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Financial Statement Fraud Analysis on State-Owned Entreprises in Hexagon Fraud Perspective

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Abstract

This research examines fraudulent financial statements in state-owned entreprises listed on the IDX for the 2020-2022 periods. This research adopts the hexagon theory influence fraudulent financial statements in an institution. This research shows that two of the six elements, namely capability and rationalization, have a significant effect on fraudulent financial statements. The impact is positive, confirming the proposition of the hexagon theory.. The findings in this research show that there are three variables that can detect fraud in financial statements, namely CEO duality, Change in Auditor and CEO Picture. It means that dual CEO ownership and the company's desire to change its auditor indicate fraudulent financial statements, as well as the large number of CEO photos appearing in financial reports shows a high level of arrogance and superiority within the company. High arrogance can lead to fraud.

INTRODUCTION

The COVID-19 pandemic virus was first discovered in December 2019 and spread to Indonesia around March 2020. The pandemic virus generated financial issues for numerous businesses (Wang et al., 2020). According to (Zakariya, 2020), the crises during the epidemic increases the possibility of fraud. Erick Thohir, Minister of State-Owned Enterprises (BUMN), feels that many state-owned enterprises attempt to embellish their financial records, a practice known as window dressing, which is illegal since it is considered fraud. Window dressing, or attempting to make a company's financial reports appear better than they are, has a negative connotation since it has the ability to falsify the figures, data, and information provided in financial reports.

Financial statement fraud is the intentional misrepresentation of financial statement information in violation of generally accepted accounting principles.

BUMN as a state-owned enterprise is not protected against financial statement fraud. The cases of fraud in the financial statements of BUMN are shown in table 1.

Table 1. Cases of Financial Statement Fraud Involving BUMN

No	BUMN	Year	Brief description of the case
1	PT Kimia Farma (Persero)	2002	In 2021, the company estimates that the company's net profit is IDR 132 billion higher than it should be at IDR 99 billion.
2	PT KAI (Persero)	2006	In 2004 the company assessed its net profit at Rp. 6.9 billion higher than its supposed net loss of Rp. 63 billion.
3	PT Waskita Karya (Persero)	2009	From 2004 to 2007 the company overvalued assets worth IDR 400 billion
		2020	From 2009 to 2015 the company charged fictitious subcontractor fees amounting to IDR 202 billion.
4	PT Jiwasraya (Persero)	2020	From 2006 to 2018 the company made investments without adequate feasibility studies and manipulated financial reports with a loss of IDR 13.70 trillion.
5	PT Asabri (Persero)	2020	From 2012 to 2019 the company made investments without adequate feasibility studies and manipulated financial reports with a loss of IDR 22.78 trillion.
6	PT Garuda Indonesia (Persero)	2019	In 2018 the company recognized transaction rental income which was in the nature of receivables. the company made investments without adequate feasibility studies and manipulated financial reports with a loss of IDR 22.78 trillion.
6	PT Garuda Indonesia (Persero)	2022	From 2011 to 2021, the alleged evil conspiracy inflated the rental value of CRJ Bombardier and ATR aircraft with losses worth IDR 8.8 trillion
7	PT Krakatau Steel (Persero)	2022	In 2012 there was an increase in the cost of building the Blast Furnace Complex covering an area of 74 hectares.

Source: cnnindonesia.com, kompas.com, cnbc indonesia.com processed, (2023)

According to Aksa (2018) every financial statement fraud that occurs in various sectors can be detected and prevented or minimized. Detection of fraud in government financial reports can be done by reviewing several factors: stimuli, capability, collusion, opportunity, rationalization, and ego. This factor is known as hexagon fraud detection.

In 2019, Vousinas brought the Fraud Hexagon Theory. Initially in 1953 Donald R. Cressey defined three situations that constanly reason fraud in financial report. These situations take the form of pressure, opportunity and rationalization which is called the fraud triangle. This theory then will become a fraud diamond through including capabilities (Wolfe, D. T., and Hermanson, 2004). Then this theory become evolved into the pentagon of fraud (Howarth, 2010) or additionally to as SCORE through Vousinas (Stimuli, Capability, Opportunity, Rationalization, Ego) with one new element, specifically arrogance or ego. The latest fraud theory is the hexagon fraud theory, which develops SCORE into SCCORE through including a sixth element, specifically collusion. Collusion is delivered due o the fact it's far one of the keys to the incidence of the maximum damaging fraud in massive amounts (Vousinas, 2019).

The first detail of the fraud hexagon is the motivation. This is because management is encouraged or pressured to commit fraud in the financial statements. This pressure appears when business leaders are asked to show their best performance to achieve the intended goals. One measure of management effectiveness is the company's efficiency and effectiveness in generating revenue using its assets. Return on assets (ROA) is a measure used to show management's performance in generating total profits (Skousen, C. J., Smith, K. R., & Wright, 2008). Puspitha,et al. (2018) stated that management will always display the best financial performance in financial reports to avoid bad judgment in running the company. This encourages management to manipulate financial reports to achieve set financial targets. Low ROA (financial targets not achieved) will put pressure on management and encourage them to manipulate the achievement of financial targets, so that financial targets, in this case ROA that is achieved/tends to be high, can be suspected as an indication of fraudulent practices.

