Detecting Financial Statement Fraud through Hexagon Theory with Audit Committee as Moderating in Mining Companies

Krisdiyanto Pujoningrum[1], Rita Wijayanti[2]
[1,2] Department of Accounting, Economics and Business, Muhammadiyah University of Surakarta, Sukoharjo, Indonesia, 57162
b200190492@student.ums.ac.id[1]; rw120@ums.ac.id[2]

ABSTRACT

Introduction – Based on the ACFE Indonesia survey (2019), the most costly fraud in Indonesia is corruption, with a percentage of 70% of the total loss of IDR 373.65 billion, misuse of state and company assets of 21% of IDR 257.52 billion, and financial statement fraud 9% of IDR 242.26 billion. These results show that the value of losses caused by financial statement fraud has a high level with the lowest percentage of cases. Previous studies that discuss the detection of financial statement fraud have inconsistent results.
Purpose – This study aimed to provide evidence regarding the effect of fraud hexagons on financial statement fraud and the audit committee in moderating the relationship between the independent and dependent variables.
Methodology/Approach – The sampling technique used a purposive sampling method and data collection with documentation. The population comprises 52 mining companies listed on the Indonesia Stock Exchange in 2019 - 2021. Samples with research criteria were obtained from 123 analysis units. The analysis tool uses panel data regression.
Findings – The results showed that financial targets, political connections, the nature of the industry, and CEO duality affect financial statement fraud. This study provides empirical evidence for information users in financial statement fraud.
Originality/ Value/ Implication – The change of directors and CEO duality does not affect financial statement fraud. Then, the audit committee can reduce the impact of financial targets, political connections, and CEO duality with financial statement fraud. However, the audit committee cannot control the change of directors, the nature of the industry, and auditor turnover.

Keywords: Fraud Hexagon, Financial Statement Fraud, Audit Committee, Mining Companies

INTRODUCTION

Business development in Indonesia is experiencing relatively rapid growth, as seen from the large number of companies that conducted Initial Public Offering (IPO) on the Indonesia Stock Exchange (IDX) in 2021, namely 53 companies. However, this development is not matched by reasonable internal control of the company, which can create a gap for fraud. Insufficient internal control within an organization can be used to perpetrate fraudulent activities related to financial statements.

Financial statements play a crucial function in communicating the state and performance of a company's operational activities to the intended recipients of financial statements. Managers and stakeholders utilize the information in financial statements to assess various features and risk factors associated with the organization. When preparing financial statements, companies strive to present a favorable depiction of their performance to stakeholders, aiming to satisfy the users of financial information. One way that management can do this is by engineering material values or cheating financial statements. This will harm the company in the future and users of financial statements.

According to an ACFE Indonesia survey, the most prevalent type of fraud in Indonesia is corruption at 64.4%, followed by misuse of state and company assets at 28.9% and financial statement fraud at 6.7% (Association of Certified Fraud Examiners Indonesia, 2019). In the survey, corruption emerges as the most financially burdensome kind of fraud in Indonesia, accounting for 70% of the overall loss, amounting to IDR 373.65 billion. Misuse of state and corporate assets constitutes 21% of the losses, equivalent to IDR 257.52 billion, while financial statement fraud represents 9% of the losses, totalling IDR 242.26 billion. Financial statement fraud incurs relatively high losses, even with a relatively lower frequency of occurrence.

The Association of Certified Fraud Examiners Indonesia (2019) defines financial statement fraud as the intentional and fraudulent act of presenting financial statements containing management errors or omissions to deceive those who use financial statements. According to a 2019 survey undertaken by ACFE Indonesia, the mining industry is one of the third most affected industries by financial statement fraud. Then, in the ACFE Global (2020) report, the mining industry experienced the maximum average fraud loss of $475,000. Undiscovered financial statement fraud can result in scandals affecting multiple parties (Skousen et al., 2009). Financial statement fraud cases in Indonesia include PT Timah Tbk (TINS), which allegedly reported fictitious financial statements in the first semester of 2015. Then, Garuda financial statements for 2018 presented a net profit of US$ 809 thousand, inversely proportional to 2017, which experienced a loss of US$ 216.58 million. In this case, two Garuda commissioners refused to sign Garuda's 2018 financial statements (Pratiwi, 2019). Fraudulent financial statements harm many parties because the submitted information does not correspond to the company's actual condition.

Various models, including the fraud triangle by Cressey (1953) and the fraud diamond by Wolfe & Hermanson (2004), have been used to research the factors that can lead to financial statement fraud. The fraud diamond adds a capability element to fraud detection. Then, it evolved into the fraud pentagon proposed by Horwath (2012), adding competence and arrogance. This theory was then refined by S.C.O.R.E modeling, with stimulus, capability, opportunity, rationalization, and ego components. Vousinas (2019) extended the fraud triangle, fraud diamond, and fraud pentagon theories into a fraud hexagon known as S.C.C.O.R.E modeling, including the collusion component.

Previous studies by Kusumawati et al. (2021) and Tarjo et al. (2021) revealed that financial targets affect financial statement fraud. Meanwhile, research by Permata Sari & Kurniawan Nugroho (2020) and Sihombing & Rahardjo (2014) revealed that financial targets do not impact financial statement fraud. Previous studies by Larum et al. (2021), Octavianus Lauwrens & Budi Yanti (2022), and Yadiati et al. (2023) states that the variable change in directors affect financial statement fraud. Meanwhile, research by Handoko (2021) Permata Sari & Kurniawan Nugroho (2020) Sihombing & Rahardjo (2014), and Tarjo et al. (2021) revealed that changes in directors do not impact financial statement fraud.

