IJAMESC, Vol. 4 No. 4, August 2026
DOI: https://doi.org/10.61990/ijamesc.v4i4.852 e-ISSN 2986-8645

THE EFFECT OF FRAUD HEPTAGON MODEL TO DETECT FRAUDULENT FINANCIAL STATEMENT IN INDONESIA FINANCIAL SECTOR COMPANIES

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Abstract
This study examines the influence of Fraud Heptagon elements on fraudulent financial statements in financial sector companies listed on the Indonesia Stock Exchange during the 2021–2024 period. The study is motivated by the increasing prevalence of financial statement fraud cases in Indonesia's financial sector and the need to understand the determinants of fraudulent reporting within the comprehensive Fraud Heptagon framework. The sample consists of 168 firm-year observations obtained from 42 financial sector companies selected using purposive sampling. Panel data regression with EViews 12 was employed to test the proposed hypotheses across eleven variables: financial target, external pressure, financial stability, personal financial need, change in director, effective monitoring, nature of industry, change in auditor, number of CEO pictures, ignorance, and greed. The results indicate that financial target and nature of industry have a significant positive effect on fraudulent financial statements, suggesting that aggressive performance targets and industry-specific characteristics increase the likelihood of financial manipulation. In contrast, external pressure, financial stability, personal financial need, change in director, effective monitoring, change in auditor, number of CEO pictures, ignorance, and greed do not significantly influence fraudulent financial statements. These findings suggest that not all Fraud Heptagon elements equally influence fraudulent reporting, providing insights for regulators and practitioners in strengthening fraud detection and prevention mechanisms in the financial sector.

Keywords: Fraud Heptagon, Financial Statement Fraud, Financial Target, Industry Nature, Financial Sector

1. Introduction

Fraud refers to intentional acts conducted to misappropriate assets, wealth, or rights through deception, manipulation, or other unethical means (ACFE, 2020). Fraud is often motivated by personal or organizational gains and typically occurs when individuals find conditions favorable to achieving such objectives. Fraud categorizes into three primary types: fraudulent financial reporting, asset misappropriation, and corruption. ACFE (2024) reported during the period from 2022 to September 2023, a total of 1,921 fraud cases were recorded across 138 countries. The highest loss category, was financial statement fraud, represented 5% of total case but resulted average loss of $766,000. Meanwhile, 89% of the cases fell under the category of misappropriation asset, with an average loss of $120,000. Lastly, corruption cases accounted for 48% of the total, causing an average loss of $200,000. Financial reporting fraud is the category of fraud with the lowest frequency but results in much greater losses compared to other categories. Among various forms of fraud, financial statement fraud is especially concerning as it undermines public trust and may ultimately lead to corporate failure (Jannah et al., 2021).

To identify early indications of fraud, Dechow (2011) developed the F-Score model. This model has proven effective in detecting patterns of manipulation within financial statements and is frequently used in empirical research. According to Husnurrosyidah & Fatihah (2022) the F-Score can be interpreted as follows:

Table 1. F-Score Interpretation Score

F-Score Value	Interpretation
F-Score < 1	Not Indicative of Fraud
F-Score > 1	Indicative Of Potential Fraud

Source: Husnurrosyidah & Fatihah (2022)

Financial sector companies such as, Indoritel Makmur Internasional Tbk. showed F-Scores of 1.4394 in 2021, 1.2757 in 2022, 1.2612 in 2023, and 1.2593 in 2024. These consistently high F-Scores suggest an increased likelihood of financial manipulation or earnings management within the company. Likewise, Victoria Insurance Tbk. showed F-Scores of 1.199 in 2021, 1.115 in 2022, 1.0909 in 2023, and 1.2391 in 2024. Since all values consistently exceed the threshold of 1, both companies may be exposed to a higher risk of financial statement manipulation. While these scores do not directly confirm the presence of fraud, they suggest red flags that require further attention and analysis.

Expanding the existing framework, Yusof (2016) developed the Fraud Heptagon Theory by introducing two new elements of ignorance and greed. This model offers a more comprehensive understanding of the psychological and ethical dynamics underlying fraudulent behavior. The fraud heptagon thus includes pressure, opportunity, rationalization, capability, arrogance, ignorance, and greed.

Previous studies have stated that pressure factors, as proxied by financial target, financial stability, external pressure, and personal financial need, have a significant influence on fraudulent financial statements. Financial targets reflect the company's goal to achieve a certain profit level, these targets can push management to manipulate financial reports. A lack of financial stability may open avenues for engineered transactions and fraud. Damayanti et al. (2021) finds financial stability has a positive effect on fraud. External pressure refers to pressure from external parties such as creditors and investors, which may incentivize misleading reporting. Research of (Barezki et al., 2023) showing external pressure has a positive effect on fraud.

Capability factor as proxied by change in director, have been found to have a positive influence on fraud, as individuals with high competence are more likely to abuse their power to achieve personal or organizational goals. Pratiwi et al. (2022) stated that capability has a positive effect on fraudulent financial statements. However, Agustina & Pratomo (2019) found that capability has no significant effect.

The opportunity factor, represented by nature of industry and effective monitoring, has been found to have an influence on fraudulent financial statements. Industries with high estimates in revenue recognition tend to be more prone to fraud, Research by Octaviana (2022) shows nature of industry has a positive effect on the fraud. Effective monitoring, in theory, can reduce fraud possibility. Research by Adhania et al. (2024) shows that effective monitoring has a negative effect on fraud.

The rationalization factor proxied by auditor rotation is not merely an administrative obligation but also a strategic tool to enhance transparency and accountability in a company's financial information. This in line with the findings of (Christian & Visalakshi, 2021), who state auditor rotation has a negative effect on financial statement fraud. However, this contrasts with the findings of Dalmaniyah et al. (2019), stating auditor rotation did not affect financial statement fraud.

The arrogance factor, as proxied by the frequency number of CEO pictures, also could affect financial statement fraud. Although theoretically, CEO image appearances are often used as a proxy for arrogance. The study conducted by Pratiwi et al. (2022) argued that the frequency of CEO exposure has a positive effect on fraud. However, Elviani et al. (2020) found no effect on fraudulent financial statement.

