

THE IMPACT OF FINANCIAL STATEMENT FRAUD THROUGH THE FRAUD HEXAGON ON CONSUMER CYCLICALS SECTOR COMPANIES ON THE INDONESIA STOCK EXCHANGE IN 2020-2022

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Abstract

The objective of this study is to collect empirical evidence regarding the Factors in the Fraud Hexagon Theory that can be used to detect financial statement fraud. The case study of the Consumer Cyclical Sector on the IDX in the range of 2020-2022 is used in testing the Fraud Score model. In this analysis, 89 Consumer Cyclical companies serve as samples, purposeful sampling is used to select samples, in this study, financial statement fraud (KLK) is the dependent variable. The independent variables used are financial targets, financial stability, external pressure, CEO education, political connections, state-owned enterprises, external auditors, rationalization, and CEO duality. EViews version 13 testing software was used for data analysis of multiple linear regression analysis. This study shows that financial statement fraud is significantly influenced by external pressure and rationalization. There is no statistically significant correlation between financial objectives, financial stability, and rationalization.

Keywords: Financial Statement Fraud, Fraud Hexagon Theory, Consumer Cyclical Sector

1. Introduction

Fraud occurs when a person intentionally misleads others by concealing, omitting, or altering information with the intent to deceive in order to gain an advantage for themselves. There is a common misconception that only rich countries have to deal with incidents of fraud; in fact, many poor countries, including Indonesia, also face many instances of violations. This is a result of the unstable global economic conditions over the past few years, including the impact of the US central bank's plans, fluctuations in the global oil price per barrel, and the world's conflict of interest, all of which have a direct impact on the state of Indonesian industry. Various government economic policy packages failed to increase consumer purchasing power. Cases of alleged corruption in government agencies that include many officials, at the central or even regional levels are examples of fraud that occurs in the public sector, and the fraud scandals reported have spread significantly (Utomo, 2015). According to Brenan and McGrath (2007), financial statement fraud occurs when important information is left out of financial statements or misstated in an attempt to mislead readers).

The Fraud Hexagon Theory builds on the foundations laid by the Fraud Triangle Theory, Fraud Diamond Theory, and Fraud Pentagon Theory. Due to the growing number of potential motivations for fraudulent behavior, the fraud hexagon was chosen for its ability to present a more comprehensive view. This is due to the fact that the six factors in this theory - pressure/stimulus, opportunity, ability, ego arrogance,

rationalization, and collusion - are more nuanced compared to previous fraud theories. This study also sought to evaluate the effectiveness of each proxy element in detecting false financial statements by applying the fraud hexagon theory. The findings from this study will likely be applied in the future to evaluate the effectiveness of a company's internal control measures connected to financial statement fraud. (Vousinas, 2019).

Financial reporting can be damaged or become inaccurate if fraud, which is always a deliberate act, is not detected during an audit. And cause huge financial losses to the business. An incident at PT Kimia Farma Tbk (PT KF) in Indonesia can serve as an illustration. Shares of PT KF, a state-owned company, can be bought and sold on the capital market. The Ministry of SOEs and Bapepam found signs of financial statement misstatements that led to an overstatement of Rp 32.7 billion (2.3% of sales and 24.7% of net profit) for the year ended December 31, 2001. This discrepancy occurred because the Production Director approved inflated inventory prices when calculating the value of PT KF's distribution unit inventory as of December 31, 2001, which led to overstatements of sales and inventory in three separate business units. PT KF's leadership also managed to increase sales by 100% in two different departments. The units that experienced double recording were not included in the audit random sample.

The board of directors sets financial goals for the company, aiming to maximize the company's return on investment (ROI) and maximize shareholder value. Return on assets (ROA) is a commonly used metric to evaluate the effectiveness of company management and decide compensation issues including bonuses and salary increases (Skousen, CJ & Wright, 2009). Partially, financial targets have a positive effect on financial statement fraud according to (Agusputri and Sofie 2019). KLK can be reduced by setting financial goals. Considering this description, it seems that the greater the ROA obtained by a business, the greater the likelihood that the company will carry out KLK practices. Financial statement manipulation is driven by higher financial targets in the company, as shown by the research of Septriyan & Handayani (2018) and Faradiza (2018).

