



The Influence of Hexagon Fraud Elements on Fraud Regional Financial Management Using the Internal Control System as a Moderation Variable in Regional Government in the Region of North Sumatra Province

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ABSTRACT: The findings of WDP opinions in several districts/cities in North Sumatra province indicate that there are one or more financial administrations that do not or have not met the standards of good financial management. Non-compliance with legislation will result in an increased tendency for fraud. With the spread of fraud cases, it is necessary to prevent and detect financial management fraud using the fraud hexagon theory. This research is a quantitative study which aims to analyze the influence of the fraud hexagon elements (pressure, opportunity, rationalization, capability, arrogance and collusion) on regional financial management fraud with the internal control system as a moderating variable. The population of this study was 34 Provincial/Regency/City Governments. Meanwhile, the number of samples was 7 Provincial/Regency/City governments. Then, 3 OPDs (Regional Apparatus Organizations) related to regional financial management were taken from each sample, namely Bappeda as OPD for regional financial planning, Regional Financial and Asset Agency as OPD for budgeting, implementation, administration, reporting and regional financial accountability, and Provincial/Regency/City Inspectorate as OPD for internal supervision of regional finance. In each OPD, 5 Regional Financial Management officials were taken, so that the total number of observations was 105 respondents. The analysis technique used is Partial Least Square (PLS), which is a component or variantbased Structural Equation Model (SEM). The results of data research prove that pressure has a significant effect on fraud. Opportunity has a significant effect on fraud. Rationalization has a significant effect on fraud. Capability has a significant effect on fraud. Arrogance has a significant effect on fraud and collusion has a significant effect on fraud. Meanwhile, the results of the moderation test show that the internal control system is unable to moderate the influence of the fraud hexagon elements (pressure, opportunity, rationalization, capability, arrogance and collusion) on regional financial management fraud.

KEYWORDS: Fraud Hexagon, Internal Control System, Regional Financial Management Fraud

INTRODUCTION

The decentralization system in Indonesia, regulated by the Law Number 33 of 2004, aims to facilitate more effective and fair distribution of resources between the central and local governments to support local development. It involves political decision-making, public fund management, and administrative activities at the regional level. The local government is required to ensure transparency and accuracy in financial management, adhering to legal standards. The Provincial Government of North Sumatra has received an unqualified opinion from the Supreme Audit Agency for nine consecutive years, indicating good financial governance and compliance with accounting standards. The report for 2023 highlights that the province comprises 33 districts, including 25 regencies and 8 cities.

When auditors conclude that one or more financial activities are not in line with generally accepted principles of sound financial management, they will issue a WDP opinion which considers errors in financial administration that do not have a significant impact on the organization. The increase in the number of districts/cities that receive WTP opinions every year is due to the fact that each region always carries out evaluations and improvements to improve the quality of its financial reports and to realize good governance in regional government administration. There are several factors that are causes that can influence the failure to provide a WTP opinion, namely based on research by Fatimah, Sari, & Rasuli (2014) which notes that weaknesses in the internal control system and non-compliance with regulations are two reasons why auditors may not issue a WTP opinion, but Narulita (2015) emphasizes more on WTP opinion, arguing that the fewer cases of non-compliance with regulations, the greater the likelihood of non-compliance with regulations. The possibility of receiving a stronger WTP opinion. Fraud occurs more often when rules and regulations are not



strictly enforced, which indicates that non-compliance with the law encourages dishonest behavior. In this context, regional autonomy means giving greater power and autonomy to regional governments.

Fraud refers to the practice of deliberately deceiving other people for material gain, which often occurs in the regional government of North Sumatra Province. The causes of fraud are carried out for various reasons. The following is a list of several regional financial management fraud cases that occurred in the North Sumatra Regency/City Government in 2019-2020.

Table 1. Fraud cases in regional financial management in districts/cities in North Sumatra during the 2019-2020 period

No.	Subject	Year	Regency/City	Information
1.	The Regent of Labuhan Batu, with the initials PH	2019	Labuhan Batu	Bribery case
2.	Acting Head of Perkim Madina, RL (49); (PPK) Madina Perkim Service 2017, ED (42) AR (40)	2019	Mandailing Natal	Corruption has the potential to cost the state as much as IDR 2.8 billion to the Public Works and Spatial Planning Service and IDR 1.4 billion to the Perkim Service. This figure is in line with the audit findings of certified public accountants
3.	Head of General Subdivision of Medan Kualanamu Airport Region II	2019	Nias	Corruption in the 2016 fiscal year
4.	3 Local People's Representative Council (DPRD) of Tapanuli Tengah	2020	Tapanuli Tengah	The 2016-2017 Fiscal Year is a criminal act of markup corruption or anomalies in official travel costs outside the region
5.	10 civil servants (PNS)	2020	Binjai	Inflation (Markup) due to fraudulent purchases of classroom supplies for elementary schools

From the table data above, it can be seen that the State Civil Apparatus plays a major role in investigating and suppressing incidents of regional financial management fraud in North Sumatra. The most common type of fraud is exaggerating the price or budget. Fraud in financial management must be prevented and identified before it occurs. Vousinas developed the Hexagonal Fraud Theory, which can be used to discover manipulative behavior in financial management (Vousinas, 2019). Hexagonal fraud theory is a theory that developed from previous theories, namely: fraud triangle theory, fraud diamond theory, and fraud pentagon theory.

From previous research, the factor most widely studied as a variable that influences fraud is the degree of fraud. Referring to research conducted by Gede et al. (2022), Clariesta (2023), Desviana, Basri, & Nasrizal (2020), Apriani (2020), and Sagala & Siagian (2021). The research results also indicate different effects.