ROA has a positive and significant effect on the occurrence of fraudulent financial statements. This means that the higher the target of the company and the

ROA, the greater the possibility of fraud in the financial statements due to management and the desire to achieve this target. Because if the company does not reach its ROA target, management can manipulate the financial statements to achieve it (Rengganis, et al,. 2019). This is consistent with agency theory. The presence of financial targets in financial statements can be an incentive for fraud. Differences in the interests of owners and management also include fraud committed by managers. If the owner wants the management to give high fees for his ownership, while the manager is interested in receiving a high reward for his work, showing his best results. It follows the theory of agency. So the first hypothesis is:.

H_1: financial targets has a positive effect fraudulent financial statements.

The stability of the financial situation is one of the factors that make management engage in fraudulent financial reporting (Vousinas, 2019). Financial stability is one of the indicators of the company's performance, if you look at the stability of its growth from a financial perspective. One way to determine a company's level of financial stability is to look at the growth value of its assets (Skousen, C. J., Smith, K. R., & Wright, 2008). Therefore, if the growth value of the company and assets is below average, it can encourage management to manipulate to show that the financial performance of the company is still stable. Financial stability as a measure of total assets has a positive and significant effect on fraudulent financial reporting. This means that when financial stability is threatened, it triggers fraud in the financial statements. Therefore, the higher the investment turnover ratio of the company, the higher the possibility of fraud (Bawakes, H. F., Simanjuntak, A. M., & Daat, 2018). This is consistent with the hexagonal fraud theory and agency theory. Financial stability is an indicator that stimulates fraud (Vousinas, 2019). In addition, agency theory also explains that the owner expects a satisfactory return in any situation (Khamainy, et al., 2022). Thus, the second hypothesis is:

H_2: Financial stability has a positive effect fraudulent financial statements.

External pressure comes from third parties outside the company. This pressure can trigger financial reporting fraud. This condition is caused by third parties who have high expectations of receiving additional funds if the company can remain competitive in the market. External pressure can be caused by the company and its inability to pay debt or meet debt requirements. (Skousen, C. J., Smith, K. R.,

& Wright, 2008). When a company is in debt or wants to receive support from financial sources, fraud by manipulating financial statements is seen as a solution to convince creditors that the company can pay its obligations.

External pressure proxy leverage ratio (LEV) (Khamainy, et al., 2022). If a company has a high debt ratio, it means that the company has a lot of debt and a lot of pressure. The reason is that companies have a higher risk of insolvency (Skousen, C. J., Smith, K. R., & Wright, 2008). External pressure has a positive effect on fraud in financial statements (Sihombing, K. S., & Rahardjo, 2014). This means that the higher the debt ratio, the greater the possibility of management fraud. One option is to increase the equity to equalize the amount of debt. When testing the fraud hexagon theory, external pressure can be a sign of potential fraud. In addition, based on agency theory, external pressures may induce management to commit fraud in order to obtain sources of financing to support the firm's operations. The third hypothesis is therefore:

H_3: External pressure has a positive effect fraudulent financial statements.

The element of capability can encourage someone to commit financial statement fraud. Their knowledge allows criminals to exploit the conditions as opportunities for fraud (Wolfe, D. T., and Hermanson, 2004). Changing managers can be a source of fraud during stressful times. In addition, a change of managers was carried out with the appointment of a new, more qualified manager. The readiness with which management turnover is communicated negatively affects financial reporting fraud (Sasongko, N., & Wijayantika, 2019). This is because the management change was made to improve performance. Therefore, if there is no change in management, the possibility of fraud in the financial statements increases. However, the results of this study would be different if the change of managers was to hide the frauds committed by the previous managers (Sihombing, K. S., & Rahardjo, 2014). It is based on the theory of the fraud hexagon, where fraud can occur and cause serious collateral damage if done by the right person to take advantage of existing opportunities. In addition, based on agency theory, management has more information than owners, so the possibility of using it to commit fraud is definitely greater. The fourth hypothesis is :

H_4: Change of directors has a positive effect fraudulent financial statements.

Collusion is one of the actions that can indicate fraud. Collaboration is another aspect of SCCORE, a key component of the highly complex fraud space. According to fraud hexagon, collaboration is directly related to corporate culture. Collusion with several parties leads to significant losses. According to a study conducted by ACFE Global, the more parties involved, the greater the losses. (ACFE, 2018).

