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Analysis of Vousinas Fraud Hexagon Theory on the Detection of Financial Statement Fraud in Service Companies Listed on Indonesia Stock Exchange (IDX) 2018-2022

Amalia Utami[1], Rina Br. Bukit[2], Abdhy Aulia Adnans[3]
[1,2,3] Faculty of Economics and Business, University of Nort Sumatera, Medan, Indonesia

ABSTRACT: The aims of this research was to identify and determine the influence of financial targets, external auditor quality, total accruals to total assets, CEO educational background, managerial ownership, political relations, and cooperation with government projects on financial statement fraud in Infrastructure, Utilities and Transportation Sector Service Companies Listed on the IDX 2018-2022, both partial and simultaneous influence, also moderated influence by internal control system. This research is explanatory research design with the sampling technique used purposive sampling. The population in this research is companies in infrastructure, utility and transportation sector listed on IDX with total 79companies. The research sample was obtained with total 44 companies. The type of data used is secondary data with data analysis techniques used panel data regression models and moderated regression analysis (MRA) through Eviews 10 software. This research found that Financial Target, External Auditor Quality, CEO Educational Background, Political Connection have a significant effect on Financial Statement Fraud in Infrastructure, Utilities and Transportation Sector Companies listed on the IDX. While Total Accrual to Total Asset, Managerial Ownership, and Cooperation with Government Project have no influence on Financial Statement Fraud. This study also found that Internal Control is able to moderates the relationship between Return on Asset, External Auditor Quality, Total Accrual to Total Asset, CEO Educational Background, Managerial Ownership, Cooperation with Government Project and Financial Statement Fraud in Infrastructure, Utilities and Transportation Sector Service Companies listed on the IDX.

KEYWORDS: Financial Statement Fraud, Financial Target, External Auditor Quality, Total Accrual to Total Asset, CEO Educational Background, Managerial Ownership, Political Connection, Cooperation with Government Project, and Internal Control System.

INTRODUCTION

The financial report play a role as a report on how the company's financial condition and operational activities which will be accounted for other parties, such as company management, government, financial auditors, and investor (Nadziliyah and Primasari, 2022). The company financial condition is related to the performance of a company. Indicator of good company performance can be assessed on the amount of profit earned. The more profits earned, the better company shows good performance. Investor and creditor use financial reports as a basis for consideration because financial reports provide information about the company financial conditions and performance comprehensively. Company strive to show their financial reports in a good best possible condition. This triggers the occurrence of financial statement fraud. Company do this to avoid the reality of their financial condition, and to maintain thier company image so investor can still stay and invest on their company. Sometimes, companies managed by their management are unable to maintain good performance due to internal or external factors affecting the company's condition during a specific period.

The COVID-19 pandemic in the last 3 years (2020-2022), was an external factor that severely impacted on financial performance of several issuers in Indonesia. According to data from Asosiasi Emiten Indonesia (AEI), there is 50 industries listed in IDX that were affected by COVID-19 and the economic shocks during the pandemic due to cash flow problems (CNBC Indonesia, 2020). The motivation for committing financial fraud is not only to obtain financing or make a good company performance but also to maintain the stability of the company's stock value (Wahyudi, 2022). According to survey by ACFE Report to The Nations, it stated there is 2.110 fraud cases from 113 country including indonesia classified by 3 categories. First is assets approriation, second is corruption, and third is fraud in financial statement. Therefore, it can be concluded that financial statement fraud is not a common occurrence, but it can lead to severe losses. According to a survey by the Association of Certified Fraud Examiners (ACFE) in 2019, fraud in Indonesia often takes the form of corruption, accounting for 64.4%, followed by asset misuse at 28.9%, and financial statement fraud at 6.7%.

Fraudulent actions can be carried out across all areas of a company, including infrastructure, utilities, and transportation sectors company listed on IDX. PT Inovisi Infracom Tbk operates in the communication infrastructure sector, providing services. Financial statement fraud by this company was revealed by the IDX, highlighting discrepancies and inconsistencies in the presentation of financial statements with significant material value. In addition, PT Garuda Indonesia Tbk also committed financial statement fraud in 2018. At that time, two commissioners of PT Garuda Indonesia refused to sign the financial statements due to discrepancies. Next in 2019, PT Hanson International Tbk admitted to reporting funds of IDR 732 billion from the sale of ready-to-build plots in 2016 financial statements. This raised suspicions as PT Hanson International Tbk had never entered into a sale agreement for ready-to-build plots.

In this study, the researcher applies the Fraud Hexagon Theory by Vousinas in 2019. This theory used SCCORE Model, which includes six elements: Stimulus (pressure), Capability, Collusion, Opportunity, Rationalization, and Ego. A new element in the Fraud Hexagon Theory is Collusion, which represents a conspiracy between two or more parties with a specific agreement for malicious purposes that can harm a third party (Vousinas, 2019). The Fraud Hexagon Theory is an advanced and refined version of previous fraud theories. In 2004, Wolfe and Hermanson added the element of individual or group capability to understanding of fraud, resulting in the development of the Fraud Diamond Theory. This theory incorporates four key elements that underpin fraudulent actions. The capability element includes six important characteristics that support fraudulent actions: position, intelligence, ego, coercion, dishonesty, and stress management (Murphy et al., 2011). Additionally, the Committee of Sponsoring Organizations (COSO, 2013:3) framework outlines five components of internal control, one of which is Risk Assessment. This involves a dynamic process to identify and analyze risks and determine how to manage existing risks.