According to Fraud Hexagon, the main driver of fraudulent acts is the feeling of being under pressure. When we talk about pressure, we mean the urge to behave undesirably or give in to pressure that comes either from outside or from within. Referring to Albrecht et al. (2012), the greater the pressure someone feels, the greater the possibility of lying. Then the second element of the fraud hexagon is opportunity. If opportunity is combined with greed, demands, and weak law enforcement, it can cause someone to commit acts of corruption (Apriani, 2020).

The process of producing justifications or justifications for dishonest behavior is called rationalization, which is the third side of the fraud hexagon. Referring to Faradiza (2018), rationalization is almost always present when there is fraud.

According to Marks (2012), ability or capability is the fourth component in smuggling and relates to an individual's tendency to design complex smuggling strategies, secure situations for the purpose of financial gain, and recruit the help of others to carry out smuggling operation.

Arrogance, which is dishonesty, is the fifth aspect of the hexagonal element of deception. The arrogant, self-centered and egotistical behavior of someone who is proud of their talents is characterized by belief in one's ability to cheat and one's ability to escape discovery and punishment (Aprilia, 2017).

The final step is to add a collusion variable to develop the Hexagon fraud theory. Referring to Vousinas (2019), when two or more people work together to hide their unlawful behavior and deceive others, the behavior is said to be collusion.



Apart from the six hexagonal factors, researchers also tested the internal control system as a moderating variable. Several previous researchers, namely Apriani (2020), Saputra et al. (2020) and Ahmad (2019), moderation is achieved by using checks and balances in the system. This is because an inadequate internal control system and internal controls that are not implemented adequately are factors that cause fraud (Asikin, 2018). The reason is, the perpetrator took advantage of this situation as an opportunity to commit fraud, because fraud is difficult to detect in conditions like this. The results of the Audit Board of the Republic of Indonesia (BPK) examination found that the ineffectiveness of the control system was caused by several defects in the implementation of the internal control system. Therefore, researchers are interested in examining the influence of hexagonal fraud elements on fraud in regional financial management with the internal control system as a moderating variable in the regional government of North Sumatra Province.

THEORETICAL BASE

Agency Theory

Referring to Jensen & Meckling (1976), agency theory is a theory that explains the structure of the contractual relationship between the principal and agent to provide the agent with appropriate incentives and maximize the principal's welfare. In the public sector, the two main actors in agency theory are the government and society. Based on agency theory, this research describes the conflict between the city government and the municipal government regarding regional financial management. The government should have the task of providing the best possible service to the community, but the emergence of information asymmetry can cause local governments to behave badly. Therefore, a supervisory function is needed to ensure that regional economic resource management is carried out effectively and efficiently (Setiawan, 2012).

GONE Theory

Singleton et al. (2006) states that there are many different factors that cause fraudulent behavior, including greed, opportunity, need and exposure. This theory is often called the GONE theory. Greed means that a person's motive for committing fraud or corruption is based on the greed and greed of the perpetrator of the corruption. Opportunity means that the existing system can provide opportunities for corruption to occur.

Regional Government Organization Theory

Within the scope of this research, organizational theory is used in local government settings. Referring to Stewart & Clarke (1988:3), local government institutions have expanded the scope of their operations in recent years. It is common practice for local governments to define regional services in the context of functional departments. These services are developed using one of two different approaches. This organizational configuration is referred to as self-contained product groups (Daft, 1994: 184), while Daft and Hatch each call it a multi divisional structure (Hatch, 1997: 184). Regional governments have institutionalized some of their functions by establishing separate departments to carry them out. This step is taken from the perspective of increasing overall organizational efficiency.

Regional Financial Management

All regional financial management functions, as stipulated in the Regulation of the Minister of Home Affairs of the Republic of Indonesia Number 77 of 2020 concerning Technical Guidelines for Regional Financial Management, include planning, budgeting, implementation, management, reporting, accountability and control. This regulation concerns Technical Guidelines for Regional Financial Management. All Regional Revenue and Expenditure Budget (APBD) activities are accompanied by rights and obligations to participate in regional financial management. Meanwhile, the Regional Public Service Agency (BLUD) provides information regarding regional finances, regional development and regional supervision. In accordance with Government Regulation Number 12 of 2019, the APBD functions as a regional unit in determining income, expenditure and finances. In one budget year, a region is allowed to record income sourced outside the region as an increase in equality. According to the law, there are three types of money collected from a region: original regional income, transfer income, and other regional income.

According to Romney & Steinbart (2017), the definition of "cheating" or "fraud" is a dishonest act in obtaining benefits for oneself. The Association of Certified Fraud Examiners (ACFE Indonesia, 2019) has recognized three basic types of fraud: asset mismanagement, false financial reporting, and corruption as the three most common types of fraudulent activity. According to Article 316 of the Professional Standards for Public Accountants (SPAP) stipulated by the Indonesian Association of Public Accountants



(IAPF), the interests of auditors are specifically related to fraudulent acts that result in material misstatements in financial statements. Despite the fact that fraud is a broad legal concept, the auditor's interests relate specifically to fraudulent acts that result in material misstatements in financial statements.

To assess fraudulent activities related to regional financial management, this research selected three statement items to use the Fraud Tree classification method developed by ACFE. This approach classifies fraud into various categories, namely Financial Statement Fraud, Asset Misappropriation, and Corruption.

Fraud Hexagon

The fraud hexagon model is a theoretical framework used to understand and detect fraudulent financial reporting. Developed by Georgios L. Voutsinas in 2016, it identifies six key factors that influence fraudulent behavior, namely Pressure, Opportunity, Rationalization, Capability, Arrogance, and Collusion.