Stability in the face of economic uncertainty is a key indicator of a company's financial health. When a business is healthy and growing, its share price will rise in the eyes of investors. By engineering data on the increase in the value of the company's assets, the corporation hopes to improve its already promising future (Skousen, C. J. & Wright, 2009). Therefore, the ratio of changes in total assets (ACHANGE), which is the difference between the total assets owned by the company in the current time frame compared to the total assets of the previous period, can be used to infer the company's financial stability. The value of the company's assets is an indication of the company's financial health and potential in the future period (Rahmanti, 2013). If a business has a high asset ratio, it will increase the possibility of the company being involved in some form of KLK (Faradiza, 2019). Partially, financial stability has a positive effect on financial statement fraud.

When there is too much outside demand, or "external pressure", it is difficult for management to achieve organizational goals. Additional debt can be seen as excessive pressure from outside sources to stay competitive (Skousen, C. J. & Wright, 2009).

To reassure investors and creditors that their money will be returned, company management will feel pressured to present financial information as accurately as possible. Due to the pressure to meet the expectations of outsiders, managers will be tempted to work on KLK in order to maintain the appearance of good financial statements.

When deciding whether or not to extend credit to a business, the leverage ratio is a key metric. A high level of leverage is associated with increased credit risk for the business, lenders will be more hesitant to lend money if they see a significant level of risk

associated with it. This is how companies can deceive investors and obtain funding through false financial statements. This is in line with the results of studies conducted by Quraini & Rimawati (2018), Tessa & Harto (2016), and Tiffani & Marfuah (2015). So, partially external pressure has a positive effect on fraudulent financial statements.

Education is a process of things that have been passed. Education is inseparable from one's success. One form of human resources is a person's level of education, as stated by Pardoen (1998). A highly educated person will be wiser in making decisions and aware of his ethical obligations. The future success (especially financial performance) of an organization depends on the ability of its leaders to recognize, analyze, and take advantage of all opportunities. (Jannah, 2017). In Indonesia, those who commit fraud often have at least a bachelor's degree, according to a 2016 survey conducted by the Indonesian government. This finding is consistent with the 2018 ACFE Report, which found that the majority of fraud perpetrators have a bachelor's degree or higher. While those who commit fraud often have a bachelor's degree, those who benefit from the falsified financial statements usually have no more than a master's degree. Managerial characteristics, including the CEO's level of education, have been associated with KLK (Troy, 2003). So, partially CEO education has a positive effect on financial statement fraud.

Political connections are personal or professional contacts with public officials. Meanwhile, politically connected businesses are businesses that have or actively establish relationships with politicians and government. (Purwoto, 2011). In times of financial distress, firms with strong political ties can more easily obtain bank loans and government contracts, and they are also more likely to get bailouts from the government (Chaney et al., 2011). According to a study conducted by Faccio et al. (2006), firms with political ties perform worse than those without. Misallocation of investment and cooperation is a possibility when officials divert resources to favored firms, which can lead to poor firm performance. In addition, businesses that have political influence will find it easier to get bank loans. So, partially political connections have a positive effect on financial statement fraud.

Companies in which the government holds majority or full ownership are known as stated owner enterprises or state-owned enterprises (SOEs). According to Wahab (2011), SOEs refer to businesses owned by the state or local government. Companies owned by the government have the security of knowing that their finances are secured in the event of a disaster. (Hope, 2013). Due to the profits, they enjoy, government-owned businesses may pay less attention to their operations and receive less oversight. In addition, the government's ability to act as regulator, enforcer and asset owner opens up opportunities for special treatment for government-owned businesses. The lack of internal controls in government-owned enterprises is the cause of their poor financial performance (Shawtari et al., 2017). This is in line with the opinion expressed by Gaio & Pinto (2018), which states that the low quality of accruals in government-owned companies is due to the fact that their unique relationship with the government allows the concealment of financial statement fraud through earnings management and financial statement manipulation. Therefore, it is believed that government-owned companies are subject to weak supervision and can commit fraud through means such as cooperation and manipulation of financial statements. So, partially state-owned enterprises have a positive effect on financial statement fraud.

Ineffective monitoring is a situation where there is a weak management supervision system for company activities. Management will be more likely to commit fraud if

supervision is weak. Skousen, C. J., & Wright, 2009. A good supervisory mechanism can help reduce the prevalence of fraudulent practices. The possibility of fraud decreases as the effectiveness of business supervision increases, and this is thought to occur due to the role of the independent board of commissioners (Apriliana & Agustina, 2017). Therefore, it is believed that there is a correlation between weak supervision and poor internal control on management performance, which in turn increases the likelihood of incorrect financial reporting. The research results of Sulkiyah (2016) and Agusputri & Sofie (2019) supports this conclusion. So, partially ineffective monitoring has a positive effect on fraudulent financial statements.

