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Mechanism of Hexagon Fraud Detection in Mitigating Fraudulent Financial Reporting

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Abstract: This study aims to examine the effect of the fraud hexagon on fraudulent financial reporting at Regional Development Banks in Indonesia from 2019 to 2022. This research method uses a quantitative approach to examine the effect of independent variables on dependent variables. The research sample used a purposive method with a sample size of 104. The data source for this research was obtained from the ojk.go.id website. The data analysis method used was logistic regression in SPSS 26. The results of the research indicate that financial targets, financial stability, external pressure, ineffective monitoring, director in change, and government projects have a positive effect on fraudulent financial reporting. Meanwhile, the nature of the industry, auditor in change, CEO picture, and political connections have no effect on fraudulent financial reporting. The results of this study have implications for provincial governments in Indonesia to mitigate the risk of fraud in financial statements by considering factors that can influence fraudulent acts in the financial statements of Regional Development Banks.

Keywords: fraudulent financial reporting, fraud hexagon, regional development banks.

INTRODUCTION

Financial reports have a vital role in a company's context. The quality of financial reports can be measured by their ability to present clear information that meets the needs of users for decision-making, is free from material errors, and is reliable (Dewi & Yuliati, 2022). The data contained in financial reports must reflect the company's situation and demonstrate managements accountability for its performance.

Fraud is an intentional, unlawful act intended to gain profit and achieve personal or group goals (ACFE, 2022). Fraud can be committed by individuals within a company's management, such as employees, management, or third parties (Senvar & Hamal, 2022). Fraud in financial reports can render the information contained therein irrelevant and misleading to users (Fajri *et al*., 2023). Therefore, fraud can be detrimental to users because the information contained in financial reports is inaccurate and irrelevant to the actual facts, resulting in incorrect decision-making (Bawekes *et al*., 2018).

Both internal and external motivations and incentives can lead to fraud (Permatasari, 2021). Furthermore, achieving optimal profits will create a positive image for the company, attracting significant attention from investors and potential investors (Octani *et al*., 2022). The desire to present good financial reports will drive management to justify any means, including manipulating information in financial reports, more commonly known as fraudulent financial reporting (Setiawati & Baningrum, 2018).

According to the Association of Certified Fraud Examiners (ACFE) (2022), there are three main categories of fraud that most often occur in a company, namely: 86% of asset misappropriation cases with the lowest level of loss, 50% of corruption cases with a moderate level of loss, and 9% of financial statement misstatement cases with the highest level of loss.

There are numerous cases of fraud in the Indonesian banking sector, particularly at Regional Development Bank (BPD). This occurred at Bank Riau Kepri, where the Bank Riau Kepri administrator embezzled IDR 5.027.191.603 from 71 customers. The fraudster used the funds for gambling (Siregar, 2022). Meanwhile, a bank sultra account transfer officer was detained by the Southeast Sulawesi High Prosecutor's Office for debiting IDR 1,9 billion from 105 accounts, transferring the funds to 20 nominative accounts, and then transferring the funds to five holding account. The suspect's fraudulent actions were motivated by online trading (Pati & Rusiana, 2022). Id addition, 31 customers registered at Bank Sulselbar lost IDR 9 billion and 6 unregistered customers lost IDR 1.5 billion after the fraud perpetrator (with the initials H) who worked as a marketing founder offered gifts, interest, and cashback that were not included in the bank's policy (Adriyansyah, 2022).

Agency theory stems from three basic human traits as explained by Eisenhardt (1989) in Fajri *et al*., (2023) namely self-interest, bounded rationality, and risk aversion. Self-interest refers to the human tendency to prioritize their personal interests. Bounded rationality reflects that humans have limitations in their understanding of the future. Risk aversion means humans tend to avoid risks. The existence of an imbalance of information between agents and principals can be exploited by agents to commit fraud, which in turn can result in material errors in financial statements. Based on this, the fraud hexagon theory, which links fraudulent acts with pressure, opportunity, rationalization, ability, arrogance, and collusion as part of basic human nature, has gained support.

Vousinas (2019) has developed a new fraud detection model, known as the fraud hexagon theory. This study uses six variables to describe each element in this hexagon fraud model. Pressure is represented by Financial Target, Financial Stability, and External Pressure. Opportunity is represented by with Ineffective Monitoring and Nature of Industry, Rationalization is represented with Auditor in Change, Capability is represented by Director in Change, Arrogance is represented by CEO Picture, and Collusion is represented by Political Connection and Government Project. Previous research has used indicators in the Pentagon fraud theory. Therefore, researchers use the hexagon fraud theory to add collusion variables. Vousinas (2019) has developed this theory based on the Pentagon Theory. This model was then updated and adapted to existing fraud theories by adding collusion elements. The latest model for fraud detection is SCORE, which includes Stimulus, Capability, Collusion, Opportunity, Rationalization, and Arrogance.

