Fraudulent Financial Reporting Using The Testing of The Hexagon Fraud Theory in Manufacturing on The Indonesian Sharia Stock Index (ISSI)

Setia Bella Saputri[1], Shinta Permata Sari[2*]

[1]*Faculty of Economic and Business, Universitas Muhammadiyah Surakarta, Indonesia*
[2*]*Faculty of Economic and Business, Universitas Muhammadiyah Surakarta, Indonesia*
Coressponding Authors

Abstract: Financial statement fraud is the act of manipulating several items in the financial statements, which can negatively impact the company. This study aims to identify financial statement fraud using the hexagon fraud theory model proposed by Georgios L. Vousinas (2019). This theory has six elements: pressure that can be seen from financial stability, personal financial need, external pressure, and financial target factors; opportunities seen from the nature of the industry and ineffective monitoring factors; capability; rationalization; arrogance; and collusion. The sample in this study is manufacturing companies listed in the Indonesian Sharia Stock Index (ISSI) for the 2019–2021period.There are 159 company samples selected using the purposive sampling method. Logistic regression analysis methods are selected to test the research hypothesis. The results of this study show that financial stability and the nature of the industry affect fraudulent financial reporting. While personal financial need, external pressure, financial target, capability, ineffective monitoring, rationalization, arrogance, and collusion do not affect fraudulent financial reporting.

Keywords: B eneish M-score, fraud hexagon model, fraudulent financial reporting.

1. Introduction

A company makes financial statements to analyze the company's current financial condition, employee performance, and changes in the financial position used by internal and external parties for decision-making. In addition to accounting for the company's operations to investors and other interested parties. This report can serve as a source of information about the financial position achieved by the company. Therefore, the company must have proper financial statements. However, many companies still have financial statements that need to follow the correct rules. To deal with these problems, companies usually commit fraud. Fraud often involves manipulating several items in the financial statements, which can negatively impact the company (Wicaksono and Suryandari, 2021).

Based on the results of a survey conducted by the Association of Certified Fraud Examiners (ACFE), there are three main categories of job fraud; the most common fraud committed in every global region is corruption; as many as 86% of the most common but least expensive fraud cases involve asset misappropriation, which involves employees stealing or misappropriating resources, with an average loss of $100,000. In contrast, as many as 9% of cases are the least common but most expensive is financial statement fraud, where perpetrators intentionally cause material misstatements or omissions in financial statements, with an average loss of $593,000, the third category, corruption, in 50% of cases that cause losses of $150,000, which includes offences such as bribery, conflicts of interest, and extortion, is in the middle both in terms of frequency and loss (ACFE, 2022). Meanwhile, a survey conducted by the ACFE Indonesia Chapter in 2019 proved that the most frequent fraud cases in Indonesia are corruption cases, with a percentage rate of 64.4% chosen by 154 respondents. This is followed by misappropriation of state and company assets or wealth, with a percentage of 28.9% filled in by 69 respondents, and irregularities in financial statements, with a percentage rate of 6.7% filled in by 16 respondents (ACFE Indonesia Chapter, 2019).

The fraud cases in Indonesia that have occurred have been carried out by the Kimia Farma Inc. (Permatasari and Laila, 2021). Kimia Farma Inc. is one of the manufacturing companies that committed financial statement fraud in the form of misstatement of net profit in the period ending December 31, 2001.The company also double-listed the sale of two business units. This company manipulates its financial data and financial statements to show that its financial condition remains good and stable. The Kompasiana article (June 28, 2022) explained thatthe Kimia Farma Inc. manipulated its earnings to achieve a net profit greater than around 24.7% of the profit it should have had.

As described above, fraud cases affect the reputation of various parties, including investors and other stakeholders, which reduces the company's value. Auditors are parties who have an essential role in detecting financial statement fraud and are expected to reduce the possibility of financial statement fraud in the company.

However, the company should not only rely on competent auditors but also plan for internal fraud control to be an indicator for detecting fraud in its financial statements (Sari and Nugroho, 2020).

Islamic stocks are different from conventional stocks. Companies listed in the Sharia stock register may not be engaged in business fields that do not follow Islamic Sharia. The Indonesian Sharia Stock Index (ISSI) in the Indonesian capital market can be an option to invest in stocks that follow Islamic Sharia principles, attracting many investors who want to invest their funds in Sharia-compliant stocks. One of them is in the manufacturing sector, which is the largest sector compared to other industries. In 2019, there are 124 manufacturing entities listed in ISSI; in 2020, there are 122 entities; and in 2021, there are 118 manufacturing entities listed in ISSI.

The hexagon fraud theory can be detected through a model called the Beneish M-score, developed by Messod D. Beneish in 1999. This model can identify corporate financial statement fraud with six elements: pressure, capability, opportunity, rationalization, arrogance, and collusion.

2. Literature Review and Hypothesis

Agency Theory

Agency theory comes from the statement of Jensen and Meckling (1976), which defines it as a contract in which one or more persons (as principals) bind others (as agents) to carry out activities on their behalf, which includes delegation of some decision-making authority to agents. According to agency theory, if the shareholder acts as the principal and the manager acts as the agent to carry out the company's operations, there will be agency problems because each party tries to achieve the desired level of wealth. The condition of information asymmetry, which refers to the imbalance in information acquisition between management as an information provider and shareholders and other stakeholders as information users, arises due to the conflict. Managers, who operate as company agents, usually have better knowledge of the company's current state than shareholders. This situation makes it possible for managers to do profit management and increase profits for their benefit or make fraudulent financial statements, and not infrequently, this action harms shareholders (Jensen and Meckling, 1976).