Previous studies by Handoko (2021), Permata Sari & Kurniawan Nugroho (2020), and Yadiati et al. (2023) revealed that variable political connections affect financial statement fraud. Cooperation with the government can trigger efforts from companies to participate in the project. Meanwhile, studies by Lastanti et al. (2022) and Sari et al. (2022) political connections do not impact financial statement fraud. Previous studies by Permata Sari & Kurniawan Nugroho (2020), Sari et al. (2022), Tarjo et al. (2021), and Yadiati et al. (2023) revealed that nature of industry affect financial statement fraud. Meanwhile, according to studies by Aulia Haqq & Budiwitjaksono (2020) and Sasongko & Wijayantika (2019) nature of industry do not impact financial statement fraud.

Previous research by Koharudin & Januarti (2021) and Octavianus Lauwrens & Budi Yanti (2022) states that change in auditor affect financial statement fraud. Meanwhile, studies by Larum et al. (2021), Permata Sari & Kurniawan Nugroho (2020), Sari et al. (2022), and Sasongko & Wijayantika (2019) change in auditor do not impact financial statement fraud. Research by Kusumosari & Solikhah (2021) Tarjo et al. (2021) and Yang et al. (2017) states that CEO duality affect financial statement fraud. Meanwhile, studies by Sari et al. (2022) and Sasongko & Wijayantika (2019) revealed that CEO duality do not impact financial statement fraud.

Based on previous research that has been done, it shows inconsistent results, so a research gap is obtained. With the research gap described, research related to financial statement fraud needs to be carried out. This research aims to provide evidence of the effect of fraud hexagon elements on financial statement fraud. In this study, the fraud hexagon element is proxied by financial target (stimulus), changes in directors (capability), political connections (collusion), nature of industry (opportunity), auditor changes (rationalization), and CEO duality (ego). In addition, to analyze the effect of the audit committee moderation variable on the relationship between fraud hexagon elements and financial statement fraud. In addition, it is hoped that this research can close the gap from previous research, which obtained inconsistent results.

LITERATURE REVIEW

1. Agency Theory

The agency theory proposed by Jensen & Meckling (1976) explains that agency relationships arise when there is a cooperation contract in which the principal hires people (agents) to do work that involves delegating authority to agents in decision-making. However, the relationship between shareholders (principal) and management (agent) often conflicts because they have different interests. The underlying difference in interests is called agency conflict (agency theory). The existence of conflicts will create pressure on management to improve company performance (Sari et al., 2022).

Pressure on management impairs meeting shareholder expectations to improve company performance. Shareholder expectations that become a pressure for management are a high return on investment value. Meanwhile, management as agents tends to want their welfare to get the maximum possible reward or profit. Agency conflicts occur because the principal cannot determine whether the agent has behaved appropriately and the principal and agent have different interests (Eisenhardt, 1989).

2. Fraud Hexagon Theory

The history of forming the fraud hexagon theory begins with the fraud triangle theory by Cressey (1953). In his studies, there are three factors for detecting financial statement fraud: opportunity, pressure, and rationalization. He was then developed by Wolfe & Hermanson (2004) the fraud diamond by adding one factor: capability. The subsequent development of the theory is the fraud pentagon by Horwath (2012) by introducing the competence component and adding arrogance, which means an attitude of superiority over rights. The theory from Horwath (2012) was then developed by Vousinas (2019), who named the fraud hexagon theory by adding collusion elements. The fraud hexagon theory by Vousinas (2019) is denoted by the acronym S.C.C.O.R.E., which stands for stimulus, capability, collusion, opportunity, rationalization, and ego.

Figure 1. Fraud Hexagon

Source: Vousinas (2019)

3. Financial Statement Fraud

Financial statement fraud is a material error in financial statement information that can harm users of financial statements. Financial statement fraud is negligence or intentionality in presenting financial statements not by applicable accounting standards (Permata Sari & Kurniawan Nugroho, 2020). Presentation of financial statements that do not match the facts can cause users of the information to make wrong decisions. Due to misstatements or fraud, the information derived from the financial statements does not correspond with the facts.

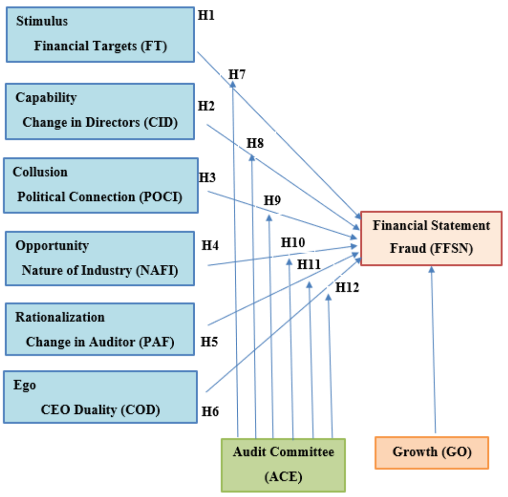
4. Audit Committee

The audit committee is founded and accountable to the board of commissioners to assist the board of commissioners in carrying out its functions and duties. An effective audit committee can ensure that company management has made appropriate decisions based on corporate governance in any situation and condition (Octavianus Lauwrens & Budi Yanti, 2022).

5. Hypothesis Development

This study's independent variables are financial targets, changes in directors, changes in auditors, CEO duality, nature of industry, and political connections. Then, financial statement fraud for the dependent variable, audit committee as moderation, and growth as a control variable. The following is a framework for thinking in this study:

Figure 2. Research Framework



Source: Data processed (2023)

Financial targets become pressure for management to meet shareholder expectations to manage assets into profit. The existence of excessive pressure encourages management to do various ways to present satisfactory financial reports for information users. One way to do this is to Commit fraud on financial statements to make the profit-to-assets ratio appear favorable. The greater the company's return on assets ratio, the greater the likelihood of financial statement deception (Tarjo et al., 2021). The company can utilize assets to obtain high profits using the ratio of profits and assets. Previous studies by Kusumawati et al. (2021) states that financial targets affect financial statement fraud.