According to the findings of several studies by Wolfe & Hermanson (2004), the opportunity for someone to cheat or commit fraud increases when the individual is under pressure to cheat or commit fraud. According to what Albrecht et. al. (2012), the likelihood of fraudulent activity increases in proportion to the level of perceived stress. Referring to the GONE theory which explains that one of the factors that causes fraud is need. This means that a person's motive for committing fraud or corruption lies in the state of mind of a person who does not know himself well or is full of consumption. This is in line with research by Oktavia, Bahari, & Kartika (2022), Putra (2019), and Dewi, Dewi, & Julianto (2020) where pressure has a positive influence on cheating. Thus, the first hypothesis proposed is as follows.

H₁ : Pressure has a positive and significant influence on Regional Financial Management Fraud

Opportunities are situations that create opportunities for fraud to occur. Opportunity, when balanced with avarice (greed), need and light punishment, will result in a person committing fraud. This finding is in line with what is proposed by the GONE, Singleton et al. (2006), which states that fraud may be caused by a combination of several factors, one of which is greed. This is in line with research by Desviana, Basri, & Nasrizal (2020) where opportunity has a positive influence on fraud. Thus, the second hypothesis proposed is as follows.

H₂ : Opportunity to positively and significantly influence regional financial management fraud

Rationalization is a defensive action in which the perpetrator (fraudster) offers a plausible or socially acceptable explanation for his or her actions. Rationalization often means taking betrayal for granted. Greed, need, opportunity and low penalties are the main drivers of rationalization. Obtaining something is considered natural because there is desire (greed) in the heart, opportunities are open because of weak control, and needs are due to a luxurious lifestyle. Referring to the GONE theory, greed, opportunity and need can motivate cheating. Referring to other research cited by Apriani (2020), rationalization contributes to the facilitation of fraud. Thus, the third hypothesis proposed is as follows.

H₃ : Rationalization has a positive and significant influence on regional financial management fraud

Capability, according to Wolfe & Hermanson (2004), is the entry point for fraud, while pressure and rationalization can encourage workers to commit fraud. Referring to Karyono (2013), capacity can lead to fraudulent actions. This ability is a skill of fraudsters who tend to develop complex avoidance strategies, penetrate internal controls, and control social situations by getting other people to cooperate and take advantage Aprilia (2017). This follows agency theory, where agency theory is used in the analysis of contractual relationships between two parties or many people. This is in line with research by Rosifa & Supriatna (2022) and Widiantaran & Astawa (2022) where capability has a positive influence on fraud. Thus, the fourth hypothesis proposed is as follows.

H₄ : Capability has a positive and significant influence on regional financial management fraud

According to Crowe (2011), arrogance manifests itself in the form of a superiority complex, entitlement, or greed in a person who mistakenly considers himself to be exempt from the need for self-restraint. Based on the GONE theory, disclosure is one of the factors that influences fraud. Disclosure refers to the fraudster's actions or consequences. The perpetrator believes that internal control cannot catch him and believes that he is free and avoids existing sanctions. Research by Iswantari & Sasongko (2023) illustrates how overconfidence can foster fraudulent activities in financial reports. Thus, the fifth hypothesis proposed is as follows.

H₅ : Arrogance has a positive and significant influence on regional financial management fraud

Collusion is the termination and act of dishonest conspiracy in the implementation of a contract, which is characterized by the provision of money or certain conveniences as a means to facilitate the smooth running of the process. Agency theory explains the structure of the contractual relationship between a principal and an agent to provide the agent with appropriate incentives and



maximize the principal's welfare. Affiliates can even tamper with fraud controls or detection systems. This collusion can involve people inside the organization or parties outside the organization. Researchers Putra (2019) and Desviana, Basri, & Nasrizal (2020) found that the possibility of fraud increases in proportion to the number of collaborations established. Thus, the sixth hypothesis proposed is as follows.

H₆: Collusion has a positive and significant influence on regional financial management fraud

Internal Control System

An inseparable part of carrying out one's fiscal obligations is the internal control system. Every institution or organization needs an effective internal control system as an element of risk management in order to achieve its goals. Internal control in the view of the Indonesian Association of Public Accountants (IAPI) is a procedure carried out by authorities, management and other members of society to ensure the achievement of three objectives: credibility of financial reporting, operational effectiveness and management effectiveness in harmony with the existing legal framework.

In the scope of government, the milestone in the history of internal control in Indonesia is the Government Internal Control Law (PP No. 60 of 2008). The State Internal Control System (SPIP) has been implemented in all state and regional governments. Objectives of the Government Internal Control System. In this law, SPIP has four objectives, namely to achieve effective and efficient activities, reliable financial reports, safeguarding state assets, and compliance with statutory regulations.

When someone is under additional stress, there is a greater chance that they can damage the system. Therefore, it is necessary to create internal state controls to minimize corruption within the government. There is a close relationship between organizational theory and internal control systems. Referring to the reasoning put forward by Sutarto (2002:40), the organization as a whole is a system of mutual influence between people in groups who work together to achieve goals. Building an internal control system can minimize fraud. Based on previous research carried out by Apriani (2020), the government's internal control system has been proven to weaken the relationship between fraud and cheating. Thus, the seventh hypothesis proposed is as follows.

H₇: Internal Control System Moderates the Effect of Pressure on Regional Financial Management Fraud

Every opportunity that arises must be evaluated to avoid fraud. Therefore, a state internal control system is needed. For example, a financial officer has the ability to commit fraud against a predetermined budget. If the established budget is not implemented properly, the country will experience losses. The study conducted by Khaing, et. al (2022) revealed the positive benefits of control in preventing fraud. Referring to research conducted by Apriani (2020), the presence of internal control reduces the relationship between opportunity and fraud. Thus, the eighth hypothesis proposed is as follows.