Fraudulent Financial Reporting

Fraud is a criminal act that is wrong or deliberate for financial or personal gain (ACFE, 2022). Job fraud involves using a person's position to commit intentional wrongdoing against his employer. Three categories of fraud are known as fraud trees, namely corruption, asset misappropriation, and fraudulent statements (ACFE, 2022). The three categories are still divided into several more specific branches.

The American Institute of Certified Public Accountants (AICPA) states that fraudulent financial reporting is a deliberate action to eliminate material facts, presenting accounting data that mislead users of financial statements so that they can affect the judgment of report users when making decisions (Sari and Safitri, 2019). Financial reporting fraud is the submission of material misstatements to financial statements that make users feel disadvantaged. Conducting fraudulent financial reporting involves presenting financial statements that are not in line with actual events, such as manipulating the presentation of financial statements and presenting financial statements that are better than the original (overstatement) or lower than the original (understatement).

Fraud Hexagon Theory

Hexagon fraud is a renewable theory related to financial statement fraud. This theory is a refinement of previous theories. The first theory is the fraud triangle theory, discovered by Donald R. Cressey in 1953, which became the basis of the hexagon fraud theory (Abdullahi and Mansor, 2018; Sujeewa et al., 2018). The fraud triangle causes someone to commit fraud due to three conditions: pressure, capability, and rationalization. The Fraud Triangle theory re-developed into the diamond fraud theory proposed by Wolfe and Hermanson (2004), with capability as a new component as a trigger for fraud.

Crowe (2012) re-developed the diamond fraud theory into the pentagon fraud theory, with arrogance as an additional component of fraud triggers. Based on the above theory, Hexagon's fraud theory emerged as a renewal theory of the fraud triangle, diamond, and pentagon fraud theories. Hexagon's Fraud Theory is developed by Vousinas (2019) by adding a new component, namely collusion, as a trigger for fraud actions. The SCORE model is obtained: stimulus, capability, collusion, opportunity, rationalization, and ego.

Pressure (Stimulus)

Pressure or stimulus is a motive to encourage someone to commit fraud, both financially and non-financially (Vousinas, 2019). Pressure can be seen from financial stability, personal financial need, external pressure, and financial target factors. Financial stability is a condition where the company's finances are stable, and it strives to improve its finances or at least remain stable (Agusputri and Sofie, 2019). Becker et al. (2006)

explain that the more pressure a person faces, the more likely they are to cheat. A company seeks to provide information to improve its prospects by manipulating information relating to its assets so that changes in its total assets project financial stability. Therefore, financial stability is measured by the ratio of changes in total assets. Based on research conducted by Octani et al. (2022); Imtikhani and Sukirman (2021); and Sagala and Siagian (2021) shows that financial stability affects fraudulent financial reporting. The first research hypothesis is obtained:

H1: Financial stability affects fraudulent financial reporting.

Personal financial need is a condition when the company's finances are also influenced by the financial condition of company executives (Skousen et al., 2009). Harahap et al. (2017) explained that pressure would encourage someone to commit fraud. Based on research conducted by Sari and Nugroho (2020)shows that personal financial need affects fraudulent financial reporting.The second research hypothesis can be obtained as follows:

H2: Personal financial needaffects fraudulent financial reporting.

External pressure is the pressure on management to meet third-party expectations (Skousen et al., 2009). Management needs additional capital to meet their expectations to allow management to commit financial statement fraud. External pressure can be measured through the leverage ratio of total liabilities to total assets. Based on research conducted by Hartadi (2022) and Larum et al. (2021), shows that external pressure affects fraudulent financial reporting. The third research hypothesis can be as follows:

H3: External pressureaffects fraudulent financial reporting.

Financial targets are subject to excessive pressure from the board of directors regarding the achievement of financial targets by the management. The company strives to obtain high-profit targets to obtain large amounts of funds from investors. Therefore, with high financial targets, for their performance, company managers are required to do the best management that will cause pressure on management and encourage management to commit fraud by manipulating financial statements that are displayed not in accordance with the actual situation. This financial target can be calculated through the Return on Assets (ROA).Based on research conducted by Mukaromah and Budiwitjaksono (2021) shows that financial targets affect fraudulent financial reporting.The fourth research hypothesis is obtained:

H4: Financial targetaffects fraudulent financial reporting.

Capability

Capabilities that encourage company management to commit fraud include a change in director. The change of directors can identify a particular interest in replacing the previous directors who have known of fraud in the company. Based on research conducted by Larum et al. (2021) shows that a change in director affects fraudulent financial reporting.The fifth hypothesis can be obtained:

H5: Capabilityaffects fraudulent financial reporting.

Opportunity

Opportunity is a situation that allows someone to commit fraud. Opportunity can be seen from the nature of the industry and ineffective monitoring.Nature of Industry is a company with an idealistic condition that can pose a threat because it allows third parties to carry out fraudulent actions, which can cause misstatements of financial statements. Nature of Industry is the ideal condition of a company that can be measured by the total value of receivables in financial statements (Setiawati and Baningrum, 2018). Based on research conducted by Sari and Nugroho (2020) shows that the nature of industry affects fraudulent financial reporting.The sixth hypothesis can be obtained:

H6: Nature of industryaffects fraudulent financial reporting.

