

# FINANCIAL STATEMENT FRAUD: REVIEWED FROM FRAUD HEXAGON THEORY WITH AUDIT COMMITTEE AS MODERATING VARIABLE

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**Abstract** : This study examines financial statement fraud in the Indonesian banking sector using the Fraud Hexagon Theory, which identifies six key factors: external pressure, rationalization, the frequent appearance of a CEO's picture, ineffective monitoring, change in director, and political connections. The audit committee is included as a moderating variable to assess its role in strengthening or weakening these influences. Employing a quantitative approach, Data were collected from 56 banking companies, both conventional and Islamic, listed under the Financial Services Authority (OJK) in 2023. Sources included annual financial reports, company websites, the official OJK website, and relevant news articles. The results show that external pressure and rationalization significantly increase the likelihood of financial statement fraud. In contrast, CEO picture frequency, ineffective monitoring, director changes, and political connections do not show a significant effect. The audit committee strengthens the effects of external pressure, CEO picture frequency, ineffective monitoring, and political connections on fraud, but it does not weaken the impact of rationalization or director changes.

**Keywords** : financial statement fraud, fraud hexagon theory, audit committee, banking sector.

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## 1. BACKGROUND

Financial statements are the main source for stakeholders to assess the condition, performance, and prospects of a company (Janah et al., 2022). In practice, these reports are often used as a basis for strategic decision-making by investors, creditors, and regulators. However, the pressure to show good performance encourages some managers to engage in manipulation, resulting in financial statements that no longer reflect the true condition and leading to financial statement fraud (Yulianti et al., 2024; Khamainy et al., 2022). This phenomenon is increasingly pronounced in the banking sector, which manages large amounts of public funds, making it the industry most

vulnerable to fraud practices (Mukaromah & Budiwitjaksono 2021; Elita Septiningrum & Mutmainah 2022).

The Association of Certified Fraud Examiners (ACFE) notes that fraud in financial reporting contributes to significant losses each year, including in the banking sector (ACFE 2024). This situation is exacerbated by rapid digital growth in Indonesia, which is not matched by adequate monitoring and security systems, leading to an increase in cases of asset abuse, report manipulation, and illegal transfers. This situation indicates that internal controls and corporate governance are still ineffective in preventing deviant practices.

To understand the causes of fraud more comprehensively, the Fraud Hexagon Theory offers six main factors: pressure, rationalization, ego, opportunity, collusion, and capability (Fouziah, et al. 2019). However, various previous studies have shown diverse results. External pressure and rationalization, for example, have been shown to positively affect financial statement fraud in several studies, but other research has found negative or insignificant effects (Afdal & Yeasy 2021; Tiurma, et al. 2023). Similarly, factors such as the frequent number of CEOs, ineffective monitoring, changes in directors, and political connections show inconsistent results across studies (Fernando & Apriwenni 2021; Ndruru & Hutapea 2022; Lionardi & Suhartono 2022; Dewi & Yuliati 2022). These discrepancies in findings indicate a research gap that needs further investigation.

On the other hand, the audit committee is seen as having an important role in overseeing the effectiveness of the internal control system and preventing the occurrence of financial statement fraud (Luthfiyyah & Dongoran 2023). However, previous research has also yielded varying findings. Some state that the audit committee is capable of reducing fraud, while other studies show either a positive or insignificant effect (Kadek, et al. 2020; Khairani & Achmad 2020; Waruwu & Sugeng 2023). This raises the question of whether the financial expertise possessed by the audit committee can truly moderate the relationship between the elements of the Fraud Hexagon Theory and the occurrence of financial statement fraud.

Based on this background, this study aims to analyze the influence of six elements in the Fraud Hexagon Theory on financial statement fraud, while also examining the role of the audit committee as a moderating variable. The focus of the research is directed at banking companies listed on the Financial Services Authority (OJK) in 2023, considering the high level of vulnerability of this sector to financial fraud (Sagala & Siagian, 2021).

## **2. THEORY AND METHOD**

### **2.1 Theory**

Research on financial statement fraud has been extensively conducted using the Fraud Hexagon Theory, which emphasizes six causal elements: external pressure, rationalization, arrogance, weak supervision, board turnover, and political connections (Fouziah et al., 2019). External

pressure, such as high leverage, is often associated with financial statement manipulation practices. Some studies have found significant positive effects (Tiffani, 2009; Rahma & Suryani, 2019), while other studies reported negative or insignificant effects (Setyono et al., 2023; Afdal & Yeasy, 2021). A similar phenomenon occurs with the rationalization factor, where some research demonstrates its relationship with fraud (Nadia et al., 2023), while others yield different results (Tiorma et al., 2023). The arrogance factor, represented through the frequent number of CEO's pictures, also shows varied findings.