One activity leading to collusion is CEO duality. Drobetz, Schillhofer, and Zimmerman (2004) and (Jensen, M. C., & Meckling, 1976) explain that CEO duality encourages people to act in their own interests rather than maximizing shareholder benefits. Azhari, et al., (2020) argue that the power derived from CEO duality is misused for personal gain and to protect the individual and his own interests, which contributes to accounting misrepresentation. Therefore, in order to achieve more effective supervision and good governance, it is necessary to separate the tasks of the CEO and the board. It has been proven that CEO duality has a positive effect on earnings management or weakens the quality of pay (Alves, 2021). Therefore, CEO duality can negatively affect the quality of internal control and ultimately affect the decision on financial statement fraud (Khlif, H., Samaha, K., & Amara, 2020). The fifth hypothesis is:

H_5: CEO duality has a positive effect fraudulent financial statements.

Opportunity can be the driving constrain behind fraud. Opportunities make it simple for hoodlums. Opportunities can be seen by the observing unit of the organization. The nearness of a control unit is one of the deciding variables within the event of fraud, since the control (monitoring) unit is the primary unit that avoids fraud.

Effective monitoring may be a circumstance where checking exercises in a company run effectively (Aviantara, 2019; Fathmaningrum, and Suryandari, 2021). Companies with successful supervision will be able to play down the rise of cases of fraud.

Explanation on Auditing Guidelines (SAS)99 clarifies that ineffective monitoring can emerge within the financial reporting and internal control process due to the dominance of administration by one individual or a small group of individuals (AICPA, 2002) and the nonappearance of effective monitoring from the board of commissioners or review committee (Aviantara, 2019).

This ineffective monitoring can be represented by the number of meetings initiated or attended by the board of commissioners which are rarely held/not according to target. Prastiti, Anindyah (2013) stated that commissioners' meetings are important in determining the effectiveness of monitoring carried out by the board of commissioners. These meetings are also a form of communication between members of the board of commissioners in carrying out their duties as supervisors. Marsha and Felicia (2017) stated that the more frequently the board of commissioners holds meetings, the better the monitoring carried out by the board of commissioners. Research by Chen, G., M. Firth, D.N. Gao, (2006) stated that the level of frequent meetings of the board of commissioners influences financial statement fraud. So, the sixth hypothesis is:

H_6: The effective monitoring has a negative effect on fraudulent financial statements.

An component of rationalization can trigger financial statement fraud. This can be since the cheater feels that what they are doing is ordinary and right. auditor change can influence the rationalization of fraud. Since when the auditor changes, there will be a transition period so that the management can rationalize the fraud and attempt to kill the audit trails. Companies that commit fraud tend to alter their independent auditors to dispose of review trails found by past (Bawakes, H. F., Simanjuntak, A. M., & Daat, 2018; Sasongko, N., & Wijayantika, 2019). Changing auditors has significant suggestions for fraud in financial reporting. Typically since when the auditor changes, an asymmetry emerges between the auditor and the client. Auditor change has suggestions for fraud in financial reporting. This is often since when the auditor changes, an asymmetry emerges between the evaluator and the client.

This is consistent with the fraud hexagon theory, which states that fraudsters make rationalizations to justify their actions. Agency theory also explains that there are differences in the interests of management and owners. When management, as an agent, feels that it has done a lot in its work and has not gotten what it wants, it rationalizes its actions. Changing auditors is a moment that authors can take advantage of. The seventh hypothesis is:.

H_7: Changing auditors has a positive effect on fraudulent financial statements.

Connections in the KBBI are defined as relationships that can facilitate (smooth)

all matters (activities), while politics is all matters and actions (policies, strategies, etc.) regarding state government or towards other countries. Political connections are realized by placing parties who have closeness or connections with the government in the company's organizational structure as commissioners or directors (Fisman, 2001). A similar thing was expressed by Jullani, Mukhzarudfa, (2020) who stated that a company is said to have political connections when one of the business leaders (board of directors or commissioners), shareholders or relatives has held or is currently holding a political position (executive, legislative and judicial). or have ties to politicians and parties.

A company's dependence on the government can compound agency conflicts. Political connections can be negative to minority shareholders since they can increment the control of larger part shareholders to require deft activities (Sun et al., 2016). In expansion, politically connected companies favor tolerance in government directions (Correia, 2014) and get lawful security from their political accomplices. Here, companies prioritize politicians' objectives of maximizing shareholder value (Saieed, 2016) by inclining toward to contribute in ventures that bolster government approach over venture with clear prospects.

In expansion, inclinations for subsidizing and lawful assurance make politically connected companies dislike external funding, making organizations less concerned with the market's require for quality financial reporting (Leuz and Gee, 2006).

Subsequently, the earnings quality of politically connected companies is more regrettable than that of politically unconnected companies (Chaney et al., 2011). This implies that politically connected companies methodicallly have a high information gap. A company's closeness to lawmakers too increments the hazard of false money related explanations (Net et al., 2016). Leaders with political connections tend to use political means to create an environment that suits their interests (Achmad, et al., 2022).

Senior executives are less concerned about the markets and want high quality financial and other financial reports. In such situations, financial reporting fraud becomes more common in politically connected companies (Wang et al., 2017). Based on this explanation, the eighth hypothesis is proposed in this study as follows..