Previous studies on the determination of fraudulent financial reporting have shown inconsistent results. In studies by Sagala & Siagian (2021), Budiyanto & Puspawati (2022), Tarjo *et al*., (2021), and Agusputri & Sofie (2019), stated that financial targets can positively influence fraud. Meanwhile, studies by Setyono *et al*., (2023), Octani *et al*., (2022), Hartadi (2022), indicated that financial targets cannot influence fraud.

Research by Octani *et al*., (2022), Budiyanto & Puspawati (2022), Alfarago *et al*., (2023), and Septriani & Handayani (2018) stated that financial stability can positively influence fraud. Research by Sagala & Siagian (2021) and Tarjo *et al*., (2021) stated that financial stability can

negatively influence fraud. Meanwhile, research by Fajri *et al*.,(2023), Fernando & Apriwenni (2022), Hartadi (2022), Agusputri & Sofie (2019), and Turrahma (2019) stated that financial stability cannot influence fraud.

Research by Hartadi (2022) and Tarjo *et al*., (2021) it is stated that external pressure can positively influence fraud. Research by Dewi & Yuliati (2022), Setyono *et al*., (2023), and Agusputri & Sofie (2019), indicates that external pressure can negatively influence fraud. Meanwhile, research by Novarina & Triyanto (2022), Octani *et al*., (2022), and Budiyanto & Puspawati (2022) also indicate that external pressure can negatively influence fraud.

Research by Agusputri & Sofie (2019) that ineffective monitoring can positively influence fraud. Research by Hartadi (2022) stated that ineffective monitoring can negatively impact fraud. Meanwhile, research by Sagala & Siagian (2021), Setyono *et al*., (2023), Fernando & Apriwenni (2022), Octani *et al*., (2022), Budiyanto & Puspawati (2022), and Septriani & Handayani (2018) states that ineffective monitoring does not can influence fraud.

Research by Ramdany *et al*., (2020) and Turrahma (2019) it is stated that the nature of industry can positively influence fraud. In research by Dewi & Yuliati (2022), Setyono *et al*., (2023), and Wilestari & Fujiana (2021) It is stated that the nature of industry can negatively influence fraud. Meanwhile, research by Octani *et al*., (2022), Budiyanto & Puspawati (2022), Tarjo *et al*., (2021), Agusputri & Sofie (2019), and Septriani & Handayani (2018) indicate that the nature of industry cannot influence fraud.

Research by Setyono *et al*., (2023), Hartadi (2022), and Wilestari & Fujiana (2021) stated that Auditors in Change can positively influence fraud. Research by Agusputri & Sofie (2019) and Septriani & Handayani (2018) suggests that Auditors in Change can negatively influence fraud. Meanwhile, in the research of Sagala & Siagian (2021), Fajri *et al*.,(2023), Dewi & Yuliati (2022), Budiyanto & Puspawati (2022), Alfarago *et al*., (2023), Tarjo *et al*., (2021), Ramdany *et al*., (2020), and Turrahma (2019) it is stated that the Auditor in Change does not can influence fraud.

Research by Dewi & Yuliati (2022), found that Directors in Change can positively influence fraud. Research by Septriani & Handayani (2018) found that Directors in Change can negatively influence fraud. Meanwhile, research by Novarina & Triyanto (2022), Sagala & Siagian (2021), Fajri *et al*.,(2023), Setyono *et al*., (2023), Fernando & Apriwenni (2022), Octani *et al*., (2022), Budiyanto & Puspawati (2022), Hartadi (2022), Alfarago *et al*., (2023), Chimonaki *et al*., (2023), Tarjo *et al*., (2021), Agusputri & Sofie (2019), Ramdany *et al*., (2020), Wilestari & Fujiana (2021), and Turrahma (2019) it is stated that Director in Change cannot influence fraud.

Research by Novarina & Triyanto (2022), Dewi & Yuliati (2022) it is stated that CEO image can positively influence fraud. Meanwhile, research by Sagala & Siagian (2021), Setyono *et al*., (2023), Fernando & Apriwenni (2022), Octani *et al*., (2022), Budiyanto & Puspawati (2022), Hartadi (2022), Alfarago *et al*., (2023), Agusputri & Sofie (2019), Septriani & Handayani (2018), states that CEO image cannot influence fraud.