Several studies affirm a positive relationship with fraud (Fernando & Apriwenni, 2021; Dewi & Yuliati, 2022), but other studies state it is not significant (Sagala & Siagian, 2021; Pradana & Suwasono, 2024). Ineffective monitoring, which is supposed to allow room for financial manipulation (Kayoi & Fuad, 2019), has also been shown in some studies to not have a significant effect (Ndruru & Hutapea, 2022). Changes in the board of directors have also become a debated variable. There are studies that indicate a positive effect on fraud (Lionardi & Suhartono, 2022; Alfina & Amrizal, 2020), but there are also those that show a negative or insignificant effect (Nadziliyah & Primasari, 2022; Yustikasari & Sari, 2024).

Political connections show a similar pattern, where certain studies emphasize a positive influence (Kusumosari & Solikhah, 2020; Nadziliyah & Primasari, 2022), while other studies found no significant or even negative effects (Hartanto, 2023; Dewi & Yuliati, 2022). In addition to the Fraud Hexagon factors, the role of the audit committee as an important governance mechanism has also been studied. Some studies found that the audit committee is effective in reducing fraud (Luthfiyyah & Dongoran, 2023), but other results indicate positive or insignificant effects (Kadek et al., 2020; Waruwu & Sugeng, 2023). The inconsistency of these findings highlights a research gap. Therefore, this study re-examines the Fraud Hexagon with the audit committee as a moderating variable, especially in the banking sector, which is most vulnerable to fraud.

## 2.2 Research Methods

This research uses a quantitative approach with an associative design. The research population consists of 106 banking companies listed with the OJK in 2023. The sample was determined using purposive sampling based on the following criteria: (1) the company publishes its annual financial report for 2023, (2) has complete information about the board of commissioners and the audit committee, (3) is not in a delisting status. Based on these criteria, 56 companies were obtained as the sample. Operational definition of variables: external pressure is measured by leverage (Yulianti, et al., 2023), rationalization through auditor rotation (Nurwahyuni, 2024), the frequent number of CEO's pictures with the

number of CEO photos in annual reports (Septiningrum & Mutmainah, 2022), ineffective monitoring with the frequency of board meetings, change in director with data on board changes (Lionardi & Suhartono, 2022), political connection through political affiliations of directors (Hartanto, 2023), financial statement fraud with M-score (Maulida, et al., 2024), and quality of the audit committee with the financial expertise and independence of its members (Luthfiyyah & Dongoran, 2023). Data analysis uses multiple linear regression to test the effect of independent variables on fraud, as well as Moderate Regression Analysis (MRA) to test moderating effects. Assumption tests include multicollinearity ( $VIF < 10$ ), heteroskedasticity (Glejser test), and normality of residuals. The significance level is set at 5% ( $\alpha = 0.05$ ) according to the standards of quantitative research.

### 3. RESULTS AND DISCUSSION

#### 3.1 Results of Data Analysis

##### Descriptive Analysis

Descriptive statistics is a type of statistics used to analyze data by depicting or describing the data as it is without intending to make general conclusions or generalizations. Below are the results of the descriptive analysis in this study.

**Table 1. Results of Descriptive Analysis**

	X1	X2	X3	X4	X5	X6	Y	Z
Mean	0.944429	14.06814	2.232143	0.559286	0.642857	0.517857	249.3036	3.928571
Median	0.819000	5.200000	2.000000	0.500000	1.000000	1.000000	140.0000	4.000000
Maximum	8.011000	85.64000	5.000000	1.000000	1.000000	1.000000	863.0000	7.000000
Minimum	0.141000	-2.585000	1.000000	0.200000	0.000000	0.000000	6.000000	2.000000
Std. Dev.	1.044392	18.78859	0.571794	0.192012	0.483494	0.504203	270.6867	1.277172
Skewness	5.799306	1.749482	2.333315	0.433031	-0.596285	-0.071474	1.021587	0.715480
Kurtosis	39.09183	5.916158	11.24739	2.602259	1.355556	1.005109	2.704761	2.855887
Jarque-Bera	3353.345	48.40902	209.5261	2.119278	9.628313	9.333394	9.944027	4.826307
Probability	0.000000	0.000000	0.000000	0.346581	0.008114	0.009403	0.006929	0.089533
Sum	52.88800	787.8160	125.0000	31.32000	36.00000	29.00000	13961.00	220.0000
Sum Sq. Dev.	59.99153	19415.60	17.98214	2.027771	12.85714	13.98214	4029922.	89.71429
Observations	56	56	56	56	56	56	56	56