H_8: Political connection has a positive effect on fraudulent financial statements.

The more photos and images of the CEO that appear in the report, the more likely he is to show a high level of pride and importance in the company. Too much pride leads to deception. This is because CEOs feel that no form of internal control affects supervisors (Bawakes, H. F., Simanjuntak, A. M., & Daat, 2018; Sasongko, N., & Wijayantika, 2019). A CEO who wants to show his power and position in the company shows that he does not want to lose that position. Ego represented by frequent images of the CEO, influences fraudulent financial statement (Bawakes, H. F., Simanjuntak, A. M., & Daat, 2018). Of course, because of their high level of arrogance, arrogant managers are empowered by their power and position, which can encourage fraud.

According to the hexagon theory of fraud. Cheaters are ambitious, want to succeed at all costs, and are self-centered, self-confident, and ambitious. These are the CEOs whose photos appear in annual reports and who are proud and proud. In addition, the CEO will do what is necessary to maintain this position and position. This is the agency theory, which states that consumers tend to use their position for their own benefit. The ninth hypothesis is as follows.

H_9: The number of frequent CEO images has a positive effect on fraudulent financial statements

METHODS

The researchers conducted the study using a quantitative approach. Quantitative research is called positivist research that emphasizes testing specific populations or samples by measuring study variables and analyzing data statistically (Gujarati, Da, 2012). This study uses the hexagon theory of fraud to detect fraud in financial statements. Currently, the focus of this study is the financial reports of public sector companies listed on the Indonesia Stock Exchange from 2020 to 2022.

The specific variables of this study are financial targets (X1), financial stability (X2), and external pressure (X3) as a measure of stimulus. Then there is the variable change of directors (X4) as a measure of capability, and CEO duality (X5) as a measure of collusion. Effective monitoring (X6) as a measure of

opportunity. Change of auditor (X7) and political connection (X8) as a measure of rationalization. Then the number of CEO photos (X9) are measures of ego (arrogance).

Financial statement fraud can create the appearance of misrepresentation or misrepresentation in financial statement. Financial statement fraud is measured using a dummy variable and an F-score proxy.

1 for firms with a fraud indicator and 0 for firms without a fraud indicator. The F-Score model measures two different aspects: accumulation quality and financial performance (Damayani et al., 2019).

Financial Statement Fraud = ***Accrual Quality*** + ***Financial*** *Performance*.....(1)

Accrual quality is calculated using RSST Accrual. The calculation model is as follows (Dechow et al., 2011):

$$RSST\ Accrual = \frac{\Delta WC + \Delta NCO + \Delta FIN}{\text{Average Total Assets}} \quad \text{.....(2)}$$

Where:

WC = (Current Assets - Cash and Short Term Investment) (Current Liabilites Debt in Current Liabilities)

NCO = (Total Assets - Current Assets - Investment and Advances) - (Total Liabilities - Current Liabilites - Long Term Debt)

FIN = (Short term Investment + Long term Investment) - (Long term Debt + Debt in Current Liabilities + Preferred Stock) Average Total Assets = (Beginning Total Assets+Ending Total Assets)

$$Average\ Total\ Assets = \frac{(Beginning\ Total\ Assets + Ending\ Total\ Assets)}{2}$$

$$\textbf{Financial Performance} = Change\ in\ Receivable + Change\ in\ Inventories + Change\ in\ Cash\ sales + Change\ in\ Earning \quad (3)$$

Where:

$$Change\ in\ Receivable = \frac{\Delta Account\ Receivable}{Average\ Total\ Assets}$$

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

$$Change\ in\ Cash\ Sales = \left(\frac{\Delta\ Sales}{\text{Sales (t)}}\right) - \left(\frac{\Delta\ Receivables}{\text{Receivables (t)}}\right)$$

$$Change\ in\ Earnings = \left(\frac{\text{Earnings (t)}}{\text{Average Total Assets (t)}}\right) - \left(\frac{\text{Earning (t-1)}}{\text{Average Total Assets (t-1)}}\right)$$

Table 2. Independent Variables Measurement

No	Variables	Measurement	Scale	Description
1	ROA (X1)	$ROA = \frac{Earnings\ after\ Interest\ and\ Tax}{\text{Total Assets}}$ Return on Assets (Skousen et al., 2008)	Ratio	Financial Target (stimuli)
2	ACHANGE (X2)	$ACHANGE = \frac{(Total\ Assets\ (t) - Total\ Assets\ (t-1))}{Total\ Assets\ (t-1)}$ Change in total assets (Skousen et al., 2008)	Ratio	Financial stability (stimuli)
3	LEV (X3)	$LEV = \frac{Total\ Debt}{Total\ Assets}$ Leverage (Skousen et al., 2008)	Ratio	External Pressure (stimuli)
4	DCHANGE (X4)	*DCHANGE* = 1 = *change in director* Change or no change in Directors (Wolfe & Hermanson, 2004)	Dummy	Change in director (capability)
5	DUAL (X5)	CEO Duality = 1= CEO as director and board member (Alves, 2021)	Dummy	CEO Duality (collusion)
6	Number of Board Meeting (X6)	Number of Meeting helds (Aviantara, 2021)	Ratio	Effective Monitoring (opportunity)
7	AUDCHANGE (X7)	*AUDCHANGE* = 1 = *Change in Auditor* Change or no change in Auditor (Skousen et al., 2008)	Dummy	Auditor Change (rationalization)
8	POLCON (X8)	*POLCON = Number of member the board of director and or board of commissioners have political connection / total of number board of director and board commissioner* (Aviantara, 2021)	Dummy	Political Connection (Rationalization)
9	CEOPIC (X9)	*CEOPICT = Frequent number of CEO Pictures* CEO pictures in annual reporting (Bawakes et al., 2018)	Ratio	Ego (arrogance)