This study also identifies several research gaps from previous studies. Based on the provided background, the researcher is interested in testing the Fraud Hexagon Theory for detecting financial statement fraud in companies. The proposed of this study is to analysis Fraud Hexagon Theory for Detecting Financial Statement Fraud in Infrastructure, Utilities, and Transportation Service Companies Listed on the Indonesia Stock Exchange (IDX)."

THEORETICAL BASE

Agency Theory

Agency theory is a concept that describes the agreement between a principal, who assigns work, and an agent, who is delegated to perform that work. This theory helps determine when an agent should perform tasks, make decisions, and act in the interest of the principal. However, agency conflicts often arise in this relationship. Agency conflict refers to the difference in interests between the principal, who typically demands high profitability and performance and wants high returns in the form of dividends, and the agent, who has an interest in receiving high incentives or bonuses for their performance in managing the company.

Fraud Theory

The original of fraud theory is the fraud triangle, inspired by Sutherland, a criminologist who introduced the concept of white-collar crime. In general, the fraud triangle theory is created by Donald R. Cressey (1953), an American criminologist who explained why people commit theft or engage in fraudulent activities. Cressey simplified the common factors of illegal financial management actions conducted by individuals entrusted with managing organizational assets in formal positions, serving as agents or custodians of those assets. Fraud theory includes the fraud triangle theory, fraud diamond theory, fraud pentagon theory, and fraud hexagon theory.

HYPOTHESIS DEVELOPMENT

Relationship between Financial Target and Financial Statement Fraud

The pressure to meet financial targets creates excessive pressure on the agent to reach the goals set by the principal (shareholders and company owner), including acquisition target and increasing profit (Supri et al., 2018). The company growing financial target will create negative pressure on employees, especially management. The higher Return on Assets (ROA) target, the higher alleged tendency to manipulate inflated profits or advantage in financial statements which are included in one type of fraud (Sunardi and

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Amin, 2018). The ROA variable will be used as a proxy for financial targets in this study model. In short, ROA is a profitability ratio that is useful as a determinant of the company capability in creating profits based on the company assets. Based on research results by Hasyim et al. (2019) it show that return on assets had a positive significant influence on Financial Statement Fraud. According to the research, excessive pressure on management to obtain financial targets in accordance with the provisions of the board of directors / management can lead management to act fraud. the research clearly show If companies with large profits (measuring them using the profitability ratio) tend to carry out earnings management practices compared to companies with small profits. Meanwhile, the results of Akbar et al.'s research (2022) state that Return on Asset had no effect on financial reporting fraud. Based on this explanation, the following hypothesis can be developed:

H1: Financial Target have a positive influence on Financial Statement Fraud

Relationship between External Auditor Quality and Financial Statement Fraud

An audit with quality services is able to optimize user confidence in the contents of financial statements and can be used as a basis for making decisions (Natalia, et al., 2022). Audit quality according to (De Angelo, 1981) is an assessment of the auditor chances of obtaining actions that indicate violations in the accounting system of the client company being audited. It is difficult to directly assess the quality of the auditor's work. Thus measure used in reviewing the auditor's capability is through KAP industry proxies that are able to convey whether the audited client has acted fraudulently on the financial statements and report it (Hastuti et al., 2023). Large KAPs try to present better audit quality than small KAPs. KAP Big 4 tends to gain the trust of investors, besides that KAP Big 4 Four is also considered more capable of capturing fraud signals and delivering results, as well as reporting them openly to the audit opinion report (Guedhami, et al. 2014). There are study results that support the development of the above hypothesis, namely the Darmawan and Saragih (2017) study which states that when a company's financial statements are audited by KAP Big 4. Meanwhile, research conducted by Dewi and Anisykurlillah (2021) and Wicaksono and Suryandari (2021) shows that the quality of external auditors has no effect on financial statement fraud. Based on this explanation, the following hypothesis can be developed:

H2: External Auditor Quality have a negative influence on Financial Statement Fraud

Relationship between Total Accrual to Total Asset and Financial Statement Fraud

Rationalization is an action taken by fraudsters in order to obtain recognition or justification for their actions (Albrecht et al., 2012). Rationalization is a reason (which is personal or caused by other factors) that can justify an action even though the action is actually wrong (Faradiza, 2019). Rationalization is closely related to subjective assessments determined by company management. In this study, Total Accrual to Total Asset is used as a proxy for Rationalization. Research conducted by Yulistyawati et al. (2019) supports the development of the hypothesis previously presented, in this study it is stated that Total Accrual to Total Asset as a proxy for rationalization has an effect on fraudulent financial reporting. These findings indicate that management rationalization is an important element in financial statement fraud companies. Meanwhile, Faradiza's study (2019) states that the Total Accrual Ratio has no effect on financial statement fraud, this because rationalization is considered difficult to assess it includes cognitive factors. Based on this explanation, the following hypothesis can be developed:

H3: Total Accrual to Total Asset have a positive influence on Financial Statement Fraud

Relationship between CEO Educational Background and Financial Statement Fraud

CEOs who have a high level of education are considered to have skills to innovate in formulating new strategies that are more effective for company to implement, also have superior abilities in processing and integrating information obtained from management (Troy et al., 2011). The level of education has also been shown to have a positive relationship with the level of moral development (Freeman and Gilbert, 1988), so that someone who has a high level of education is believed to have a more ethical and moral attitude. The level of ability possessed by a CEO with a higher educational background will actually make the CEO more qualified so that he can make the right decisions when experiencing problems without having to practice fraud. With the same variable, Sun et al. (2017) show the opposite result, where the two variables show a positive relationship. Based on the explanation and results of previous research on the relationship between the effect of the CEO's educational background on financial statement fraud. Based on this explanation, the following hypothesis can be developed:

H4: CEO Educational Background have a negative influence on Financial Statement Fraud

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Relationship between Managerial Ownership and Financial Statement Fraud

The existence of managerial ownership is an interesting thing if it is related to agency theory (Probohudono, et al., 2022) where the concept of managerial ownership is considered important in corporate governance and financial management because it is considered capable of aligning the interests of management (agent) with the interests of shareholders (principal) (Khafid et al., 2020). Managers who have share ownership or stock options in the company will be incentivized when good company performance can be achieved (Hawari et al., 2022). In addition, managers who own company shares may be more likely to participate in internal supervision and monitoring of company practices. So that managers like this will have a personal interest in ensuring that the company operates transparently and ethically to maintain the value of the company's shares. The results of previous research conducted by Wahyudi and Dewayanto (2023) and Seifzadeh et al. (2022) state that managerial ownership has a significant negative effect on financial statement fraud. However, the results of research conducted by Angelina and Chariri (2022) found empirical evidence that managerial ownership has no effect on financial statement fraud. Based on this explanation, the following hypothesis can be developed:

H5: Managerial Ownership have a negative influence on Financial Statement Fraud Detection

Relationship between Political Connection and Financial Statement Fraud

The political relationship referred to in this study does not only focus on the CEO who is a politician, but also members of the board of commissioners who are part of political practices (Sagala and Siagian, 2021). If the company is in financial distress, management does not need to manipulate the financial information contained in the financial statements, because the company will find it easier to obtain financing sources to save the company's financial performance as one of the benefits of the close relationship that exists between the company and politicians or political practices. The results of research conducted by Ngan (2013) are in line with the explanation above, namely, political connection has a significant negative effect on financial statement fraud. Political relations in a company do not encourage fraud, but act as an effort to support the company. Companies need a lot of support in financial accessibility, product development, licensing and the existence of political relations will help companies get many benefits when in a regulated industry. Meanwhile, Matangkin et al. (2018) documents positive and significant results between the influence of political connections on financial statement fraud. Based on this explanation, the following hypothesis can be developed:

H6: Political Connection have a negative influence on Financial Statement Fraud

Relationship between Cooperation wiith Government Project and Financial Statement Fraud

The collusion variable in this study is represented by the company's cooperation activities with government projects. In this case, government projects are usually of very large value, making the company as a project vendor and government officials tempted to commit corruption as a form of collusion that can harm state finances. To launch this act of corruption, the company management and the government try to keep the fraud unknown to other parties and avoid criminal sanctions for alleged project corruption that can drag the two parties into the realm of law. One of the efforts made is to commit fraud in financial reporting. The explanation of the hypothesis above is in line with research conducted by Wang, et al., (2017); Sari and Nugroho (2020); Mardeliani and Alvia (2022). Meanwhile, the results of research conducted by Siregar and Murwaningsari (2022) explain that cooperation projects with the government have a negative effect on fraudulent financial statements. Based on this explanation, the following hypothesis can be developed:

H7: Cooperation with Government Project have a positive influence on Financial Statement Fraud

Internal Control System in moderating the relationship between Return on Assets as a proxy for Financial Target and Financial Statement Fraud

Financial target is a situation where management receives too much pressure to achieve company target. One of the measuring tool used to determine the financial target of a company is Return on Asset (ROA). The financial target set by the company is considered to be able to increase the possibility of the company making fraudulent financial statements. The internal control system is a set of procedures, policies, practices, and organizational structures designed to help an organization achieve its goals, ensure accountability, maintain operational integrity, and protect organizational assets. So that a good control system is needed to minimize fraud (Fitri, et al., 2019). With a good internal control system, the company has effective monitoring procedures, so when return on assets increases significantly and there is an increase in suspicious financial reporting, the system can more easily detect potential fraud. According to Koomson et al., (2020), even though employees are under pressure to achieve specified financial targets, they will still not commit fraud because they have the perception that the company's internal control system is highly possible to detect fraudulent behavior. Based on this explanation, the following hypothesis can be developed:

H8: Internal Control System moderates the relationship between Return on Assets and Financial Statement Fraud

Internal Control System in moderating the relationship External Auditor Quality and Financial Statement Fraud

The quality of the external auditor is the probability of the external auditor to avoid audit failure. Qualified auditors are considered capable to detect fraudulent financial statement practices (Hastuti, et al., 2023), so that management will tend to report financial information carefully. The use of quality auditor services will minimize the possibility of companies making fraudulent financial statements (Natalia, et al., 2022). In addition, it is necessary to have a monitoring mechanism that can help guarantee the financial reporting process goes well. The monitoring mechanism for the financial reporting process is carried out by company's internal control system. A strong internal control system also helps to ensure that the financial information presented in company report is accurate and reliable. So that this will help external auditors in conducting audits in a more efficient way, because good data sources can minimize the risk of errors and fraud. Based on this explanation, the following hypothesis can be developed:

H9: Internal Control System moderates the relationship between External Auditor Quality and Financial Statement Fraud

Internal Control System in moderating the relationship between Total Accrual to Total Asset and Financial Statement Fraud

The large number of income in total accrual value can cause the company to indicate fraudulent financial statements (Yulistyawati, et al., 2019). so monitoring mechanism is needed to ensure that the company's financial reporting process can be conducted in a factual manner. According to Indriana et al. (2022), accruals are strongly influenced by management decisions to rationalize financial statements, which can result in fraudulent financial statements. With an effective internal control system, the company can ensure that the company's accounting process runs in accordance with applicable accounting principles (Handoyo and Bayunitri, 2021). Thus, companies can reduce the opportunity to manipulate accruals that management will use to manipulate profits. An effective internal control system can also supervise company management in reducing the risk of conflicts of interest where management sometimes aims for incentives so that it leads to manipulating financial statements. Based on this explanation, the following hypothesis can be developed:

H10: Internal Control System moderates the relationship between Total Accrual to Total Asset and Financial Statement Fraud

Internal Control System in moderating the relationship between CEO Educational Background and Financial Statement Fraud

CEO (chief executive officers) who have a high level of education will be more aware of business processes and internal controls, the monitoring role of the board of directors, and the potential impact and sanctions of unethical behavior. The CEO will not commit fraudulent financial reporting because he understands the detrimental impact on various parties and the applicable sanctions, so that the financial statements presented to the public will show relevant real conditions, and not mislead users of financial statements (reliable) in making decisions (Suprapti, 2023). To protect its assets, ensure the accuracy of financial reporting, and mitigate risks, including risks related to financial statement fraud, companies need a good internal control system (Hoshibikari and Sukarno, 2020). In addition, when the CEO of the company is an individual with a high educational background or strong work experience in finance, it tends to have a better understanding of accounting principles, audit processes, and internal control systems. So that it helps in identifying potential errors or indications of fraudulent actions in the financial statements (Harefa, 2023). Based on this explanation, the following hypothesis can be developed:

H11: Internal Control System moderates the relationship between CEO Educational Background and Financial Statement Fraud

Internal Control System in moderating the relationship between Managerial Ownership and Financial Statement Fraud

Managerial ownership refers to a situation where managers or executives of a company also own shares or have direct ownership in the company where they work. When high-level managers or executives have significant stock ownership, it may encourage them to engage in financial reporting fraud to make the company appear more favorable to investors and the stock market (Tandiono et al., 2023). Such conflict of interest can arise when managerial parties attempt to increase the value of their owned shares or gain personal benefits through prohibited practice. Therefore, an effective internal control system can address this issue. An effective control system will provide clear policies and procedures related to financial reporting, ensuring that all employees, including management, must adhere to these established procedures. This will, of course, reduce the opportunities for managers to manipulate financial reports without detection. Additionally, implementing an internal control system generally promotes transparency in financial reporting. As a result, information about managerial ownership will be clearly disclosed in the financial statements, and other parties can be involved in monitoring and evaluating potential conflicts of interest arising from managerial ownership (Jaya et al., 2023). Based on this explanation, the following hypothesis can be developed:

H12: Internal Control System moderates the relationship between Managerial Ownership and Financial Statement Fraud

Internal Control System in moderating the relationship between Political Connection and Financial Statement Fraud

The internal control system is designed to have independent supervision which makes it possible to identify potential conflicts of interest that will arise due to political connections. Political connection refers to directors or board of commissioners who have positions or positions as government officials or legislators (Cahyanti and Wahidahwati, 2020). This gives the company access to various policies, influence in the licensing process, or other benefits that can support company growth and stability (Hartanto, 2023). However, this can also be a potential source of conflict of interest and fraud. That way, the internal control system will be able to identify potential fraudulent actions that will arise due to political connections in the company. Based on the explanation above, the following hypothesis can be developed is:

H13: Internal Control System moderates the relationship between Political Connection and Financial Statement Fraud

Internal Control System in moderating the relationship between Cooperation with Government Project and Financial Statement Fraud

The internal control system in a company is very important because it provides various benefits that protect the company and ensure that its operations are running properly. The internal control system can assist the company in preventing acts such as financial fraud, asset theft, or financial statement manipulation. It provides confidence to company owners, investors, and other stakeholders that the company is operating honestly and in accordance with the law. When there is cooperation with the government, the internal control system will help ensure that all procedures and transactions related to cooperation with the government are properly controlled. So that this strict supervision can reduce opportunities for fraud (Waqidatun, et al., 2021). In addition, the principle of accountability in the internal control system will also encourage all parties involved in cooperation with the government to be more careful and responsible in carrying out their duties. Based on the results of the explanation above, the following hypothesis can be developed:

H14: Internal Control System moderates the relationship between Cooperation with Government Project and Financial Statement Fraud

RESEARCH METHOD

The research design used in this research is explanatory research with type of research is causal associative. The data used in this study are secondary data which collected through the company's financial statement data. This study is focused on infrastructure, utility and transportation sector service companies listed on the Indonesia Stock Exchange from 2018 to 2022. This study uses 3 type of variables including variable dependent, variable independent, and variable moderating. The variable dependent used in this research is Financial Statement Fraud. While variable independent used in this research is Financial Target, External Auditor Quality, Total Accrual to Total Asset, CEO Educational Background, Managerial Ownership, Political Connection, and Cooperation with Government Projects; which are part of the elements of the Fraud Hexagon Theory. Also variable moderating used in this research is Internal Control.

The research population is service companies in the infrastructure, utilities and transportation sector listed on the IDX with a total of 79 companies. The sample used in this study amounted to 44 companies according to the sample criteria. So, the amount of observational data used in this study amounted to $44 \times 5 = 220$ data. The sampling technique used purposive sampling with the following criteria:

1. Service companies in infrastructure, utilities, and transportation sector listed on IDX in 2018-2022 and did not experience delisting from the IDX in that period.

2. Service companies in infrastructure, utilities, and transportation sector that submitted audit financial statements in 2018-2022.
3. Companies that provide data about return on asset (X_1), external auditor quality (X_2), total accrual to total asset (X_3), CEO educational background (X_4), Managerial Ownership (X_s) political connection (X_6), cooperation with government project (X_7), Index Internal Control (Z) dan financial statement fraud (Y) in their financial statements.