Research by Turrahma (2019) It is stated that political connections can positively influence fraud. In research by Dewi & Yuliati (2022) It is stated that political connections can negatively influence fraud. Meanwhile, research by Sagala & Siagian (2021), Setyono *et al*., (2023), shows that It is stated that Political Connection cannot influence fraud.

Research by Budiyanto & Puspawati (2022) It is stated that government projects can positively influence fraud. Meanwhile, research by Novarina & Triyanto (2022), Sagala & Siagian (2021), Setyono *et al*., (2023), Fernando & Apriwenni (2022), Octani *et al*., (2022), Alfarago *et al*., (2023), stated that government projects cannot influence fraud.

This study was conducted in response to inconsistent results from previous studies that attempted to test the effectiveness of the fraud hexagon in identifying the probability of fraudulent financial reporting. The results of previous studies showed inconsistencies, where

not all factors included in the fraud hexagon showed significant differences between companies involved in fraudulent financial reporting and those that did not, and also not all factors from the fraud hexagon used in previous studies were able to identify fraudulent financial reporting.

METHODS

This type of research is explanatory research, namely a research approach to explain the position of a number of variables being studied and the relationship between the variables (Ghozali, 2018). This study examines the influence of the fraud hexagon on fraudulent financial reporting.

The population used in this study is Regional Development Bank companies throughout Indonesia during the period 2019-2022. The sampling technique in this study used a purposive sampling method, with the following criteria: 1) Regional Development Bank companies throughout Indonesia consistently during the period 2019-2022; 2) Regional Development Bank companies throughout Indonesia have annual reports that can be accessed during the study period; 3) Companies have complete data for all research variables. The data source was obtained from the website ojk.go.id.

This method consists of descriptive statistical analysis, logistic regression analysis, and hypothesis testing through the coefficient of determination (nagelkerke r square), F test (Chi square), and Wald test (Partial t). To help analyze the relationship between the fraud hexagon and fraudulent financial reporting This research uses the application program statistical package for social science (SPSS) 26.

Data analysis in this study used logistic regression analysis, because the assumption of normality was not required in this study. In addition, the variable data used consisted of metric and non-metric data. This test used discriminant analysis by testing whether the probability of the dependent variable can be predicted by its independent variables (Ghozali, 2018).

RESULTS AND DISCUSSION

Descriptive Statistical Test Results

Table 1. Descriptive Statistics

Variabel	N	Minimum	Maximum	Mean	Std. Deviation
Mscore	104	0	1	.61	.491
ROA	104	-.0577	.0331	.014611	.0104604
ASSETCH	104	-.5171	.3969	.078735	.1142646
LEV	104	.0549	.9487	.759862	.2407117
DKIN	104	.3333	1.0000	.579812	.1691491
RCEIV	104	-50.2616	105.7486	3.734838	18.0477468
AUDCH	104	0	1	.23	.423
DIRCH	104	0	1	.35	.478
CEOPIC	104	4	16	9.67	2.725
POLCON	104	0	1	.14	.353
GVPRO	104	0	1	.25	.435

Source: SPSS output version 26

The M-score variable measured by dummy variable, valid data is 104 with minimum value = 0; maximum value = 1; samples indicated not to have committed Fraudulent Financial Reporting (FFR) are 41 BPDs (39.4%) and samples indicated to have committed Fraudulent Financial Reporting (FFR) are 63 BPDs (60.6%). The average is 0.61 with standard deviation = 0.491. It is known that if the average value (0.61) is higher than the standard deviation (0.491), it means that there is no deviation in the data between the highest and lowest data.

Financial target variables with ROA proxy, valid data is 104 with minimum value = -0.0577; maximum value = 0.0331; Average = 0.014611 with standard deviation = 0.0104604. It is known that the average value (0.014611) is higher than the standard deviation (0.0104604) meaning that there is no data deviation between the highest and lowest data.

Financial stability with ASSETCH proxy, valid data is 104 with minimum value = -0.5171; maximum value = 0.3969; Average = 0.078735 with standard deviation = 0.0104604. It is known that the average value (0.078735) is lower than the standard deviation (0.1142646) meaning that there is a deviation in the data between the highest and lowest data.

External Pressure with leverage (LEV) proxy, valid data is 104 with minimum value = 0.0549; maximum value = 0.9487; Average = 0.759862 with standard deviation = 0.2407117. It is known that the average value (0.759862) is lower than the standard deviation (0.2407117) meaning that there is a data deviation between the highest and lowest data.