H1: Financial targets have an influence on financial statement fraud.

Capability in this context refers to a person's capacity to perpetrate financial statement fraud. Changes in directors are a factor in the occurrence of financial statement fraud because they impact management's efforts to improve the performance results of the previous directors by altering the company's organizational structure or recruiting new directors with superior abilities (Permata Sari & Kurniawan Nugroho, 2020). Previous studies by Larum et al. (2021) and Yadiati et al. (2023) states changes in directors affect financial statement fraud.

H2: Changes in directors affect financial statement fraud.

Political connections are relationships that have close ties with politicians. Political connections that are owned will make it easier for companies to obtain assistance in enhancing company performance. The existence of an established relationship can lead to other interests for their own benefit. The fraud hexagon should be utilized to expand the fraud pentagon, where collusion plays a significant role in financial statement fraud (Vousinas, 2019). Research conducted by Handoko (2021) and Permata Sari & Kurniawan Nugroho (2020) states political connections have an influence on financial statement fraud.

H3: Political connections affect financial statement fraud.

The Nature of Industry is the optimal state of a business in the industrial environment. In the financial statements, there are accounts receivable balances related to estimates of bad debts, which have subjectivity for management. Therefore, opportunities for financial statement fraud may exist (Yadiati et al., 2023). The results of research by Permata Sari et al. (2022) and Tarjo et al. (2021) states that financial statement fraud is influenced by changes in accounts receivable.

H4: Financial statement fraud is affected by nature of the industry.

In this case, rationalization is an act of justification by the perpetrator against the fraud committed. The rational thinking that arises is due to their actions that do not want to be known so that they justify the manipulations that have been carried out Koharudin & Januarti (2021) and Octavianus Lauwrens & Budi Yanti (2022) states that financial statement fraud is influenced by changes in auditors.

H5: Changes in auditors affects financial statement fraud.

CEO duality refers to a CEO holding another position within the organization. CEO duality can result in inadequate corporate governance (Yang et al., 2017). This is due to the low supervision of the CEO, who cannot carry out separate functions from other interests. Research by Kusumosari & Solikhah (2021) and Yang et al. (2017) show that CEO Duality affects financial statement fraud.
H6: CEO duality affects financial statement fraud.

Management must face pressure to meet shareholder expectations. Pressure makes management improve company performance, especially in managing assets to obtain high profits. Therefore, management will carry out plans and strategies to present the company's finances well. In this case, the audit committee, which has duties and responsibilities, can evaluate the board of directors risk management implementation (Sari et al., 2022). Previous research by Dimuk et al. (2022) Explaining that the relationship between financial targets and financial statement fraud can be moderated by the audit committee.
H7: The audit committees can weaken financial targets against financial statement fraud.

Changing the board of directors can be an attempt to improve or enhance the performance of the prior board members. In addition, alterations to the board of directors can be used as other interests that benefit themselves and harm the company, one of which is financial statement fraud. This requires an audit committee that is in command of and accountable for the internal control effectiveness of the organization. Previous research by Sari et al. (2022) Explaining that audit committee can weaken changes in directors against financial statement fraud.
H8: The audit committees can weaken changes in directors against financial statement fraud.

Collusion is cooperation by two or more people for personal gain. Politically intertwined businesses become opportunities for personal gain without considering company performance (Sari et al., 2022). The audit committee must oversee the company's internal controls to run effectively.
H9: The audit committee can weaken political connections against financial statement fraud.

Ineffective supervision creates opportunities for financial statement fraud. Because of the nature of the industry, there are chances for management to conduct fraud. The existence of accounts with assessments using subjectivity makes it free for management to manipulate. The audit committee that oversees the company's risk management can identify manipulation. Research by Sari et al. (2022) Explaining that the audit committee can weaken the nature of industry against financial statement fraud.
H10: The audit committee can weaken nature of industry against financial statement fraud.

Changing auditors causes adjustments between the company and the new auditor. Companies can rationalize their fraudulent activities during the transition period. The audit committee in this case can facilitate effective supervision of management performance.
H11: The audit committee can weaken against financial statement fraud.

CEO duality is a CEO who has other positions in one company. The existence of multiple positions causes ineffective duties and responsibilities. In addition, differences in interests can lead to manipulation, one of which is financial statement fraud. Companies need to monitor and control to detect financial statement fraud. The audit committee monitoring management performance in the organ organization weakens CEO duality in detecting financial statement fraud (Sari et al., 2022). Research conducted by Dimuk et al. (2022) explaining that the audit committee is able to weaken CEO duality on financial statement fraud.
H12: The audit committee can weaken CEO duality against financial statement fraud.

RESEARCH METHODOLOGY

1. Sample and Research Data

This study was carried out using a quantitative approach. The quantitative method was chosen in this study because the measurement uses research variables with numbers and analyses data with statistical procedures. The data in this study were collected from the annual reports of mining companies listed on the Indonesia Stock Exchange (IDX) in 2019-2021. The data collection technique in this study is the documentation technique. Data collection uses documentation to search for and collect data in the form of records, financial statements, etc. Sampling in this study employs purposive sampling, which involves selecting samples based on criteria to align with the research design. The design criteria utilized in this study are as follows:

Table 1. Sample selection process

No	Criteria	Total
1.	Mining companies listed on the Indonesia Stock Exchange (IDX) in 2019-2021.	52
2.	Companies in the mining sector that did not publish annual reports continuously during 2019-2021.	(3)
3.	Companies that have incomplete data for research during 2019-2021.	(8)
	Companies that meet the research sample criteria	41
	Total research sample (41 x 3)	**123**

Source: Data processed (2023)

2. Measurement of Variables

Financial Statement Fraud (FFSN) is a material misstatement of financial statement information that is detrimental to users of financial statements. The variable measurement uses a fraud score model (F-score), which can be used as an indication of misstatement of the report.