Data collected with documentation through the internet with criteria 2018-2022. This research also reference to relevant article journal, book, previous studies, and other source related to this research. The data analysis technique used descriptive statistical analysis, hypothesis testing, and Moderated Regression Analysis (MRA) with software Eviews 10 and Microsoft Office Excel ver. 2019. The formula equation used in this study for analysis data bellow:

$$\mathbf{Y = \alpha + \beta 1X_1 + \beta 2X_2 + \beta 3X_3 + \beta 4X_4 + \beta 5X_5 + \beta 6X_6 + \beta 7X_7 + e}$$

Description:

Y	= Financial Statement Fraud
α	= Constant
β1,β2,β3,β4,β5,β6,β7	= Coefficients regression independent variables
X_1	= Financial Target
X_2	= External Auditor Quality
X_3	= Total Accrual to Total Asset
X_4	= CEO Educational Background
X_5	= Managerial Ownership
X_6	= Political Connection
X_7	= Cooperation with Government Project
e	= Error term

$$\mathbf{Y = \alpha + \beta 1X_1 + \beta 2X_2 + \beta 3X_3 + \beta 4X_4 + \beta 5X_5 + \beta 6X_6 + \beta 7X_7 + \beta 8X_1.Z + \beta 9X_2.Z + \beta 10X_3.Z + \beta 11X_4.Z + \beta 12X_5.Z + \beta 13X_6.Z + \beta 14X_7.Z + e}$$

Description:

Y	= Financial Statement Fraud
Z	= Internal Control
X_1	= Financial Target
X_2	= External Auditor Quality
X_3	= Total Accrual to Total Asset
X_4	= CEO Educational Background
X_5	= Managerial Ownership
X_6	= Political Connection
X_7	= Cooperation with Government Project
β1, β2, β3, β4, β5, β6, β7	= Coefficients Value
β8, β9, β10, β11, β12, β13, β14	= Moderation Effect Coefficient Value
[X.Z]	= Variables Interaction
e	= Coefficients Error
α	= Constan

RESEARCH RESULTS

Analysis Statistic Descriptive

Descriptive analysis is used to produce an overview of the data that has been collected. The descriptive analysis used in this study is the mean, maximum, minimum, and standard deviation. The results of descriptive statistical analysis in this study are as follows:

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Table 1. Result of Statistic Descriptive
Date: 10/20/23 Time: 18:51
Sample: 2018 2022

	X1	X2	X3	X4	X5	X6	X7	Z	Y
Mean	0.432223	0.295455	0.352014	0.322727	0.066605	0.240909	0.327273	3.713636	0.194091
Median	0.325000	0.000000	0.250500	0.000000	0.001000	0.000000	0.000000	4.000000	0.081041
Maximum	3.381000	1.000000	3.394000	1.000000	0.610000	1.000000	1.000000	6.000000	4.267904
Minimum	-1.465000	0.000000	-1.494000	0.000000	0.000000	0.000000	0.000000	1.000000	-1.990219
Std. Dev.	0.506096	0.457287	0.489003	0.468586	0.142862	0.428610	0.470288	1.409296	0.743662
Skewness	2.340473	0.896644	2.959036	0.758355	2.300471	1.211738	0.736235	-0.062402	1.686663
Kurtosis	16.03610	1.803970	19.12618	1.575102	7.236547	2.468309	1.542042	2.192907	9.884168
Jarque-Bera	1758.635	42.59171	2704.874	39.69847	358.5725	56.42936	39.35992	6.113939	538.7350
Probability	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.047030	0.000000
Sum	95.08900	65.00000	77.44300	71.00000	14.65300	53.00000	72.00000	817.0000	42.69998
Sum Sq. Dev.	56.09323	45.79545	52.36804	48.08636	4.469677	40.23182	48.43636	434.9591	121.1143
Observations	220	220	220	220	220	220	220	220	220

Based on the results, the selection estimation method for the panel data regression equation in this research is random effects model (Generalized Least Squares). So, there is no need to test the classical asumptions of the data used. The equation that meets the classical assumptions is only the equation that used Generalized Least Square Method (Gujarati dan Porter, 2012).

Hypothesis Testing

Hypothesis testing is to determine whether the research hypothesis is accepted or rejected (reffer to the effect of variable independent on variable dependent).

Table 2. Result Hypothesis Testing
Dependent Variable: Y
Method: Panel EGLS (Cross-section random effects)
Date: 10/20/23 Time: 18:53
Sample: 2018 2022
Periods included: 5
Cross-sections included: 44
Total panel (balanced) observations: 220
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.167787	0.039906	4.204547	0.0000
X1	0.320572	0.150679	2.127513	0.0345
X2	-0.115378	0.052682	-2.190061	0.0296

X3	-0.276081	0.155481	-1.775661	0.0772
X4	-0.114011	0.046621	-2.445472	0.0153
X5	-0.119410	0.163788	-0.729054	0.4668
X6	-0.109055	0.053684	-2.031437	0.0435
X7	-0.026271	0.050079	-0.524598	0.6004

	Weighted Statistics		
R-squared	0.105103	Mean dependent var	0.074567
Adjusted R-squared	0.075554	S.D. dependent var	0.277731
S.E. of regression	0.267034	Sum squared resid	15.11706
F-statistic	3.556953	Durbin-Watson stat	1.860042
Prob(F-statistic)	0.001227		

Based on the results of hypothesis testing, it can be seen that the probability F statistic value show a significant with 0.001227 < 0.05. This show that the Financial Target, External Auditor Quality, Total Accural to Total Assets, CEO Educational Background, Managerial Ownership, Political Connection, and Cooperation with Government Project simultaneously had a significant influence on Financial Statement Fraud in Infrastructure, Utilities, and Transportation service companies listed on IDX.