. The quality of external auditors, namely the capacity of independent auditors to foresee the existence of falsified financial statements in their possession, is a measure of auditor quality. The company's willingness to pay for an external audit is an indicator of the reliability of its financial statements. According to article 18 no. 1 of the Financial Services Authority (OJK) Regulation Number 13 / PJOK.03 / 2017 concerning the use of Public Accountant and Public Accounting Firm services in financial services activities, auditors are required to be objective and professional in their work. According to DeAngelo (1981) cited by Apriliana and Agustina (2017), the size of the Public Accounting Firm (KAP) that conducts the audit is an indication of audit quality. KAP big four has the advantage that the workforce there is more professional and presents a better form of audit service (Yang et al., 2017). So, partially the quality of external auditors has a negative effect on financial statement fraud.

Rationalization is a reason made by dishonest people for their dishonest behavior. Fraudsters will go to great lengths to hide their fraudulent activities. Subjective assessment rationalization is a method used by fraudsters (Skousen, C. J., & Wright, 2009). The accrual value of the company will reflect evaluations and choices made subjectively. Because the accrual approach is more reasonable and fairer, it is used as the basis for preparing financial statements (Septriyani & Handayani, 2018). Because the value of accruals is greater than cash, as stated by Beneish (1999), significant earnings manipulation may occur. So, partially rationalization has a positive effect on financial statement fraud.

CEO duality is a person who holds the position of CEO while simultaneously running another position in a company. An arrogant CEO can abuse his position of authority by engaging in fraudulent behavior because he believes that he can get away with it. According to Crowe (2011), CEOs are more likely to brag about their position in the organization because they are afraid of losing it. According to Yang et al. (2017), poor corporate governance is the result of having CEO duality. This is because there is no way for the CEO to remain objective in his role as a watchdog. Firm value will fall as a result of this poor governance; therefore, it is important to divide responsibilities so that the supervisory process runs more smoothly. The dominance of CEO power and the autonomy of the board of directors are both compromised by appointing a co-CEO. reducing the autonomy of the board of directors (Sasongko & Wijyantika, 2019). So, partially CEO duality has a positive effect on financial statement fraud.

2. Theoretical Background

2.1 Agency Theory

According to the agency theory first proposed by Jensen and Meckling (1976), an agency relationship is formed when shareholders (principal) hire management (agent) and give discretionary authority over the business. As contractual agents, management is

responsible for reporting all activities and decisions to the owners of the company. Agency conflict (agency theory) refers to the tension that naturally arises between the interests of shareholders and those of management. Two causes of agency disputes are the inability of the principal to assess the performance of the agent and the existence of differences in objectives between the principal and the agent (Eisenhardt, 1989).

2.2 Fraud

Mark F. et al. (2017) define fraud as "a series of behaviors that are done with the intention that these actions can trick others for personal gain." Sorunke (2016) defines fraud as any behavior or process that involves deception or deliberate concealment of errors or irregularities to cover up illegal or unethical behavior, such as omitting relevant details or providing misleading information.

2.3 Financial Statement Fraud

which will be abbreviated as (KLIK) According to Mark F et al. (2017), can occur when accounting records are altered, falsified, or manipulated, falsified financial statements can have a significant impact on the economy and markets. False or misleading financial statements can cause investors to lose a lot of money and damage investor confidence.

2.4 Fraud Hexagon Model

The six parts of the fraud hexagon are as follows: stimulation (pressure), ability (ability), cooperation (collusion), opportunity (opportunity), rationalization (rationalization), and ego. When the fraud triangle, fraud diamond, and fraud pentagon theories are expanded with the addition of the secret cooperation element, six components will be obtained that form the fraud hexagon hypothesis. The names of the constituent parts are the difference between this theory and other theories, this theory reuses concepts from previous frameworks but gives them new names. In this theory, the term stimulus refers to the pressure component in the same way that Cressey Donald (1953), DT Wolfe & Hermanson (2004), and Marks (2011) describe pressure. In addition, Marks (2011) has previously described the ego component, which has the same meaning as hubris, in the cheating pentagon hypothesis. The collusion element is a new aspect of the fraud hexagon idea.