An ineffective supervision system monitoring a company's performance can lead to financial statement fraud.The higher the ineffectiveness of supervision, the weaker internal supervision of management performance will be, increasing the incidence of financial statement fraud (Kusumosari and Solikhah, 2021). Based on research conducted by Hartadi (2022) and Mukaromah et al. (2021) shows that ineffective monitoring affects fraudulent financial reporting.The seventh hypothesis can be obtained:

H7: Ineffective monitoringaffects fraudulent financial reporting.

Rationalization

Rationalization is an effort to defend management against fraudulent actions that are considered that

activity is appropriately carried out. This action is intended to prevent fraudsters from punishment (Aprilia, 2017). A change in auditors can measure rationalization. The change of auditors made by the company is considered a way to eliminate traces of fraud found by previous auditors (Tessa and Harto, 2016). Based on research conducted by Hartadi (2022), shows that change in auditors affects fraudulent financial reporting. The eighth hypothesis can be obtained:

H8: Rationalizationaffects fraudulent financial reporting.

Arrogance (Ego)

The ego is the desire to strengthen power (Wolfe and Hermanson, 2004). The arrogance variable is proxied by the number of CEO photos displayed in the company's annual report that present the CEO's arrogance. Based on research conducted by Apriliana and Agustina (2017) states that the more photos of the CEO presented in the company's annual report show the high arrogance of the CEO in a company, the high arrogance can cause the possibility of fraud due to the arrogance and superiority possessed by the CEO, so he feels that every internal control does not apply to his person because of his status and position. The ninth hypothesis can be obtained:

H9: Arroganceaffects fraudulent financial reporting.

Collusion

Collusion is the act of making certain agreements dishonestly by two or more people for the personal interests of the parties involved in the agreement (Riyanti and Trisanti, 2021). Based on research conducted by Sari and Nugroho (2020) with collusion, it is measured by cooperation between the private sector and government projects. It proves that the acquisition of cooperation with government projects will lead to company efforts to display good financial performance so that it is approved to obtain cooperation with government projects. The tenth hypothesis can be obtained:

H10: Collusionaffects fraudulent financial reporting.

3. Methodology

3.1 Population and Sample

This study is a quantitative methods. The population in this study is manufacturing sector companies included in Indonesian Sharia Stock Index (ISSI) during the 2019-2021 period. The data used in this study is secondary data obtained from the financial statements of manufacturing companies included in the ISSI (www.idx.co.id) in the 2019-2021 period and the websites of each company that is sampled. The sampling technique used in this study is a purposive sampling. Based on the results of sample determination, a total of 159 samples are obtained.

3.2 Measurement

The Beneish M-Score is a mathematical model used to detect financial statement fraud (Sari and Nugroho, 2020).

Table 1. Beneish M-Score Measurement

Index Number	Formula
Days' Sales in Receivables Index (DSR)	$\dfrac{(\text{Receivable}_t/\text{Sales}_t)}{(\text{Receivable}_{t-1}/\text{Sales}_{t-1})}$
Gross Margin Index (GMI)	$\dfrac{(\text{Sales}_{t-1} - \text{COGS}_{t-1})/\text{Sales}_{t-1}}{(\text{Sales}_t - \text{COGS}_t)/\text{Sales}_t}$
Asset Quality Index (AQI)	$\dfrac{(1 - ((\text{Current Asset}_t + \text{PPE}_t)/\text{Total Asset}_t))}{(1 - ((\text{Current Asset}_{t-1} + \text{PPE}_{t-1})/\text{Total Asset}_{t-1}))}$
Sales Growth Index (SGI)	$\dfrac{\text{Sales}_t}{\text{Sales}_{t-1}}$
Depreciation Index (DEPI)	$\dfrac{(\text{Depreciation}_{t-1}/(\text{Depreciation}_{t-1} + \text{PPE}_{t-1}))}{(\text{Depreciation}_t/(\text{Depreciation}_t + \text{PPE}_t))}$
Sales General And Administrative Expenses Index (SGAI)	$\dfrac{(\text{SGA expenses}_t/\text{Sales}_t)}{(\text{SGA expenses}_{t-1}/\text{Sales}_{t-1})}$
Leverage Index (LEVI)	$\dfrac{((\text{LTD}_t + \text{Current Liabilities}_t)/\text{Total Assets}_t)}{((\text{LTD}_{t-1} + \text{Current Liabilities}_{t-1})/\text{Total Assets}_{t-1})}$
Total Accruals to Total Assets Index (TATA)	$\dfrac{(\text{Income before Extraordinary Item}_t - \text{Operating Cash}}{\text{Total Assets}_t}$

Source : Sari and Nugroho, 2020.

International Journal of Latest Research in Humanities and Social Science (IJLRHSS)
Volume 06 - Issue 05, 2023
www.ijlrhss.com // PP. 297-306

It will be recalculated using the following formula based on the results of the calculating using the eight indices above :

$$M= -4,84 + 0,920*DSR + 0,528*GMI + 0,404*AQI + 0,892*SGI + 0,115*DEPI - 0,172*SGAI + 4,679*TATA - 0,327*LEVI$$

The Beneish M-score model will detect the company's financial statement fraud, if the Beneish M-Score is higher than -2.22. The company detects fraud on the financial statements, will be given a score of 1, while if it is not will be given a score of 0.