H₈: Internal Control System Moderates the Influence of Opportunity on Regional Financial Management Fraud

The state's internal control system must be designed in such a way that the rationalization of personnel duties and functions can be minimized. Additionally, greed, opportunity, need, and a little punishment normalize rationalization, so more understanding of this rationalization is needed. An organization will implement an internal control system as one of the steps taken to achieve its goals. Referring to the reasoning put forward by Sutarto (2002:40), the organization as a whole is a system of mutual influence between people in groups who work together to achieve goals. Apriani (2020) research results indicate that the internal control system weakens the relationship between rationalization and fraud. Thus, the ninth hypothesis proposed is as follows

H₉: Internal Control System Moderates the Effect of Rationalization on Regional Financial Management Fraud

An organization will implement an internal control system as one of the steps taken to achieve its goals. Referring to the reasoning put forward by Sutarto (2002:40), the organization as a whole is a system of mutual influence between people in groups who work together to achieve goals. Establishing an internal control system has the potential to reduce the risk of fraudulent activities occurring. As a consequence, it is important for the government to adopt internal policies aimed at reducing this. The study conducted by Khaing, et. al (2022) revealed the positive benefits of control in preventing fraud. Thus, the tenth hypothesis proposed is as follows.

H₁₀: Internal Control System Moderates the Influence of Capability on Regional Financial Management Fraud

Those who believe they can deceive others without ill repercussions often carry themselves with an attitude of superiority and arrogance. The criminal has convinced himself that internal controls are incapable of stopping him, and as a result, he does not care about the consequences of his actions. Referring to Sutarto (2002:40), overall organizational theory is a system of mutual influence between people in an organization who work together to achieve common goals. Establishing an internal control system has the



potential to reduce the risk of fraudulent activities occurring. The study conducted by Khaing, et. al (2022) revealed the positive benefits of control in preventing fraud. Thus, the eleventh hypothesis proposed is as follows.

H₁₁ : Internal Control System Moderates the Effect of Arrogance on Regional Financial Management Fraud

In accordance with the provisions of Permenpan RB Number 90 of 2021, the aim of increasing supervision is to encourage the functioning of all government entities ethically and effectively. The study of organizational theory is the basis for implementing an internal control system, which is an effort aimed at achieving company goals. Referring to Sutarto (2002:40), an organization is a system of mutual influence between individuals in groups who work together to achieve goals. This is in line with the results of research conducted by Putra (2019), Dewi, Dewi, & Julianto (2020) and Desviana, Basri, & Nasrizal (2020) stating that teamwork makes fraudulent behavior easier to carry out. Thus, the twelfth hypothesis proposed is as follows.

H₁₂ : Internal Control System Moderates the Effect of Collusion on Regional Financial Management Fraud

RESEARCH METHODS

The research uses a quantitative approach with primary data as the type of data used. Data was collected using a survey method via Google Form. The population consists of 34 provincial, district and city governments, all of which are in North Sumatra Province. To determine the research sample, researchers used a purposive sampling technique. The criteria for regional governments that are sampled in this research are Regional Governments that have carried out an Independent Assessment of SPIP maturity in 2022 and have been evaluated by Financial and Development Supervisory Agency (BPKP) as a result of obtaining a level 3 maturity figure. Thus, we found a total of 7 provincial, district and city governments. Then, from each group, select three OPDs (Regional Apparatus Organizations) that are involved in regional financial management. Five Regional Financial Management officials must be appointed in each OPD in accordance with Minister of Home Affairs Regulation Number 77 of 2020 concerning Technical Instructions for Regional Financial Management. Thus, in total there were 105 respondents involved in this research. The measurement scale in this study uses a Likert scale consisting of strongly agree, agree, neutral, disagree and strongly disagree. The data analysis technique in this research is structural equation modeling (SEM), including component and variance structural equation models, as well as Partial Least Squares (PLS).

RESEARCH RESULT

The research results consist of the respondent's demographic profile, descriptive test results, outer model and inner model.

Demographic Profile of Respondents

Table 2. Demographic profile of respondents

Characteristics	Information	Amount	Percentage
Gender	Male	60	57%
	Female	45	43%
	Total	66	100%
Last Education	Doctor	0	0%
	Master	19	18%
	Bachelor	86	82%
	Diploma	0	0%
	Senior High School	0	0%
	Total	105	100%
Working Experience	< 6 years	12	11,4%
	6 - 10 years	57	54,2%
	> 10 years	36	34,4%
	Total	105	100%



Descriptive Statistical Analysis

The description of variables in this study includes mean, median, standard deviation, minimum, maximum.

Table 3. Descriptive Statistics Results

Variables	Amount	Maximum	Minimum	Mean	Standard Deviation
Pressure (X1)	105	4	1	1,39	0,28
Opportunity (X2)	105	4	1	1,22	0,05
Rationalization (X3)	105	4	1	1,61	0,22
Capability (X4)	105	4	1	1,60	0,17
Arrogance(X5)	105	4	1	1,73	0,13
Collusion (X6)	105	4	1	1,62	0,03
Regional financial management fraud (Y)	105	3	1	1,29	0,08
Internal control system (Z)	105	5	1	4,19	0,07

Outer Model

The measurement model (outer model) or commonly called a measurement model is a model resulting from SEM-PLS calculations which aims to define how each indicator relates to its latent variable which is done by testing the validity and reliability of the indicators that form the latent variable.

Convergent validity is measured by determining whether each estimated indicator validly measures the dimensions of the concept being measured.

Table 4. Convergent Validity Test Results

Construct	R count	Expected Loading Factor	Conclusion
Fraud3	0.357	0.7	Invalid
Fraud7	0.357	0.7	Invalid

Based on the results of the outer model calculations, it can be seen that each variable indicator has a different r count. However, there are 2 instruments that have r count are smaller than 0.7, namely the indicator fraud 3 and fraud 7 (construct of dependent variable). Therefore, the researcher deleted these indicators, then the researcher tested Convergent Validity again. The result was that there were no indicators that had r count value smaller than 0.7, so further analysis could be carried out.