Additional factors such as ignorance also show influence on fraudulent financial statements. Ignorance can be described as the absence of awareness or comprehension regarding the potential risks and outcomes of engaging in fraudulent behavior, which ultimately affects a person's decision regarding fraud. Based on the findings of (Handoko et al., 2022), show ignorance has an impact on fraudulent financial statements.

Another factor, such as greed, also could influence the fraudulent financial statements. Greed represents a person's continual dissatisfaction and desire to obtain more than their means allow. Greed leads a person's decision to commit fraud.

The purpose of this research is to analyze the impact of financial target, external pressure, financial stability, personal financial need, change in director, effective monitoring, nature of industry, change in auditor, frequently number of CEO pictures, ignorance, and greed on fraudulent financial statement in companies listed on the Indonesia Stock Exchange (IDX) financial sector during 2021–2024 period.

2. Theoretical Background

2.1 Agency Theory

Agency Theory explains the contractual relationship between shareholders as principals and management as agents, whereby the principal delegates authority to the agent to manage the company's operations and strategic decisions. First introduced by Alchian and Demsetz (1972) and further developed by Jensen and Meckling (1976), this theory highlights the potential conflicts of interest caused by information asymmetry. Managers are expected to manage the company effectively to maximize shareholder wealth, while principals provide financial and non-financial incentives to align managerial behavior with organizational objectives (Lesmono & Siregar, 2021). When agents pursue personal interests over those of the principals, the tendency for unethical behavior, including fraud, increases. In the context of financial statement fraud, agency theory suggests that managers may manipulate financial reports to meet performance targets, secure bonuses, or maintain stock prices, thereby compromising the reliability of financial information and harming shareholder interests.

2.2 Fraud Heptagon Theory

The Fraud Heptagon Theory provides a comprehensive framework that identifies seven factors driving individuals to commit fraud, integrating moral, psychological, and environmental dimensions (Nugroho & Diyanty, 2022). This theory expands upon previous fraud models—including the Fraud Triangle (Cressey, 1953), Fraud Diamond (Wolfe & Hermanson, 2004), and Fraud Pentagon (Crowe, 2011)—by incorporating ignorance and greed as additional elements. The seven elements include: Pressure, arising from financial stability and external pressure, where financial distress and the need to maintain asset performance increase the risk of manipulation; Opportunity, stemming from weak internal controls and oversight; Rationalization, which reflects an individual's justification of unethical behavior; Capability, representing the skills, authority, and competence enabling an individual to perform fraud; Arrogance, arising from a sense of superiority or belief of immunity from rules; Ignorance, reflecting the disregard or lack

of awareness of ethical consequences; and Greed, describing excessive desire for personal gain beyond ethical and rational boundaries (Yusof, 2016; Juliani & Ventty, 2022). This comprehensive framework serves as the primary theoretical foundation for examining the determinants of fraudulent financial statements in this study.

2.3 Fraudulent Financial Statements

Fraudulent financial statements involve deliberate misrepresentation or omission of financial information intended to mislead stakeholders (Priantara, 2013). This form of fraud reflects a significant threat to corporate sustainability and stakeholder trust. Financial statement fraud may take various forms, including manipulation of revenues, understatement of liabilities, overstatement of assets, and concealment of material information. Although auditors are tasked with detecting and evaluating the risk of fraud throughout the auditing process, fraudulent activities often remain undetected due to limitations in identifying red flags, inadequate audit procedures, or collusion between management and auditors. The consequences of undetected fraud can be severe, including financial losses for investors, damage to corporate reputation, regulatory sanctions, and ultimately corporate failure.

2.4 Financial Target, Fraudulent Financial Statements

Financial targets represent firms' short-term or long-term performance objectives designed to demonstrate financial strength to stakeholders. In the context of fraud, the pursuit of ambitious financial targets can exert pressure on management to manipulate reported outcomes (Lou & Wang, 2009). When companies set aggressive performance goals—such as revenue growth, profit margins, or return on equity targets—management may face significant pressure to meet these expectations. This pressure intensifies when actual performance falls short of targets, creating incentives for earnings manipulation through aggressive accounting practices or outright fraud. Empirical evidence from Fernanda and Susilo (2025) and Wahyu (2021) indicates that pressure to meet financial targets substantially heightens the risk of engaging in fraudulent financial reporting. From an agency theory perspective, financial targets create incentives for agents to engage in opportunistic behavior when their compensation or job security depends on meeting these targets. Based on these arguments, the following hypothesis is proposed:

H1: Financial target has a positive effect on fraudulent financial statements.

2.5 Financial Stability, Fraudulent Financial Statements

Financial stability reflects a firm's ability to sustain consistent growth, profitability, and asset expansion (Siddiq et al., 2017). When financial stability declines, management may face pressure to present a favorable image of performance, potentially motivating financial manipulation (Rahmono et al., 2014). Companies experiencing declining profitability, negative cash flows, or deteriorating asset quality may be more likely to manipulate financial statements to conceal underlying problems and maintain stakeholder confidence. The pressure to maintain the appearance of stability is particularly acute when companies face external scrutiny from investors, creditors, or regulators. Studies by Agli et al. (2025) and Budiman et al. (2025) support a positive relationship between financial instability and fraudulent reporting. From the Fraud Heptagon perspective, financial instability represents a significant source of pressure that can drive management toward fraudulent behavior. Based on these arguments, the following hypothesis is proposed:

H2: Financial stability has a positive effect on fraudulent financial statements.

2.6 External Pressure, Fraudulent Financial Statements

External pressure arises from a firm's dependency on external financing, particularly debt, which compels management to demonstrate sound financial capacity (Novarina & Triyanto, 2022). Companies with high leverage ratios face pressure to maintain debt covenants, service interest payments, and demonstrate creditworthiness to lenders. When companies approach covenant violations or face difficulty servicing debt, management may be motivated to manipulate financial statements to present a healthier financial position. This pressure is particularly intense when companies operate in industries with high capital requirements or during periods of economic downturn. Prior studies by Yursefdi and Putri (2023), Diansari and Wijaya (2019), and Suwena (2021) consistently report that higher external pressure increases the likelihood of fraudulent reporting. From the agency theory perspective, external pressure from creditors represents a monitoring mechanism that, when combined with financial distress, can paradoxically create incentives for fraud. Based on these arguments, the following hypothesis is proposed:

H3: External pressure has a positive effect on fraudulent financial statements.