This study use the following for each variables measurement:

Table 2.Variable Measurement

Variable	Factors	Source
Financial Stability (FSP)	$FSP= \dfrac{\text{Total Assets }_t - \text{Total Assets }_{t-1}}{\text{Total Assets }_t}$	Skousen et al., 2009
Personal Financial Need (PFNP)	$PFNP= \dfrac{\text{Total Managerial Shares}}{\text{Total Shares}}$	Skousen et al., 2009
External Pressure (EPP)	$EPP = \dfrac{\text{Total Liabilities}}{\text{Total Assets}}$	Skousen et al., 2009
Financial Target (FTP)	$FTP = \dfrac{\text{Net Profit}}{\text{Total Assets}}$	Skousen et al., 2009
Capability (CAP)	Code 1, if there is a change of directors during 2019-2021 Code 0, if there is no change of directors during 2019-2021	Tessa and Hartono, 2016
Nature of Industry (NOI)	$NOI = \dfrac{\text{Receivable}}{\text{Sales}} - \dfrac{\text{Receivable }_{t-1}}{\text{Sales }_{t-1}}$	Skousen et al., 2009
Ineffective Monitoring (IMO)	$IMO = \dfrac{\text{total independent commissioners}}{\text{total commissioners}}$	Skousen et al., 2009
Rationalization (RAZ)	Code 1, if there is a change of public accounting firm during 2019-2021 Code 0, if there is no change public accounting firm during 2019-2021	Skousen et al., 2009
Arrogance (ARRO)	Total of CEO images in annual report for 2019-2021	Crowe, 2012
Collusion (KOL)	Code 1, if the company cooperates with government projects during 2019-2021 Code 0, if the company does not cooperate with government projects during 2019-2021	Vousinas, 2019

3.3 Data Analysis Technique

In this research, hypothesis testing used logistic regression analysis. This technique is used because financial statement fraud is a dummy variable. A logistic analysis is used to test whether the probability of occurrence of the dependent variable can be predicted by its independent variable. In this study, logistic regression analysis is needed to prove the extent to which the independent variable affects the dependent variable. The regression model equation in this study is as follows:

$$FFR = a + b1\ FSP + b2\ PFNP + b3\ EPP + b4\ FTP + b5\ CAP + b6\ NOI + b7\ IMO + b8\ RAZ + b9\ ARRO + b10KOL + e$$

4. Results and Discussion

4.1 Descriptive Statistical Analysis

Based on the results of the descriptive statistical tests on the table 3, fraudulent financial reporting with a sample of 159 is assessed with a dummy, where if the company is indicated to have committed financial statement fraud, it is given a value of 1,000, and if it is not indicated to have to commit financial statement fraud is given a value of 0,000. The average value of fraudulent financial reporting from 2019 to 2021 is 0.44000 or 44%, and the standard deviation value is 0.49800, which is greater than the average value of 0.44000, it is concluded that the sample data of fraudulent financial reporting varied. Financial stability has a minimum value of -2.472 and a maximum value of 0.626. While the average value is 0.01798 or 1.798%, and the standard deviation value is 0.26723, which is greater than the average value of 0.01798, it is concluded that financial stability data varies. External pressure has a minimum value of 0.063 and a maximum value of 0.827. While the average value is 0.39966 or 39.966%, and the standard deviation value is 0.19043, smaller than the average

value of 0.39966, it is concluded that external pressure data is less variable. The financial target has a minimum value of -0.199 and a maximum value of 0.364. While the average value is 0.03677 or 3.677%, and the standard deviation value is 0.07945, which is greater than the average value of 0.03677, it is concluded that the financial target data varies. The nature of the industry has a minimum value of -0.620 and a maximum value of 0.256. While the average value is -0.00182 or -0.182%, and the standard deviation value is 0.08355, which is greater than the average value of -0.00182, it is concluded that the nature of industry data varies. Ineffective monitoring has a minimum value of 0.250 and a maximum value of 0.667. While the average value is 0.40967 or 40.967%, and the standard deviation value is 0.08589, which is smaller than the average value of 0.40967, it is concluded that ineffective monitoring data is less variable.

Personal Financial Need has a minimum value of 0.000 and a maximum value of 0.722. While the average value is 0.07059 or 7.059%, and the standard deviation value is 0.15553, which is greater than the average value of 0.07059, it is concluded that personal financial need data varies. A dummy measures rationalization. If the company in that year has a change in the public accounting firm, it is given a value of 1,000; if there is no change in the public accounting firm, it is given a value of 0.000 in that year. The average rationalization value of 0.19000 can mean that 19% of public accounting firms changed from 2019 to 2021 in the company, and 81% did not change public accounting firms from 2019 to 2021.The standard deviation of 0.39700 is greater than the average value of 0.19000, so it is concluded that rationalization data varies.