Ineffective Monitoring variable with DKIN proxy, valid data is 104 with minimum value = 0.3333; maximum value = 1.000; Average = 0.579812 with standard deviation = 0.1691491. It is known that the average value (0.579812) is higher than the standard deviation (0.1691491) meaning that there is no data deviation between the highest and lowest data.

The Nature of Industry variable with RCEIV proxy, valid data is 104 with a minimum value = -5 0.2616; maximum value = 105.7486; The average = 3.734838 with a standard deviation = 18.0477468. It is known that if the average value (3.734838) is lower than the standard deviation (18.0477468), it means that there is a deviation in the data between the highest and lowest data.

Auditor in Change variable with AUDCH proxy, valid data is 104 with minimum value = 0; maximum value = 1; samples that did not change external auditors were 80 BPDs (76.9%) and samples that changed external auditors were 24 BPDs (23.1%). The average is 0.23 with standard deviation = 0.423. It is known that if the average value (0.23) is lower than the standard deviation (0.423), it means that there is a deviation in the data between the highest and lowest data.

The Director in Change variable with the DIRCH proxy, has 104 valid data with a minimum value of 0; a maximum value of 1; samples that did not change directors were 68 BPDs (65.4%) and samples that changed directors were 36 BPDs (34.6%). The average is 0.35 with a standard deviation of 0.478. It is known that if the average value (0.35) is lower than the standard deviation (0.478), it means that there is a deviation in the data between the highest and lowest data.

The CEO Picture variable with the CEOPIC proxy has 104 valid data with a minimum value of 4; a maximum value of 16; and an average of 9.67 with a standard deviation of 2.725. It is known that the average value (9.67) is higher than the standard deviation (2.725), meaning that there is a deviation between the highest and lowest data.

Political Connection variable with POLCON proxy, valid data is 104 with minimum value = 0; maximum value = 1; samples that do not have dual positions in BUMN/BUMD/PEMDA are 89 BPD (85.6%) and samples that have dual positions in BUMN/BUMD/PEMDA are 15 BPD (14.4%). The average is 0.14 with standard deviation = 0.353. It is known that if the average value (0.14) is lower than the standard deviation (0.353) it means that there is a deviation in the data between the highest and lowest data.

Government Project variable with GVPRO proxy, valid data is 104 with minimum value = 0; maximum value = 1; samples that do not organize Government Projects are 78 BPDs (75%) and samples that organize Government Projects are 26 BPDs (25%). The average is 0.25 with a standard deviation of 0.435. It is known that if the average value (0.25) is lower than the standard deviation (0.435), it means that there is a data deviation between the highest and lowest data.

Logistic Regression Test

Table 2. Logistic Regression Test Results

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	ROA	94.546	37.325	6.416	1	0.011	1.150E+41
	ASSETCH	8.002	3.198	6.262	1	0.012	2987.723
	LEV	2.851	1.192	5.723	1	0.017	17.298
	DKIN	3.735	1.790	4.356	1	0.037	41.885
	RCEIV	-0.004	0.013	0.095	1	0.757	0.996
	AUDCH	0.320	0.622	0.265	1	0.607	1.377
	DIRCH	1.129	0.562	4.028	1	0.045	3.092
	CEOPIC	-0.095	0.094	1.014	1	0.314	0.909
	POLCON	0.255	0.797	0.103	1	0.749	1.291
	GVPRO	1.816	0.708	6.571	1	0.010	6.147
	Constant	-5.869	1.984	8.754	1	0.003	0.003

Source: SPSS version 26 output

Based on table 2, the binary logistic regression models that can be formed include:

$$Y = -5{,}869 + 94{,}546\ \text{ROA} + 8{,}002\ \text{ASSETCH} + 2{,}851\ \text{LEV} + 3{,}735\ \text{DKIN} - 0{,}004\ \text{RCEIV} + 0{,}320\ \text{AUDCH} + 1{,}129\ \text{DIRCH} - 0{,}095\ \text{CEOPIC} + 0{,}255\ \text{POLCON} + 1{,}816\ \text{GVPRO}$$

The results of the interpretation of the equation above are:

1. The constant value is -5.869, meaning that if the value of the seven independent variables is considered 0, then the M-Score is -5.869.
2. The regression coefficient value of Financial Target with ROA proxy of 94.546 is positive, meaning that every 1 percent increase in the company's Financial Target (ROA) will increase the company's chances of committing Fraudulent Financial Reporting by 94.546 percent.
3. The regression coefficient value of Financial Stability with the ASSETCH proxy of 8.002 is positive, meaning that every 1 percent increase in Financial Stability (ASSETCH) in a company will increase the company's chances of committing Fraudulent Financial Reporting by 8.002 percent.
4. The regression coefficient value of External Pressure with Leverage (LEV) proxy of 2.851 is positive, meaning that every 1 percent increase in External Pressure (LEV) on a company will increase the company's chances of committing Fraudulent Financial Reporting by 2.851 percent.
5. The regression coefficient value of Ineffective Monitoring with the proxy of the proportion of Independent Board of Commissioners (DKIN) of 3.735 has a positive value, meaning that every 1 percent increase in Ineffective Monitoring (DKIN) in a company will increase the company's chances of committing Fraudulent Financial Reporting by 3.735 percent.
6. The regression coefficient value of Nature of Industry with the RCEIV proxy of -0.004 is negative, meaning that every 1 percent increase in Ineffective Monitoring (RCEIV) in a company will reduce the company's chances of committing Fraudulent Financial Reporting by -0.004 percent.
7. The regression coefficient value of Auditor in Change with the AUDCH proxy of 0.320 is positive, meaning that every 1 percent increase in Auditor in Change (AUDCH) in a company will increase the company's chances of committing Fraudulent Financial Reporting by 0.320 percent.
8. The regression coefficient value of Director in Change with the DIRCH proxy of 1.129 is positive, meaning that every 1 percent increase in Director in Change (DIRCH) in a company will increase the company's chances of committing Fraudulent Financial Reporting by 1.129 percent.

9. The regression coefficient value of CEO Picture with the CEOPIC proxy of -0.095 is negative, meaning that every 1 percent increase in CEO Picture (CEOPIC) in a company will reduce the company's chances of committing Fraudulent Financial Reporting by -0.095 percent.
10. The regression coefficient value of Political Connection with the POLCON proxy of 0.255 is positive, meaning that every 1 percent increase in Political Connection (POLCON) in a company will increase the company's chances of committing Fraudulent Financial Reporting by 0.255 percent.
11. The regression coefficient value of the Government Project with the GVPRO proxy of 1.816 is positive, meaning that every 1 percent increase in the Government Project (GVPRO) in a company will increase the company's chances of committing Fraudulent Financial Reporting by 1.816 percent.

Model Fit Test Results

This test is useful for determining whether a model fits. It compares the -2 Log Likelihood (-2LL) value before the independent variable is entered (in the initial block or Block number = 0) to the value that should decrease after the independent variable is entered (in the final block or Block number = 0). A model is considered fit to the data if the -2 Log Likelihood (-2LL) value decreases (Ghozali, 2018:328). The test results are:

Table 3. Model Fit Test Results

Block Number = 0			Block Number = 1		
Iteration		-2 Log likelihood	Iteration		-2 Log likelihood
Step 0	1	139.486	Step 1	1	110.855
	2	139.485		2	107.077
	3	139.485		3	106.718
				4	106.714
				5	106.713
				6	106.713

Source: SPSS version 26 output

Table 3 shows the results of the overall model fit test, where two -2 log likelihood values were obtained, namely Block Number = 0 of 139.486 and Block Number = 1 of 110.855. This means that there was a decrease in the -2 log likelihood value, so it can be said that the model has fit the data.

Model Feasibility Test Results

The measurement is done through the Hosmer and Lemeshow's Test, which is used to test the difference between empirical data and the model (Ghozali, 2018:328). The test results are:

Table 4. Results of Hosmer and Lemeshow's Test

Step	Chi-square	df	Sig.
1	5.721	8	0.678

Source: SPSS version 26 output

In table 4, the Chi-square value is 5.721 with a significance of 0.678 > 0.05 at degrees of freedom (df) 8. In conclusion, there is no significant difference between the model and its observation values so that the goodness fit is stated as a good model.

Results of the Determination Coefficient Test

Nagelkerke R Square shows the coefficient of determination in the logistic regression model (Ghozali, 2018). The test results are:

Table 5. Results of the Determination Coefficient Tests

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	106.713[a]	0.270	0.366

Source: SPSS version 26 output

Based on table 5. above, it is known that the Nagelkerke R Square value is 0.366, meaning that the variables ROA, ASSETCH, LEV, DKIN, RCEIV, AUDCH, DIRCH, CEOPIC, POLCON, and GVPRO are able to predict the M-Score by 36.6% and the rest are variables that were not studied by 63.4%.