In addition, based on the results of hypothesis testing in this research also found that Financial Target (X1), External Auditor Quality (X2), CEO Educational Background (X4), and Political Connection (X6) partially had a significant influence on Financial Statement Fraud. Meanwhile, Total Accural to Total Assets (X3), Managerial Ownership (X5), and Cooperation with Government Project (X7) are proven not have a significant effect on Financial Statement Fraud.

Moderated Regression Analysis (MRA)

Moderated Regression Analysis (MRA) is used to create ewuations in panel data regression models that focus on moderation variable including multiplication interactions between two or more indepenet variable

Table 3. MRA Result

Dependent Variable: Y Date: 10/20/23 Time: 18:54
Method: Panel EGLS (Cross-section random effects) Sample: 2018 2022
Periods included: 5
Cross-sections included: 44
Total panel (balanced) observations: 220
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.481019	0.085241	5.643061	0.0000
X1	0.941514	0.306217	3.074665	0.0024
X2	-0.410898	0.137466	-2.989097	0.0031
X3	-0.824030	0.314993	-2.616026	0.0096
X4	-0.333417	0.135838	-2.454519	0.0149
X5	-0.800059	0.321871	-2.485652	0.0137
X6	-0.062292	0.187432	-0.332344	0.7400
X7	-0.305860	0.147433	-2.074578	0.0393
Z	-0.089361	0.024464	-3.652733	0.0003
X1*Z	-0.218950	0.088257	-2.480829	0.0139

X2*Z	0.080520	0.032594	2.470408	0.0143
X3*Z	0.180646	0.091512	1.974017	0.0497
X4*Z	0.065298	0.031340	2.083534	0.0384
X5*Z	0.217783	0.095397	2.282922	0.0235
X6*Z	-0.008755	0.044731	-0.195731	0.8450
X7*Z	0.074438	0.034675	2.146768	0.0330

	Weighted Statistics		
R-squared	0.209415	Mean dependent var	0.082539
Adjusted R-squared	0.151284	S.D. dependent var	0.283763
S.E. of regression	0.261419	Sum squared resid	13.94133
F-statistic	3.602457	Durbin-Watson stat	1.882970
Prob(F-statistic)	0.000015		

Based on the results in table above, it can be seen that a significant value is 0.0139 < 0.05, so it can be conclude that Internal Control can be stated as quasi moderating which is a variable that has a significant influence on Financial Statement Fraud and also able to moderated the influence of Financial Target on Financial Statement Fraud. Furthermore, with significant value of 0.0143 < 0.05, it can be conclude that Internal Control is quasi moderating, which is a variable that has a significant influence on Financial Statement Fraud and also able to moderated the influence of External Auditor Quality on Financial Statement Fraud. Next, with significant value of 0.0497 < 0.05, it can be conclude that Internal Control is a quasi moderating, which is variable that has a significant influence on Financial Statement Fraud also able to moderated the influence of Total Accural to Total Assets on Financial Statement Fraud. Then with a significant value 0.0384 < 0.05, it can be conclude that Internal Control is a quasi moderating, which is variable that has a significant influence on Financial Statement Fraud also able to moderated the influence of CEO Educational Background on Financial Statement Fraud.

With a significant value 0.0235 < 0.05, it can be conclude that Internal Control is a quasi moderating, which is a variable that has a significant influence on Financial Statement Fraud also able to moderated the effect of Managerial Ownershiip on Financial Statement Fraud. And with significant value 0.0330 < 0.05, it can be conclude that Internal Control is a quasi moderating, which is a variable that has a significant influence on Financial Statement Fraud also able to moderated the influence of Cooperation with Governement Project on Financial Statement Fraud. Meanwhile the Internal Control in relationship between Political Connection and Financial Statement Fraud show significant value 0.8450 > 0.05, it can be conclude that Internal Control is exogenous or a variable that has a significant influence on Financial Statement Fraud but unable to moderated the effect of Political Connection on Financial Statement Fraud.

DISCUSSION

The influence of Financial Target on Financial Statement Fraud

Based on the test results in this study, it can be seen that the Financial Target as measured by Return on Asset is partially have a positive and significant influence on Financial Statement Fraud in Infrastructure, Utilities and Transportation Sector Service Companies listed on the IDX. So that with these results, Hypothesis 1 is accepted.

The results found in this study are in line with previous research conducted by Bader et al. (2024) which states that fraud is committed as part of the manager efforts to show beneficial results in line with the expectations and targets set by the pricipal and to gain additional incentives from the company's performance which is considered optimal. Meanwhile, research by Akbar et al. (2022) shows that ROA has no effect on financial statement fraud because high ROA can be achieved due to improved information systems, recruitment of reliable employees, and implementation of correct problem solving procedures.

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The influence of External Auditor Quality on Financial Statement Fraud

Based on the test results in this study, it can be seen that External Auditor Quality is partially have a negative and significant influence on Financial Statement Fraud in Infrastructure, Utilities and Transportation Sector Service Companies listed on the IDX. So with these results, Hypothesis 2 is accepted.

The results found in this study are in line with the results of Andira (2024) and Apriliana and Agustina (2017) which show that External Auditor Quality has a significant negative effect on Financial Statement Fraud. This is supported by the statement that large KAP (Big4) is considered to have higher audit quality than small KAP because it has quality human resources, has been equipped with higher experience and expertise in the client industry, and is believed to have more ability to detect fraud. Big4 KAP is also considered more independent so that it can withstand the opportunistic behavior of company management.