A dummy measures capability. If the company in that year, there is a change of directors is given a value of 1,000, and if there is no change of directors, it is given a value of 0.000 in that year. The average capability value of 0.44000 can mean that 44% of directors in the company changed from 2019 to 2021, and 56% did not change directors from 2019 to 2021. The standard deviation of 0.49800 is greater than the average value of 0.44000, so it is concluded that the capability data varies. Based on a sample of 159, the company's frequent number of CEO pictures is the lowest at 1,000 times, one of which is the Akasha Wira International Inc. for the 2019 financial year. The highest value of the frequent number of CEO pictures is 33,000 times, namely the Mark Dynamics Indonesia Inc. for the 2021 financial year. Arrogance has a minimum value of 1 and a maximum value of 33. While the average value is 3.40000 or 340%. The standard deviation of 4.03000 is greater than the average value of 3.40000, so it is concluded that the arrogance data varies. A dummy measures collusion. If the company in that year cooperates with the government, and is given a value of 1,000, and if it does not cooperate with the government, it is given a value of 0.000 in that year. The average collusion value of 0.33000 can mean that 33% of companies have cooperation with the government from 2019 to 2021 in these companies and 67% of companies have not cooperated with the government from 2019 to 2021. The standard deviation of 0.47300 is greater than the average value of 0.33000, so it is concluded that the collusion data varies.

Table 3 Descriptive Statistical Test Results

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Fraudulent Financial Reporting	159	0.000	1.000	0.44000	0.49800
Financial Stability	159	-2.472	0.626	0.01798	0.26723
External Pressure	159	0.063	0.827	0.39966	0.19043
Financial Target	159	-0.199	0.364	0.03677	0.07945
Nature of Industry	159	-0.620	0.256	-0.00182	0.08355
Ineffetive Monitoring	159	0.250	0.667	0.40967	0.08589
Personal Financial Need	159	0.000	0.722	0.07059	0.15553
Rationalization	159	0.000	1.000	0.19000	0.39700
Capability	159	0.000	1.000	0.44000	0.49800
Arrogance	159	1.000	33.000	3.40000	4.03000
Collusion	159	0.000	1.000	0.33000	0.47300

Source: Data process, 2023.

4.2 Discussion

The first step of logistic regression analysis is the goodness of fit test. The Hosmer and Leme show Goodness of Fit Test can test the goodness of fit. In this study, the significance value of Hosmer and Leme show is 0.397. This means that the value is greater than 0.05, so it can be concluded that the null hypothesis is accepted. The model can predict the value of an observation, or it can be said that the model is acceptable because it matches the research data. The second step is the overall fit model test, which compares the value between the -2 Log Likelihood block number = 0 and the -2 Log Likelihood block number = 1. The overall fit model test results show a value of -2 Log Likelihood block number = 0 of 218.145. After entering ten

International Journal of Latest Research in Humanities and Social Science (IJLRHSS)
Volume 06 - Issue 05, 2023
www.ijlrhss.com || PP. 297-306

independent variables, the value of -2 Log Likelihood block number = 1 is 197.255. This decrease in the Log Likelihood value of -2 indicates that the regression model is good. This means that the model fits the data. The third step is the test of the coefficient of determination (Nagelkerke R Square).

The Nagelkerke R Square value in this study is 0.183, which means that each component of the independent variable could explain the dependent variable by 18.3%. At the same time, the remaining 81.7% are explained by other variables outside the model in this study. The next step is to test the classification matrix. The matrix classification test results show that the possibility of companies indicated to commit Fraudulent Financial Reporting is 68.6%. This shows that using the regression model, 48 samples (68.6%) are predicted to be indicated to practice Fraudulent Financial Reporting from a total of 70 samples that carry out Fraudulent Financial Reporting. The predictive power of regression models to predict the unindicated likelihood of fraudulent financial reporting practices is 76.4%. This means that using a regression model, 68 sample companies (76.4%) are predicted not to be indicated to practice fraudulent financial reporting from a total of 89 samples that do not practice fraudulent financial reporting.

Table 4 Hypothesis Test Results

Variable	B	Sig.	Description
Financial Stability	2.790	0.027	H1 Accepted
Personal Financial Need	0.574	0.625	H2 Rejected
External Pressure	0.115	0.913	H3 Rejected
Financial Target	3.585	0.203	H4 Rejected
Capability	0.517	0.150	H5 Rejected
Nature of Industry	6.949	0.019	H6 Accepted
Ineffetive Monitoring	-1.443	0.505	H7 Rejected
Rationalization	0.157	0.747	H8 Rejected
Arrogance	-0.014	0.774	H9 Rejected
Collusion	-0.259	0.517	H10 Rejected

Source: Data process, 2023
*Significance 0.05

Based on the Table 4 of logistic regression analysis results of financial stability variables, it can be explained that financial stability significantly affects fraudulent financial reporting. This is indicated by a significance value of 0.027, less than 0.05. Since the significance value is less than 0.05, **H1 is accepted**. This proves that changes in high total assets have the potential for companies to commit financial statement fraud. The results of this study also support that financial stability has a relationship with agency theory. Suppose economic conditions or company operations threaten financial stability. In that case, this will influence management to commit fraud by manipulating financial statements to remain stable or in good condition. This study provides empirical evidence that financial stability influences financial statement fraud. This follows the research of Octani et al. (2022); Imtikhani and Sukirman (2021); and Sagala and Siagian (2021), which show that financial stability affects fraudulent financial reporting.