2.5 Financial Statement Fraud

as a Financial Crime Effort Agusputri and Sofie's (2019) research confirmed the beneficial impact of ROA on accounting irregularities. has a good impact on the issue of KLIK.

2.6 Financial Statement Fraud and its Effect on Financial Stability

According to Faradiza (2019), there is a correlation between the ratio of changes in total assets and the potential for KLIK. has a positive impact on the issue of KLIK.

2.7 External Pressure on Financial Statement Fraud

Quraini & Rimawati (2018), Tessa & Harto (2016), and Tiffani & Marfuah (2015) This shows that there is a greater possibility of KLIK by management when the leverage ratio is higher. Has a positive influence on KLIK.

2.8 CEO Education on Financial Statement Fraud

There is a positive correlation between the CEO's education level and the likelihood of self-beneficial fraud in the company's financial statements. Troy (2003) and Ying & Yeung (2014). positive effect on financial statement fraud.

2.9 Political Connection to KLK Companies

With political ties to officials may be more likely to falsify their financial statements. Previous research by Matangkin et al. (2018), Ding et al. (2014), and Fan et al. (2007) all support this statement. positive effect on KLK.

2.9 Government enterprises

According to Gaio & Pinto (2018), have lower accrual quality because their unique relationship with the government makes it easier to hide misleading financial statements using means such as financial statement manipulation and earnings management. This has a positive impact on KLK.

2.10 When supervision is poor

internal controls over management actions become less robust, thus increasing the likelihood of financial statements being falsified. This conclusion is in line with the findings of Sulkiyah (2016) and Agusputri & Sofie (2019) research. help prevent accounting irregularities.

2.11 Fraud in Financial Statements and External Auditor Quality Audits

carried out by big four KAP companies are more thorough and better able to find signs of fraud. Fraud in financial statements will have a negative impact.

2.12 KLK Rationalization

According to Septriyani and Handayani (2018), the total accrual ratio can be used to characterize management justification in following accrual rules. Management commits fraud by manipulating numbers to make the company look successful. So, it makes sense that an increasing total accrual ratio indicates an increasing likelihood of financial statement fraud. have a positive impact on the prevalence of dishonest financial reporting.

2.13 CEO Duality

is related to the potential for corporate KLK due to the dual position of the CEO. This finding has the support of previous research, namely the study by Yang et al. (2017) and also research by Yusof et al. (2015). The results of this study concluded that CEO Duality has a positive impact on the incidence of manipulation in financial reporting.

3. Methods

3.1 Population and Sample

This study focuses on businesses that have been listed on the IDX and operate in the non-primary consumer goods sector in 2020 and 2022 as research subjects. Secondary sources of information sourced from the IDX and the company's official website are used as the basis for analysis. The purposive sampling method, in which the sample is determined based on pre-defined criteria, was applied to collect the data required for this investigation. The total number of participants and sampling criteria for this study are detailed below.

1. Consumer Cyclical sector companies listed on the IDX in 2020-2022
2. Consumer Cyclical sector companies that are consistently listed
3. Consumer Cyclical sector companies that publish financial statements
4. Consumer Cyclical Sector Companies that made a profit in 2020-2022

Purposive sampling followed by a 2-year screening process, resulting in a total of 156 issuers as research objects.

3.2 Measurement and Operational Definition of Variables

3.2.1 Dependent Variable

KLK is the dependent variable in this study. Similar to the research conducted by Siddiq et al. (2015), we use earnings management through the modified Jones model as a proxy for financial statement fraud.

3.2.2 Independent Variable

Independent variables are conditions that act on the dependent variable. The independent variables in this study will be explained in the table below: ROA, Achange, LEV, PndCEO, Folcon, Bdout, KAP, RAS, CEOdual.

3.3 Data Analysis Method

The analysis of multiple linear regression equations in the form of this study can be described as below:

$$DA_{it} = \alpha + \beta_1 ROA + \beta_2 ACHANGE + \beta_3 LEV + \beta_4 PENDCEO + \beta_5 POLCONN + \beta_6 SOE + \beta_7 BDOUT + \beta_8 KAP + \beta_9 RAS + \beta_{10} CEODUAL + e$$

Where:

α	= Constant
β_1 - β_6	= Regression Coefficient
DA_{it}	= Financial Statement Fraud
ROA	= Financial Target
ACHANGE	= Financial Stability
LEV	= External Pressure
PENDCEO	= CEO Education
POLCONN	= Political Connection
SOE	= State-owned Enterprises
BDOUT	= Ineffective Monitoring
KAP	= External Auditor Quality
RAS	= Rationalization
CEODUAL	= CEO Duality

3.4 Common Effect Model (CEM)

Time series and cross-section data are combined in a very simple panel data model. Estimation is done using the Ordinary Least Squares (OLS) method. This model assumes that firm data behaves consistently throughout the time period without taking into account the temporal dimension or the dimension between individuals.