Source: Data Processed (2023)

In this study, a regression data processing program using SPSS version 26 software was used to verify the proposed hypothesis. A logistic regression method is used to assess the impact of the fraud hexagon index on financial statement fraud. The reason for using a logistic regression is that the dependent variable is a binary variable and the independent variables may or may not be measured.

RESULTS AND DISCUSSION

Descriptive Statistic Analysis

In Table 3, the independent variable ROA (X1), the deceptive hexagon stimuli, has a standard deviation of 0.07492 and a mean value of 0.0148. these statistics show that the average salary with the company is 1%.

Table 3. Descriptive Statistics

	N	Min	Max	Mean	Std. Dev
ROA (X1)	183	-0.58	0.26	0.0148	0.07492
Achange (X2)	183	-0.4	2.86	0.1236	0.38209
Leverage (X3)	183	0.01	1.85	0.6089	0.29001
Change in director (X4)	183	0	9	1.6885	1.9573
Effective monitoring (X6)	183	0	110	31.7869	17.92302
Political connection (X8)	183	0	4	0.3951	0.31181
CEO picture (X9)	183	0	12	8.7158	3.64588

Source: Data Processed (2023)

The change in financial stability of total assets (ACHANGE) (X2), which indicates pressure, has a mean of 0.1236 and a standard deviation of 0.382. considering this, it seems that in all public company assets, the proportion of changes in assets compared to the previous year is 1 to 2 cases. The mean value of external pressure (X3) calculated by LEVERAGE is 0.608 and the standard deviation is 0.290. This shows that the average debt level of the government enterprises in the sample is 60%.

Effective monitoring (X6) has a minimum value of 0, which indicates that there are companies that never hold board of commissioners meetings, while the maximum value is 110.00, meaning that there are companies that hold 110 internal meetings or joint board of commissioners meetings. The average value of effective monitoring is 30.97, meaning that the average company holds 31

meetings of all companies in the sample. Rationalization as measured by the value of political connections (X8) has an average value of 0.3951, meaning that on average the company has a board of directors and/or a board of commissioners who have political connections (not active or former officials or members of the winning party/team) namely 39.5%. Arrogance (ego) (X9) which is proxied by the number of frequency CEO's pictures (FCEO) has an average of 8.715 with a standard deviation of 3.645. This figure shows that SOEs that display a photo of their CEO in their financial statements are eight photos.

Table 4. Frequency

	Frequency	Percent (%)	Total
Fraud (F-Score) (Y)	64	35	
Non-Fraud	119	65	100%
CEO Duality (X5)	55	30.1	
Non-CEO Duality	128	69.9	100%
Change in auditor (X7)	86	47	
Non-Change auditor	97	53	100%

Source: Data Processed (2023)

Table 4 shows that there are 64 companies (35%) with indications of fraud and 119 companies (65%) with no indications of fraud from the total sample of 183 data. Furthermore, there are 55 companies that have a Duality CEO (30.1%) and 128 companies that do not have a Duality CEO (69.9%). Then the companies that changed auditors were 86 companies (47%) and the companies that did not change auditors were 97 companies (53%) out of 183 samples.

Model Fit

Table 5. Overall Model Fit Test

Block number = 0	block number = 1
-2log likelihood	-2log likelihood
236.904	162.464

source: Data processed (2023)

Based on the regression analysis results in Table 5, it can be seen that the initial probability value -2log (block number = 0) before entering as an independent before entering as an independent variable is 236,904. After fitting 9 variables, the -2log (number of blocks = 1) likelihood value drops to 162,464. The difference between the initial -2log probability and the -2log final probability represents a reduction of 74.44. It can be concluded that

the drop occurs because the initial probability value -2log (number of vlocks=0) is greater than the probability value-2log (number of blocks = 1). This means that the hypothesized model fits the data, so adding independent variables to the model shows that the regression model is improving, that is, H0 is accepted.