Personal financial need does not have a significant effect on financial statement fraud. This is indicated by a significance value of 0.625 greater than 0.05. Because the significance value is more than 0.05, **H2 is rejected**. With little or no share ownership of individual management, this does not result in managerial parties committing fraud in the financial statements because there are restrictions on rights or ownership in following with applicable regulations (Sari and Sari, 2023). This study's results follow the research of Chandra and Suhartono (2020) and Sari and Sari (2023), which states that personal financial need does not affect financial statement fraud. However, this study contradicts the results of research conducted by Sari and Nugroho (2020).

External pressure does not have a significant effect on financial statement fraud. This is indicated by a significance value of 0.913, greater than 0.05. Because the significance value is greater than 0.05, **H3 is rejected**. This can happen because high debt levels do not become a pressure for management to commit financial statement fraud. Management obtains sources of financing not only through debt agreements with creditors but also by reissuing shares to obtain sources of capital from investors. Thus, it can reduce pressure in terms of paying debts and prevent pressure on management from committing financial statement fraud. The results of this study follow the research of Ratnasari and Solikhah (2019), which states that external pressure does not affect financial statement fraud. However, this research is different from the results of research conducted by Hartadi (2022).

Financial targets do not have a significant effect on financial statement fraud. This is indicated by a significance value of 0.203 greater than 0.05. Because the significance value is greater than 0.05, **H4 is**

International Journal of Latest Research in Humanities and Social Science (IJLRHSS)
Volume 06 - Issue 05, 2023
www.ijlrhss.com || PP. 297-306

rejected. The size of the company's targeted Return on Asset (ROA) does not influence management to commit financial statement fraud because managers consider that the amount of ROA targeted by the company is still reasonable and achievable. This study's results follow the research of Simaremare et al. (2019), which proves that financial targets have no effect on financial statement fraud. However, this research differs from the results of Mukaromah and Budiwitjaksono (2021).

The capability does not affect financial statement fraud. This is indicated by a significance value of 0.150 greater than 0.05. Because the significance value is greater than 0.05, **H5 is rejected**. The size or rate of change of directors does not affect the fraudulent financial statements. Changes in directors can occur because there is a resignation or the previous directors have passed away. In addition, sample companies that change directors may not be because the company wants to cover up fraud committed by previous directors but because the company wants to improve the company's performance better. This study's results follow Nugraheni and Triatmoko's (2018) research, which proves that the change of directors does not affect financial statement fraud. However, the study contradicts the results of research conducted by Larum et al. (2021).

The nature of industry has a significant effect on financial statement fraud. This is indicated by a significance value of 0.019, which is smaller than 0.05. Since the significance value is less than 0.05, **H6 is accepted**. This proves that a significant decrease in receivables can identify financial statement fraud (Nurmala and Rahmawati, 2019). This follows research by Sari and Nugroho (2020), which shows that the nature of industry affects financial statement fraud.

Ineffective monitoring does not affect financial statement fraud. This is indicated by a significance value of 0.505 greater than 0.05. Because the significance value is greater than 0.05, **H7 is rejected**. The results showed that ineffective monitoring could not detect potential financial statement fraud. This is because high or low levels of ineffective monitoring do not cause companies to commit fraud on their financial statements. This follows Sari's research (2016), which states that ineffective monitoring does not affect financial statement fraud. However, this study contradicts the research results by Mukaromah et al. (2021).

Rationalization does not affect financial statement fraud. This is indicated by a significance value of 0.747 greater than 0.05. Because the significance value is greater than 0.05, **H8 is rejected**. No matter how often a company's public accounting firm changes, it does not affect the potential for financial statement fraud. This is likely a company that conducts public accounting firm, not because the company wants to reduce the possibility of detecting financial statement fraud, but because it could increase the company's better reputation in the eyes of investors because it replaces a public accounting firm that has a more prominent name or because the company's condition is threatened with bankruptcy so that it often changes public accounting firm. This follows the research of Kusumaningrum and Murtanto (2016), which states that rationalization does not affect financial statement fraud. However, this study is different from the results of Hartadi's research (2022).

Arrogance does not affect financial statement fraud. This is indicated by a significance value of 0.774 greater than 0.05. Because the significance value is greater than 0.05, **H9 is rejected**. Many, or at least photos of the CEO attached to the company's annual report, do not indicate financial statement fraud. The CEO, who holds all internal control, does not ego the number of CEO photos featured in the company's annual report (Sari and Sari, 2023). This follows research by Oktaviani et al. (2022) and Sari and Sari (2023), which states that the number of CEO photos in the annual report does not affect financial statement fraud. However, this study contradicts the research of Apriliana and Agustina (2017).

Collusion does not affect financial statement fraud. This is indicated by a significance value of 0.517 greater than 0.05. Because the significance value is greater than 0.05, **H10 is rejected**. This means the large collusion between companies and the government does not affect financial statement fraud. It could be that cooperation with the governmentcan help companies to improve the quality of their products (Sari and Sari, 2023). This follows Wijayani and Ratmono's (2020) and Sari and Sari (2023) research that collusion does not affect financial statement fraud. However, this research is different from the research of Sari and Nugroho (2020).

5. Conclusion

This study aims to examine the effect of financial stability, personal financial need, external pressure, financial target, capability, nature of industry, ineffective monitoring, rationalization, arrogance, and collusion on fraudulent financial reporting in manufacturing companies on the Indonesian Sharia Stock Index (ISSI) 2019-2021. The results of this study show that financial stability and the nature of industry affect fraudulent financial reporting. While personal financial need, external pressure, financial target, capability, ineffective monitoring, rationalization, arrogance, and collusion do not affect fraudulent financial reporting.