3.5 Fixed Effect Model (FEM)

Each person is treated as an unknown parameter in this model, and it is assumed that differences between people can be taken into account by adjusting the intercept. Therefore, this model uses a dummy variable strategy to estimate panel data and accounts

for changes in intercepts between firms. Variations in the intercepts may be the cause. However, the gradient between firms does not change.

3.6 Random Effect Model (REM)

Unemployment variables with potential temporal associations are included in this model. The Generalized Least Squares (GLS) technique should be used. To deal with the autocorrelation of coefficients and the correlation of observations with their variances, GLS is employed. The Error Component Model (ECM) allows for variations in the intercept.

3.7 Selection of Panel Data Regression Model Technique

- 1) Chow test: performed to test between the common effect model and the fixed effect model.
- 2) Hausman test: this test is carried out to test whether the data is analyzed using a fixed effect model or a random effect model.
- 3) LM test: done to test whether the data is analyzed using a random effect model or CEM.

4. Results and Discussion

4.1 Descriptive analysis results

By calculating the mean, low, high and standard deviation for each variable in this study, the descriptive analysis provides a summary of the information collected. The KLIK is the focus of this investigation. The dependent variables include state ownership, ineffective supervision, external auditor quality, rationalization, and CEO duality, while the independent variables are financial objectives, financial stability, external pressures, CEO education, political ties, and state-owned companies.

Table 1. Descriptive statistical test results

Variabel n=156	Statistik Deskriptif			Std. Deviasi
	Mean	Minimum	Maksimum	
Variabel Dependen Kecurangan Laporan Keuangan	-0,02766	-2,28915	5,669625	0,446115
Variabel Independen Target Keuangan	-0,09701	-7,8985	0,321391	0,663569
Stabilitas Keuangan	28,682360	-8,0985	7,618716	467,1314
Tekanan Eksternal	2,07	0,0012	103,5556	9,99
Pendidikan CEO	0,515	0%	1%	0,5
Koneksi Politik	0,347222	0%	1%	0,5
State-owned Enterprises	0,507519	0%	1%	0,5
Ineffective monitoring	0,432259	0,0000	1,0000	0,31
Kualitas Auditor Eksternal	0,473684	0%	1%	0,50
Rasionalisasi	-0,14025	-9,1908	1,3814	0,75
CEO Duality	0,5357	0%	1%	0,50

Source: processed data (2023)

The table provides a summary of the independent variables of this study, The figure presents an overview of some descriptive statistics on topics such as financial reporting fraud, financial objectives, financial stability, external pressure, CEO education, political ties, whether the company is state-owned or not, ineffective supervision, external auditor quality, rationalization process, and CEO concurrency. In addition, we will detail the descriptive analysis for each variable separately:

4.1.1 Descriptive statistical analysis of financial statement fraud

Estimated Earnings management with the modified Jones model represented by DA (Discretionary Accrual) is used as the dependent variable in this KKK. The typical amount of KKK of Indonesian manufacturing companies for 2020-21 is -0.02766 million. According to the data, organizations with negative DA (Discretionary Accrual) values are more likely to engage in KKK by artificially suppressing earnings. There were 267 units analyzed; 66 of them had positive DA (Discretionary Accrual) values; this shows that 24.94% of the units analyzed had inflated monetary values achieved by earnings management.

Based on Table 4.1, a total of 267 U.A. were used in this investigation. The fact that PT Globe Kita Terang Tbk (GLOB) has a maximum 2020 value of 5.669625 despite showing signs of earnings management by income falling is quite concerning. The minimum figure of -2.28915 for PT Omni Inovasi Indonesia Tbk (TELE) in 2022 shows that the company may be manipulating its results to increase profits and at the same time decrease its revenue. In terms of financial statement fraud, the standard deviation is -0.27661. As this figure is higher than the mean, it gives an indication that information about false financial statements is unevenly distributed.