Simultaneous Test Results

A simultaneous test is a test used to explain that all independent variables used can simultaneously influence the dependent variable. In binary logistic regression, the simultaneous test used is the omnibus test. The test criterion is that if the resulting chi-square significance value is below 0.05, it can be concluded that all independent variables used in the study simultaneously influence the dependent variable. The test results are:

Table 6. Omnibus Test Results

		Chi-square	df	Sig.
Step 1	Step	32.772	10	.000
	Block	32.772	10	.000
	Model	32.772	10	.000

Source: SPSS version 26 output

Based on Table 6 above, it is known that all omnibus test significance values using chi-square are 0.000, less than 0.05. This means that all independent variables consisting of ROA, ASSETCH, LEV, DKIN, RCEIV, AUDCH, DIRCH, CEOPIC, POLCON, and GVPRO in the study simultaneously have an influence on the dependent variable.

Wald Test Results

The Wald test is a statistical testing method used in regression analysis to determine whether a regression coefficient in a model has a significant influence on the dependent variable. The test criteria are: if the resulting Wald test significance value is below 0.05, it can be concluded that the independent variable used in the study partially influences the dependent variable. The test results are:

Table 7. Wald Test Results

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	ROA	94.546	37.325	6.416	1	0.011	1.150E+41
	ASSETCH	8.002	3.198	6.262	1	0.012	2987.723
	LEV	2.851	1.192	5.723	1	0.017	17.298
	DKIN	3.735	1.790	4.356	1	0.037	41.885
	RCEIV	-0.004	0.013	0.095	1	0.757	0.996
	AUDCH	0.320	0.622	0.265	1	0.607	1.377
	DIRCH	1.129	0.562	4.028	1	0.045	3.092
	CEOPIC	-0.095	0.094	1.014	1	0.314	0.909
	POLCON	0.255	0.797	0.103	1	0.749	1.291
	GVPRO	1.816	0.708	6.571	1	0.010	6.147
	Constant	-5.869	1.984	8.754	1	0.003	0.003

Source: SPSS version 26 output

1. Based on Table 7, the β1 value 94546 has a positive value with a Wald test value of 6.416 and a significance of 0.011 < 0.05. This means that Financial Targets can have a significant positive influence on Fraudulent Financial Reporting.
2. Based on Table 7, the β2 value 8.002 has a negative value with a Wald test value of 6.262 and a significance of 0.012 < 0.05. This means that financial stability can have a significant positive effect on fraudulent financial reporting.
3. Based on Table 7, the β3 value 2.851 has a positive value with a Wald test value of 5.723 and a significance of 0.017 < 0.05. This means that External Pressure can have a positive influence on Fraudulent Financial Reporting.
4. Based on Table 7, the β4 value 3.735 has a positive value with a Wald test value of 4.356 and a significance of 0.037 < 0.05. This means that Ineffective Monitoring can have a significant positive effect on Fraudulent Financial Reporting.
5. Based on Table 7, the β5 value -0.004 has a negative value with a Wald test value of 0.095 and a significance level of 0.757 >0.05. This means that Nature of Industry does not significantly influence Fraudulent Financial Reporting.
6. Based on Table 7, the β6 value 0.320 has a positive value with a Wald test value of 0.265 and a significance of 0.607 > 0.05. This means that Auditor in Change does not significantly influence Fraudulent Financial Reporting.
7. Based on Table 7, the β7 value 1.129 has a positive value with a Wald test value of 4.028 and a significance of 0.045 < 0.05. This means that Director in Change can have a positive influence on Fraudulent Financial Reporting.
8. Based on Table 7, the β8 value -0.095 has a negative value with a Wald test value of 1.014 and a significance of 0.314 > 0.05. This means that CEO Picture does not significantly have a negative influence on Fraudulent Financial Reporting.
9. Based on Table 7, the β7 value 0.255 has a positive value with a Wald test value of 0.103 and a significance of 0.749 > 0.05. This means that Political Connection is not significant in providing a positive influence on the possibility of Fraudulent Financial Reporting.
10. Based on Table 7, the β10 value 1.816 has a positive value with a Wald test value of 6.571 and a significance of 0.010 < 0.05. This means that Government Projects can have a positive influence on Fraudulent Financial Reporting.