The influence of Total Accrual to Total Asset on Financial Statement Fraud

Based on the test results in this study, it can be seen that Total Accrual to Total Asset partially have no significant effect on Financial Statement Fraud in Infrastructure, Utilities and Transportation Sector Service Companies listed on the IDX. So with these results, Hypothesis 3 is rejected.

The results found in this study are in line with the results of previous studies conducted by Pratiwi et al. (2022); Sidauruk and Abhimanyu (2022); and Faradiza (2019) which state that Total Accrual to Total Asset has no effect on Financial Statement Fraud, this is because each company has different total accrual depending on management decisions and policies in each company and does not happen due to earning overstatement. Low accrual values do not make companies rationalize manipulation as a solution, because companies consider sustainable businesses even with small accrual values, rather than manipulating high accrual values but experiencing problems related to business continuity.

The influence of CEO Educational Background on Financial Statement Fraud

Based on the test results in this study, it can be seen that the CEO Educational Background is partially have a negative and significant effect on Financial Statement Fraud in Infrastructure, Utilities and Transportation Sector Service Companies listed on the IDX. So that with these results, Hypothesis 4 is accepted.

The results obtained in this study are in line with the results of previous research conducted by Dewi and Luthan (2023); Preicilia et al. (2022); Lestari and Henny (2019); stated that CEO Educational has a significant negative effect on Financial Statement Fraud, this is supported by the statement that the higher the CEO's education level, the higher the level of his ability to supervise the company's business processes effectively and be able to lead reliably. With the same variable, Sun et al. (2017) showed the opposite result, where the two variables showed a positive relationship.

The influence of Managerial Ownership on Financial Statement Fraud

Based on the test results in this study, it can be seen that Managerial Ownership is partially have a negative but insignificant effect on Financial Statement Fraud in Infrastructure, Utilities and Transportation Sector Service Companies listed on the IDX. So with these results, Hypothesis 5 is rejected.

The results of this study are in line with the results of previous research conducted by Angelina and Chariri (2022); Hawari et al. (2022) which states that Managerial Ownership has no effect on Financial Statement Fraud. This happens because of various factors, not only managerial ownership, which affect business conditions. Managerial ownership does not have a significant influence on business conditions because other factors such as; employees, other shareholders, individual and institutional shareholders, and etc. In addition, very few companies offer stock compensation to management, making it difficult to implement strategies to reduce financial statement fraud by using stock-based remuneration.

The influence of Political Connection on Financial Statement Fraud

Based on the test results in this study, it can be seen that Political Connection is partially have a negative and significant effect on Financial Statement Fraud in Infrastructure, Utilities and Transportation Sector Service Companies listed on the IDX. So that with these results, Hypothesis 6 is accepted.

The results obtained in this study are in line with the results of previous research conducted by Isalati et al. (2023); Dewi and Yuliati (2022); Ngan (2013); which states that Political Connection has a significant negative effect on Financial Statement Fraud. The existence of Political Connection in the company does not necessarily encourage someone to take advantage of their position to reap personal or group benefits. Building political ties is just an effort to get more support and encourage the company's business progress. So that Political Connection is not related to fraudulent financial statements.

The influence of Cooperation with Government Project on Financial Statement Fraud

Based on the test results in this study, it can be seen that Government Project Cooperation is partially have a negative but insignificant effect on Financial Statement Fraud in Infrastructure, Utilities and Transportation Sector Service Companies listed on the IDX. So that with these results, Hypothesis 7 is rejected.

The results obtained in this study are in line with the results of previous research conducted by Rachmawati and Raharja (2023); Ramadhaniyah et al. (2023); which states that Government Project Cooperation has no effect on Financial Statement Fraud. Collusion is one of the factors that influence the occurrence of fraud in government project cooperation, but in reality if there is fraud in government project cooperation it will result in the company being blacklisted. Thus, not all companies that work with the government commit acts of collusion.

The moderating effect of Internal Control System on the relationship between Financial Target and Financial Statement Fraud

Based on the results of moderating tests that have been done, it can be seen that Internal Control is able to moderate the influence of Return on Asset on Financial Statement Fraud in Infrastructure, Utilities and Transportation Sector Service Companies listed on the IDX. So that with these results, Hypothesis 8 is accepted and it is concluded that Internal Control is a quasi moderating in this model.

Internal control ensures that ROA and other financial performance metrics are measured and reported accurately. By implementing strict accounting standards and procedures, internal control reduces the likelihood of financial statement misstatements, which could otherwise provide a rationalization for management to commit fraud. The study by Doyle et al. (2007) reveals that strong internal control is associated with higher-quality financial reporting, thereby reducing the probability of fraudulent practices in financial reporting when performance metrics such as ROA are poor.

The moderating effect of Internal Control System on the relationship between External Auditor Quality and Financial Statement Fraud

Based on the results of the moderation test, it can be seen that Internal Control is able to moderated the effect of External Auditor Quality on Financial Statement Fraud in infrastructure, utilities, and transportation sector service companies listed on the IDX. So, it means, Hypothesis 9 is accepted, and it can be concluded that Internal Control is considered a quasi-moderator in this model.

Strong Internal Control also help to ensure that the financial information presented in the company reports is accurate and reliable. This will help external auditors in conducting audit more effecient, a good quality data source will minimize risk of error or fraud. Regular evaluation which are part of the company internal control operations, are carried out by objective management personnel, internal auditors, and external auditors (COSO, 2013). These evaluations require high quality to detect potential signs of fraud that may be implied in the financial statements. Therefore, selecting a reputable public accounting firm is an integral part of Internal Control.

