

Financial Statement Fraud Detection: The Hexagon Fraud Model Approach

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Abstract

The purpose of this study is to examine the likelihood of financial statement fraud using the fraud hexagon model, including pressure (financial stability), opportunity (ineffective monitoring), rationalization (auditor change), capability (director change), arrogance (frequent CEO pictures), and conspiracy (connection with government projects) on financial statement fraud. The sample of this study is manufacturing companies listed on the Indonesian Stock Exchange from 2019 to 2021, with a total of 73 companies. The data was processed using SPSS 22 software. The results of this study indicate that financial stability has a positive effect on financial statement fraud. However, ineffective monitoring, change of auditor, change of directors, frequent number of CEO pictures, and connection with government projects do not affect financial statement fraud.

Keywords: Financial Stability, Opportunity, Rationalization, Arrogance, Collusion.

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Introduction

Financial reports are published as a means of communication between companies and users of financial information, both internal and external communication. This information shows the company's performance in a certain period as a basis for decision-making. (Mukaromah & Budiwitjaksono, 2021; Sari et al., 2022). A company that performs well will produce positive financial reports, while a company that performs poorly will produce adverse financial reports. (Novarina & Triyanto, 2022). An excellent financial report is one that users of financial reports can use, so financial reports must meet criteria such as being relevant,

represented appropriately, verifiable, comparable, understandable and timely. (Ikatan Akuntan Indonesia, 2019). Financial reports with good company performance will give an excellent impression to various parties, especially investors and potential investors. This forces managers to make every effort to ensure the resulting financial reports look good, even if they use fraudulent methods. However, the appearance of good financial reports will harm the company and be detrimental to various parties (Mukaromah & Budiwitjaksono, 2021).

Fraud is an act that violates the law with an element of intention with a specific aim to obtain personal or group benefits. (ACFE Indonesia, 2020). Financial statement fraud is widespread not only in Indonesia but also in the world. Based on the results of the Association of Certified Fraud Examiners (ACFE) survey in 2022 show that financial statement fraud is a fraud that is rarely committed but causes the most significant loss, namely \$593,000, with 9% of cases occurring. In Indonesia alone, losses due to fraudulent financial reporting amounted to IDR 242,360,000,000, with a percentage of cases occurring at 9.2% (ACFE Indonesia, 2020).

The survey results are supported by cases that have occurred, such as the case of the AIS group PT Tiga Pilar Sejahtera Food Tbk (TPSF). PT Tiga Pilar Sejahtera Food was proven to have manipulated the 2017 financial reports, where auditors discovered inflated funds of IDR 4 trillion in the company's accounts receivable, inventory and fixed assets. Apart from that, Tiga Pilar Sejahtera Food also inflated sales posts by IDR 622 billion. Due to this action, PT Tiga Pilar Sejahtera Food Tbk (AIS) received sanctions in the form of suspension of share transactions and potential delisting by the Financial Services Authority (OJK). (CNBC Indonesia, 2019). Financial statement fraud cases can be detected using theories initiated by previous researchers, one of which is the hexagon theory of fraud. There are several elements used in hexagon theory fraud. Namely, pressure is proxied by financial stability, opportunity is proxied by ineffective monitoring, rationalization is proxied by change in auditor, capability is proxied by change of director, arrogance is proxied by frequent number of CEO's picture, and collusion is proxied by project with government.