Source: *EvIEWS data processing version 13, 2025*

The high skewness and kurtosis in X1 and X3 indicate that the factors of external pressure and arrogance (CEO) vary significantly among banks. Variables X5 (Change in Director) and X6 (Political Connection) are relatively more balanced, meaning these characteristics are commonly found in most banks. The dependent variable Y (Fraud) has a non-normal distribution, which indicates that a small number of banks show a very high potential for fraud compared to others. The audit committee (Z) is relatively stable, making it a more reliable moderating variable compared to other highly variable variables.

External factors (leverage, auditors, pressure) have large and abnormal variations. Internal governance factors (audit committees, monitoring) are more stable. Financial statement fraud in the banking

sector shows the presence of companies with very high fraud risk (outliers). These descriptive findings support the importance of further testing (regression & moderation) to understand the relationships between variables in more detail.

### Multicollinearity Test

Multicollinearity testing is used to examine the level of correlation among independent variables, with the stipulation that if it is below 10, then the correlation among the variables is low. Meanwhile, if it is above 10, then the correlation is high.

**Table 2. Multicollinearity Test**

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.759304	62.93577	NA
X1	0.010775	86.45132	4.330597
X2	0.014616	118.8535	4.530638
X3	0.040757	17.91630	1.084759
X4	0.001408	10.47885	1.178535
X5	0.056396	3.004989	1.073210
X6	0.053974	2.316754	1.117007

*Source: Eviews data processing version 13, 2025*

The table presents three indicators: Coefficient of Variance, Uncentered VIF, and Centered VIF for each independent variable (X1–X6). The multicollinearity test focuses on Centered VIF, as this value has eliminated the constant issue. The Uncentered VIF values appear very high for X1 (86.45) and X2 (118.85). This is understandable because Uncentered VIF includes the constant (C), resulting in larger figures. Therefore, the interpretation of multicollinearity should use Centered VIF. This result indicates that each Fraud Hexagon variable (X1–X6) is independent of one another in the regression model. Therefore, the independent variables can be used in the model without the risk of distortion in estimation due to multicollinearity. This strengthens the validity of the research model to test the relationship between the Fraud Hexagon and financial statement fraud, as well as the moderating role of the audit committee.

### Heteroscedasticity Test

The heteroskedasticity test aims to examine whether there is a difference between one observation to another in a regression, and the absence of heteroskedasticity symptoms is a requirement that must be met in the regression model. In this study, the author uses the Glejser test; if the significance value of each independent variable is  $< 0.05$ , then heteroskedasticity occurs, while if it is  $> 0.05$ , then there are no heteroskedasticity symptoms or it passes the heteroskedasticity test.

**Table 3. Heteroscedasticity Test**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.456996	0.442353	1.033103	0.3066
X1	0.055300	0.052694	1.049455	0.2991
X2	-0.055746	0.061373	-0.908323	0.3682
X3	0.031095	0.102485	0.303406	0.7629
X4	-0.000740	0.019045	-0.038832	0.9692
X5	0.205414	0.120555	1.703903	0.0947
X6	0.024863	0.117938	0.210816	0.8339

Source: Eviews data processing version 13, 2025

Based on the table above, it can be seen that all variable values have significant values greater than 0.05. Variable X1 (0.2991 > 0.05), X2 (0.3682 > 0.05), X3 (0.7629 > 0.05), X4 (0.9692 > 0.05), X5 (0.0947 > 0.05) and X6 (0.8339 > 0.05). Therefore, it can be concluded that there are no symptoms of heteroskedasticity and it passes the heteroskedasticity test.

