, means that the absolute value of the individual contribution of the financial stability variable to the R-squared value of the dependent variable is considered weak in terms of practice. The RAS effect size value of 0.056, or 5.6%, means that the absolute value of the individual contribution of the rationalization variable to the R-squared value of the dependent variable is considered weak in terms of practice. The KA effect size value of 0.021, or 2.1%, means that the absolute



value of the individual contribution of the external auditor quality variable to the R-squared value of the dependent variable is considered weak in terms of practice. The PDKI effect size value of 0.151, or 15.1%, means that the absolute value of the individual contribution of the ineffective monitoring variable to the R-squared value of the dependent variable is considered moderate in terms of practice. The KP effect size value of 0.017, or 1.7%, means that the absolute value of the individual contribution of the political connection variable to the R-squared value of the dependent variable is considered weak in terms of practice. The variable PEND.CEO effect size value of 0.016, or 1.6%, means that the absolute value of the individual contribution of the CEO education variable to the R-squared value of the dependent variable is considered weak in terms of practice. The CEO DUAL effect size value of 0.02, or 2%, means that the absolute value of the individual contribution of the CEO Duality variable to the R-squared value of the dependent variable is considered weak in terms of practice.

4.4 Path Coefficient and P-values

Variable	Path Coefficient	P-value	Rule of Thumb	Notes
ROA	0.241	<0.001	P<0.05	Accepted
ACCHNGE	0.243	<0.001	P<0.05	Accepted
RAS	0.108	0.009	P<0.05	Accepted
KA	0.107	0.079	P<0.05	Rejected
PDKI	-0.339	<0.001	P<0.05	Rejected
KP	-0.092	0.111	P<0.05	Rejected
PEND.CEO	-0.11	0.071	P<0.05	Rejected
CEO DUAL	0.124	0.05	P<0.05	Accepted

Table 5.
Path Coefficient and P-values

The next step is to evaluate the path coefficient and P-values of the output summarized in Table 5. The Path Coefficient ROA value is 0.241 and is significant with a P-value <0.001, which means it has a significant positive effect, so H1 in this study is accepted. The Path Coefficient ACCHNGE value of 0.243 is significant with a P-value of <0.001, which means it has a significant positive effect, so H2 in this study is accepted. The Path Coefficient PEND.CEO value is -0.11, and the P-value of 0.071 is more than 0.05, which means CEO education has no significant and negative effect, so H3 is rejected. The Path Coefficient KP value is -0.092, and the P-value of 0.111 is more than 0.05, which means political connections have no significant effect, so H4 is rejected. The Path Coefficient PDKI value is -0.339, and the P-value is <0.001, which means that ineffective monitoring has a negative effect, so H5 is rejected. The Path Coefficient KA value is 0.107, and the P-value of 0.079 is more than 0.05, which means that the quality of the external auditor does not have a positive and significant effect, so H6 is rejected. The Path Coefficient RAS value is 0.108, and the P-value of 0.009 is less than 0.05, which means that rationalization has a positive and significant effect, so H7 is accepted. The Path Coefficient CEO

DUAL value is 0.124, and the P-value is 0.05, which means that CEO duality has a positive and significant effect, so H8 is accept.

5. Conclusions, Limitations, and Recommendations

The results of this study indicate that the variables financial targets, financial stability, rationalization, and CEO duality have a positive effect on fraudulent financial reports, and the research variables CEO education, political connections, and auditor quality do not affect fraudulent financial reports. While ineffective monitoring has a negative effect on financial statement fraud, the limitations of this study are that the research period is only 5 years (2017-2021) so it has the potential to cause subjectivity in the study; the sample used in the study is also limited to state-owned companies listed on the Indonesia Stock Exchange; and this study uses the F-Score model in measuring financial statement fraud, while there are still many other models to measure financial statement fraud. With these limitations, the researcher provides suggestions for further research to use a wider sample of research objects, add other independent variables such as auditor changes, director changes, and managerial ownership, and add other proxies to measure the collusion component in the fraud hexagon theory, such as using qualitative methods (questionnaires and interviews) or a combination of qualitative and quantitative methods in research.

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