Table 5. Discriminant Validity Test Results

Variables	Pressur e (X1)	Opportunit y (X2)	Rationalizatio n (X3)	Capabilit y (X4)	Arroganc e (X5)	Collusi on (X6)	Regional financial managemen t fraud (Y)	Internal control system (Z)
Pressure (X1)	0.955							
Opportunity (X2)	0.932	0.976						
Rationalization (X3)	0.922	0.935	0.965					
Capability (X4)	0.883	0.880	0.911	0.966				
Arrogance(X5)	0.882	0.946	0.880	0.831	0.971			
Collusion (X6)	0.309	0.335	0.300	0.328	0.266	0.967		



Regional financial management fraud (Y)	0.947	0.968	0.959	0.910	0.918	0.341	0.988	
Internal control system (Z)	-0.317	-0.251	-0.304	-0.264	-0.183	-0.221	-0.309	0.873

The results of the discriminant validity test in Table 5 show that all correlation values between other constructs have values smaller than the square root value of each AVE construct, so it can be concluded that the discriminant validity between variables is quite adequate. In testing discriminant validity itself, it can also be determined through other methods, namely by looking at the resulting AVE value. The AVE values produced in this research can be seen in table 6 below.

Table 6. Discriminant Validity Test Results Based on AVE Values

Variables	AVE > 0.5	Conclusion
Pressure (X1)	0.722	Valid
Opportunity (X2)	0.811	Valid
Rationalization (X3)	0.712	Valid
Capability (X4)	0.711	Valid
Arrogance(X5)	0.763	Valid
Collusion (X6)	0.934	Valid
Regional financial management fraud (Y)	0.805	Valid
Internal control system (Z)	0.763	Valid

Reliability tests were carried out to measure internal consistency. The accuracy and precision of measuring instruments is based on composite reliability (> 0.7) and strengthened by the Cronbach alpha value (> 0.6) with the following results.

Table 7. Composite Reliability Results

Variables	Composite Reliability (> 0.7)	Cronbach's Alpha (> 0.6)	Conclusion
Pressure (X1)	0.939	0.921	Reliable
Opportunity (X2)	0.962	0.952	Reliable
Rationalization (X3)	0.937	0.918	Reliable
Capability (X4)	0.925	0.899	Reliable
Arrogance(X5)	0.941	0.920	Reliable
Collusion (X6)	0.966	0.932	Reliable
Regional financial management fraud (Y)	0.966	0.959	Reliable
Internal control system (Z)	0.978	0.975	Reliable

Inner Model

After the estimated model meets three criteria, namely convergent validity, discriminant validity and reliability, and has met the ideal model in accordance with the research conceptual framework, then the structural model (inner model) is tested.