Table 6. Goodness of Fit Test

		FScore = Fraud		FScore = Non Fraud		Total
		Observed	Expected	Observed	Expected	
Step1	1	18	17.248	0	0.752	18
	2	16	16.624	2	1.376	18
	3	18	16.251	0	1.749	18
	4	17	15.547	1	2.453	18
	5	14	14.772	4	3.228	18
	6	12	13.044	6	4.956	18
	7	6	10.738	12	7.262	18
	8	9	7.848	9	10.152	18
	9	5	4.735	13	13.265	18
	10	4	2.193	17	18.807	21
Chi-square						11.717 (.164)

Source: Data processed (2022)

The goodness of Fit Model Test Results

We used the Hosmer and Lemeshow test, which analyzes the Chi-Square value, to test the goodness of fit. The significance level is (α) 5%. According to the results of the Hosmer and Lemeshow test, the chi-square value is 11.717 and the probability of significance is 0.164 (see Table 4). This significance value exceeds the threshold value = 5% (0.05), so it is acceptable. This means that the model can predict the observations. Therefore, the reduction model can be implemented. Based on table 6, it shows that the chi-square value is 11.717. The mean values observed and the structural model are 11,717. Since this value is greater than 0, we can conclude that the model has a good predictive relevance.

Classification Matrix

Table.7 Classification Matrix

Observed	Predicted		Correct %
	Non-Fraud	Fraud	
Non-Fraud	102	17	85.70%
Fraud	26	38	59.40%
Overall			76.50%

Based on table 7 obtained from the results of the regression analysis, it shows that the model's ability to predict indications of fraud is 76.5%. From table 5, the possible indication of fraud is 59.4% of the total sample of 183 data. Meanwhile, companies that were not indicated to have committed fraud were 85.7% of the total sample of 183 data.

Tabel 8. Nagelkerke R Square and Hypotheses Testing

	Description	Coefficient	Wald	p-value	Results
H1	Financial Target (X1)-Stimuli	-2.967	1.08	0.299	H1 rejected
H2	Financial Stability (X2)-Stimuli	-0.305	0.34	0.56	H2 rejected
H3	External Pressure (X3)-Stimuli	-1.253	2.411	0.121	H3 rejected
H4	Change in directors (X4)-Capability	0.038	0.129	0.719	H4 rejected
H5	CEO Duality (X5) – Collusion	2.529	34.398	**0.000**	**H5accepted**
H6	Effective monitoring (X6)-Opportunity	0.015	1.633	0.201	H6 rejected
H7	Change in auditors (X7)-Rationalization	1.337	10.741	**0.001**	**H7accepted**
H8	Political Connection (X8)-Rationalization	-0.297	0.13	0.718	H8 rejected
H9	CEO Picture (X8)-Ego	0.143	5.337	**0.021**	**H9accepted**
Constanta			-3.092	9.695	0.002
Nagelkerke R Square					**0.046**

a. Variable(s) entered on step 1: ROA, Achange, Leverage, change director, CEO duality, Effective monitoring, Change in auditor, Political connection, CEO pict

Source: Data processed (2023)

Determination Coefficient Test (Nagelkerke R Square) and Hypotheses Testing

The coefficient of determination (Nagelkerke R Square value) is used to indicate the ability of an independent variable to explain the predicted variable. The value of the coefficient of determination test (Nagelkerke R Square) is 0.046. This means that the ability of the independent variable to explain the dependent variable is 4.6%, and another explanatory variable that was not tested in this model is 95.4%. hypothesis testing was conducted with an alpha significance level of 5% (see table 6).

Table 6 shows that not all nine hypotheses are accepted, only hypotheses H4, H6, and H8 are accepted with a p-value < 0,05.

Predictive Relevance of Financial Target (X1) on Fraudulent Financial Statements (Y)

As a result of the first hypothesis test, it was found that the financial objective variable measured by ROA has a positive relationship with a significance level of 0.299 and has no significant impact on the risk of financial information fraud. This study shows that the size of ROA determined by the company cannot prevent its management from committing fraud in its financial reports. The findings refute the hypothesis that financial targets identified using ROA can detect financial reporting fraud. This is because ROA measures the level of profit a company makes on its investment. Therefore, ROA present the company with its opportunities for growth and development.

A higher ROA means the company wants to increase growth. According to the fraud hexagon theory, the existence of this target leads organizations to commit financial reporting fraud to demonstrate that the company has achieved its specified profit targets. According to agency theory, this also results from differences in the interests of the client and the principal. While the owner still wants to grow the business by setting goals, the customer expects their work to be rewarded.

The results of testing the first hypothesis prove it that the financial target variable measured using ROA has no significant effect on the possibility of fraud in financial reports with a significance level of 0.299 with a positive relationship direction. This research shows that the size of the ROA determined by the company cannot trigger management to commit fraudulent actions in the financial reports. The research results reject the hypothesis that financial targets proxied using ROA can detect fraud in financial reports. This is because ROA is a measure of the level of profit a company obtains for the effort it expends. Therefore, ROA shows the company's opportunities for growth and development. The higher the ROA means that the company has ambitions to increase its growth.