2.7 Personal Financial Need, Fraudulent Financial Statements

Personal financial need refers to the individual financial circumstances of decision-makers that may influence corporate behavior (SAS No. 99). Managers experiencing financial difficulties may manipulate accounting results to obtain bonuses or satisfy personal obligations. When executives face personal financial pressures—such as debt obligations, lifestyle expenses, or personal investment losses—they may be more inclined to engage in fraudulent behavior to secure compensation, maintain job security, or preserve personal wealth. Research by Dewi et al. (2020) and Yulia (2017) confirms that personal financial need significantly elevates the risk of financial statement fraud. From the Fraud Heptagon perspective, personal financial need contributes to the pressure element, driving individuals to rationalize unethical behavior. Based on these arguments, the following hypothesis is proposed:

H4: Personal financial need has a positive effect on fraudulent financial statements.

2.8 Change in Director, Fraudulent Financial Statements

According to Wolfe and Hermanson (2004), fraud is often facilitated by individuals with both authority and capability to manipulate financial information. Changes in director composition may influence the effectiveness of oversight and the risk of fraud. New directors may bring fresh perspectives and strengthen governance, but they may also lack familiarity with the company's operations and controls. However, empirical findings on the relationship between director changes and fraud remain mixed. Sihombing (2014) and Tessa (2016) found no significant influence of director changes on the likelihood of fraud, suggesting that the mere presence of director changes does not necessarily indicate increased fraud risk. This suggests that the relationship between managerial capability and fraud warrants further empirical exploration. Based on these arguments, the following hypothesis is proposed:

H5: Change in director has no significant effect on fraudulent financial statements.

2.9 Effective Monitoring, Fraudulent Financial Statements

Weak monitoring mechanisms often indicate ineffective supervision, thereby creating opportunities for financial misstatement. Effective monitoring—through independent boards, active audit committees, and robust internal controls—reduces opportunities for

fraud by increasing detection risk and constraining managerial discretion. When monitoring mechanisms are weak, management may perceive opportunities to manipulate financial statements without detection. Prior studies by Putri et al. (2017), Aprilia (2017), and Mawarni (2016) highlight that inadequate monitoring increases the risk of fraudulent reporting. From the Fraud Heptagon perspective, weak monitoring contributes to the opportunity element, enabling fraudulent behavior to occur. Based on these arguments, the following hypothesis is proposed:

H6: Effective monitoring has a positive effect on fraudulent financial statements.

2.10 Nature of Industry, Fraudulent Financial Statements

The nature of industry describes sector-specific characteristics that affect financial reporting complexity, particularly in accounts requiring substantial managerial judgment, such as receivables and inventory (Summers & Sweeney, 1998; Jalil et al., 2024). Industries with complex accounting practices and weak internal controls provide greater opportunities for manipulation. Companies in industries characterized by high transaction volumes, complex revenue recognition, significant estimates and judgments, or extensive related-party transactions may be more vulnerable to financial statement fraud. Empirical evidence from Trisna (2022), Jonathan and Wijaya (2022), and Steven and Meiden (2022) supports this association. From the Fraud Heptagon perspective, industry characteristics contribute to both opportunity and rationalization by creating environments where manipulation may be more difficult to detect and easier to justify. Based on these arguments, the following hypothesis is proposed:

H7: Nature of industry has a positive effect on fraudulent financial statements.

2.11 Change in Auditor, Fraudulent Financial Statements

A change in auditor may reflect management's intention to reduce scrutiny and avoid the detection of irregularities (Tiffani & Marfuah, 2016). Companies engaging in fraudulent activities may change auditors to find an auditor willing to accept aggressive accounting practices or to disrupt the audit process. However, mandatory auditor rotation requirements may also drive auditor changes, making it difficult to interpret the relationship between auditor changes and fraud risk. Studies by Puspitaningrum and Taufiq (2019) and Utomo (2018) found no significant correlation between auditor change and fraudulent behavior. From the Fraud Heptagon perspective, auditor changes may represent rationalization or opportunity elements, as management may justify auditor changes as routine while actually seeking to reduce oversight. Based on these arguments, the following hypothesis is proposed:

H8: Change in auditor has no significant effect on fraudulent financial statements.

2.12 CEO Arrogance, Fraudulent Financial Statements

CEO arrogance reflects excessive self-confidence and a belief in immunity from internal controls (Crowe, 2011). Such characteristics can lead executives to rationalize unethical actions. According to COSO, approximately 70% of fraud perpetrators display arrogance or greed, and 89% of major fraud cases involve CEOs. Arrogant CEOs may believe they are above rules and controls, justifying fraudulent behavior as necessary for the company's success or as within their prerogative. Empirical evidence from Tessa (2016) shows that CEO arrogance, proxied by the frequency of CEO photographs in annual reports, significantly increases the likelihood of fraud. From the Fraud Heptagon perspective, arrogance represents a distinct element that enables rationalization and

reduces the perceived risk of detection. Based on these arguments, the following hypothesis is proposed:

H9: Frequent number of CEO pictures has a positive effect on fraudulent financial statements.

2.13 Ignorance, Fraudulent Financial Statements

Ignorance refers to a lack of ethical awareness or understanding of the consequences of fraudulent actions (Satata, 2024). Individuals with limited ethical sensitivity are more susceptible to engaging in unethical conduct. When managers lack understanding of ethical principles, regulatory requirements, or the consequences of fraudulent behavior, they may engage in misconduct without fully appreciating the implications. Mohamed and Yusof (2016) emphasized that enhancing ethical knowledge and awareness can mitigate ignorance and reduce fraud risk. From the Fraud Heptagon perspective, ignorance represents a distinct element that enables rationalization by allowing individuals to minimize the perceived severity of their actions. Based on these arguments, the following hypothesis is proposed:

H10: Ignorance has a positive effect on fraudulent financial statements.