### Multiple Linear Regression Test

Multiple linear regression analysis aims to determine the relationship between independent variables and the dependent variable with more than one independent variable and one dependent variable.

$$Y = 3.065 + 0.400 \cdot X1 + 0.397 \cdot X2 + 0.127 \cdot X3 - 0.014 \cdot X4 + 0.103 \cdot X5 - 0.309 \cdot X6$$

- The value of the constant coefficient is 3.06497212916, which can be interpreted that in the absence of external pressure (X1), rationalization (X2), frequent number of CEO's pictures (X3), ineffective monitoring (X4), change in director (X5), and political connection (X6), financial statement fraud (Y) will increase by 3.06497212916.
- The value of the beta coefficient for the external pressure variable (X1) is 0.400165758679. If the values of other variables remain constant and variable X1 experiences an increase of 1 unit, then the variable financial statement fraud (Y) will increase by 0.400165758679.
- The beta coefficient value of the rationalization variable (X2) is 0.396503307721. If the values of other variables are held constant and variable X2 increases by one unit, then the financial statement fraud variable (Y) will increase by 0.396503307721.
- The beta coefficient value of the variable frequent number of CEO's pictures (X3) is 0.127395796022, if the values of other variables are

held constant and the variable X3 increases by 1 unit, then the variable financial statement fraud (Y) will increase by 0.127395796022.

- e) The value of the beta coefficient for the ineffective monitoring variable (X4) is -0.0137484780607. If the values of other variables are constant and variable X4 increases by 1 unit, then the financial statement fraud variable (Y) will experience a decrease of 0.0137484780607.
- f) The value of the beta coefficient for the change in director variable (X5) is 0.102595540987, if the values of other variables are constant and the variable X4 experiences an increase of 1 unit, then the financial statement fraud variable (Y) will increase by 0.102595540987.
- g) The value of the beta coefficient for the political connection variable (X6) is -0.309273310062, indicating that if the values of other variables remain constant and variable X6 experiences an increase of 1 unit, then the financial statement fraud variable (Y) will decrease by 0.309273310062.

## Hypothesis

### R<sup>2</sup> Test

The coefficient of determination test is used to evaluate how much the independent variable can influence the dependent variable.

**Table 4. R<sup>2</sup> Test**

R-squared	0.809972	Mean dependent var	10.82143
Adjusted R-squared	0.786703	S.D. dependent var	1.779756
S.E. of regression	0.821964	Akaike info criterion	2.562229
Sum squared resid	33.10564	Schwarz criterion	2.815398
Log likelihood	-64.74241	Hannan-Quinn criter.	2.660382
F-statistic	34.80939	Durbin-Watson stat	1.564335
Prob(F-statistic)	0.000000		

*Source: Eviews data processing version 13, 2025*

Based on the table above, it is known that the adjusted R<sup>2</sup> value is 0.786703 or 78%. This coefficient of determination indicates that the independent variables consisting of external pressure (X1), rationalization (X2), frequent number of CEO's pictures (X3), ineffective monitoring (X4), change in director (X5), and political connection (X6) can explain the company's value variable (Y) by 78.6703%, while the remaining 21.3297% is explained by other variables that are not included in this research model.

### F Test

This test is shown as a method to determine how the combination of independent variables influences the dependent variable.

**Table 5. F Test**

R-squared	0.809972	Mean dependent var	10.82143
Adjusted R-squared	0.786703	S.D. dependent var	1.779756
S.E. of regression	0.821964	Akaike info criterion	2.562229
Sum squared resid	33.10564	Schwarz criterion	2.815398
Log likelihood	-64.74241	Hannan-Quinn criter.	2.660382
F-statistic	34.80939	Durbin-Watson stat	1.564335
Prob(F-statistic)	0.000000		

Source: Eviews data processing version 13, 2025

From table 5, the results of the F test (simultaneously) show a F-statistic value of 34.80939, which is greater than the F table value of 2.0140. Additionally, the probability value (F-statistic) is 0.00000, which is less than 0.05. This indicates that overall, the variables of external pressure, rationalization, frequent number of CEO's pictures, ineffective monitoring, change in director, and political connection have a significant effect on financial statement fraud.

### T Test

The t-test is used to determine whether or not there is a partial influence of the independent variable on the dependent variable. The independent variable is said to have a significant influence on the dependent variable if the significance value is  $< 0.05$  (below 0.05).

**Table 6. T Test**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.064972	0.871380	3.517376	0.0010
X1	0.400166	0.103800	3.855146	0.0003
X2	0.396503	0.120897	3.279685	0.0019
X3	0.127396	0.201883	0.631039	0.5309
X4	-0.013748	0.037517	-0.366462	0.7156
X5	0.102596	0.237478	0.432021	0.6676
X6	-0.309273	0.232324	-1.331216	0.1893

Source: Eviews data processing version 13, 2025

Based on the table above, it shows that the influence of independent variables on the dependent variable partially can be explained as follows.