Based on the Fraud Hexagon theory, the existence of this target then stimulates management to commit fraud in financial reports, to show that the company has achieved the specified profit targets. Judging from agency theory, this is also caused by differences in interests between the agent and the principal. The principal always wants business growth by setting targets, while the agent expects compensation for his work. These results support the study of Damayani

et al. (2019), Sasongko & Wijayantika (2019), Mukaromah & Budiwitjaksono (2021) and Khamainy, et al (2022).

Achieving profit targets increases the confidence of investors and potential investors in their investments, which can encourage management to manipulate financial reports when the company cannot meet its targets. Therefore, ROA can be used to detect fraud in financial reporting**.**

Predictive Relevance of Financial Stability (X2) on Fraudulent Financial Statements (Y)

As a result of the second hypothesis test, the financial stability index measure by asset growth rate (ACHANGE) has no effect on the risk of financial reporting fraud and the critical level of 0.560. This means that financial stability cannot be used to detect fraud in financial statements. Because these changes depend on the company and its asset management experience. This study rejects the hypothesis that financial stability can detect financial reporting fraud. High or low growth in assets does not necessarily mean that a company is commiting fraud in its financial statements. Changes in a company's assets may result from strategies implemented by management to manage its assets, not from fraudulent financial reporting.

According to the fraud hexagon theory, the incentives that promote financial reporting fraud occur when firms are in trouble. This shows that changes in total assets are not a problem and therefore do not affect financial stability. Changes in organizational assets occur in the context of business strategy. Management tries to optimize its resources. The incorporation or reduction of assets is similar to action to promote the achievement of the company's objectives. The results of this study support the studies of (Damayani et al., 2019; Rengganis et al., 2019) and Khaimany (2022) that companies do not use the variabel value of assets to commit fraud. This is also due to the stable nature of the business and the need for users of financial statements.

Predictive Relevance of External Pressure (X3) on Financial Statements Fraud (Y)

As a result of testing the third hypothesis, it was found that the external pressure index measured by leverage had no effect on the risk of financial reporting fraud with a significant level of 0.121.

The results of this study reject the hypothesis that

external pressures linked to leverage cannot detect fraudulent financial statements. This is because, based on descriptive statistics, the company's leverage ratio is 0.6 times to 0.7 times is the ideal value ratio for the company. This means that the 183 observations found in this study show that the company is good with its financial conditions and that the company is able to pay 60% of its debts, so the profits are not high by testing hypothesis.

According to the fraud hexagon theory, the stimulus that promotes financial reporting fraud is when the firm faces financial pressure. This study show that pressure from third parties, specifically from creditors, is not an incentive for managers to commit fraud in order to obtain credit. This is because management is not burdened by debt. However, the company does not finance most of its assets with debt. In addition, the company is considered to be able to meet its obligations. This finding supports research (Safiq and Seles 2019; Wijayani and Ratmono 2020) that external pressures influence financial reporting fraud. This is because changes in LEV do not affect management decisions regarding the amount of reported earnings.

Predictive Relevance of Capability (X4) on Fraudulent Financial Statements (Y)

As a result of the fourth hypothesis test, directors replacement, a proxy for efficiency measured by a dummy variable, has no significant effect on the risk of financial reporting fraud at a significance level of 0.719. This means that managers cannot be changed to detect fraud in the financial statements. This change in direction was made to comply with laws and improve the company's performance. This study refutes the hypothesis that managerial turnover can detect fraud in financial reporting. This in because the director can change for reasons such as expiration of the mandate or resignation after assuming a different position. The conditions for the appointment of directors are contained in OJK Law No. 33/POJK.04/2014 on administrators and committees of issuers and public companies. Chapter 3, paragraph 3, states that the term of office for board members is five years, until the end of the term at the general meeting of shareholders. The end of the relevant period (OJK, 2014).

Cheating According to the hex theory, cheating does not happen unless the person has the right skills. This study shows that the authority of boards of

directors is not used to commit financial reporting fraud. The replacement of the director is not a stressful time because it was done to improve the performance of the previous directors. The new directors are expected to contribute to the company and meet the expectations of shareholders. This is influenced by the company's credibility and internal controls (Priantara, 2013). The results of this research support research conducted by Rengganis et al. (2019), and Khaimany (2022) found that changes in managers have no effect on financial reporting fraud. Manager succession is therefore an important issue and is directly linked to performance in achieving organizational goals effectively and efficiently.

Predictive Relevance of CEO Duality (X5) on Fraudulent Financial Statements(Y)

The fifth hypothesis (H5), which states that CEO duplicity affects financial statement fraud, was accepted with a significance level of 0.000. These results show that a co-CEO can detect fraudulent financial reporting. Duplication of the CEO can have a negative impact on company because it weakens internal powers. In determining the theory of the firm, CEO duality can prevent the board from controlling the directors and the commitee from managing, evaluating and monitoring the activities of the board (Coles et al., 2001). In addition, management does not address conflicts of interest that may influence decision making for the benefit of individuals. In these situations, board work well be cause although the funds are small the corporate costs are high. A lack autonomu can lead to a deterioration in a firm’s performance (Fama & Jensen, 1983).