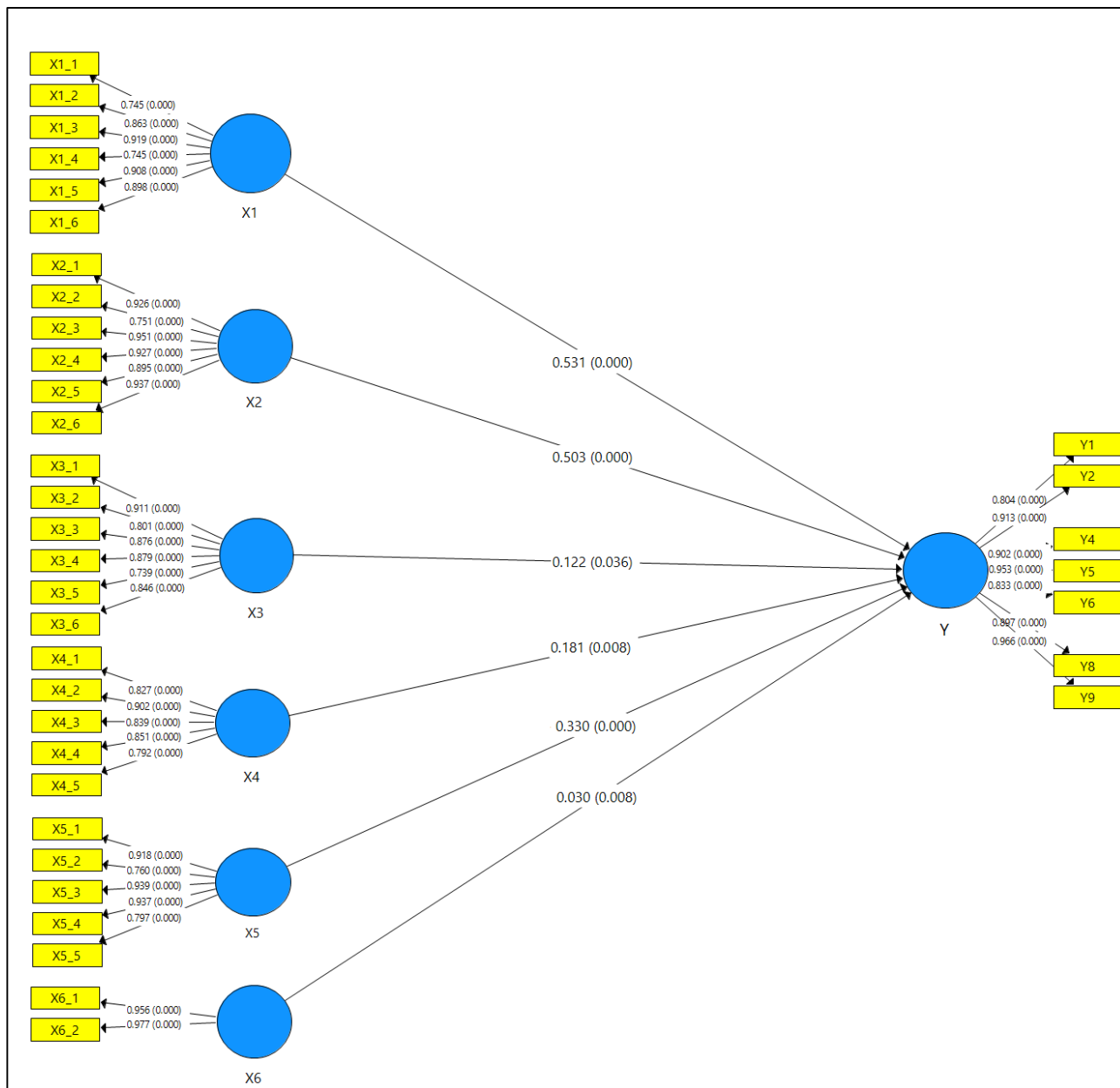


Figure 1. Image of Model Path Coefficient and P-Value before moderation

Table 8. Path Coefficient and p-value before moderation

Information	Coefficient	P-Value
X1 -> Y	0.531	0.000
X2 -> Y	0.503	0.000
X3 -> Y	0.122	0.036
X4 -> Y	0.181	0.008
X5 -> Y	0.330	0.000
X6 -> Y	0.030	0.008

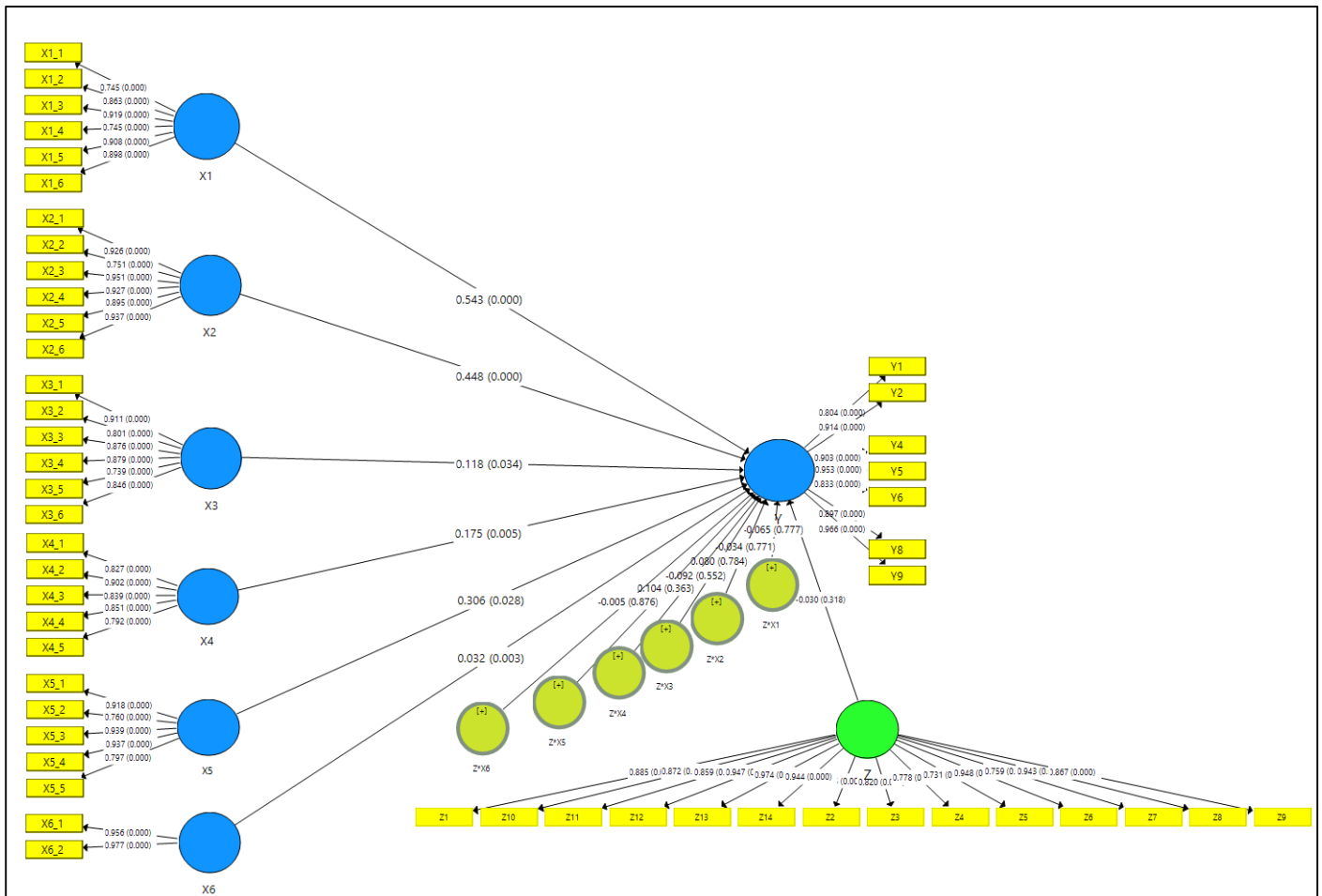


Figure 2. Image of Model Path Coefficient and P-Value with moderation

Table 9. Path Coefficient and p-value with moderation

Information	Coefficient	P-Value
X1 -> Y	0.543	0.000
X2 -> Y	0.448	0.000
X3 -> Y	0.118	0.034
X4 -> Y	0.175	0.005
X5 -> Y	0.306	0.028
X6 -> Y	0.032	0.003
X1*Z -> Y	-0.065	0.777
X2*Z -> Y	-0.034	0.771
X3*Z -> Y	0.080	0.784
X4*Z -> Y	-0.092	0.552
X5*Z -> Y	0.104	0.363
X6*Z -> Y	-0.005	0.876



Coefficient of Determination (R²)

Table 10. Coefficient of Determination Test Results (R²)