- a) The result of the t-test on the external pressure variable showed a calculated t value of 3.855146  $>$  critical t table value of 2.0049 and a probability value of 0.0003  $<$  0.05, thus H1 is accepted, meaning external pressure affects financial statement fraud.
- b) The result of the t-test on the rationalization variable showed a calculated t value of 3.279685  $>$  critical t table value of 2.0049 and a

- probability value of  $0.0019 < 0.05$ , thus H2 is accepted, meaning rationalization affects financial statement fraud.
- c) The results of the t-test on the variable frequent number of CEO's pictures showed a calculated t value of  $0.631039 < \text{table t value of } 2.0049$  and a probability value of  $0.5309 > 0.05$ , therefore H3 is rejected meaning that the frequent number of CEO's pictures does not affect financial statement fraud.
- d) The results of the t-test on the variable ineffective monitoring showed a calculated t value of  $-0.366462 < \text{table t value of } 2.0049$  and a probability value of  $0.7156 > 0.05$ , therefore H4 is rejected meaning that ineffective monitoring does not affect financial statement fraud.
- e) The results of the t-test on the change in director variable yielded a calculated t value of  $0.432021 < \text{the table t value of } 2.0049$  and a probability value of  $0.6676 > 0.05$ , thus H5 is rejected, meaning that the change in director does not influence financial statement fraud.
- f) The results of the t-test on the political connection variable yielded a calculated t value of  $-1.331216 < \text{the table t value of } 2.0049$  and a probability value of  $0.1893 > 0.05$ , thus H6 is rejected, meaning that political connection does not influence financial statement fraud.

#### Moderate Regression Analysis (MRA) test

The t-test is used to determine whether there is an influence of the independent variable partially on the dependent variable. The independent variable is considered to have a significant effect on the dependent variable if the significance value is  $< 0.05$  (below 0.05).

**Table 7. Moderate Regression Analysis (MRA) test**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.319039	0.414873	10.41052	0.0000
X1	0.162957	0.077544	2.101488	0.0416
X2	0.185961	0.052795	3.522305	0.0010
X3	0.353930	0.076386	4.633427	0.0000
X4	0.039485	0.017671	2.234500	0.0308
X5	0.029387	0.087158	0.337173	0.7377
X6	0.170850	0.097005	1.761248	0.0855
Z	0.317911	0.053944	5.893395	0.0000
X1Z	0.410676	0.093790	4.378681	0.0001
X2Z	-0.013612	0.030127	-0.451830	0.6537
X3Z	-0.693904	0.106079	-6.541400	0.0000
X4Z	-0.513970	0.124596	-4.125084	0.0002
X5Z	0.010482	0.005722	1.831892	0.0741
X6Z	-1.151477	0.138137	-8.335757	0.0000

Source: Eviews data processing version 13, 2025

Based on the table above, it shows that:

- a) The interaction between external pressure and the audit committee has a t-statistic value of 4.378681 with a probability value of  $0.0001 <$

- 0.05, thus H7 is accepted, meaning the audit committee is able to moderate or strengthen the influence of external pressure on financial statement fraud.
- b) The interaction between rationalization and the audit committee has a t-statistic value of -0.451830 with a probability value of  $0.6537 > 0.05$ , thus H8 is rejected, meaning the audit committee is not able to moderate or strengthen the influence of rationalization on financial statement fraud.
  - c) The interaction between the frequent number of CEO's pictures and the audit committee has a t-statistic value of -6.541400 with a probability value of  $0.0000 < 0.05$ , thus H9 is accepted, meaning the audit committee is able to moderate or strengthen the influence of the frequent number of CEO's pictures on financial statement fraud.
  - d) The interaction between ineffective monitoring and the audit committee has a t-statistic value of -4.125084 with a probability value of  $0.0002 < 0.05$ , thus H10 is accepted, meaning the audit committee is able to moderate or strengthen the influence of ineffective monitoring on financial statement fraud.
  - e) The interaction between the change in director and the audit committee has a t-statistic value of 1.831892 with a probability value of  $0.0741 > 0.05$ , thus H11 is rejected, meaning the audit committee does not have the ability to moderate or strengthen the influence of the change in director on financial statement fraud.
  - f) The interaction between political connection and the audit committee has a t-statistic value of -8.335757 with a probability value of  $0.0000 < 0.05$ , thus H12 is accepted, meaning the audit committee is able to moderate or strengthen the influence of political connection on financial statement fraud.