Previous researchers have researched financial statement fraud from the perspective of hexagon theory fraud, but the findings still show different results. First, financial stability against fraudulent financial statements still has inconsistent results. (Achmad et al., 2023; Alfarago et al., 2023; Wilantari & Ariyanto, 2023; Yadiati et al., 2023). Furthermore, ineffective monitoring of fraudulent financial reports still produces different results. (Achmad et al., 2023; Siregar & Murwaningsari, 2022; Sukmadilaga et al., 2022; Wilantari & Ariyanto, 2023). Next, changes in auditor research on financial statement fraud have inconsistent results. (Achmad et al., 2023; Alfarago et al., 2023; Mukaromah & Budiwitjaksono, 2021; Sukmadilaga et al., 2022; Wilantari & Ariyanto, 2023). Furthermore, the change of director research on financial statement fraud has different results. (Achmad et al., 2023; Handoko, 2021; Larum et al., 2021; Lionardi & Suhartono, 2022; Yadiati et al., 2023). Next, the frequent number of CEO's pictures regarding fraudulent financial statements still shows inconsistent results. (Alfarago et al., 2023; Novarina & Triyanto, 2022; Rizkiawan & Subagio, 2023; Sukmadilaga et al., 2022; Wilantari & Ariyanto, 2023; Yadiati et al., 2023). *Lastly, the project with the government on financial statement fraud still has no different results.* (Achmad et al., 2023; Handoko, 2021; Larum et al., 2021; Meidijati & Amin, 2022; Rizkiawan & Subagio, 2023; Sukmadilaga et al., 2022; Yadiati et al., 2023).

Even though many studies focus on financial statement fraud from the perspective of hexagon theory, unfortunately, these studies still find different results. Likewise, the increasing number of cases of fraudulent financial reporting, especially in Indonesia, makes this research still exciting and worthy of further research. This research is a development of the research. Sagala & Siagian (2021), where the research suggests changing the sample used so that this research uses manufacturing companies listed on the Indonesia Stock Exchange (BEI). Furthermore, the research also suggests using earnings management measuring tools to calculate fraudulent financial statements. So this research investigates the detection of financial statement fraud: the Hexagon fraud model approach.

Literature Review

This research uses agency theory to explain the relationship between mindset. This theory explains the agency relationship between shareholders as principals and management as agents. (Jensen & Meckling, 1976). The agent, an internal party, is responsible for conveying all company information to the principal to achieve company goals. (Novarina & Triyanto, 2022). However, agency relationships can give rise to agency problems due to differences in interests, even though the agent should always support the principal. This difference in interests occurs when agents tend to pursue their personal goals, which can result in an imbalance of information between the principal and the agent.

Next, the following hypotheses are generated based on the theory and previous description. Financial stability is a condition that reflects the company's financial stability (Mukaromah & Budiwitjaksono, 2021). Managers tend to be encouraged to commit violations in financial reporting when the company's financial stability is threatened by economic factors, industry or the condition of the entity concerned (Achmad et al., 2023). When a company experiences below-average growth in the industry, management may manipulate financial statements to improve company performance (Sukmadilaga et al., 2022). This action not only aims to improve the company's performance but also to keep up with the rapid growth of the industry, with the aim that the company experiences stable growth. Companies try to increase their business opportunities by presenting information that has been manipulated, especially related to assets, especially the growth of assets owned by the company (Larum et al., 2021). This finding is strengthened by the results of research conducted by Alfarago et al. (2023), Larum et al. (2021), Mukaromah & Budiwitjaksono (2021), Sagala & Siagian (2021), Siregar & Murwaningsari (2022), Wilantari & Ariyanto (2023) dan Yadiati et al (2023) which states that the higher the change in total assets, the greater the occurrence of financial statement fraud.

H₁: Financial Stability influences Financial Report Fraud.

Ineffective monitoring is a situation that reflects a deficiency or lack of efficient supervision in monitoring company performance (Achmad et al., 2023). This lack of supervision can be caused by the dominance of management by one individual or small group, which is not balanced by adequate compensation controls, as well as weaknesses in the supervision of the financial reporting process and internal control (Sukmadilaga et al., 2022). Therefore, companies involved in fraudulent practices tend to have fewer board members than those not involved in fraud (Mukaromah & Budiwitjaksono, 2021). This shows that adequate

supervision can be realized through an independent board of commissioners because the independent board of commissioners is not biased towards one party that uses the company's financial reports. The duties and responsibilities of the board of commissioners are to ensure the company's strategy is implemented, supervise management in managing company resources, and ensure accountability in preparing financial reports for all parties who use them (Achmad et al., 2023). This research is supported by research by Mukaromah & Budiwitjaksono (2021), Sukmadilaga et al. (2022), Wilantari & Ariyanto (2023), ineffective monitoring as measured by the ratio of independent commissioners shows that a small number of independent commissioners indicates ineffective supervision of a company, so indications of fraudulent financial statements will increase.