The F-score measurement uses accrual quality, proxied by RSST Accrual and financial performance (Skousen et al., 2009). This model measures the quality of accruals in the earnings presented in the financial statements (financial performance of the company).

F-Score = Accrual Quality + Financial Performance

$$\textbf{RSST Accrual} = \frac{\Delta \text{WC} + \Delta \text{NCO} + \Delta \text{FIN}}{\text{Average Total Asset}}$$

Description:

Working Capital (WC) = Current Asset − Current Liability

Non Current Operating Accrual (NCO) =

(Total Assets − Current Assets − Long Term Investment) – (Total liabilities − Current Liabilities − Long Term Debt)

Financial Accrual (FIN) = Total Investment − Total Liabilities

$$\text{ATS} = \frac{\text{Beginning Total Asset} + \text{End Total Asset}}{2}$$

Financial Performance =

Change in Receivable + Change in Inventories + Change in Cash Sales + Change in Earnings

Description:

$$\text{Change in Receivable} = \frac{\Delta \text{Receivable}}{\text{Average Total Asset}}$$

$$\text{Change in Inventory} = \frac{\Delta \text{Inventory}}{\text{Average Total Asset}}$$

$$\text{Change in Cash Sales} = \frac{\Delta \text{Sales}}{\text{Sales}_{(t-1)}} - \frac{\Delta \text{Receivable}}{\text{Receivable}_{(t-1)}}$$

$$\text{Change in Earning} = \frac{\text{Earning}_{(t)}}{\text{Average Total Asset}_{(t)}} - \frac{\Delta \text{Earning}_{(t-1)}}{\text{Average Total Asset}_{(t-1)}}$$

The F-score is computed using a dummy variable; if the F-score exceeds 1, the company is suspected of committing financial fraud, denoted by code (1); otherwise, no fraud is detected, code (0) is assigned. (Dechow et al., 2011).

A financial target (FT) is a situation that describes the condition of a company under pressure to obtain high profits from its assets. Financial targets can show that the company can manage assets to obtain high profits. Management will face pressure when the company's profit and total asset ratios are high. The pressure causes management to try to show that the company can get high profits. This makes management able to cover up the real situation with financial statement fraud. Measurement of this variable using ROA by (Skousen et al., 2009).

$$\text{ROA} = \frac{\text{Net Income}}{\text{Total Asset}}$$

Capability in this case is the amount of ability or capacity of a person in committing financial statement fraud. Changes in the board of directors can be used as other interests that benefit themselves and harm the company, one of which is financial statement fraud. Measurement of this variable uses the model by Wolfe & Hermanson (2004) namely code (1) if there is a change in the board of directors during 2019-2021, code (0) if there is no change in the board of directors during 2019-2021.

Political connections are relationships that have close ties with politicians. The existence of an established relationship can lead to other interests for their own benefit. The measurement of political connections uses dummy variables, if the company cooperates with government projects it is coded (1) and code (0) those that do not cooperate with government projects (Vousinas, 2019).

Nature of Industry is the state of a company with ideal conditions in the industrial environment. In the financial statements, there are accounts receivable balances related to estimates of bad debts that have subjectivity for management. Measurement of this variable using receivables by (Skousen et al., 2009).

$$\text{RECEIVABLE} = \frac{\text{Receivable}}{\text{Sales}} - \frac{\text{Receivable}_{(t-1)}}{\text{Sales}_{(t-1)}}$$

Rationalization in this case is an act of justification carried out by the perpetrator against the fraud that has been committed. During the transition period, the company can rationalize the fraud committed. The measurement of this variable uses the model used by Skousen et al. (2009) namely code (1), if there is a change of KAP auditor during 2019-2021 and code (0), if there is no change of KAP auditor during 2019-2021.

CEO duality is a CEO who has other positions in one company. The existence of multiple positions causes ineffective duties and responsibilities. Measurement of CEO duality uses dummy variables, with the criteria for CEOs who have concurrent positions or affiliate relationships coded (1) and code (0) if there are no concurrent positions or affiliate relationships (Dembo & Rasaratnam, 2015).

The Audit Committee (ACE) is a committee formed and tasked with assisting in carrying out the functions and duties of the Board of Commissioners and is responsible. The existence of an audit committee oversees the company's performance and internal control system effectively. The measurement of this variable is adopted from Sari et al. (2020), namely the number of audit committees in the company.

The control variable in this study is company growth. Company growth is seen from the ratio of current year sales divided by the previous year (Sari et al., 2020).

$$\text{Growth} = \frac{\text{Sales}_{(t)} - \text{Sales}_{(t-1)}}{\text{Sales}_{(t-1)}}$$

3. Regression Model

The analysis model used in this research is panel data regression. This analysis measures the effect of more than one independent variable on the dependent variable with time series and cross-section. This research panel data analysis uses the Stata 17 program. The panel data regression model is as follows:

Formula 1 is used for descriptive statistical analysis

FFSN = α + β1 FT + β2 CID + β3 POCI + β4 NAFI + β5

PAF + β6 COD + β7 GO + e

Formula 2 is used for research hypothesis analysis

FFSN = α + β1 FT + β2 CID + β3 POCI + β4 NAFI + β5 PAF + β6 COD + β7 |FT*ACE| + β8 |CID*ACE| + β9 |POCI* ACE| + β10 |NAFI* ACE| + β11 |PAF*ACE| + β12 |COD*ACE| + β13 GO + e