The sample in this study is only the scope of manufacturing companies in the ISSI for the 2019-2021 period. From this, it is expected that researchers can increase the research years so that the study results can provide an overview of the company's condition in the medium and long term, providing more accurate results. Further research is recommended to expand empirical research studies in the manufacturing sector to obtain the

results of financial statement fraud more broadly, especially in sharia market.

6. References

[1]   Abdullahi, R., & Mansor, N. (2018). Fraud Prevention Initiatives in the Nigerian Public Sector: Understanding the Relationship of Fraud Incidences and the Elements of Fraud Triangle Theory. Journal of Financial Crime, 25(2), 527–544.

[2]   Association of Certified Fraud Examiner (ACFE), (2019), Indonesia Fraud Survey 2019, Acfe Indonesia (hal. 76), ACFE Indonesia Chapter.

[3]   Association of Certified Fraud Examiner (ACFE), (2022), Occupational Fraud 2022: A Report to The Nations.

[4]   Agusputri, H., & Sofie. (2019). Factors Influencing Fraudulent Financial Reporting Using Pentagon Fraud Analysis. Jurnal Informasi Perpajakan, Akuntansi Dan Keuangan Publik, 14(2), 105–124.

[5]   AICPA. 2011. AU 240: Consideration of Fraud in Financial Statements Clarification Statement on Auditing Standards, 161-202.

[6]   American Institute of Certified Public Accountant (AICPA). 2002. Statement on Auditing Standards (SAS) No. 99: Consideration of Fraud in a Financial Statement Audit. New York: AICPA.

[7]   Aprilia, A. (2017). Analysis of the Effect of Pentagon Fraud on Financial Statement Fraud Using the Beneish Model in Companies Implementing the Asean Corporate Governance Scorecard. Jurnal ASET (Akuntansi Riset), 9(1), 101-132.

[8]   Apriliana, S., & Agustina, L. (2017). The Analysis of Fraudulent Financial Reporting Determinant through Fraud Pentagon Approach. Jurnal Dinamika Akuntansi, 9(2), 154–165.

[9]   beAssociation of Certified Fraud Examiner (ACFE) Indonesia Chapter #111. 2016. "Survai Fraud Indonesia". Jakarta-Indonesia.

[10]   Association of Certified Fraud Examiners. 2018. "2018 Report to the Nations: Global Study on Occupational Fraud and Abuse".

[11]   Becker, J. Coonoly, Paula L., dan J. Morrison. (2006). Using The Business Fraud Triangle to Predict Academic Dishonesty Among Business Students. Academy of Educational Leadership Journal. Volume 10 Nomor 1. USA United States: The DreamCatchers Group, LLC.

[12]   Beneish, M. D. (1999). The Detection of Earnings Manipulation. Financial Analysts Journal, 55(5), 24–36.

[13]   Chandra, N., & Suhartono, S. (2020). Analysis of the Influence of Fraud Diamond and Good Corporate Governance in Detecting the Possibility of a Fraudulent Financial Statement. Jurnal Bina Akuntansi, 7(2), 175–207.

[14]   Cressey, D. R. (1953). Other People's Money: A Study in The Social Psychology of Embezzlement. Glencoe, IL: Free Press.

[15]   Crowe, H. (2012). The Mind behind the Fraudsters Crime: Key Behavioral and Environmental Elements. United States of America: Crowe Horwath LLP, 1-62.

[16]   Harahap, D.A.T, Majidah, Triyanto, D.N. (2017). Diamond Fraud Testing in Financial Report Fraud (Case Study of Mining Companies Listed on the Indonesia Stock Exchange in 2011-2015). E-Proceeding of Management: 4(1), ISSN: 2355-9357.

[17]   Hartadi, B. (2022). The Effect of Fraud Hexagon on Fraudulent Financial Statements in Indonesian State-Owned Enterprises Registered on the BEI in 2018-2021. Jurnal Pendidikan Tambusai, 6(2), 14883-14896.

[18]   Imtikhani, L., & Sukirman, S. (2021). Determinants of Fraudulent Financial Statements Throughthe Perspective of Fraud Hexagon Theory in Mining Companies. Jurnal Akuntansi Bisnis, 19(1), 96.

[19]   Jensen and Meckling. 1976.Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. Jurnal of Financial Economics. 3(4), 305-360.

[20]   Kusumaningrum, A. W., & Murtanto. (2016). Analysis of the Effect of Fraud Diamond in Detecting Fraudulent Financial Statements. Proceeding ofSeminar Nasional Dan Call Paper Fakultas Ekonomi UNIBA Surakarta, 14.

[21]   Kusumosari, L., & Solikhah, B. (2021). Analysis of Financial Report Fraud through Fraud Hexagon Theory. Fair Value: Jurnal Ilmiah Akuntansi Dan Keuangan, 4(3), 753–767.

[22]   Larum, K., Zuhroh, D., & Subiyantoro, E. (2021). Fraudulent Financial Reporting: Testing the Potential for Fraud Financial Reporting Using the Fraud Hexagon Theory. AFRE Accounting and Financial Review, 4(1), 82-94.

[23]   Mukaromah, I., & Budiwitjaksono, G. S. (2021). Fraud Hexagon Theory in Detecting Financial Statement Fraud in Banks Registered on the Indonesia Stock Exchange in 2015-2019. Kompak: Jurnal Ilmiah Komputerisasi Akuntansi, 14(1), 61-72.