2.14 Greed, Fraudulent Financial Statements

Greed denotes an excessive desire for wealth, status, or power (Satata, 2024). A high level of greed may drive individuals to manipulate financial statements for personal advantage. Greedy individuals may prioritize personal gain over ethical considerations, rationalizing fraudulent behavior as justified by their perceived entitlement or need. Empirical findings by Mohamed and Yusof (2016) and Aslamy and Lastanti (2025) confirm that greed significantly increases the likelihood of fraudulent reporting. From the Fraud Heptagon perspective, greed represents the final element of the framework, driving individuals to engage in fraud despite awareness of the risks and consequences. Based on these arguments, the following hypothesis is proposed:

H11: Greed has a positive effect on fraudulent financial statements.

3. Methods

3.1 Research Design

This research employs a quantitative explanatory design to empirically examine the effect of the Fraud Heptagon Model on detecting fraudulent financial statements in financial sector companies in Indonesia. The study investigates the influence of eleven independent variables financial target, financial stability, external pressure, personal financial need, change in director, effective monitoring, nature of industry, change in auditor, frequency of CEO pictures, ignorance, and greed on fraudulent financial statements as the dependent variable. The analysis is conducted using panel data regression to capture variations across firms and over time.

3.2 Population and Sample

The population of this study consists of all financial sector companies listed on the Indonesia Stock Exchange (IDX) from 2021 to 2024, totaling 105 companies. The financial sector is chosen because it exhibits a higher level of fraud risk exposure and provides more transparent and complete financial reporting data.

A purposive sampling technique was applied to select companies that meet specific criteria relevant to the research objectives. The sampling criteria are as follows:

Table 2. Sample Selection Process

Sample Criteria	Number of Companies
Financial sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2021–2024	105
Exclusion of companies that did not publish their annual financial reports and annual reports on either the official company website or the IDX website	(41)
Exclusion of companies that did not report positive net income during the period 2021–2024	(22)
Total Companies Meeting the Criteria:	42
Total Observations:	168

Source: Data Processed, 2025

3.3 Data Collection Techniques

This study utilizes secondary data obtained from publicly accessible sources, including audited annual financial statements, annual reports, the official website of the Indonesia Stock Exchange (www.idx.co.id), and the respective companies' official websites. The data collection process was conducted using documentation techniques, which involved extracting quantitative financial data and qualitative indicators necessary for measuring the research variables.

3.4 Operational Definitions and Measurement of Variables

The operationalization of variables is based on the Fraud Heptagon Theory and prior empirical research. The variables, definitions, indicators, and measurement scales are summarized below:

Table 3. Variable Measurement

No	Variable	Definition	Measurement	Scale	Source
1	Fraudulent Financial Statements (Y)	Intentional manipulation or misrepresentation of financial reports	F-Score = RSST Accrual + Financial Performance	Ratio	Skousen et al. (2009)
2	Financial Target (X1)	Pressure to achieve specific financial goals	ROA	Ratio	Skousen et al. (2009)
3	Financial Stability (X2)	Firm's ability to sustain financial stability	$\Delta TA = (TA^{t} - TA^{t-1}) / TA^{t-1}$	Ratio	Skousen et al. (2009)
4	External Pressure (X3)	Pressure from creditors and investors to maintain performance	Leverage (Total Debt / Total Assets)	Ratio	Skousen et al. (2009)
5	Personal Financial Need (X4)	Management's personal financial interest related to	OSHIP (Managerial Ownership %)	Ratio	Skousen et al. (2009)

No	Variable	Definition	Measurement	Scale	Source
		company decisions			
6	Change in Director (X5)	Change in the board of directors in the period	Dummy: 1 = Change, 0 = No Change	Nominal	Wolfe & Hermanson (2004)
7	Effective Monitoring (X6)	Effectiveness of supervisory function by independent commissioners	Proportion of Independent Commissioners	Ratio	Skousen et al. (2009)
8	Nature of Industry (X7)	Industry characteristics related to receivables complexity	$(Receivable/Sales)^{t}$– $(Receivable/Sales)^{t-1}$	Ratio	Skousen et al. (2009)
9	Change in Auditor (X8)	Change of external auditor during research period	Dummy: 1 = Change, 0 = No Change	Nominal	Skousen et al. (2009)
10	Frequency of CEO Pictures (X9)	Number of CEO photographs as a proxy for arrogance	Total CEO photos in Annual Report	Ratio	Crowe (2011)
11	Ignorance (X10)	Lack of awareness or understanding of consequences of fraud	Index based on annual report disclosures	Ratio	Mohamed & Yusof (2016)
12	Greed (X11)	Excessive desire for personal gain	Compensation Ratio or CEO Remuneration	Ratio	Mohamed & Yusof (2016)

4. Results And Discussion

4.1 Results

Table 4. Descriptive Statistic Test

Variable	Mean	Median	Max	Min
FSCORE	0.149840	-0.160400	1.972700	-0.685300
ROA	0.026309	0.017550	0.121600	0.000700
ACHANGE	0.075184	0.070300	0.449900	-0.320000
LEV	0.628652	0.722500	0.883600	0.002500
OSHIP	0.014068	0.000100	0.506800	0.000000
CID	0.101190	0.000000	1.000000	0.000000
BDOUT	0.509360	0.500000	0.800000	0.200000
NOI	0.056820	0.035200	9.823200	-5.673300
AUDCHG	0.166667	0.000000	1.000000	0.000000
CEOPIC	2.595238	3.000000	5.000000	0.000000

Variable	Mean	Median	Max	Min
ICGC	2.392532	2.183350	6.666700	0.000000
GREED	0.384463	0.117350	10.759100	0.002700

Source: EViews 12 Data Processed, 2025

In total, this study analyzed 168 firm-year observations. The descriptive statistics for each variable are presented as follows. The dependent variable, Fraudulent Financial Statement (Y), measured using the F-Score, has a mean value of 0.1498, a median of –0.1604, with values ranging from –0.6853 to 1.9727. The Financial Target (X1), represented by ROA, shows a mean of 0.0263, a median of 0.0176, a maximum of 0.1216, and a minimum of 0.0007. The Financial Stability (X2), proxied by ACHANGE, records a mean of 0.0752, a median of 0.0703, a maximum of 0.4499, and a minimum of –0.3200.