Variabel Endogen	R-Square Before Moderation	R-Square with Moderation	Standard	Conclusion
Regional financial management fraud (Y)	0.975	0.978	0.67	Strong

DISCUSSION

The influence of pressure on regional financial management fraud

According to the results of data analysis, a p-value of $0.000 < 0.05$ was obtained, thus it can be concluded that the hypothesis is accepted, where pressure has a positive and significant effect on regional financial management fraud. Pressure is the urge to carry out a deviant action due to pressure both from within and outside of oneself. For example, an employee receives a salary every month but always feels that it is not enough, then that person experiences pressure from within himself so that if he is in an environment that has a high lifestyle, then he will do something to support his lifestyle, namely corruption. Therefore, pressure has a positive effect on fraud. This condition is what makes need (needs) with a high lifestyle, opportunity, greed and low punishment make someone commit fraud. In accordance with the GONE theory which explains that one of the factors in the occurrence of fraud is Needs. The pressure experienced by regional government employees in North Sumatra Province is due to a high lifestyle resulting in high needs, there is a sense of greed in their hearts which results in high levels of fraud. This is in line with the research results of Oktavia, Bahari, & Kartika (2022), Putra (2019), and Dewi, Dewi, & Julianto (2020).

The influence of opportunity on financial management fraud

According to the results of data analysis, a p-value of $0.000 < 0.05$ was obtained, thus it can be concluded that the hypothesis is accepted, namely that opportunity has a positive and significant influence on regional financial management fraud. Opportunity is an opportunity that an employee has in carrying out his duties. Opportunity if balanced with greed, requirements and low penalties then this makes someone commit fraud. This is in accordance with the GONE, Bologne theory (Singleton et al., 2006) which states that there are several factors that can cause fraud, including Greed. In this case, it means that North Sumatra Province regional government employees carry out their duties not in accordance with the mandate given by the government and there is an intention to commit fraud. So that information asymmetry appears between the two. This is in line with the research results of Desviana, Basri, & Nasrizal (2020), and Apriani (2020).

The Influence of Rationalization on Fraud in Regional Financial Management

According to the results of data analysis for testing H3, a p-value of $0.036 < 0.05$ was obtained so that the hypothesis was accepted, namely that rationalization had a positive and significant effect on regional financial management fraud. Tuanakotta (2017) explains that if someone does rationalization for the first time, a feeling of fear arises within them. Rationalization is the act of deeming normal a fraud that has often been committed. It is considered normal to receive something because there is a desire in the heart (greed), opportunities are wide open due to weak supervision and needs due to a luxurious lifestyle. According to the GONE theory, greed, opportunity and need can encourage fraud. This is in line with the research results of Apriani (2020).

The Influence of Capability on Regional Financial Management Fraud

The results of data testing on H4 show a p-value of $0.008 < 0.05$ so that the fourth hypothesis in this research is accepted that capability has a positive and significant effect on regional financial management fraud. The internal control system is a process that aims to achieve organizational efficiency and effectiveness in presenting financial reports that can be trusted, in accordance with the rules and comply with applicable laws. Wolfe & Hermason (2004) stated that if someone in an organization has abilities that other people cannot, then the abilities they have will provide an opportunity to commit fraud. This is in line with the research results of Rosifa & Supriatna (2022).



The influence of arrogance on regional financial management fraud

Testing for H5 shows a p-value of $0.000 < 0.05$, so it can be concluded that the 5th hypothesis in this research is accepted, namely that arrogance has a positive and significant effect on Regional Financial Management Fraud. Fraudulent financial management actions can occur due to arrogance. The nature of arrogance is an arrogant and conceited attitude possessed by individuals who confidently assume that they can commit acts of fraud. The nature of arrogance arises from an attitude of great self-importance. This characteristic will foster self-confidence that if he commits an act of fraud he will not be caught and the existing punishment will not ensnare him (Aprilia, 2017). Based on the GONE theory, exposure is one of the driving factors for committing fraud. Exposure relates to the actions or consequences faced by the perpetrator of fraud. The perpetrator believes that internal control is unable to ensnare him and thinks he is free and protected from existing sanctions. This is in line with the research results of Iswantari & Sasongko (2023).

The Effect of Collusion on Regional Financial Management Fraud

Testing for H6 shows a p-value of $0.008 < 0.05$, meaning that the 6th hypothesis in this research is accepted, namely that collusion has a positive and significant effect on Regional Financial Management Fraud. The sixth element contained in Fraud Hexagon Theory is Collusion or Collusion which can be defined as cooperative activities with goals that are not justified because they have the potential to harm certain parties. This is in line with agency theory which explains the structure of the contractual relationship between the principal and the agent in order to provide appropriate incentives to the agent and to maximize the principal's welfare. This is in line with the research results of Putra (2019), Dewi, Dewi, & Julianto (2020) and Desviana, Basri, & Nasrizal (2020).

The internal control system moderates the influence of pressure on Regional Financial Management Fraud

Testing for H7 shows that the p-value of 0.777 is greater than 0.05, so it can be concluded that the 7th hypothesis in this research is rejected because the internal control system has proven unable to moderate the influence of pressure on Regional Financial Management Fraud. The government's internal control system was created as a basis for minimizing the occurrence of fraud/corruption in carrying out the duties and functions of each employee. However, if the internal control system implemented is less than optimal, it can give employees the opportunity to commit fraud. The government's internal control system variable in this research cannot moderate the influence of pressure on Regional Financial Management Fraud in the Regional Government of North Sumatra Province. This means that the government's internal control system that has been created is unable to reduce pressure both from within and outside of employees. The internal control system cannot control the influence of pressure on Regional Financial Management Fraud. This is in line with the research results of Dewi, Dewi, & Julianto (2020) and Apriani (2020).