Description:

FFSN	= Financial statement fraud
α	= Constants
β1- β6	= Regression Coefficient
β7- β12	= Moderation Interaction
ACE	= Audit Committee
FT	= Financial Targets
CID	= Change in Directors
POCI	= Political Connection
NAFI	= Nature of Industry
PAF	= Change in Auditor
COD	= CEO Duality
GO	= Growth
e	= Error

RESULT AND DISCUSSION

1. Descriptive Statistics

Descriptive statistical analysis is used to describe the mean value, lowest value, maximum value, variance, and standard deviation of each variable. Descriptive statistics aim to describe research subjects based on variable data obtained from certain subject groups. Descriptive statistics of the variables of this study are as follows:

Table 2. Descriptive Statistics

Estimation sample regress Number of obs = 123

Variable	Mean	Std. dev.	Min	Max
FFSN	.097561	.2979337	0	1
FT	.0381138	.1228026	-.324	.52
CID	.5203252	.50163	0	1
POCI	.1463415	.3548938	0	1
NAFI	-.0028943	.0573052	-.255	.187
PAF	.097561	.2979337	0	1
COD	.3739837	.4858384	0	1
ACE	3.130081	.4783741	1	5
GO	.1426585	.4686711	-.745	1.775

Source: Data processed (2023)

The results of the analysis show that the average value of financial statement fraud is 0.097561. This shows that the average level of corporate financial statement fraud during 2019-2021 was 10% or 12 units of analysis that indicated financial statement fraud. Meanwhile, 111 units of analysis or 90% of companies were not detected cheating financial statements. From this data it can be concluded that the average sample company was not detected in financial statement fraud.

Financial targets are measured by Return on Assets (ROA), which is the ratio between net income and total assets. The analysis results show that the average value of the financial target is 0.0381138 and the standard deviation is 0.1228026. This illustrates the average level of the company's ability to manage assets to generate profits of 3.81%. The value of financial targets with a low category is 4% or 5 analysis units. The medium category in the financial target value is 72% or 89 analysis units. The value of financial targets in the high category was contributed by 24% or 29 units of analysis. These results show that the average sample company has a financial target level in the medium category.

The analysis results show that the average value of changes in the board of directors is 0.5203252. This shows that the average level of change in the company's board of directors during 2019-2021 was 52% or 64 analysis units that made changes to the board of directors. Meanwhile, 59 analysis units or 48%, did not make changes to the board of directors. From the descriptive statistical value, it can be concluded that the sample companies tend to change the board of directors during the study year.

The analysis results show that the average value of political connections is 0.146315. This shows that the average level of political connection of companies during 2019-2021 was 15% or 18 analysis units that had political connections. Meanwhile, 105 units of analysis or 85% of companies, do not have political connections. From this data, it can be concluded that the average sample company does not have political connections.

Nature of Industry is measured by the ratio of changes between receivables and company sales. The analysis results show that the average value of Nature of Industry is -0.0028943 and the standard deviation is 0.0573052. This illustrates the average ratio of changes in receivables to sales of sample companies of 0.29%. The value in the low category is 11% or 13 analysis units, the medium category is 81% or 100 analysis units, and the high category is 8% or 10 analysis units. From the results of descriptive statistics, it can be concluded that the average sample company has a nature of industry in the medium category.

The analysis results show that the average value of auditor turnover is 0.097561. This illustrates companies' change in auditor level during 2019-2021 by 10% or 12 analysis units that made auditor changes. Meanwhile, 111 units of analysis or 90%, did not make auditor changes. From the descriptive statistical value, it can be concluded that sample companies tend not to change auditors during the study year.

The analysis results show that the average value of CEO duality is 0.3739837. It can be said that the CEO duality level of the sample companies is 37% or 46 CEO analysis units that have concurrent positions or affiliate relationships. Meanwhile, 77 units of analysis or 63% of CEO do not have concurrent positions or affiliate relationships. From this data, it can be concluded that sample companies tend not to have CEO duality.

The Audit Committee is measured by the number of audit committees in the company. The analysis results show that the average value of the audit committee is 3.130081 and the standard deviation is 0.4783741. Sample companies with an audit committee with a low category of 2% or 3 analysis units, a medium category of

83% or 102 analysis units, and a high category of 15% or 18 analysis units. The results show that the average sample company has an audit committee in the medium category.

2. Panel Data Regression Model

There are three model options that can be used to perform panel data regression, namely the Common Effect Model, Fixed Effect Model, and Random Effect Model. Of the three models, the model chosen in this study is the Random Effect Model. The following is the result of panel data regression:

Table 3. Panel data regression

FFSN	Coefficient	Std. err.	z	P>|z|
FT	-6.217471	1.86755	-3.33	0.001
CID	-.1933576	.3382946	-0.57	0.568
POCI	1.118826	.5709169	1.96	0.050
NAFI	-6.420952	2.791211	-2.30	0.021
PAF	-.0932083	.451063	-0.21	0.836
COD	1.341749	.5561411	2.41	0.016
ACE	-.0788227	.1067535	-0.74	0.460
FT_ACE	2.143141	.5907116	3.63	0.000
CID_ACE	.0718796	.1067551	0.67	0.501
POCI_ACE	-.3309622	.1675138	-1.98	0.048
NAFI_ACE	1.409583	.8829837	1.60	0.110
PAF_ACE	-.0052815	.1468715	-0.04	0.971
COD_ACE	-.4609157	.1822137	-2.53	0.011
GO	-.0256008	.0573648	-0.45	0.655
_cons	.3307623	.3363376	0.98	0.325

Source: Data processed (2023)

The hypothesis testing results show that this study's first hypothesis is accepted. Financial targets may be considered to have an impact on financial statement fraud. These results lend credence to the agency theory, which posits principals and agents with divergent interests. Management (agent) is interested in getting a bonus for its performance results in meeting the principal's expectations for high profits. In addition, A company with a high profit-to-asset ratio will likely appeal to potential investors. So that the agent will do everything possible so that the company can achieve financial targets by the principal's expectations in the form of high profits.