The Influence of Financial Targets on Fraudulent Financial Reporting

Based on the results of the study, it shows that financial targets have a positive effect on fraudulent financial reporting. This is because achieving optimal profit targets can encourage managers to commit fraud by manipulating profits to show good financial performance (Setyono *et al.*, 2023). Agency theory explains that shareholders always want the company to generate optimal returns on their investment, but managers also have a personal interest in obtaining higher compensation (Bawekes et al., 2018). According to SAS No. 99, financial targets create pressure for managers to achieve their best performance because there are large incentives when sales profits are high, but if the target is not achieved, managers tend to manipulate financial reports to continue to receive the promised incentives (Octani et al., 2022). Thus, high financial targets can increase fraudulent actions in financial reports.

The Influence of Financial Stability on Fraudulent Financial Reporting

The research results show that financial stability has a positive effect on fraudulent financial reporting. This is because anxiety about a company's financial stability can create pressure to engage in fraudulent acts (Octani *et al.*, 2022). According to agency theory, good financial stability creates the impression that the company is not facing financial problems in the eyes of shareholders. However, if financial stability is disturbed, the potential for a decrease in the flow of funds from shareholders can arise. As a result, managers tend to take fraudulent

steps in financial reports to hide the company's financial instability (Septriani & Handayani, 2018). This reflects the complex dynamics between perceptions of financial stability, shareholder trust, and management's response to potential decreases in cash flow.

The Influence of External Pressure on Fraudulent Financial Reporting

Based on the research results, it shows that external pressure has a positive effect on fraudulent financial reporting. This is because external pressure can force management to commit fraud in financial statements (Budiyanto & Puspawati, 2022). Although companies rely on internal funding, the need for external funds is also an operational reality. When late payment of liabilities occurs, this creates significant pressure at the management level (Setyono *et al*., 2023). According to agency theory, the high credit risk associated with receiving funds from external sources can exert strong external pressure. In this situation, managers tend to manipulate financial statements to create a positive performance impression in the eyes of creditors, in response to this external pressure (Setyono *et al*., 2023). This reflects the complex dynamics between a company's need for external funds, credit risk, and the potential for management fraud.

The Impact of Ineffective Monitoring on Fraudulent Financial Reporting

The research results show that ineffective monitoring has a positive effect on fraudulent financial reporting. This is because the weak oversight carried out by the Independent Board of commissioners can result in management having a greater opportunity to manipulate financial reports. The lack of effective monitoring gives management the opportunity to control information and direct it according to the manager's personal interests. Although independent commissioners are a solution to strengthen oversight and reduce opportunities for fraudulent acts in financial reporting, the limited delivery of financial information can easily deceive independent commissioners. According to agency theory, management with detailed access to company information can attempt to manipulate financial reports to display better performance than actual. Therefore, inadequacy in oversight creates an environment that is more vulnerable to fraudulent acts, because management can relatively easily conceal weaknesses or the true state of the company (Fernando & Apriwenni, 2022).

The Influence of Nature of Industry on Fraudulent Financial Reporting

Based on the research results, it shows that the Nature of Industry has no effect on fraudulent financial reporting. This is because the high amount of receivables indicates inefficient company financial management. According to Fajri *et al*.,(2023), a company is considered good when it is able to reduce the amount of receivables and increase the amount of cash. Reducing receivables can indicate efficiency in asset management, while increasing cash can provide clarity regarding the company's liquidity. Meanwhile, according to Octani *et al*., (2022), changes in the accounts receivable ratio during the observation year, in essence, do not always trigger management to commit fraud. The ratio of changes in accounts receivable can be influenced by various factors, including management policies regarding accounts receivable management, industry structure, and economic conditions. If a company has transparent financial management practices and effective policies regarding accounts receivable, changes in the accounts receivable ratio may reflect strategies taken to increase liquidity or optimize the accounts receivable collection cycle. In addition, the differences in the nature of the industry in banking companies compared to other sectors can make it difficult to use the value of accounts receivable to detect fraudulent actions committed by management (Septriani & Handayani, 2018).

The Influence of Auditor in Change on Fraudulent Financial Reporting

The research results show that auditor change has no effect on Fraudulent Financial Reporting. This is because the replacement of auditors by a company is not intended to avoid the audit of financial statements by the previous auditor (Tarjo *et al*., 2021). Instead, the company makes the replacement because it is required to comply with the provisions of OJK Regulation Number 13/POJK.03/2017, which states that there is a maximum limit of 3 consecutive financial years for public accountants to perform audit services on financial statements in a company. Another alternative may be a replacement of auditors because the previous auditor cannot meet the performance standards of the previous external auditor, causing management to be dissatisfied with the external auditor's performance, so that in the following financial year they will use the services of another external auditor (Darmawan *et al*., 2021).