4.1.2 Descriptive statistical analysis of financial targets

Return on Assets (ROA), the ratio of net income to total assets, is used in evaluating financial performance against set objectives. According to the findings of the investigation, the median financial goal represents an average level of corporate profitability of -0.96476.

In 2020, PT Omni Inovasi Indonesia Tbk (TELE) had the smallest financial target of -7.8965, indicating that the company has the lowest profit potential among the sample companies. Meanwhile, Matahari Department Store Tbk (LPPF) has the highest financial target value in 2022, with an estimate of 0.321391. This indicates that the company has the most profit potential among the sample companies. For the preferred monetary indicator, the standard deviation was found to be 0.663. As this figure is larger than the normal, it gives an indication that the data on financial objectives is unevenly distributed.

4.1.3 Descriptive analysis of financial stability

The rate of change of total assets (ACHANGE) is a reliable indicator of financial health. Based on descriptive analysis, we can conclude that the average level of financial stability at which companies can manage their assets is 28.57475. In 2021, PT Industri dan Perdagangan Bintraco Dharma Tbk (CARS) has the highest financial stability value, which is 7618.716, which shows that this company has the highest level of ability among other sample companies. Meanwhile, PT Omni Innovation's value of -8.0985 indicates that PT Omni Integra Indonesia Tbk (TELE) has the lowest ability compared to other companies that are also sampled. 467.1314 is the standard deviation of the variables studied. Because this value is higher than the average, it shows that the financial stability variable has an abnormal data distribution.

4.1.4 Descriptive statistical analysis of external pressure

External pressure is measured by leverage i.e. specifically, the ratio of debt to assets. The descriptive study shows that the average debt servicing capacity of companies corresponds to an external pressure value of 2.073242. In 2022, Globe Kita Terang Tbk (GLOB) had the highest external pressure value of 103.5556. In 2022, Globe Kita Terang Tbk (GLOB) has the highest debt servicing capacity, as measured by this metric. The 2020 value for PT Surya Permata Andalan Tbk (NATO) is the lowest among the sample companies, at 0.0012. This shows that the 2020 version of PT Surya Permata Andalan Tbk (NATO) has the lowest level of ability to pay debt. The external pressure variable has a standard deviation of 9.998676. A number higher than the average shows an abnormal data distribution for the external pressure variable.

4.1.5 Descriptive statistical analysis of CEO education

To measure CEO training, a dummy variable is used here. The mean value of the CEO education variable, as determined by the descriptive analysis, is 0.5150, which indicates that 137 analysis units, or 51.50% of the analysis units, have CEOs with a master's degree or higher (code 1). However, among the analysis units, 129 (or 48.5%) do not have a CEO with a master's degree or higher (code 0). The CEO education variable has a standard deviation of 0.50. As this figure is smaller than the mean, it gives an indication that there is less variation in the data for the CEO education variable.

4.1.6 Descriptive Statistical Analysis of Political Connection.

A dummy variable was used in this study to assess political connections. Descriptive analysis produces an average value of 0.5 for the political connection variable, which indicates that 133 units of analysis, or 50% of the units of analysis, have main commissioners and/or independent commissioners who have political relations (code 1). Meanwhile, 50% of all analysis units (133 analysis units) do not have a lead commissioner and independent commissioner who have a relationship with a political party (code 0). The standard deviation value of the political connection variable is 0.509. The value above the mean indicates an abnormal data distribution for the political connection variable.

4.1.7 Descriptive Statistical Analysis of State-Owned Enterprises.

Dummy variables are used in this analysis to measure government-owned enterprises. Based on the descriptive analysis results, the mean value of the SOE variable is 0.5075, which indicates that 134 out of a total of 288 analysis units (or 50.75%) are government-owned enterprises (code 1). Meanwhile, 132 out of a total of 256 units of analysis (49.25%) are private companies (code 0). State-owned companies have a standard deviation of 0.50. Since this figure is smaller than the average, it indicates that the data on the state-owned company variable is normally distributed.

4.1.8 Descriptive Statistical Analysis of Ineffective Monitoring.

The proportion of independent commissioners to all members of the board of commissioners is a proxy for the quality of supervision provided by the board of directors. Descriptive statistics show an overall value of 0.432259 for ineffective monitoring. The average percentage of impartial commissioners across companies is described by an Ineffective monitoring value of 43.22%. PT Bali Bintang Sejahtera Tbk (BOLA) has an Ineffective monitoring value of 1,000 in 2020 and 2021, higher than other companies.