H2: Ineffective Monitoring influences Financial Report Fraud.

Rationalization occurs when someone seeks reasons or justifications for fraudulent actions (Achmad et al., 2023). Rationalization can be proxied through a change in auditor. When a company changes auditors, this action may be perceived as an attempt to eliminate traces of fraud detected by the previous auditor (Imtikhani & Sukirman, 2021). Changing auditors can provide an opportunity to hide fraudulent acts because the new auditor does not yet understand the company's conditions and is still in the adaptation period. This is in line with the view of Sukmadilaga et al. (2022), which states that audit failures and the potential for lawsuits in detecting fraud in financial statements tend to increase after a change of auditor. Thus, it can be concluded that changing auditors in a company can indicate potential fraud in the financial statements. This finding is reinforced by research results, which state that the higher the turnover rate of independent auditors, the higher the possibility of financial statement fraud being committed by the company (Imtikhani & Sukirman, 2021; Wilantari & Ariyanto, 2023).

H3: Change in Auditor Affects Financial Report Fraud.

Wilantari & Ariyanto (2023) A person's position or role in an organization can provide more significant opportunities to exploit opportunities to commit fraudulent acts than individuals who do not occupy a similar role or position. A CEO, director, or division head has the authority to carry out or make agreements on essential matters. (Achmad et al., 2023). For example, it influences a contract or agreement taken and affects the timing of revenue or expense recognition. Generally, changes in the board of directors are often related to political factors and special interests, such as ambitious targets set by the company or significant compensation bonus agreements. This can create a conflict of interest because changes in directors are considered an attempt by the company to replace directors who may be aware of fraudulent actions that the company has carried out. (Larum et al., 2021; Mukaromah & Budiwitjaksono, 2021). Based on this context, it can be concluded that the frequency of change in directors can reflect the level of potential for fraud in financial statements. These findings are in line with the research. Imtikhani & Sukirman (2021) dan Wilantari & Ariyanto (2023), Changes in the leadership of directors influence the occurrence of fraudulent financial statements. The more frequent changes in directors, the greater the potential for fraud in financial reports.

H4: Change of Director influences Financial Report Fraud.

Yadiati et al. (2023). Generally, perpetrators of fraud have pressure combined with arrogance or greed. Arrogance is an attitude of superiority or greed towards someone who believes that internal control does not apply to him; in this case, arrogance is proxied by the frequent number of CEO pictures (Achmad et al., 2023; Sukmadilaga et al., 2022; Yadiati et al., 2023). *The frequency of the CEO's picture is the frequency with which the CEO's photo appears in the company's annual report* (Handoko, 2021). The presence of a photo of the CEO is assumed to indicate that the CEO has the desire or arrogance to be known. However, the frequent number of CEO pictures is also an effort made by the CEO to introduce his status and position in the company he is leading (Achmad et al., 2023; Yadiati et al., 2023). The large number of display pictures of achievements, personal photos, and other photos related to the CEO's track record in the publication of the annual report indicates that the CEO is committing more fraud. This research was supported by Novarina & Triyanto (2022), Sukmadilaga et al. (2022), and Wilantari & Ariyanto (2023); the increasing number of CEO photos in an annual report gives a signal that the level of arrogance of a company's CEO is also increasing.

H5: Frequent Number of CEO's Pictures Influences Financial Report Fraud.

Collusion refers to the cooperation of several individuals to carry out dishonest acts with malicious intent, such as defrauding a third party of his or her rights (Handoko, 2021). The potential for fraudulent financial statements increases if collusion within a company also increases. Collusion in this research is proxied by links to government projects (Novarina & Triyanto, 2022; Yadiati et al., 2023). Projects with the government are a form of collaboration carried out by companies and the government (Novarina & Triyanto, 2022). The existence of projects with large governments means that there are also increasing indications of fraudulent financial reporting. This is influenced by significant revenues, which can trigger management to take advantage by committing fraudulent financial reports (Sagala & Siagian, 2021). This hypothesis is supported by Handoko (2021), Sagala & Siagian (2021), Sukmadilaga et al. (2022), and dan Yadiati et al. (2023), The more projects you have with the government, the higher the level of financial statement fraud.