### 3.2 Discussion

#### **The Influence of External Pressure on Financial Statement Fraud**

External pressure is a condition of pressure from external parties that encourages management to commit fraud, especially when the company faces high debt burdens and is at risk of bankruptcy (Yulianti, et al., 2023). This pressure prompts management to manipulate financial statements to show good financial performance in order to convince creditors. Based on the research results, external pressure has a positive and significant effect on financial statement fraud, with a coefficient value of 0.400166 and a probability of 0.0003 ( $< 0.05$ ), thus H1 is accepted. This is in line with the fraud hexagon theory and agency theory, which states that differences in objectives between management and investors can trigger fraudulent actions. High leverage reflects a significant credit risk and triggers creditors' concerns, which ultimately encourages companies to falsify financial statements (Rahma & Suryani 2019). This finding is also consistent with the research results of Tiffani

and Marfuah, which concluded that the greater the external pressure, the greater the potential for financial statement fraud (Tiffani, 2009). Thus, external pressure is one of the main causes of financial statement fraud.

### **The Influence of Rationalization on Financial Statement Fraud**

Rationalization is the justification made by management for fraudulent actions, where perpetrators tend to adjust rules to justify dishonest behavior (Hery & Adipramono, 2016). In this study, rationalization is measured through the change of auditor, as the use of the same auditor over a long period may indicate potential fraud. The results show that rationalization has a significant positive effect on financial statement fraud, with a coefficient value of 0.396503 and a probability of 0.0019 ( $< 0.05$ ), thus H2 is accepted. This indicates that the greater the opportunities and justifications available, the higher the likelihood of financial statement fraud occurring, particularly through accrual manipulation. This finding is in accordance with the fraud hexagon theory and agency theory, which explains that management tends to use rationalization to gain personal benefits or recognition from principals. This study also supports the research of Nadia et al., which states that rationalization, especially through accruals, contributes to the increased risk of fraud (Nadia, et al., 2023).

### **The Influence of Frequent Number of CEO's Picture on Financial Statement Fraud**

The arrogance of the CEO is considered one of the factors that can encourage financial statement fraud, and in this context, it is measured through the frequent number of the CEO's pictures in the annual report. However, the research findings indicate that this variable has a negative effect on financial statement fraud, with a coefficient value of 0.127396 and a probability of 0.5309 ( $> 0.05$ ), thus H3 is rejected. This means that the number of CEO photos in the report does not reflect an arrogant attitude that triggers fraud, but rather serves more as a form of introduction to stakeholders. It also suggests that photos cannot be a valid indicator of a person's personal character, including arrogance. This finding is in line with research that states that the number of CEO photos is not related to the intention to commit fraud, but rather shows the active participation and responsibility of the CEO in company activities (Septiningrum & Mutmainah 2022; Filael, 2019). Therefore, the frequent number of CEO's pictures is not a cause of financial statement fraud.

### **The Influence of Ineffective Monitoring on Financial Statement Fraud**

Ineffective monitoring is the condition of weak oversight that gives management opportunities to manipulate financial reports (Utami, et al., 2022). However, research results show that ineffective monitoring has a

negative impact on financial statement fraud, with a coefficient value of -0.013748 and a probability of 0.7156 ( $> 0.05$ ), thus H4 is rejected. This means that weak oversight does not directly cause fraud to occur. This is suspected to be due to the still effective oversight from the board of commissioners and the independent audit committee, as well as the implementation of business ethics that maintain the company's reputation. In addition, OJK regulation No. 57/POJK.04/2017, which mandates the presence of independent commissioners, further strengthens oversight (Ndruru & Hutapea, 2022). Based on agency theory, although there are differences in interests between investors and management, strong oversight can minimize the risk of fraud. These findings are also in line with the research by Tiffani and Marfuah which concluded that good oversight, particularly by the audit committee, can reduce the likelihood of financial report fraud (Tiffani, 2009).