Based on this amount, PT Bali Bintang Sejahtera Tbk (BOLA) will have the largest percentage of independent commissioners in the sample in 2020 and 2021. Meanwhile, the lowest number in 2020 is 0 for PT Pembangunan Graha Lestari Indah Tbk (PGLI). This data shows that PGLI has the least number of independent commissioners among the companies in the sample. The standard deviation for inefficient monitoring is 0.31. This figure is smaller than the average, indicating that the data is uniformly distributed.

4.1.9 Descriptive Statistical Analysis of External Auditors.

To assess the effectiveness of external auditors, dummy variables are used in this study. Based on descriptive analysis, the average value of the external auditor quality variable is 0.4736. This indicates that 125 KAP or 46.36 percent of all KAP use external auditors who are part of the big four KAP (code 1). However, 141 units of analysis (or 53.64%) use external auditors who are not part of the big four KAP (code 0). For external auditor quality, the standard deviation is 0.5. This figure is higher than the median, indicating that information on the quality of external auditors is unevenly distributed.

4.1.10 Descriptive Statistical Analysis of Rationalization.

The level of company rationalization can be determined by calculating the ratio of accruals to total assets. Descriptive analysis produces a mean value of rationalization of -0.140249. The reason behind the application of the accrual principle by management is represented by the average value of rationalization. In 2021, PT Trikonsel Oke Tbk (TRIO) has the highest rationalization value of 1.3814. Based on this figure, PT Trikonsel Oke Tbk (TRIO) is projected to have the highest total accrual ratio in the sample set in 2021. While the lowest figure is seen in 2020 for Omni Inovasi Indonesia Tbk (TELE), which amounted to - 9.1908, this only means that Omni Inovasi Indonesia Tbk (TELE) has the lowest total accrual ratio among the businesses studied. The rationalization variable has a standard deviation of 0.75. Since this value is above the median, the rationalization variable is likely to have an abnormal data distribution.

4.1.11 Descriptive Analysis of CEO Duality

To measure CEO duality, dummy variables are used in this analysis. Based on the descriptive analysis results, the mean value is 0.5037, which indicates that CEOs who also hold other managerial roles in the company are found in 134 analysis units, or 50.37% of the analysis units. Meanwhile, 133 AUs (or 49.63%) have CEOs who are not involved in other administrative functions in the organization (code 0). The CEO concurrent variable has a standard deviation of 0.50. As this figure is smaller than the mean, it indicates that there is more variation in the data for the CEO duality variable.

4.2 Hypothesis Test (t Test)

Table 2. t Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.178419	0.102848	1.734786	0.0846
ROA	0.312039	0.165200	1.888860	0.0606
ACHANGER	-6.24E-06	6.87E-05	-0.090798	0.9278
LEV	-0.095135	0.018232	-5.217950	0.0000
PNDCEO	0.024732	0.056323	0.439105	0.6612
FOLCON	0.059473	0.080721	0.736776	0.4623
SOE	-0.002855	0.083858	-0.034051	0.9729

BDOU	-0.080314	0.144513	-0.555758	0.5791
KAP	-0.109555	0.057760	-1.896710	0.0596
RAS	-0.265514	0.128161	-2.071726	0.0398
CEODUAL	0.060370	0.055208	1.093508	0.2757

Source: processed data (2023)

4.2.1 Hypothesis 1 (H1) t test results

The regression coefficient of 0.320039 obtained for the t test between financial targets, produces a t count of 1.888860, the value is higher than the t table value of 1.650624, with a one-sided sig value of 0.0606 (sig > 0.05). This means that there is no relationship between financial targets and financial statement falsification. Therefore, it can be concluded that H1 is rejected.

4.2.2 Hypothesis 2 (H2) t test results

A regression coefficient of -6.24E-06 was found between financial stability and financial statement fraud, resulting in a statistical t value of -0.909789, which is lower when compared to the t table value (- 9.09789 > 1.650624) and the statistical sig is at 0.05 with one tail (sig > 0.9278). Thus, it can be concluded that there is no correlation between financial security and financial statement fraud. Therefore, it can be concluded that H2 is rejected.