H6: Linkages with government projects influence financial statement fraud.

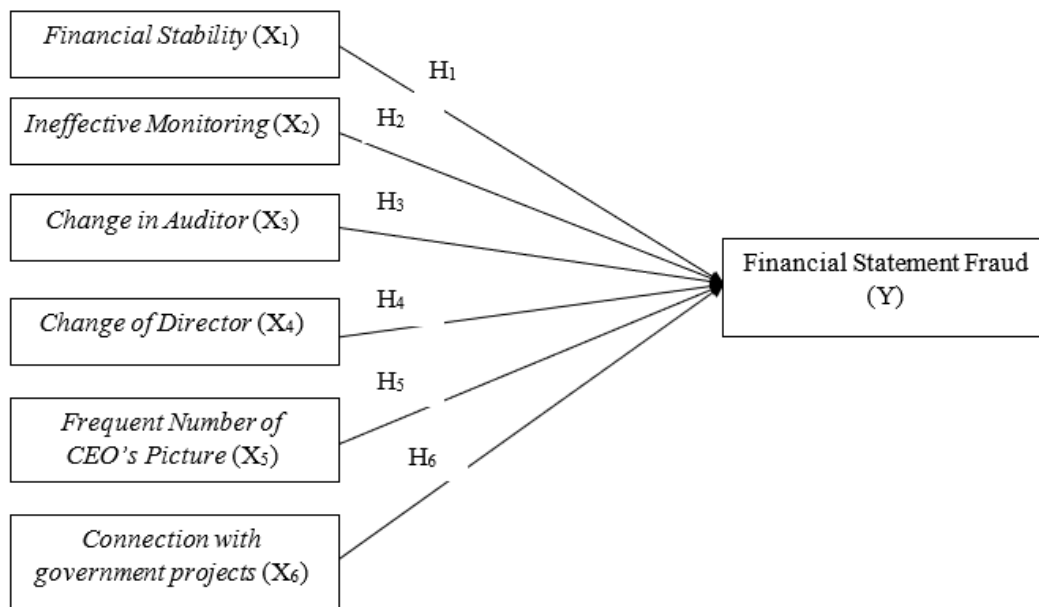


Figure 1. Research Framework

Research Methods

The sampling method used was purposive sampling, where the sample selection was based on specific criteria. The companies selected as samples are manufacturing companies listed on the Indonesia Stock Exchange (BEI) in 2019-2021. There are criteria for companies used as samples, namely as follows: 1) Companies that continuously publish annual financial reports on the IDX in the 2019-2021 period. 2) Companies that publish financial reports in rupiah (Rp). 3) Companies that record profits during the observation period. 4) Companies that disclose relevant research variables are fully available during 2019-2021. 5) Companies that were not delisted during the observation period.

This quantitative research uses multiple linear regression analysis methods using IBM SPSS 24 software. The regression equation model in this research is as follows:

$$DA_{it} = \alpha + \beta_1 ACHANGE + \beta_2 BDOUT + \beta_3 \Delta CPA + \beta_4 DCHANGE + \beta_5 CEOPICT + \beta_6 KP + \varepsilon$$

Description:

DA_{it} = Discretionary accrual of company i in year t

α = Constanta

β_{1-6} = Regression coefficient of each proxy

ACHANGE = Total asset change ratio

BDOUT = Independent Board of commissioner's ratio

ΔCPA = Independent auditor turnover

DCHANGE = Change in board of directors

CEOPICT = Frequent number of CEO's picture

KP = Cooperation with government projects

ε = error

Table 1. Operational Definition

Variable	Variable Definition	Indicator	Source
Financial Statement Fraud	Deliberate misrepresentation of the company's financial condition	<i>Earning Management</i> (Modification Model Jones) $DA_{it} = \frac{TA_{it}}{A_{it-1}} - NDA_{it}$	(Imtikhani & Sukirman, 2021)
Financial Stability	A situation that reflects the company's financial stability	$ACHANGE = \frac{(Total\ Assets_t - Total\ Assets_{t-1})}{Total\ Assets_{t-1}}$	(Sagala & Siagian, 2021)
Ineffective Monitoring	A situation that reflects the inability of adequate supervision to monitor company performance	$BDOOUT = \frac{Total\ independent\ commissioners}{Total\ board\ of\ commissioners}$	(Sagala & Siagian, 2021)
Change of Auditor	Change of auditor in a company	Dummy variable, code 1 when there is a change of auditor, code 0 when there is no change of auditor.	(Sagala & Siagian, 2021)
Change of Director	Change of director in a company	Dummy variable, code 1 when there is a change of director, while code 1 when there is no change in director	(Sagala & Siagian, 2021)
Frequent Number of CEO's Picture	The frequency of appearance of the CEO's photo in the company's annual report	Total CEO photos contained in the company's annual reports during the research period.	(Yadiati et al., 2023)
Linkage to government projects	An agreement or collaboration between two or more parties that has the potential to commit fraud	Dummy variable, code 1 if there is a collaboration project between the company and the government and code 0 if there is no collaboration project.	(Yadiati et al., 2023)

Source: Processed data, 2023

Table 2. Sample Selection Criteria

No	Information	Amount
1.	Manufacturing companies listed on the IDX during the 2019-2021 period	213
2.	Companies that are not listed consecutively on the IDX during the 2019-2021 period	(31)
3.	Companies that do not publish financial reports continuously during the 2019-2021 period	(26)
4.	Companies that report financial statements not in rupiah (Rp)	(26)
5.	Companies that experience losses during the observation period.	(57)
6.	Data is not related to research variables and is not entirely available during the 2019-2021 period	(0)
7.	Companies that were delisted during the observation period	(0)
	Total research sample	73
	Number of samples (73 x 3)	219
	Outlier data	(32)
	Number of samples used	187

Source: Processed data, 2023

Result and Discussion

Result

Descriptive statistics provide an overview of data based on the minimum, maximum, mean and standard deviation values shown in Table 3, and it can be seen that the total sample

used was 187 companies.

Table 3 Results of Descriptive Statistical Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
A CHANGE	187	-.177	.539	.06645	.099781
BDOUT	187	.000	.750	.36974	.139441
CPA	187	0	1	.11	.317
DCHANGE	187	0	1	.39	.489
TOPICS	187	.0	6.0	2.128	.9698
KP	187	.0	1.0	.278	.4493
DA	187	-.202	.163	-.01327	.069509
Valid N (listwise)	187				

Source: Processed data, 2023

Next, Table 4 shows the results of the hypothesis testing using IBM SPSS 22. It can be seen that the financial stability results obtained increase the occurrence of financial statement fraud. On the other hand, other variables (ineffective monitoring, change in auditor, change of director, frequent number of CEO's picture and connection with government projects) do not affect financial statement fraud.

Table 4 Hypothesis Test Results

No	Variable	Regression Coefficients	Signification Results	Information
1	A CHANGE	0,248	0,000	Accepted
2	BDOUT	0,024	0,506	Rejected
3	CPA	0,016	0,298	Rejected
4	DCHANGE	0,001	0,913	Rejected
5	CEOPICT	0,003	0,583	Rejected
6	KL	0,012	0,731	Rejected

Source: Processed data, 2023

Based on Table 5, the adjusted r-square value obtained in the research is 0.101 or 10.1%. The conclusion that can be drawn is that 10.1% of financial report fraud can be explained by the variable's financial stability, ineffective monitoring, change in auditor, change of director, frequent number of CEO's picture, and linkage to government projects. Meanwhile, the remaining 89.9% is explained by other factors outside the variables of this research.