The Influence of Director in Change on Fraudulent Financial Reporting

The research results show that director change has a positive effect on Fraudulent Financial Reporting. This is because the change in directors is intended to improve and restructure performance but is an indication of fraudulent financial reporting by the previous directors. This change in directors will have a negative impact on company performance (Bawekes *et al*., 2018). The performance of the previous directors was less than satisfactory and is an indication of fraud in company management (Permatasari, 2021). In addition, changes in the structure of the board of directors through the recruitment of more competent directors are expected to improve company performance (Purwaningtyas & Ayem, 2021). However, agency theory states that a change in directors can create a period of stress that opens up opportunities for management to commit fraud. Although the official reason from management is to improve the competence and performance of directors, this change can hinder the effectiveness of management performance because new directors need more time to adapt to the new work environment (Septriani & Handayani, 2018).

The Influence of CEO Picture on Fraudulent Financial Reporting

The research results show that CEO pictures have no effect on Fraudulent Financial Reporting. This is because the large number of CEO photos in the annual report does not always reflect the CEO's arrogance. The presence of these photos can be interpreted as the company's effort to introduce the CEO to the public and highlight the achievements that have been achieved (Achmad *et al*., 2022). The company hopes to increase investor interest in investing in the company. The results of this visual presentation are inconsistent with the fraud hexagon theory which links arrogance factors, because the number of CEO photos included in the annual report cannot be considered an act of arrogance on the part of the CEO (Setyono *et al*., 2023).

The Influence of Political Connections on Fraudulent Financial Reporting

The research results show that political connections do not affect fraudulent financial reporting. This is because managers with political connections do not always use their positions for personal or group gain. Not all management with political connections will engage in detrimental actions, especially related to the company's financial statements (Imtikhani & Sukirman, 2021). Furthermore, the Financial Services Authority (OJK) still permits concurrent positions as long as they do not violate existing regulations. A chapter 6 of POJK Number 33/POJK.04/2014 states that members of the Board of Directors may hold concurrent positions as members of the Board of Directors as long as they do not conflict with provisions in other laws and regulations.

The Influence of Government Projects on Fraudulent Financial Reporting

The research results show that government projects have a positive effect on fraudulent financial reporting. This is because company participation in government projects can create opportunities for greater revenue. However, this type of collaboration also carries potential risks, such as encouraging companies to attempt to profit by manipulating their financial reports (Novarina & Triyanto, 2022). Agency theory highlights that company management seeking to win government projects tends to commit fraudulent financial reporting to make the company's performance appear superior to the government (Setyono *et al.*, 2023). In an effort to collaborate with the government through government projects , company management may be tempted to commit fraudulent financial reporting to increase their chances of winning the project (Sari & Khoiriah, 2021).

CONCLUSION

Based on the discussion that has been done, this study has the result that Financial Target has a positive effect on Fraudulent Financial Reporting. This is because achieving optimal profit targets can encourage managers to commit fraud by manipulating profits to show good financial performance. Financial stability has a positive effect on Fraudulent Financial Reporting. This is because anxiety about the company's financial stability can create pressure to engage in fraudulent acts. External Pressure has a positive effect on Fraudulent Financial Reporting. This is because External Pressure can force management to commit fraud in financial reports. Ineffective Monitoring has a positive effect on Fraudulent Financial Reporting. This is because the still low supervision carried out by the Independent Board of Commissioners can result in management having a greater opportunity to manipulate financial reports. Nature of Industry has no effect on Fraudulent Financial Reportin. This is because the high amount of receivables indicates inefficiency in the company's financial management.

Auditor in Change has no effect on Fraudulent Financial Reporting. This is because the replacement of auditors by a company is not intended to avoid the audit of financial reports by the previous auditor. Director in Change has a positive effect on Fraudulent Financial Reporting. This is because the change of directors was intended to improve and restructure performance but it is an indication of fraudulent financial reporting by the previous directors. CEO Picture does not affect Fraudulent Financial Reporting. This is because the large number of CEO photos in the annual report does not always reflect the CEO's arrogance and is an attempt by the company to introduce the CEO to the public and highlight his achievements. Political Connection does not affect Fraudulent Financial Reporting. This is because managers who have political connections do not always use their positions to gain personal or group benefits. Government Projects have a positive effect on Fraudulent Financial Reporting. This is because the company's participation in the implementation of government projects can create opportunities to obtain greater revenue.

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