4.2.3 Hypothesis 3 (H3) t test results

The result is external pressure on financial statement fraud, the regression coefficient is -0.095135 and has a statistical t value of -5.217950 where the value is lower than the t table value (- 5.217950 > 1.650624) with a one tailed significant value of 0.000 (sig < 0.05). so that a statement can be obtained that external pressure has a negative and significant effect on financial statement fraud. Therefore, it can be concluded that H3 is accepted.

4.2.4 Hypothesis 4 (H4) t test results

Using a regression coefficient of 0.024732 and a t-table value of 0.439105, we find that the correlation between CEO education and financial statement fraud is statistically significant at the one-sided level of 0.6612 (sig > 0.05). Therefore, we can conclude that there is no correlation between CEO education and CLK. Therefore, it can be concluded that H4 is rejected.

4.2.5 Hypothesis 5 (H5) t-test results

A t-value of 0.736776, lower than the t-table value of 0.736776 < 1.650624, with a one-tailed sig of 0.4623 (sig > 0.05) was found in testing the effect of political ties on KLK. The regression coefficient is 0.059473. This means that there is no correlation between political ties and KLK. Hence, we can conclude that H5 is rejected.

4.2.6 Hypothesis 6 (H6) t-test results

A regression coefficient of - 0.000252 and a t-statistic of -0.002856 which is lower than the t-table (- 0.002856 < 1.650624) were found in the t-test comparing SOE and non-SOE companies on the prevalence of misleading financial statements. The one-sided significance value of 0.9727 indicates a negative and small impact of SOE firms on financial statement fraud. (sig > 0.05). Therefore, H6 should be ignored.

4.2.7 Hypothesis 7 (H7) t-test result

With a regression coefficient of -0.080314, a t statistic of -0.555758 (lower than the t table of $-0.555758 < 1.650624$), and a significance level of 0.5791 ($\text{sig} > 0.05$), it can be concluded that Ineffective Monitoring has a negative and insignificant correlation with KLK. Therefore, H7 should be rejected as a viable alternative.

4.2.8 Hypothesis 8 (H8) t test results

It can be concluded that the External Auditor has a negative and insignificant correlation with KLK based on the t test results which obtained a regression coefficient value of -0.0109555 and has a statistical t value of -1.896710 which is lower than the t table ($-1.896710 < 1.650624$) with a significant value of 0.0596 ($\text{sig} > 0.05$). Therefore, H8 is rejected.

4.2.9 Hypothesis 9 (H9) t test results

The regression coefficient for the effect of Rationalization on financial statement fraud is -0.265514, and the calculated t value of -2.071726 is less than the value predicted by the t table ($-2.071726 < 1.650624$), there is a negative and statistically significant effect between Rationalization and KLK, with a significance level of 0.0398 ($\text{sig} < 0.05$). Therefore, it can be concluded that H9 is correct.

4.2.10 Hypothesis 10 (H10) t test results

The t test results between CEO duality on financial statement fraud obtained a regression coefficient value of 0.060370 which is lower when compared to the t table of 1.093508 which is smaller than the t table [$1.093508 < 1.650624$]. With a significant value of 0.2757 ($\text{sig} > 0.05$). So, it can be concluded that CEO duality has no effect on KLK. Thus, H10 is rejected.

5. Conclusion

Financial targets have nothing to do with the issue of financial statement fraud and can be ignored. In the case of the consumer chemicals business, a high return on assets (ROA) may show that the company is making strides towards operational excellence through the introduction of new products in response to shifts in market demand. Financial stability has no effect and is not significant on KLK because the company has a good board of commissioners in monitoring management, so as not to commit fraud even though financial stability is less than satisfactory, financial statement fraud is influenced by external factors. The company may go bankrupt and not be able to pay its bills. Falsified financial statements have nothing to do with CEO education. This is probably because a CEO's skills can be honed over time, regardless of their educational background. The effect of political connections on financial statement manipulation is zero. This shows that politically connected members can curb their arrogance, and politically connected companies do not face funding hurdles and can still enjoy comfort. Financial statement fraud is not significantly affected by State-owned enterprises. Strict oversight will be the result of laws passed by the Minister of SOEs that determine how board members are selected and appointed. Financial statement fraud is not permitted by this. ineffective monitoring affects financial statement fraud. Financial statement fraud cannot be prevented by inefficient monitoring. The IDX's official stipulation requiring at least 30% independent commissioners from the existing commissioners can be met only by the

placement of independent board members. Financial statements are falsified no matter how good the external auditor is. This is because the Indonesian Institute of Certified

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