[24]   Nugraheni, N. K., & Triatmoko, H. (2018). Analysis of Factors Influencing the Occurrence of Financial Statement Fraud: The Perspective of Diamond Fraud Theory (Study of Banking Companies Listed on the Indonesia Stock Exchange Period 2014-2016). Jurnal Akuntansidan Auditing, 14(2), 118.

[25]   Nurmala, P. & Rahmawati, A.S. (2019). The Influence of Pentagon Fraud on Financial Statement Fraud Detection. Tangible Journal, 4(2), 200-213.

[26]   Octani, J., Dwiharyadi, A., & Djefris, D. (2022). Analysis of the Influence of Fraud Hexagon on Fraudulent Financial Reporting in Financial Sector Companies Listed on the Indonesia Stock Exchange During 2017-2020. Jurnal Akuntansi, Bisnisdan Ekonomi Indonesia (JABEI), 1(1), 36-49.

[27]   Octaviana, N. (2022). Analysis of Fraud Hexagon Theory Elements as Determinants of Fraudulent Financial Reporting. Jurnal Akuntansi, 11(2), 106-121.

[28]   Permatasari, D., & Laila, U. (2021). Financial Report Fraud Detection with Fraud Diamond Analysis in Manufacturing Companies. Akuntabilitas, 15(2), 241-262.

[29]   Ratnasari, E., & Solikhah, B. (2019). Analysis of Fraudulent Financial Statement: The Fraud Pentagon Theory Approach Fraud Analysis of Financial Statements: The Fraud Pentagon Theory Approach. Gorontalo Accounting Journal, 2(2), 98–112.

[30]   Riyanti, A., & Trisanti, T. (2021). The Effect of Hexagon Fraud on the Potensial Fraud Financial Statement with the Audit Committee as a Moderating Variable. International Journal of Social Science and Human Research, 4(10).

[31]   Sagala, S. G., & Siagian, V. (2021). The Effect of the Fraud Hexagon Model on Fraudulent Financial Statements in Food and Beverage Sub-Sector Companies Listed on the IDX in 2016-2019. Jurnal Akuntansi, 13(2), 245-259.

[32]   Sari, K., & Sari, S. P. (2023). Financial Statement Sensing with Hexagon Fraud in Indonesia's Sharia Market. International Journal of Multidisciplinary Research and Publications (IJMRAP).5(11), 31-37.

[33]   Sari, S. P., & Nugroho, N. K. (2020). Fraud Financial Statements with the Vousinas Fraud Hexagon Model Approach: Overview of Public Companies in Indonesia. In Annual Conference of Ihtifaz: Islamic Economics, Finance, and Banking, 409-430.

[34]   Sari, S.P., & Safitri, L. A. (2019). Overview of Profit Management with Fraud Triangle Theory in LQ45 Companies on the Indonesia Stock Exchange. SEGMEN, Jurnal Manajemendan Bisnis, 15(2), 19–33.

[35]   Sari, S. T. (2016). Effect of Financial Stability, External Pressure, Financial Targets, Ineffective Monitoring, Rationalization on Fraud Financial Statements with a Fraud Triangle Perspective. Jom Fekon, 665-678.

[36]   Setiawati, E. dan Baningrum, R.M. (2018). Fraudulent Financial Reporting Detection Using Pentagon Fraud Analysis. Riset Akuntansidan Keuangan Indonesia, 3(2), 2018.

[37]   Simaremare, E., Handayani, C., Basri, H., Tambunan, A., & Umar, H. (2019). The Effect of Fraud Diamond on the Detection of Fraudulent Financial Statements with Anti-Fraud Policy as a Moderation Variable in Banking Companies Listed on the Indonesia Stock Exchange in 2016–2018. Proceeding of Seminar NasionalCendekiawan, 2.

[38]   Skousen, J. C., Smith K. R., & Wright, J. C. (2009). Detecting and Predicting Financial Statement Fraud: The Effectivensess of the Fraud Triangle and SAS No. 99. Corporate and Firm Performance Advances in Financial Economics, 13, 53–81.

[39]   Sujeewa, G. M. (2018). The New Fraud Triangle Theory - Integrating Ethical Values of Employees. International Journal of Business, Economics and Law, 16(5), 52-54.

[40]   Tessa, C. G. & P. Harto. (2016). Fraudulent Financial Reporting: Testing the Pentagon's Fraud Theory in the Financial and Banking Sector in Indonesia. Journal of Simposium Nasiona lAkuntansi XIX, Lampung.

[41]   Vousinas, G. L. (2019). Advancing Theory of Fraud: The S.C.O.R.E. Model. Journal of Financial Crime, 26(1), 372–381.

[42]   Wicaksono, A., & Suryandari, D. (2022). The Analysis of Fraudulent Financial Reports through Fraud Hexagon on Public Mining Companies. Accounting Analysis Journal, 10(3), 220-228.

[43]   Wijayani, D. R., & Ratmono, D. (2020). Fraud Hexagon in Islamic Companies. Economic Faculty & Muria Business, 32(3), 6137–6149.

[44]   Wolfe, D. T., & Hermanson, D. R. (2004). The Fraud Diamond: Considering the Four Elements of Fraud. The CPA Journal, 74(12), 38–42.