The internal control system moderates the influence of opportunity on Regional Financial Management Fraud

The results of data testing on H8 show a p-value of 0.771 which is greater than 0.05, so it can be concluded that the 8th hypothesis in this research is rejected, namely that the internal control system cannot moderate the influence of opportunity on Financial Management Fraud. The results of this research indicate that the internal control system is unable to strengthen or weaken the influence of this opportunity on regional financial management fraud. This means that the existing government internal control system (SPIP) has not been able to reduce opportunities for fraud because employees in carrying out their duties have not complied with the SOPs (standard operating procedures) that have been determined. The intention in the heart and greed in the perpetrator of the fraud means that the fraud is still occurring so that the government's internal control system is not running effectively. This is in line with the results of research by Apriani (2020) which shows that the internal control system is unable to moderate the relationship between opportunities and acts of corruption.

The internal control system moderates the influence of rationalization on Regional Financial Management Fraud

The results of data testing on H9 show a p-value of 0.784 which is greater than 0.05 so it can be concluded that the 9th hypothesis in this research is rejected, namely that the internal control system cannot moderate the influence of rationalization on Regional Financial Management Fraud. The government's internal control system is a form of control over the rational attitudes of employees. A rational attitude here is an attitude that tends to go against the rules. For example, giving something to an employee for completing a matter. Maybe it is a sign of gratitude for those who give it, but on the other hand, for the recipient, it is fraud because there is something they want. This research shows that the internal control system is unable to moderate the influence of rationalization on regional financial management fraud. This means that the government's internal control system is not running well. This is in line



with the results of research by Apriani (2020) which shows that the internal control system is unable to moderate the relationship between rationalization and acts of corruption.

The internal control system moderates the influence of capability on Regional Financial Management Fraud

The results of data testing on H10 show a p-value of 0.552 which is greater than 0.05, so it can be concluded that the 10th hypothesis in this research is rejected, namely that the internal control system cannot moderate the influence of capability on Regional Financial Management Fraud. The results of this research indicate that the government's internal control system (SPIP) is unable to moderate the influence of capability on financial management fraud. The current government internal control system (SPIP) has not been able to suppress the occurrence of fraud. This is because the government's internal control system has not been able to suppress the capabilities of employees, where the position/position held by employees provides opportunities to commit fraud. Apart from that, greed within oneself, low penalties make existing capabilities strong so that the government's internal control system (SPIP) cannot suppress this. This is in line with research conducted by Apriani (2020) which states that the internal control system is unable to moderate the influence of capability on regional financial management fraud.

The internal control system moderates the influence of arrogance on Regional Financial Management Fraud

Testing the data on H11 shows a p-value of 0.363 which is greater than 0.05, so it can be concluded that the 11th hypothesis in this research is rejected, namely that the internal control system cannot moderate the influence of arrogance on Regional Financial Management Fraud. The internal control system is an effort to realize organizational goals. According to Sutarto (2002:40), concluded that overall, organizational theory is a system of mutual influence between people in groups who work together to achieve goals. However, the results of this study show results that are not in accordance with existing theory. The internal control system can prevent fraud if it runs effectively. In the regional government of North Sumatra Province, fraud still often occurs, mostly committed by employees in high positions. This shows that a high position will give rise to an attitude of arrogance that takes the existing internal control system for granted. Therefore, stronger internal control measures or systems are needed to prevent fraud.

The internal control system moderates the influence of collusion on Regional Financial Management Fraud

Based on the results of data testing on H12, a p-value of 0.876 was obtained, which was greater than 0.05, so that the 12th hypothesis in this research was rejected, namely that the internal control system could not moderate the influence of collusion on Regional Financial Management Fraud. Based on Permenpan RB Number 90 of 2021, it is stated that strengthening supervision aims to improve the administration of government that is clean and free of Corruption, Collusion and Nepotism (KKN) in each government agency. Based on organizational theory, the internal control system is an effort to realize organizational goals. The existence of an internal control system can minimize fraud. Similar to arrogance, the results of this research also show that the internal control system is unable to moderate the influence of collusion on regional financial management fraud. Collusion cannot be prevented if the internal control system implemented is not effective. This act of collusion is usually carried out using a fairly mature strategy. Therefore, the government needs to improve the internal control system even better.

CONCLUSION

Based on the results of data analysis and description of empirical evidence regarding the Influence of Hexagon Fraud Elements on Regional Financial Management Fraud with an Internal Control System as a Moderating Variable in the Regional Government of North Sumatra Province. Therefore, it can be concluded that the dimensions of the fraud hexagon (Pressure, Opportunity, Rationalization, Capability, Arrogance, and Collusion) partially have a positive and significant influence on regional financial management fraud in the Regional Government of North Sumatra Province. On the other hand, even though the internal control system is an effort to realize organizational goals or to reduce acts of fraud, SPIP is unable to moderate the Fraud Hexagon Elements regarding Fraud in Regional Financial Management in the North Sumatra Province Region.

IMPLICATION

Based on the results of data analysis and research findings, practical implications are hereby conveyed, namely, firstly to local governments, it is hoped that they will improve the internal control system that will be implemented in order to prevent fraud. There are many factors that influence the occurrence of fraud, therefore local governments need to evaluate the effectiveness of the internal control system and identify fraud risk factors in order to build a more effective internal control system. Second, it is recommended



to the government that there is a need for a Government Internal Control System (SPIP) task force in each OPD so that the responsibility for the internal control system is not only carried out by the Regional Government Inspectorate as APIP. Meanwhile, for theoretical implications, it can be said that it is advisable for further research to conduct research using the same method but with different variables, analytical units and samples in order to obtain conclusions that support generally accepted theories and concepts, for example using Risk Management as a moderating variable considering the Regulations. Presidential Decree (Perpres) Number 39 of 2023 concerning National Development Risk Management, where one of the objectives of National Development Risk Management (MRPN) is to increase the effectiveness of the internal control system.

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