The moderating effect of Internal Control System on the relationship between Total Accrual to Total Asset and Financial Statement Fraud

Based on the results of the moderation test, it can be seen that Internal Control is able to moderated the effect of Total Accrual to Total Assets on Financial Statement Fraud in infrastructure, utilities, and transportation sector service companies listed on the IDX (Indonesia Stock Exchange). Therefore, with these results, Hypothesis 10 is accepted, and it can be concluded that Internal Control considered as a quasi-moderator in this model.

With effective Internal Control, a company can ensure the accounting processes follow accounting principles and regulation (Handoyo and Bayunitri, 2021). An effective Internal Control also can provide monitoring to the company management in minimize the risk of conflict of interest, where management might seek benefit and end up manipulating financial statements. Therefore, rigorous monitoring by the directors or the audit committee can help prevent fraudulent actions.

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The moderating effect of Internal Control Syetem on the relationship between CEO Educational Background and Financial Statement Fraud

Based on the results of the moderation test, it can be seen that Internal Control is able to moderated the effect of CEO Educational Background on Financial Statement Fraud in infrastructure, utilities, and transportation sector service companies listed on the IDX (Indonesia Stock Exchange). Therefore, with these results, Hypothesis 11 is accepted, and it can be concluded that Internal Control considered as a quasi-moderator in this model..

To protect its assets, ensure the accuracy of financial reporting, and minimize risks, including those related to Financial Statement Fraud, a company needs effective Internal Control (Hoshibikari and Sukarno, 2020). Additionally, when a company's CEO has a high educational background or substantial work experience in finance, they are likely to have a better understanding of accounting principles, audit processes, and Internal Control. This helps in identifying potential errors or fraudulent activities in financial statements (Harefa, 2023).

The moderating effect of Internal Control System on the relationship between Managerial Ownership and Financial Statement Fraud

Based on the results of the moderation test, it can be seen that Internal Control is able to moderated the effect of Managerial Ownership on Financial Statement Fraud in infrastructure, utilities, and transportation sector service companies listed on the IDX (Indonesia Stock Exchange). Therefore, with these results, Hypothesis 12 is accepted, and it can be concluded that Internal Control considered as a quasi-moderator in this model.

Internal Control generally also promotes the principle of transparency in financial reporting. As a result, information about Managerial Ownership will be clearly disclosed in the annual report, allowing other parties to be involved in monitoring and evaluating potential conflicts of interest that may arise due to Managerial Ownership (Jaya et al., 2023).

The moderating effect of Internal Control System on the relationship between Political Connection and Financial Statement Fraud

Based on the results of the moderation test conducted, it can be seen that Internal Control does not moderate the effect of Political Connection on Financial Statement Fraud in infrastructure, utilities, and transportation sector service companies listed on the IDX (Indonesia Stock Exchange). Therefore, Hypothesis 13 is rejected, and it can be concluded that Internal Control is an exogenous variable. This means it has a significant impact on Financial Statement Fraud but does not moderate the relationship between Political Connection and Financial Statement Fraud..

This result indicates a weakness in Internal Control or the presence of other factors that prevent Internal Control from effectively addressing the influence of Political Connection on Financial Statement Fraud. As previously explained, Political Connection in this study not only refers to CEOs who are politicians but also includes members of the board of commissioners who are involved in political practices. This means that board members, who are supposed to play a role in overseeing and making company decisions, may have political connections that could affect how the company is run. Moreover, a particularly risky aspect of Political Connection arises when the CEO or board members have familial or close relationships with individuals holding significant political power. In such situations, company policies and decisions may be swayed by the political views or personal interests of the family or kinship group, which may not align with the company's interests. Consequently, Internal Control may struggle to detect and avoid these issues effectively.

The moderating effect of the Internal Control System on the relationship between Cooperation with Government Project and Financial Statement Fraud

Based on the results of the moderation test, it is evident that Internal Control is able to moderated the effect of Government Project Cooperation on Financial Statement Fraud in infrastructure, utilities, and transportation sector service companies listed on the IDX (Indonesia Stock Exchange). Therefore, Hypothesis 14 is accepted, and it can be concluded that Internal Control considered as a quasi-moderator, meaning it has a significant impact on Financial Statement Fraud and is also able to moderate the effect of Government Project Cooperation on Financial Statement Fraud.

Strong Internal Control can certainly enhance internal oversight within a company (Anggoe and Reskino, 2023). When there is cooperation with the government, Internal Control helps ensure that all procedures and transactions related to the government partnership are well-managed. This stringent oversight can reduce opportunities for fraud (Waqidatun et al., 2021). Individuals or group will find it more challenging to commit fraud because such actions will be more easily detected. Additionally, the principle of accountability within Internal Control encourages all parties involved in government cooperation to be more diligent in performing their duties.

CONCLUSION

Based on the research, it can be conclude that Financial Target, External Auditor Quality, CEO Educational Background, and Political Connection were found has a significant influence on Financial Statement Fraud in infrastructure, utilities, and transportation sector service companies listed on the IDX (Indonesia Stock Exchange). Meanwhile, Total Accrual to Total Assets, Managerial Ownership, and Government Project Cooperation were found not has a significant influence on Financial Statement Fraud.

Additionally, this study found that Internal Control effectively moderates the relationship between Financial Target, as measured by Return on Assets, External Auditor Quality, Total Accrual to Total Assets, CEO Educational Background, Managerial Ownership, and Government Project Cooperation on Financial Statement Fraud in the infrastructure, utilities, and transportation sector companies listed on the IDX. However, Internal Control was found not to moderate the relationship between Political Connection and Financial Statement Fraud.

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