Based on the hypothesis test results, the probability value of the financial target of 0.001 is smaller than the significant value of 0.05. These conditions indicate that the higher the return on assets value of a company, the higher the indication of financial statement fraud. Excessive return on assets targets can potentially incentivize managers to engage in fraudulent activities to attain financial targets (Handoko, 2021). This study supports the findings of Kusumawati et al. (2021) and Tarjo et al. (2021) that financial targets affect financial statement fraud. This finding, do not corroborate the previous studies by Permata Sari & Kurniawan Nugroho (2020) and Sihombing & Rahardjo (2014).

The results of hypothesis testing substantiate that the probability value of 0.568 associated with changes in the board of directors exceeds the significance level of 0.05. These findings suggest that board of director turnover has no discernible impact on instances of financial statement fraud. It could, be that the replacement of the previous director was motivated by a desire to improve performance. The change of directors can be caused by a company strategy to reshuffle the board of directors to improve company performance (Handoko, 2021). The results of this study support the findings of Permata Sari & Kurniawan Nugroho (2020), Sari et al. (2022), and Sihombing & Rahardjo (2014) revealed that director changes have no impact on financial statement fraud. This finding contradicts the results of a study conducted by Larum et al. (2021) and Yadiati et al. (2023).

The hypothesis test results show that the probability value of political connection is 0.050, equal to the significant value of 0.05. These results indicate that political connections affect financial statement fraud. The existence of political connections in the company is believed to make it easier to obtain funding. Easier acquisition of large loans makes it difficult for companies to return funds which can result in financial distress. The results of the study support the findings of Handoko (2021), Permata Sari & Kurniawan Nugroho (2020), Vousinas, 2019), and Yadiati et al. (2023) that political connections affect financial statement fraud. However, this finding does not support the research conducted by Lastanti et al. (2022) and Sari et al. (2022).

The results of hypothesis testing show that the probability value of the nature of industry is 0.021, which is smaller than the significant value of 0.05. These results indicate that the nature of industry affects financial statement fraud. Thus, companies with a high ratio of changes in accounts receivable are prone to financial statement fraud. The results of the study support the findings of Permata Sari & Kurniawan Nugroho (2020), Sari et al. (2022), Sihombing & Rahardjo (2014), Tarjo et al. (2021), and Yadiati et al. (2023) that financial statement fraud is influenced by the nature of the industry. However, this finding do not support research conducted by Aulia Haqq & Budiwitjaksono (2020) dan Sasongko & Wijayantika (2019).

The hypothesis test results showed that the probability value of auditor turnover of 0.836 is greater than the significant value of 0.05. According to these findings, financial statement fraud is not impacted by auditor change. The majority of sample companies did not make auditor changes. It is believed that the independent auditors in the sample companies perform well in conducting audits. Positively motivated organizations will employ auditors who conduct audits in an objective and genuinely independent manner in order to enhance future company performance (Sihombing & Rahardjo, 2014). The results of the study support the findings of Larum et al. (2021), Permata Sari & Kurniawan Nugroho (2020), Sari et al. (2022), and Sasongko & Wijayantika (2019) which states that auditor turnover does not affect financial statement fraud. However, the findings do not support research conducted by Koharudin & Januarti (2021) and Octavianus Lauwrens & Budi Yanti (2022).

The hypothesis test results show that the probability value of CEO duality of 0.012 is smaller than the significant value of 0.05. According to these findings, CEO duality influences financial statement fraud. The CEO duality in the company makes functions and tasks unable to run properly. In addition, with his capabilities he can take actions that benefit himself. The results of this study support the findings of Kusumosari & Solikhah (2021), Tarjo et al. (2021), and Yang et al. (2017) that CEO duality affects financial statement fraud. However, this finding does not support studies by Sari et al. (2022) and Sasongko & Wijayantika (2019).

The results of the hypothesis test show that the probability value of the financial target moderated by the audit committee of 0.000 is smaller than the significant value of 0.05. The findings of this study suggest that the influence of financial targets on financial statement fraud can be weakened by the audit committee. The impact of financial targets on financial statement fraud can be reduced by the audit committee. This is because the audit committee has the ability to enhance the company's internal controls. The audit committee may serve as a moderating factor. This study supports the findings of Dimuk et al. (2022) where financial targets on financial statement fraud can be moderated by the audit committee.

The results of the hypothesis show that the probability value of the change of directors moderated by the audit committee of 0.501 is greater than the significant value of 0.05. The audit committee is unable to moderate the impact of director changes on financial statement fraud. The relationship between changes in the board of directors and indications of financial statement fraud cannot be weakened by the audit committee. The company changed the board of directors to improve the performance of the previous directors. Therefore, it can be concluded that the audit committee does not serve as a moderating influence.

The results of the hypothesis test show that the probability value of political connections moderated by the audit committee is 0.048, which is smaller than the significant value of 0.05. These results indicate that the audit committee can weaken the effect of political connections on financial statement fraud. The existence of audit committee supervision can reduce management's interest in political relations. The audit committee acts as a risk management control that is applied. Thus, the audit committee can act as moderation.

The hypothesis test results showed that the probability value of the nature of industry moderated by the audit committee is 0.110, greater than the significant value of 0.05. These results indicate that the audit committee is unable to moderate the effect of the nature of industry on financial statement fraud. The audit committee's oversight of management performance cannot prove the company's receivable change ratio as a loophole for financial statement fraud. Therefore, the audit committee cannot act as moderation. The results of this study support previous findings by Dimuk et al. (2022) where nature of industry on financial statement fraud cannot be moderated by the audit committee.