Table 5 Adjusted R Square Values

Model	R
1	0,361a
	0,101

a. Predictors: (Constant), KP, BDOUT, ACHANGE, CPA, DCHANGE, CEOPICT

b. Dependent Variabel: DA

Discussion

The Influence of Financial Stability on Financial Report Fraud

Testing the first hypothesis (H1) shows that the financial stability variable (ACHANGE) on financial statement fraud results in a coefficient of 0.248 with a significance value of 0.000. This means that the results of this hypothesis test prove that financial stability (ACHANGE) positively affects financial statement fraud. So, the higher the financial stability of a company, the higher the likelihood of fraud in the financial statement. The results obtained are supported by agency theory, which states that the agent and principal do not have aligned goals, so the

agent running the company is carried out by committing fraud in the financial report. This action is taken so that the company's financial reports look better for financial report users. The results of this study are also in line with the research. Alfarago et al (2023), Larum et al (2021), Sagala & Siagian (2021), Siregar & Murwaningsari (2022), Wilantari & Ariyanto (2023); Yadiati et al (2023) Shows that financial stability (ACHANGE) positively affects financial statement fraud. This means that if the company's financial stability is threatened or below the industry average, it indicates that management is facing pressure by committing fraudulent financial reports so that it can improve the company's performance. Manipulating financial reports is also one way to show that the company can grow steadily while keeping up with rapid industrial growth. (Siregar & Murwaningsari, 2022). The company seeks to increase its business opportunities by presenting information that has been manipulated, especially in terms of asset wealth and growth in assets owned by the company. (Alfarago et al., 2023).

The Effect of Ineffective Monitoring on Fraudulent Financial Reports

Testing the second hypothesis (H₂) shows that the variable ineffective monitoring (BDOUT) for fraudulent financial statements obtained a coefficient of 0.024 with a significance value of 0.506. The results of this hypothesis test show that ineffective monitoring (BDOUT) does not affect fraud in financial statements. The results of this research are supported by agency theory which states that if the agent and principal have aligned goals, they will support each other in running the company by not committing financial report fraud. This research is also in line with research Achmad et al (2023), Handoko (2021), Larum et al (2021), Sagala & Siagian (2021); Siregar & Murwaningsari (2022), ineffective monitoring (BDOUT) has no effect on financial statement fraud. This means that the high and low value of BDOUT cannot be the cause of fraudulent financial statements. Many or few independent commissioners cannot prevent fraudulent financial statements. This is because the company already has good supervision in monitoring the company's performance and internal control. (Achmad et al., 2023). However, the placement of the ratio of independent board of commissioners in companies is more due to meeting regulatory requirements (Achmad et al., 2023; Handoko, 2021). Therefore, good governance practices cannot be guaranteed by the presence of independent commissioners in a company (Handoko, 2021). It can be noted that supervision is effective not in terms of the number of independent commissioners but should be seen from the effective performance of the independent commissioners (Siregar & Murwaningsari, 2022).

The Effect of Change in Auditor on Financial Report Fraud

Testing the third hypothesis (H₃) shows that the variable change in auditor (ΔCPA) for fraudulent financial statements obtained a coefficient of 0.016 with a significance value of 0.298. This means a change in auditor (ΔCPA) does not affect financial statement fraud. The results of this research are supported by agency theory, which states that conflicts of interest will not occur if the agent and principal have the same goals. One of them is the change of auditor because of the regulations governing it, not because of other purposes, for example, committing fraud in a financial report. The results of this study are similar to the research results. Achmad et al (2023), Alfarago et al (2023), Handoko (2021), Sagala & Siagian (2021) Sari et al (2022), Sukmadilaga et al (2022) *Change in auditor* (ΔCPA) does not affect fraudulent financial statements. This

means that a high or low rate of auditor turnover does not indicate that financial statement fraud will occur. This is due to Government Regulations regarding Public Accounting Practices, namely the provision of audit services for financial information for a company by Public Accountants with a maximum limit of 5 (five) consecutive financial years. (Achmad et al., 2023; Sari et al., 2022). Handoko (2021) A change of auditor can also be caused by dissatisfaction with the performance of the previous auditor.