#### **The Influence of Change in Director on Financial Statement Fraud**

The change in director is a step taken by the company to improve performance by bringing in more competent leadership, not merely as an effort to cover up fraud (Marliani, 2020). The results of this study show that the change in director has a negative impact on financial statement fraud, with a coefficient value of 0.102596 and a probability of 0.6676 ( $> 0.05$ ), thus H5 is rejected. This means that a change in directors does not increase the risk of financial statement fraud, but rather can reduce it. This does not support the capability element in the fraud hexagon theory, but is in accordance with the view that new directors tend to bring a spirit of improvement, caution, and higher integrity. In line with the research of Nadziliyah and Primasari, these results affirm that changes in the board of directors play a role in preventing fraud and improving company performance, thus they cannot be considered the main cause of financial statement fraud.

#### **The Influence of Political Connection on Financial Statement Fraud**

Political connections are relationships between companies and influential parties such as politicians, government officials, or community leaders, aimed at gaining specific benefits such as easier access to loans or government contracts (Icih, et al., 2021). Although often associated with the risk of fraud, research results indicate that political connections actually have a negative impact on financial statement fraud, with a coefficient value of -0.309273 and a probability of 0.1893 ( $> 0.05$ ), thus H6 is rejected. This means that the stronger a company's political connections, the lower the potential for financial statement fraud. This is supported by agency theory, where political connections can serve as a form of external oversight that increases management accountability. This result is also in line with Hartanto's findings, which indicate that political connections play a role in maintaining reputation and

encouraging ethical behavior in corporate management, thus political connections do not cause financial report fraud (Hartanto, 2023).

### **The Influence of External Pressure on Financial Statement Fraud Moderated by the Audit Committee**

External pressure is the significant pressure felt by management in meeting the expectations of third parties, especially when the company struggles to meet its debt obligations, which in this study is measured through leverage. The audit committee, as part of corporate governance, plays a crucial role in preventing fraud; however, if it is not independent, it may actually trigger financial statement fraud (Kadek, et al. 2020). The results of the Moderate Regression Analysis (MRA) test show a Prob. value of  $0.0013 < 0.05$ , thus H7 is accepted and it can be concluded that external pressure can moderate or reinforce the effect of leverage on financial statement fraud. This finding aligns with agency theory, which explains that managers as agents often face pressure from owners (principals) to improve performance, so external pressure can encourage fraudulent behavior. However, an effective audit committee can serve as a barrier against fraud due to such pressures. Thus, the higher the external pressure felt by the company, accompanied by good oversight from the audit committee, the potential for financial statement fraud can be minimized (Pokhrel, 2024).

### **The Influence of Rationalization on Financial Statement Fraud Moderated by the Audit Committee**

The results of the MRA test show a probability value of  $0.6537 > 0.05$ , thus H8 is rejected and it can be concluded that rationalization is unable to moderate or strengthen the influence on financial statement fraud. Rationalization such as auditor rotation is often used by management to justify fraudulent actions, but weak rationalization actually decreases the potential for fraud to occur. Frequent changes in public accounting firms can complicate the detection of fraud as it requires time to understand the financial statements. The inability of the audit committee to moderate rationalization reflects weak oversight, and hence the audit committee fails to contain the internal justification process used by perpetrators to legitimize the manipulation of financial statements (Kamila & Parinduri, 2023). The audit committee is ineffective in intervening in the influence of rationalization on report fraud, and contributes little to changing oversight of misleading financial reporting practices.

### **The Influence of Frequent Number of CEO's Pictures on Financial Statement Fraud Moderated by the Audit Committee**

Companies that neglect internal control tend to develop fraudulent strategies for personal gain, one of which is reflected in the numerous

photos of the CEO in annual reports that exhibit an attitude of arrogance or superiority (Hartono, 2024). The results of the Moderate Regression Analysis (MRA) test show a Prob. value of  $0.0000 < 0.05$ , thus H9 is accepted and it can be concluded that the frequent number of CEO's pictures has a positive effect on financial statement fraud and is capable of strengthening that effect. The more CEO photos that are displayed, the higher the potential for financial statement fraud. However, the quality of the audit committee has been proven to weaken that influence, as evidenced by the test of variable interaction. This is consistent with agency theory which states that the audit committee plays an important role in overseeing and ensuring that the financial reporting process is conducted with integrity and in accordance with regulations.