The results of hypothesis testing show that the probability value of auditor turnover moderated by the audit committee is 0.971 exceeding the predetermined significance level of 0.05. It can be said that the influence of auditor turnover on financial statement fraud cannot be moderated by the audit committee. The audit committee cannot reduce the relationship between auditor turnover and financial statement fraud. oversight by the audit committee cannot prove the change of auditors as an excuse to cover up problems and eliminate traces of financial statement fraud in the company (Sari et al., 2022). Changing auditors could have been an effort to elevate the caliber of the auditors who had reviewed the prior financial statements. The results of this study support previous findings by Sari et al. (2022) that the audit committee cannot moderate the effect of auditor turnover on financial statement fraud.

The hypothesis test results show that the probability value of CEO duality moderated by the audit committee of 0.011 is smaller than the significant level of 0.05. From the results above, it can be said that the audit committee may mitigate the impact of CEO duality on indicating financial statement fraud. The existence of an audit committee plays an important role in company supervision. An audit committee can weaken the CEO duality in overseeing management performance. The audit committee can reduce the impact of CEO duality on financial statement fraud. This study supports the findings of Dimuk et al. (2022) that the audit committee can moderate CEO duality on financial statement fraud.

CONCLUSION AND RECOMMENDATION

The incidence of financial statement fraud in Indonesia continues to rise, according to a survey conducted by ACFE Indonesia, which found that the losses caused by financial statement fraud reached Rp 242,26 billion. Previous research on fraud still has inconsistent results. Therefore, research on fraud is very important to do in order to obtain consistent results.

The study's findings indicate that financial statement fraud is influenced by various factors, namely financial targets, political connections, the nature of the industry, and CEO duality. Therefore, the identification of financial statement fraud can be influenced by various aspects, including but not limited to financial targets, political connections, the nature of the industry, and the existence of CEO duality. However, it should be noted that alterations in the composition of directors and auditors do not affect the occurrence of financial statement fraud. Thus, changes in directors and auditors are not factors in detecting financial statement fraud.

Then, the results revealed that the audit committee's oversight of financial targets, political connections, and CEO duality significantly impacted financial statement fraud. The nexus between financial goals, political connections, and CEO dualism on financial statement fraud may thus be weakened by audit committees. however, the relationship between changes in the board of directors, the nature of the industry, and changes in auditors on financial statement fraud, however, cannot be undermined by the audit committee.

The expected results of this research effort are to provide theoretical and practical implications for companies and investors regarding identifying fraudulent financial statements. So that this information can be considered during the decision-making process. t is anticipated that this research will aid public accountants in identifying fraudulent financial statements in organizations, thereby enhancing the effectiveness of scrutinizing these reports.

This study has many limitations, so additional research is needed. First, this study has a low unit of analysis. It is hoped that further research can use more units of analysis. Second, the research only uses quantitative methods. It is hoped that further research can use qualitative and quantitative methods. The weaknesses in quantitative methods are expected to be fulfilled using qualitative methods.

REFERENCE

ACFE Global. (2020). Report to the Nations on Occupational Fraud and Abuse: 2020 Global Fraud Study. *Association of Certified Fraud Examiners, Inc.*, 1–88. https://www.acfe.com/report-to-the-nations/2020/

Association of Certified Fraud Examiners Indonesia. (2019). Survei Fraud Indonesia 2019. *Indonesia Chapter #111*, *53*(9), 1–76. https://acfe-indonesia.or.id/survei-fraud-indonesia/

Aulia Haqq, A. P. N., & Budiwitjaksono, G. S. (2020). Analisa teori fraud pentagon sebagai pendeteksi kecurangan pada laporan keuangan. *Journal of Economics, Business, & Accountancy Ventura*, *22*(3), 319–332. https://doi.org/10.14414/jebav.v22i3.1788

Cressey, D. R. (1953). *Other People's Money: A Study in The Social Psychology of Embezzlement*. Free Press.

Dechow, P. M., Ge, W., Larson, C. R., & Sloan, R. G. (2011). Predicting Material Accounting Misstatements*. *Contemporary Accounting Research*, *28*(1), 17–82. https://doi.org/10.1111/j.1911-3846.2010.01041.x

Dembo, A. M., & Rasaratnam, S. (2015). Corporate governance and sustainability practices: Evidence from Nigeria. *Proceedings of the International Conference on Accounting Studies (Icas) 2015*, *August 2015*, 325–337.

Dimuk, M., Jatiningrum, C., & Gumanti, M. (2022). Mendeteksi Faktor Fraud Pada Laporan Keuangan dengan Komite Audit Sebagai Pemoderasi. *ECo-Fin*, *4*(3). https://doi.org/10.32877/ef.v4i3.661

Eisenhardt, K. M. (1989). Agency Theory: An Assessment and Review. *Academy of Management Review*, *14*(1). https://doi.org/10.5465/amr.1989.4279003

Handoko, B. L. (2021). Fraud Hexagon dalam Mendeteksi Financial Statement Fraud Perusahaan Perbankan di Indonesia. *Jurnal Kajian Akuntansi*, *5*(2), 176–192. https://doi.org/10.33603/jka.v5i2.5101

Horwath, C. (2012). The Mind Behind the Fraudsters Crime: Key Behavioral and Environmental Elements. *United States of America: Crowe Horwath LLP*, 1–62. https://www.crowe.com/

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, *3*(4). https://doi.org/10.1016/0304-405X(76)90026-X