Furthermore, the External Pressure (X3) variable, measured by LEV, has an average value of 0.6289, a median of 0.7225, a maximum of 0.8836, and a minimum of 0.0025. The Personal Financial Need (X4), captured through OSHIP, yields a mean of 0.0141, a median of 0.0001, a maximum of 0.5068, and a minimum of 0.0000. The Change in Directors (X5), a dummy variable represented by CID, has a mean of 0.1012, a median of 0.0000, with observed values between 0.0000 and 1.0000.

In terms of governance characteristics, Effective Monitoring (X6), proxied by BDOUT, shows a mean of 0.5094, a median of 0.5000, with values ranging from 0.2000 to 0.8000. The Nature of Industry (X7), represented by NOI, exhibits a mean of 0.0568, a median of 0.0352, a maximum of 9.8232, and a minimum of –5.6733. The Change in Auditor (X8), measured by the dummy variable AUDCHG, has an average of 0.1667, a median of 0.0000, and values between 0.0000 and 1.0000.

Regarding behavioral and psychological indicators, the Number of CEO Pictures (X9), represented by CEOPIC, shows an average value of 2.5952, a median of 3.0000, with the number ranging from 0.0000 to 5.0000. The Ignorance (X10) variable, proxied by ICGC, records a mean of 2.3925, a median of 2.1834, a maximum of 6.6667, and a minimum of 0.0000. Lastly, the Greed (X11) variable, represented by GREED, has an average of 0.3845, a median of 0.1174, a maximum of 10.7591, and a minimum of 0.0027.

Table 5. Model Selection Technique

Test	Prob.
Chow	0.0000
Hausman	0.0000

Source: EViews 12 Data Processed, 2025

The results of the model selection tests demonstrate that Chow test yielded a probability value of 0.0000, signifying that the Fixed Effect Model (FEM) provides a better fit than the Common Effect Model (CEM). Similarly, the Hausman test produced a probability of 0.0000, confirming that the Fixed Effect Model is more appropriate than the Random Effect Model (REM). Consequently, this research employs the Fixed Effect Model as the most suitable estimation method. The Lagrange Multiplier (LM) test was not applied, as both the Chow and Hausman tests had already identified FEM as the best-fitting model, rendering the LM test unnecessary.

Table 6A. Multicollinearity Test

	ROA	ACHANGE	LEV	OSHIP	CID	BDOUT
ROA	1.00000	-0.00455	-0.43189	0.14606	-0.08096	-0.16468
ACHANGE	-0.00455	1.00000	0.10964	-0.03322	0.10805	-0.02824
LEV	-0.43189	0.10964	1.00000	-0.01575	0.10250	0.15735

	ROA	ACHANGE	LEV	OSHIP	CID	BDOUT
OSHIP	0.14606	-0.03322	-0.01575	1.00000	0.06906	0.06929
CID	-0.08096	0.10805	0.10250	0.06906	1.00000	-0.04253
BDOUT	-0.16468	-0.02824	0.15735	0.06929	-0.04253	1.00000
NOI	-0.07071	0.15620	0.12372	-0.00311	-0.00992	0.01751
AUDCHG	-0.11452	-0.09372	-0.01414	-0.07674	-0.09710	0.05769
CEOPIC	0.07369	0.10598	0.17676	-0.28104	0.06660	0.00370
ICGC	-0.21425	-0.04606	0.29305	-0.14999	-0.01230	0.10680
GREED	-0.20967	0.08366	-0.09581	-0.02118	-0.01445	0.05203

Table 6B. Multicollinearity Test

	NOI	AUDCHG	CEOPIC	ICGC	GREED
ROA	-0.07071	-0.11452	0.07369	-0.21425	-0.20967
ACHANGE	0.15620	-0.09372	0.10598	-0.04606	0.08366
LEV	0.12372	-0.01414	0.17676	0.29305	-0.09581
OSHIP	-0.00311	-0.07674	-0.28104	-0.14999	-0.02118
CID	-0.00992	-0.09710	0.06660	-0.01230	-0.01445
BDOUT	0.01751	0.05769	0.00370	0.10680	0.05203
NOI	1.00000	-0.03503	-0.04386	0.00598	0.00325
AUDCHG	-0.03503	1.00000	-0.03118	0.10005	0.00550
CEOPIC	-0.04386	-0.03118	1.00000	0.09253	0.05722
ICGC	0.00598	0.10005	0.09253	1.00000	-0.00439
GREED	0.00325	0.00550	0.05722	-0.00439	1.00000

Source: EViews 12 Data Processed, 2025

Referring to the results shown in Table 6, all correlation coefficients among the variables are found to be below the threshold value of 0.8. This outcome satisfies the requirement of the multicollinearity diagnostic, which indicates that no multicollinearity exists when the correlation between independent variables remains under 0.8. Hence, it can be inferred that the dataset does not exhibit any multicollinearity problems.

Table 7. Heteroscedasticity Test

Variable	Prob.
ROA	0.2497
ACHANGE	0.2966
LEV	0.3872
OSHIP	0.1199
CID	0.3503
BDOUT	0.7542
NOI	0.0687
AUDCHG	0.3058
CEOPIC	0.3337
ICGC	0.9243
GREED	0.4259

Source: EViews 12 Data Processed, 2025

Based on the results presented in the table above, all independent variables exhibit probability (p-value) values greater than the 5% significance level ($\alpha = 0.05$). This indicates that none of the independent variables significantly influence the absolute value of the residuals. Therefore, it can be concluded that the regression model does not show any indication of heteroscedasticity. In other words, the residuals have a constant variance (homoscedastic), implying that the model is statistically appropriate and reliable for further analysis.