Furthermore, committee supervision is less effective because the parties must supervise the board of directors to which they belong. This oversight can create a conflict of interest and create a higher level of operational risk for the company. Meanwhile, Khlif et al. (2020) show that managers are more likely to improve corporate reporting policies. Firms that are bipartisan have a significant impact on operating results, which is indicative of fraudulent financial reporting practices (Khaimany, 2022).

Predictive Relevance of effective Monitoring (X6) on Fraudulent Financial Statements (Y)

The research results cannot prove the influence of effective monitoring, which is a measure of the element of opportunity in the fraud hexagon theory, on the possibility of financial statement fraud. This conclusion was obtained after looking at the results of the hypothesis test in table 6 which shows a probability value (p-value) of 0.201 or greater than the research significance level of 0.05. The results of this research are in line with the research of Maharani et al. (2022) which states that the effectiveness of supervision as a proxy for the number of board of commissioners meetings does not have a significant effect on the possibility of financial statement fraud. Meetings of the board of commissioners or joint meetings that are too frequent can indicate that there are problems within the company (Maharani et al., 2022), besides that the board of commissioners is a body that does not work fully in the company resulting in a lack of familiarity with the company's organs in depth (Prastiti and Meiranto, 2013). The board of commissioners does not have the time and expertise to understand the company in detail, so it is possible for management not to provide information that is appropriate to the actual condition of the company.

According to the fraud hexagon theory, participation is one of the most common frauds in financial reporting. This study shows that the number of board meetings does not contribute to the effectiveness of supervision in a firm, which may affect financial reporting fraud. This is because the number of board meetings will have no effect if the board of director is not properly managed and effective in its work..

Predictive Relevance of Change in Auditor (X7) on Fraudulent Financial Statements (Y)

As a result of testing the seventh hypothesis, it was found that the change of auditors as adjusting agent affect financial reporting fraud at a significance level of 0.001. According to According to Nuristya and Ratmono (2022), companies go to great lengths to hide fraudulent financial reports by changing auditors. If a company shows signs of fraud in the financial information, the company will try to replace the auditor to prevent the fraud being detected.
The auditor can be changed to remove fraud signals detected by the previous

auditor. This situation forces companies to change auditors to hide the company's wrongdoings. This finding is similar to by Omukaga (2020) study, which found that auditor replacement affects financial reporting fraud.

Predictive Relevance of Political Connection (X8) on Fraudulent Financial Statements (Y)

The research results cannot prove the influence of political connection, which is a measure of the element of rationalization in the fraud hexagon theory, on the possibility of financial statement fraud. Based on descriptive statistics in table 2, it shows that almost every state-owned entreprises have members of the board of commissioners or board of directors who have political connections an average of 3 members. The existence of officials who have political connections makes it so company access to government resources is very easy and this makes these officials tend to maintain the status quo to avoid fraud which will actually result in pressure from the government or the public that can change the status quo.

Predictive Relevance of Ego (X9) on Financial Statements Fraud (Y)

As a result of testing the ninth hypothesis, it was found that the frequency of images with the CEO has an effect on the type of financial reporting fraud as a proxy variable for the income variable, and the significance level was 0.021. This means that out tests have shown that the more photos of the CEO that appear in the report the greater the CEO's pride in the company. According to the fraud hexagon theory, fraudsters are ambitious, want to succeed at all costs, and tend to be ambitious, bold, and ambitious. High levels or pride lead to deception. This is because the CEO's arrogance and self-importance can make the CEO feel that he has no internal control over his position and standing.

According to Crowe (2011), CEOs will do anything to maintain the power and position they currently hold. The results of this study showed that the income effect of the fraud ehxagon concept, which has a large number of images with the CEO, influences the negative impact of the financial report. The result of this study are similar to the studies of Tessa (2016) and Bawekes (2018) which show that the independent variable, ego, has a significant impact on the dependent variable, fraudulent financial reporting.

CONCLUSION

As a result of testing the ninth hypothesis, it was found that the frequency of images with the CEO has an effect on the type of financial reporting fraud as a proxy variable for the income variable, and the significance level was 0.021. This means that our tests have shown that the more photos of the CEO that appear in the report, the greater the CEO's pride in the company. According to the fraud hexagon theory, fraudsters are ambitious, want to succeed at all costs, and tend to be ambitious, bold, and ambitious. High levels or pride lead to deception. This is because the CEO's arrogance and self-importance can make the CEO feel that he has no internal control over his position and standing. According to Crowe (2011), CEOs will do anything to maintain the power and position they currently hold. The results of this study showed that the income effect of the fraud hexagon concept, which has a large number of images with the CEO, influences the negative impact of the financial report. The results of this study are similar to the studies of Tessa (2016) and (Bawakes, H. F., Simanjuntak, A. M., & Daat, 2018) which show that the independent variable, ego, has a significant impact on the dependen variable, fraudulent financial reporting.

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