Koharudin, A., & Januarti, I. (2021). Lack of Financial Reporting Using Crowe's Fraud Pentagon Theory. *Jurnal Dinamika Akuntansi*, *13*(2), 148–157. https://doi.org/10.15294/jda.v13i2.28602

Kusumawati, E., Yuliantoro, I. P., & Putri, E. (2021). Pentagon Fraud Analysis in Detecting Fraudulent Financial Reporting. *Riset Akuntansi Dan Keuangan Indonesia*, *6*(1), 74–89. https://doi.org/10.23917/reaksi.v6i1.13473

Kusumosari, L., & Solikhah, B. (2021). Analisis Kecurangan Laporan Keuangan melalui Fraud Hexagon Theory. *Fair Value: Jurnal Ilmiah Akuntansi Dan Keuangan*, *4*(3), 753–767. https://doi.org/10.32670/fairvalue.v4i3.735

Larum, K., Zuhroh, D., & Subiyantoro, E. (2021). Fraudlent Financial Reporting: Menguji Potensi Kecurangan Pelaporan Keuangan dengan Menggunakan Teori Fraud Hexagon. *AFRE (Accounting and Financial Review)*, *4*(1), 82–94. https://doi.org/10.26905/afr.v4i1.5818

Lastanti, H. S., Murwaningsari, E., & Umar, H. (2022). The Effect of Hexagon Fraud on Fraud Financial Statements with Governance and Culture as Moderating Variables. *Media Riset Akuntansi, Auditing & Informasi*, *22*(1), 143–156. https://doi.org/10.25105/mraai.v22i1.13533

Octavianus Lauwrens, A., & Budi Yanti, H. (2022). Pengaruh Elemen Fraud Pentagon Terhadap Financial Statement Fraud dengan Komite Audit Sebagai Moderasi. *COMSERVA Indonesian Jurnal of Community Services and Development*, *2*(4), 966–975. https://doi.org/10.59141/comserva.v2i4.356

Permata Sari, S., & Kurniawan Nugroho, N. (2020). Financial Statements Fraud dengan Pendekatan Vousinas Fraud Hexagon Model: Tinjauan pada Perusahaan Terbuka di Indonesia. *Proceedings of 1st Annual Conference on IHTIFAZ: Islamic Economics, Finance, and Banking (ACI-IJIEFB)*, 409–430. http://seminar.uad.ac.id/index.php/ihtifaz/article/view/3641/1023

Pratiwi, H. R. (2019). *Kronologi Kisruh Laporan Keuangan Garuda Indonesia*. CNN Indonesia. https://www.cnnindonesia.com/ekonomi/20190430174733-92-390927/kronologi-kisruh-laporan-keuangan-garuda-indonesia

Sari, M. P., Mahardika, E., Suryandari, D., & Raharja, S. (2022). The audit committee as moderating the effect of hexagon's fraud on fraudulent financial statements in mining companies listed on the Indonesia stock exchange. *Cogent Business & Management*, *9*(1), 1–23. https://doi.org/10.1080/23311975.2022.2150118

Sari, M. P., Pramasheilla, N., -, F., Suryarini, T., & Pamungkas, I. D. (2020). Analysis of Fraudulent Financial Reporting With the Role of KAP Big Four as a Moderation Variable: Crowe's Fraud's Pentagon Theory. *International Journal of Financial Research*, *11*(5), 180–190. https://doi.org/10.5430/ijfr.v11n5p180

Sasongko, N., & Wijayantika, S. F. (2019). Faktor Resiko Fraud Terhadap Pelaksanaan Fraudulent Financial Reporting (Berdasarkan Pendekatan Crown'S Fraud Pentagon Theory). *Riset Akuntansi Dan Keuangan Indonesia*, *4*(1), 67–76. https://doi.org/10.23917/reaksi.v4i1.7809

Sihombing, K. S., & Rahardjo, S. N. (2014). Analisis Fraud Diamond dalam Mendeteksi Financial Statement Fraud (Studi Empiris pada Perusahaan manufaktur yang Terdaftar di Bursa Efek Indonesia Tahun 2010 – 2012). *Diponegoro Journal of Accounting*, *3*(2).

Skousen, C. J., Smith, K. R., & Wright, C. J. (2009). Detecting and predicting financial statement fraud: The effectiveness of the fraud triangle and SAS No. 99. In *The Eletronic Library* (Vol. 34, pp. 53–81). https://doi.org/10.1108/S1569-3732(2009)0000013005

Tarjo, T., Anggono, A., & Sakti, E. (2021). Detecting Indications of Financial Statement Fraud: a Hexagon Fraud Theory Approach. *AKRUAL: Jurnal Akuntansi*, *13*(1), 119–131. https://doi.org/10.26740/jaj.v13n1.p119-131

Vousinas, G. L. (2019). Advancing theory of fraud: the S.C.O.R.E. model. *Journal of Financial Crime*, *26*(1), 372–381. https://doi.org/10.1108/JFC-12-2017-0128

Wolfe, D. T., & Hermanson, D. R. (2004). The Fraud Diamond: Considering the Four Elements of Fraud. *The CPA Journal*, *74*(12), 38–42.

Yadiati, W., Rezwiandhari, A., & Ramdany. (2023). Detecting Fraudulent Financial Reporting In State-Owned Company: Hexagon Theory Approach. *JAK (Jurnal Akuntansi) Kajian Ilmiah Akuntansi*, *10*(1), 128–147. https://doi.org/10.30656/jak.v10i1.5676

Yang, D., Jiao, H., & Buckland, R. (2017). The determinants of financial fraud in Chinese firms: Does corporate governance as an institutional innovation matter? *Technological Forecasting and Social Change*, *125*(December 2016), 309–320. https://doi.org/10.1016/j.techfore.2017.06.035