Table 8. F-Test

F-statistic	51.00498
Prob(F-Statistic)	0.000000

Source: EViews 12 Data Processed, 2025

The F-test is employed to assess the overall significance of the regression model. Based on the results of the Fixed Effect Model estimation, the F-statistic is 51.00498 with a corresponding probability value of 0.000000, which is well below the 5% significance threshold (α = 0.05). This finding demonstrates that, collectively, the independent variables included in the model significantly influence the dependent variable.

Coefficient of Determination (R^2 Test)

Table 9. R^2 Test

R-squared	0.958443
Adjusted R-squared	0.939651

Source: EViews 12 Data Processed, 2025

The results of the regression analysis using the Fixed Effect Model reveal that the R-squared value is 0.958443, while the Adjusted R-squared is 0.939651. This indicates that approximately 95.84% of the variation in fraudulent financial statements (F-SCORE) can be explained by the independent variables included in the model, whereas the remaining 4.16% is attributed to other factors not captured in the model. These results demonstrate that the model exhibits a very high explanatory power and is therefore considered robust and reliable in explaining the determinants of financial statement fraud.

t-Test

Table 10. t-Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ROA	7.533573	1.588638	4.742159	0.0000
ACHANGE	0.286250	0.144569	1.980025	0.0501
LEV	-0.148076	0.252661	-0.586067	0.5590
OSHIP	-5.258701	3.757712	-1.399442	0.1644
CID	-0.028833	0.050109	-0.575409	0.5661
BDOUT	0.027523	0.179235	0.153557	0.8782
NOI	0.070005	0.012018	5.824827	0.0000
AUDCHG	0.009361	0.041005	0.228295	0.8198
CEOPIC	0.009994	0.030805	0.324421	0.7462
ICGC	-0.023215	0.017683	-1.312892	0.1918
GREED	0.011153	0.018205	0.612641	0.5413

Source: EViews 12 Data Processed, 2025

A partial t-test using the Fixed Effect Model (FEM) was conducted to assess the individual influence of each independent variable on fraudulent financial statements (F-Score). The results show that the Financial Target (ROA) variable has a significance value of 0.0000 (< 0.05) and a positive coefficient of 7.533573, indicating a significant positive effect on fraudulent financial statements. In contrast, the other variables Financial Stability (ACHANGE) (p = 0.0501, coefficient = 0.286250), External Pressure (LEV) (p = 0.5590, coefficient = –0.148076), Personal Financial Need (OSHIP) (p = 0.1644, coefficient = –5.258701), Change in Director (CID) (p = 0.5661, coefficient = –0.028833), Effective Monitoring (BDOUT) (p = 0.8782, coefficient = 0.027523), Change in Auditor (AUDCHG) (p = 0.8198, coefficient = 0.009361), Number of CEO Pictures (CEOPIC) (p = 0.7462, coefficient = 0.009994), Ignorance (ICGC) (p = 0.1918,

coefficient = –0.023215), and Greed (GREED) (p = 0.5413, coefficient = 0.011153) all show no statistically significant effects. However, the Nature of Industry (NOI) variable exhibits a significance value of 0.0000 (< 0.05) and a positive coefficient of 0.070005, indicating a significant positive relationship with fraudulent financial statements.

4.2 Discussion

1) The Effect of Financial Target on Fraudulent Financial Reporting

The Financial Target variable (X_1) exhibits a positively significant influence on fraudulent financial reporting, as indicated by a value of probability 0.0000 (< 0.05) and a positive beta coefficient of 7.533573. This suggests that companies under pressure to meet aggressive financial targets are significantly more likely to engage in fraudulent financial reporting.

Financial targets positively impact fraudulent financial statements because ambitious profitability and growth targets can pressure management into engaging in unethical accounting practices. When a company sets very high profit targets, management may feel compelled to manipulate financial reports to meet these targets, especially if actual performance falls short of expectations. This could involve prematurely recognizing revenue, delaying expense recognition, or even recording fictitious transactions to satisfy investor or other stakeholder expectations.

This finding aligns with agency theory. In this context, aggressive financial targets create a significant conflict of interest between agents (managers) and principals (owners/investors). Managers, as agents, possess asymmetric information and may act to maximize their self-interest at the expense of the principals interests. This pressure to achieve financial targets is a form of agency problem, where managers might commit fraudulent financial statements as an opportunistic action to meet targets, seemingly aligning their interests with the principals expectations, albeit through dishonest means.

These findings are consistent with prior research by (Rahayu & Susilowati, 2025) and (Hakim et al., 2024), which also identified a significant positive relationship between financial targets and fraudulent financial reporting. In contrast with research (Octaviana, 2022), which state that negative effect and (Handoko, 2021) with no significant effect.

2) The Effect of External Pressure on Fraudulent Financial Reporting

The External Pressure variable (X_2) shows a value of probability 0.0501 (> 0.05) and a positive coefficient of 0.286250, indicating there is no effect on fraudulent financial reporting. Despite the intuitive link between external pressure and fraud, this resulting that the specific type or level of external pressure measured in this study does not significantly drive fraudulent financial reporting.

External pressure did not impact fraudulent financial statements in this study, likely because the company already has strong defense mechanisms. Despite pressure from creditors, investors, or the market, management may prioritize adherence to accounting standards and ethics over attempts to meet such pressure through dishonest means. This could also be due to strict regulatory oversight to maintain the company's reputation, making them reluctant to risk financial statement manipulation.

This finding does not directly align with the fundamental assumption of agency theory that managers will always act opportunistically when there are incentives or pressures. If external pressure does not lead to an increase in fraud, it suggests that the company's internal monitoring or incentive mechanisms may be effective enough to mitigate opportunistic behavior driven by external pressures. This implies the conflicts of interest

between agents and principals caused by external pressure can be overcome through good corporate governance and a commitment to integrity.