### **The Influence of Ineffective Monitoring on Financial Statement Fraud Moderated by the Audit Committee**

The effectiveness of supervision within a company can be measured through the frequency of board of commissioners meetings, which are responsible for minimizing the potential occurrence of financial statement fraud (Hartono, 2024). The results of the Moderate Regression Analysis (MRA) test show a Prob. value of  $0.0003 < 0.05$ , which means H10 is accepted, therefore it can be said that ineffective monitoring can moderate or strengthen the influence of BDOU on financial statement fraud. This indicates that ineffective monitoring can increase the likelihood of fraud occurring, as management has more room to manipulate reports without detection, in accordance with the fraud hexagon concept in the aspect of opportunity. The worse the supervision, the greater the likelihood of fraud occurring. Therefore, an effective audit committee is crucial in ensuring compliance with regulations and reducing the negative impact of weak supervision.

### **The Influence of Change in Director on Financial Statement Fraud Moderated by the Audit Committee**

The audit committee is considered to play an important role in supporting corporate oversight through the implementation of Good Corporate Governance (GCG), which can enhance the quality of financial statements and prevent fraud, including during changes in the board of directors. Additionally, an effective audit committee structure is also seen as a way to mitigate potential abuse of power. The results of the Moderate Regression Analysis (MRA) show that the Prob. value of  $0.0741 > 0.05$  meaning the variable change in director is unable to be moderated by the audit committee in its influence on financial statement fraud. Changes in the board can have a negative or positive impact depending on the effectiveness of oversight, as in an ideal condition, new directors can improve performance and reduce the potential for fraud. However, the independence of the audit committee does not always ensure the

ability to counter the negative impact of changes in the board of directors on financial reporting (Sungkono, 2019). Therefore, changes in the board of directors must be closely monitored to avoid indicating the presence of fraud (Tamalia & Andayani, 2021).

### **The Influence of Political Connection on Financial Statement Fraud Moderated by the Audit Committee**

Political connection is the relationship between companies and influential parties, such as boards of directors, entrepreneurs, or families of high-ranking officials with the aim of gaining benefits through certain power or policies (Hartanto, 2023). The results of the MRA test indicate that the Prob. value of  $0.0000 < 0.05$  means that H12 is accepted, thus it can be said that political connection strengthens the influence on financial statement fraud. Companies with political connections tend to have lower quality financial reporting and are at a higher risk of corruption, making the fight against corruption a priority in many countries including Indonesia. Furthermore, the presence of women in audit committees with low integrity or from companies with financial problems can also reduce the effectiveness of oversight and increase earnings management. This research also highlights that the political connections of the CEO can negatively impact company performance (Kramadibrata, *et al.*, 2021).

Overall, this research confirms that external pressure and rationalization are the dominant factors driving financial statement fraud, in line with the Fraud Hexagon Theory and agency theory (Tiffani, 2009; Nadia, *et al.*, 2023). Pressure from creditors or investors forces management to present better reports, while rationalization provides justification for management to engage in manipulation. The insignificant results regarding the frequent number of CEO's pictures, ineffective monitoring, change in directors, and political connections indicate that these indicators do not always reflect the internal conditions of the company that lead to fraud. For example, the number of CEO photos may be aimed at building an image, not arrogance (Fisichella, 2019), while changes in the board of directors often become a step towards improvement (Nadzilayah & Primasari, 2022).

The role of the audit committee is proven to be important in moderating the influence of external pressures, the frequency of CEO photos, weak oversight, and political connections. This emphasizes the function of the audit committee in corporate governance as an internal control mechanism (Pokhrel, 2024). However, the audit committee is ineffective in controlling the influence of rationalization and changes in management, as these factors are more related to internal justifications and managerial dynamics that are difficult to detect. Theoretically, this research reinforces the literature on the Fraud Hexagon with the moderating approach of the audit committee. Practically, these findings underscore the need to

strengthen the competency and independence of the audit committee in overseeing the banking sector. A limitation of this research is the use of secondary proxies, so future research could utilize qualitative or mixed methods to deepen the analysis.

#### 4. CONCLUSION

This research concludes that external pressure and rationalization significantly influence financial statement fraud, while the frequent number of CEO's pictures, ineffective monitoring, changes in directors, and political connections are not significant. The audit committee can moderate the influence of external pressure, the frequent number of CEO's pictures, ineffective monitoring, and political connections, but cannot moderate rationalization and changes in directors. The practical implication of this research is the importance of strengthening the role of the audit committee, both in terms of financial expertise and independence, to minimize the risk of fraud. Regulators such as OJK can use these findings as a basis for formulating banking supervision policies. Further research may explore other internal factors such as organizational culture and managerial ethics in relation to financial statement fraud.

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