The Effect of Change of Director on Financial Report Fraud

Testing the fourth hypothesis (H₄) shows that the variable change of director (DCHANGE) on financial statement fraud obtained a coefficient of 0.001 with a significance value of 0.913. The results of this hypothesis test show that a change of director (DCHANGE) does not affect financial statement fraud. This means that the high or low level of director turnover cannot be used as a basis for the company is committing fraudulent financial reporting. The research results are supported by agency theory, which states that the relationship between agent and principal will go hand in hand when the agent and principal have the same goals in the company. So, the director change was not caused by personal goals but because of a joint decision, so a decision was made to change the director. The results of this study are in line with the research results. Achmad et al (2023), Alfarago et al (2023), Mukaromah & Budiwitjaksono (2021), Sagala & Siagian (2021), Sukmadilaga et al (2022), Wilantari & Ariyanto (2023), Changes in company directors do not influence fraudulent financial statements. Changes in the directors of a company usually occur because the previous director resigned or died or there are regulations regarding the term of office (Achmad et al., 2023; Mukaromah & Budiwitjaksono, 2021). The company also changed the board of directors not to get rid of the old directors who were thought to be aware of fraud committed by the company, but because the company continued to have good performance with no vacant director positions in making important decisions for the company. (Sagala & Siagian, 2021; Sukmadilaga et al., 2022). This is also reinforced by Handoko (2021), Director changes can be made due to dissatisfaction with the current director's performance, so the company decides to replace him with a director who is considered more competent.

The Influence of Frequent Number of CEO's Pictures on Financial Report Fraud

Testing the fifth hypothesis (H₅) shows that the frequent number of CEO's picture (CEOPICT) variable on financial statement fraud obtained a coefficient of 0.003 with a significance value of 0.583. The results of the hypothesis test show that the frequent number of CEO's pictures (CEOPICT) does not affect financial statement fraud. This means that a large or small number of frequent CEO pictures cannot increase or decrease the occurrence of financial statement fraud. The results of this study are the research results Alfarago et al (2023), Sari et al (2022) dan Yadiati et al (2023) Having a frequent number of CEOs' pictures does not affect financial statement fraud. The presence of a photo of the CEO in the annual report is only a profile of the company's leadership. The photo of the CEO in the annual report is only a form of introduction to the leader who serves in the company to users of financial reports. (Alfarago et al., 2023). This action can make it easier for users of financial reports to know the directors responsible for the company. The CEO's photo can also inform that the company is led by a competent person so that it can contribute to the sustainability of the company rather than

fraudulent financial statements. (Alfarago et al., 2023).

The Effect of Linkages with Government Projects on Fraudulent Financial Reports

Testing the sixth hypothesis (H₆) shows that the variable related to the government project of fraudulent financial reporting obtained a coefficient of -0.004 with a significance value of 0.731. This means that whether or not there is a connection with a government project cannot influence the occurrence of fraudulent financial statements. The research results are supported by agency theory, which states that the existence of a government project linkage is not one of the methods used to commit fraud in a financial statement. However, this action was taken to increase company profits so that the company's performance could develop further. The results of this study are supported by research. Achmad et al (2023). Novarina & Triyanto (2022), Linkage to government projects does not affect fraudulent financial statements. This is because a company has a cooperative relationship with the government does not necessarily mean that the company always commits fraud. (Achmad et al., 2023). The government that awards a project or tender to a company has carried out a selection first using established criteria so that the company that wins the project is selected based on quality, capability and cooperation is established relatively. (Novarina & Triyanto, 2022).

Conclusion

Based on the research results, it can be concluded that financial stability can increase financial report fraud. In contrast, other variables (ineffective monitoring, change in auditor, change of director, arrogance effect and collusion) cannot influence the occurrence of financial report fraud. This research's limitation is that the coefficient of determination R² is 10.1%, indicating that only 10.1% of financial statement fraud can be explained by independent variables. The remaining 89.9% is explained by other factors not included in the variables of this study. Further research is expected to add proxy variables, such as external pressure, auditor quality, director duality and company existence. Moreover, other calculations can be used to detect fraudulent financial reports, such as F-score or M-score.

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