These findings align with (Octaviana, 2022) and (Handoko & Tandean, 2021), that found no significant influence of external pressure on the likelihood of financial statement fraud. However, not in line with research conducted by (Alyani et al., 2023) that external pressure affects significantly positive to fraudulent financial statement, because external pressure can be overcome through good corporate governance and a commitment to integrity.

3) The Effect of Financial Stability on Fraudulent Financial Reporting

The Financial Stability variable (X3) has no significant impact on fraudulent financial reporting, with a probability value 0.5590 (> 0.05) and a negative coefficient of -0.148076. It implies that financially stable companies are more prone to fraudulent financial reporting. This could be due to a variety of reasons such as a desire to maintain an artificially high valuation, or to hide minor issues that could tarnish a strong image.

High financial stability can surprisingly correlate positively with fraudulent financial statements because, in very stable financial conditions, internal and external oversight might tend to relax. Companies perceived as financially very healthy often receive less scrutiny or stringent audits, creating opportunities for dishonest management to manipulate financial reports undetected.

This finding can be explained within the framework of agency theory as a form of moral hazard. When a company is in a stable financial condition, the principals might reduce their level of oversight, assuming the agents have performed well and will continue to do so. This lack of oversight provides greater leeway for agents (managers) to engage in opportunistic actions, including fraudulent financial statements, because the risk of detection is lower.

These findings corroborate with research by (Hakim et al., 2024) resulted no significant effect. The study by (Kaffah & Afriyenti, 2024) and (Octani et al., 2022), which demonstrated a positive relationship between financial stability and financial reporting fraud.

4) The Effect of Personal Financial Need on Fraudulent Financial Reporting

The variable Personal Financial Need (X4) yields a probability value 0.1644 (> 0.05) and a negative coefficient of -5.258701, suggesting no significant impact on fraudulent financial reporting. While personal financial need is often cited as a motive for fraud, this study does not find a statistically significant link.

Individual personal financial needs did not affect fraudulent financial statements in this study, possibly due to strong internal control structures or strict internal policies within the company. Although an individual may have personal financial needs, effective company systems, such as segregation of duties, regular internal audits, and strict oversight by top management, can prevent them from committing fraud. Additionally, awareness of severe legal and professional consequences can also be a strong disincentive.

This finding shows misalignment with agency theory. While agency theory acknowledges that agents may have personal motivations conflicting with the principal's interests, the company's internal governance mechanisms appear to successfully limit an individual's ability to act on opportunistic personal financial needs.

This result supports findings from (Putro & Puspawati, 2023), who also found no significant effect of personal financial needs on financial reporting fraud. But not in line with (Octani et al., 2022) which state personal financial need had negative effect on fraudulent financial statement.

5) The Effect of Change in Director on Fraudulent Financial Reporting

With a probability value of 0.5661 (> 0.05) and a negative coefficient of -0.028833, the Change in Director variable (X5) does not significantly affect fraudulent financial reporting. This suggests that changes in the board of directors, on their own, do not have a discernible impact on the likelihood of fraudulent financial reporting. New directors quickly adapt to existing practices, or that the mechanisms for fraud are deeply embedded regardless of individual director changes.

Changes in director do not impact fraudulent financial statements because they are typically implemented as a management improvement measure. New directors tend to focus on improving professional performance and are under strict supervision, thus ensuring greater adherence to good governance principles. This actually strengthens internal oversight and reduces the potential for fraud.

This finding aligns with agency theory if it is assumed that the company implements effective and sustainable internal control. Mechanisms such as transparent reporting, regular internal audits, separation of duties, and active oversight can limit opportunistic management actions. When these systems are implemented consistently, a strong culture of accountability is created, reducing the risk of financial statement manipulation.

These findings are in line with (Putro & Puspawati, 2023), who reported no significant relationship between director changes and financial statement fraud. However, the result contrary with (Addawiyah et al., 2025) and (Azizah et al., 2025) state change in director significant positively affect fraudulent financial statement.

6) The Effect of Effective Monitoring on Fraudulent Financial Reporting

The Effective Monitoring variable (X_8) has a probability value of 0.8782 (> 0.05) and a positive coefficient of 0.027523, indicating no statistically significant effect on fraudulent financial reporting. This might suggest that the way effective monitoring was measured in this study is not robust enough to capture its true deterrent effect.

While seemingly paradoxical, Effective monitoring did not impact fraudulent financial statements in this study. This could be because fraud is sometimes carried out in very sophisticated ways that are difficult to detect even by good monitoring systems. It is also possible that the effectiveness of monitoring measured in this study has not fully encompassed all aspects of oversight necessary to prevent fraud.

Agency theory fundamentally posits that effective monitoring is key to aligning principal and agent interests and reducing opportunistic behavior. If effective monitoring does not correlate negatively with fraud, this might indicate limitations in the implementation of monitoring, making conventional monitoring mechanisms unable to detect it.

These findings are consistent with those of (Putro & Puspawati, 2023), who also found no significant relationship between effective monitoring and fraud. (Adhania et al., 2024) research contrary with this result which state negative effect.

7) The Effect of Nature of Industry on Fraudulent Financial Reporting

The Nature of Industry variable (X7) demonstrates a significant positive influence on fraudulent financial reporting, as indicated by a probability value of 0.0000 (< 0.05) and a positive coefficient of 0.070005. This result suggests that the inherent characteristics of certain industries such as complexity in operations, estimation-based accounting practices, and reliance on discretionary judgments may increase the risk of fraudulent financial reporting.

Industries with more complex transactions and a greater degree of estimation uncertainty provide management with wider opportunities to manipulate financial data. For instance, industries that depend heavily on inventory valuation, long-term contracts, or receivables management can obscure irregularities more easily, making it difficult for auditors or regulators to detect manipulation. Consequently, the more complex the industry, the higher the opportunity for management to engage in earnings manipulation or other forms of fraudulent reporting.

This finding is consistent with Agency Theory, which emphasizes information asymmetry between principals (owners/investors) and agents (managers). In industries with intricate operational processes, managers possess more private information than shareholders, giving them leverage to exploit these asymmetries. As a result, they may use their informational advantage to manipulate reports and present performance that appears aligned with shareholder expectations, even if it involves unethical or deceptive practices.

These findings are consistent with those of (Putro & Puspawati, 2023), who also found no significant relationship between monitoring effectiveness and fraud. (Adhania et al., 2024) research contrary with this result which state negative effect.

8) The Effect of Auditor Change on Fraudulent Financial Reporting

The Change in Auditor variable (X9) has a probability value of 0.8198 (> 0.05) and a positive coefficient of 0.009361, implying no significant effect on fraudulent financial statement. This suggests that changing auditors, which is sometimes seen as a red flag or an opportunity for fraudulent activities, does not significantly impact fraudulent financial reporting in this study.

A change in auditor did not affect fraudulent financial statements in this study. This can be explained because the replacement auditor, although new, adheres to the same strict professional standards and is also under strong regulatory oversight. Auditor rotation is typically followed by a detailed handover process and a primary focus on ensuring the integrity of financial statements, so there is no significant reduction in oversight that could trigger fraud.

This finding shows misalignment with certain assumptions in agency theory that might argue, an auditor change could create a period of uncertainty or oversight weakness that opportunistic agents could exploit.

This finding supports the research by (Hakim et al., 2024), which found no significant relationship between auditor change and financial statement fraud. However, contrary with research (Setyono et al., 2023) and (Alyani et al., 2023) found that auditor change can positively affect fraudulent financial statement.

9) The Effect of CEO Photographs on Fraudulent Financial Reporting

The Number of CEO Pictures variable (X10) shows a probability value of 0.7462 (> 0.05) and a positive coefficient of 0.009994, suggesting no significant relationship with fraudulent financial reporting. The results indicate that the frequency or prominence of CEO photographs in financial reports does not have a statistically significant relationship with fraudulent financial reporting.

The number of CEO pictures in annual reports did not impact fraudulent financial statements in this study. This might be because the use of CEO pictures is more related to the company's communication or marketing strategy rather than a direct indicator of opportunistic managerial behavior. While some external research might link CEO imagery to overconfidence or narcissism that could trigger fraud.

This finding has no direct correlation with agency theory. Agency theory focuses on the conflict of interest between principals and agents and how governance can reduce this conflict. The number of CEO pictures is not a governance mechanism or an explicit source of incentive discussed within agency theory. This non-impact suggests that non-financial aspects or visual representations in annual reports.

This aligns with the findings of (Handoko, 2021), who concluded that CEO image presentation has no effect on financial report fraud. But not in line with research conducted by (Dewi & Yuliati, 2022) state that frequent number of CEO Picture has a positive effect, also research by (Addawiyah et al., 2025) concluded CEO Picture negatively affect the fraudulent financial report.

10) The Effect of Ignorance on Fraudulent Financial Reporting

The Ignorance variable (X10) shows an insignificant effect on fraudulent financial reporting, with a probability value of 0.1918 (> 0.05) and a negative coefficient of -0.023215. This indicates that a lack of awareness or understanding regarding ethical standards and the consequences of fraudulent acts does not significantly influence the likelihood of fraudulent financial reporting in the observed firms.

This explain that most managers and financial officers already possess adequate knowledge of ethical standards and accounting principles, thus minimizing the effect of ignorance as a determinant of fraud. Additionally, formal regulations, professional training, and the presence of audit oversight may reduce the extent to which ignorance contributes to fraudulent practices. In such cases, fraud may stem more from deliberate intent or external pressures rather than from a lack of knowledge or awareness.

From the perspective of Agency Theory, agency problem does not arise primarily from ignorance but rather from intentional opportunistic behavior. Managers, as rational agents, act deliberately to maximize their self-interest rather than committing fraud out of unawareness. Therefore, ignorance is not a key explanatory factor within the agency framework in this context

These findings are consistent with Permatasari & Suhendrio, 2025 who also found greed do not exhibit a significant influence on fraudulent financial reporting. (Adhania et al., 2024) research contrary with this result which state negative effect.

11) The Effect of Greed on Fraudulent Financial Reporting

The Greed variable (X11) has no significant influence on fraudulent financial reporting, as evidenced by a probability value of 0.5413 (> 0.05) and a beta coefficient of 0.011153. This finding implies that an excessive desire for wealth or personal gain does

not significantly affect the likelihood of managers engaging in fraudulent financial reporting within the sampled firms.

This result can be interpreted as an indication that greed alone is insufficient to motivate fraudulent behavior when effective internal controls, ethical culture, and corporate governance mechanisms are in place. Even though greed is theoretically linked to unethical conduct, structural and institutional factors may mitigate its impact, preventing individuals from translating personal desires into fraudulent actions. Moreover, fraud may arise more from situational pressures than from intrinsic greed.

The insignificance of greed suggests that not all agency conflicts lead to fraudulent outcomes. While agency theory posits that agents may pursue self-interest over principals' welfare, this study indicates that such opportunistic motives are not always strong enough to drive financial statement manipulation. The presence of monitoring mechanisms, ethical codes, and incentive alignment likely reduces the extent to which greed translates into fraudulent reporting.

These findings are consistent with (Satata et al., 2024), who also found no significant relationship between greed and fraudulent financial statement. (Pamungkas et al., 2024) research contrary with this result which state positive effect.

5. Conclusion

Based on the results of the panel data regression analysis using the Fixed Effect Model (FEM), this study concludes that among the examined variables, only Financial Target and Nature of Industry exhibit a significant positive effect on fraudulent financial statements of financial companies in Indonesia during the 2021–2024 period. This finding suggests that firms pursuing aggressive financial performance goals and operating within industries characterized by complex operational and accounting processes are more likely to engage in financial statement manipulation. In contrast, variables such as External Pressure, Financial Stability, Personal Financial Need, Change in Director, Effective Monitoring, Change in Auditor, Number of CEO Pictures, Ignorance, and Greed do not significantly influence fraudulent financial statements. Overall, these results indicate that not all elements of the Fraud Heptagon Theory contribute equally to explaining fraudulent behavior, emphasizing that organizational performance objectives and industry characteristics serve as the primary determinants of financial misreporting within Indonesia's financial sector.

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