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Detecting Financial Reporting Fraud Using the Fraud Hexagon Model with Beneish M Score Measurement: Evidence from the Islamic Banking Sector

BY

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Abstract

This study examines the prediction of fraudulent financial reporting by using fraud hexagon theory with six elements (pressure, opportunity, rationalization, capability, arrogance and collusion). The sample of this research is an Islamic banking company unit of Islamic people's financing bank (BPRS) registered with the Financial Services Authority (OJK) with the data taken is unaudited data for 2019–2021. The number of samples processed was 210 and with panel data testing software E views 12. By measuring financial reporting using the Beneish M Score and detecting fraud with the Fraud Hexagon, the test results show that three of the six elements, namely rationalization, capability and collusion, significantly affect fraudulent financial reporting. The effect is positive, confirming the propositions of the fraud hexagon theory. Meanwhile, pressure, opportunity and arrogance cannot indicate the occurrence of fraudulent financial statements.

Keywords: Fraud Hexagon, Beneish M Score, Fraud Financial Reporting

INTRODUCTION

The financial report is a description of a company, in which there is a management accountability report for the performance that has been carried out during a certain period. The information contained in the financial statements is information that will be conveyed to stakeholders (*stakeholder*). Stakeholders use financial statements as a basis for making economic policy decisions. The importance of the information needed in financial reports is one of the factors driving management to do everything so that the financial reports presented always look good which results in the risk of fraudulent practices (Bonsu et al. 2018). According to *auditing and Assurance Services* defines fraudulent financial reporting as intentional misstatement, omission of amounts, or disclosures with the intent to deceive users of financial statements (Febrianto and Fitriana 2020)

According to the official website*Association of Certified Fraud Examiners* (ACFE) (ACFE 2022) fraud is an act of deviation that is deliberately made by a person or entity and knowing that the mistake will have an impact on some benefits that are not good for the individual or entity or other party. Survey*Association of Certified Fraud Examiners* (ACFE) Asia-Pacific in 2022 states that there are three main categories of fraud (*fraud*) namely misappropriation of assets (*asset misappropriations*), corruption (*corruption*), and fraudulent financial statements (*financial statement fraud*). The usual act of fraud is by manipulating the financial statements issued by a company or entity.

The 2022 ACFE report also presents fraud data by industry. Based on Figure 1.1, the banking and financial services sector has the most cases of fraud (22.30%) of all industry groups, totaling 351 cases with a percentage of 22.30%.

Figure 1.1 Fraud Reports by Industry

INDUSTRY	Cases	Billing	Cash larceny	Cash on hand	Check and payment tampering	Corruption	Expense reimbursements	Financial statement fraud	Noncash	Payroll	Register disbursements	Skimming
Banking and financial services	351	10%	11%	14%	14%	46%	8%	11%	11%	4%	2%	10%
Government and public administration	198	21%	8%	7%	9%	57%	12%	8%	16%	16%	3%	8%
Manufacturing	194	26%	5%	9%	7%	59%	10%	12%	23%	10%	4%	8%
Health care	130	20%	6%	8%	8%	50%	11%	9%	18%	12%	2%	9%
Energy	97	24%	9%	6%	8%	64%	16%	8%	13%	6%	3%	2%
Retail	91	19%	10%	9%	9%	43%	7%	4%	24%	5%	7%	14%
Insurance	88	15%	9%	8%	10%	40%	9%	5%	8%	10%	2%	11%
Technology	84	21%	6%	10%	6%	54%	14%	8%	30%	5%	1%	1%
Transportation and warehousing	82	20%	9%	15%	4%	59%	11%	7%	22%	9%	4%	11%
Construction	78	24%	8%	10%	14%	56%	17%	18%	24%	24%	3%	9%
Education	69	26%	9%	12%	12%	49%	12%	12%	19%	14%	4%	12%
Information	60	15%	5%	5%	8%	58%	12%	12%	33%	7%	2%	7%
Food service and hospitality	52	19%	10%	21%	17%	54%	13%	13%	29%	19%	10%	17%

Source: Data ACFE 2022

Islamic banking is a financial institution that uses Islamic values. One of the things that is not permitted is to manipulate financial reports because this is a disadvantage that will harm many parties (Cahyani and Annisa 2021). Through the Financial Services Authority Regulation Number 39/POJK.03/2019, it has issued provisions regarding the implementation of anti-fraud for banks. These provisions were issued with the aim of anticipating various risks of fraudulent acts, whether in the form of embezzlement of assets, fictitious financing, leaking of information, or manipulation of numbers in financial reports. Because according to the Secretary General of the Association of Islamic Banks (Asbisindo) Achmad K Permana explained that until now*asset industry* Islamic banking still has a market share below 4 percent compared to national banking.

Many cases of fraud in the Islamic banking sector have occurred in Indonesia. In 2013 son Bank Mandiri's business, namely Bank Syariah Mandiri (BSM) Bogor branch, was caught in a case pdisbursement of fictitious credit worth IDR 102 billion. This crime is known to be part from a banking syndicate The mode used is by falsifying the identity of 197 fictitious customers either through customer identity or through administrative requirements other. Another mode of banking crime is in the form of falsification of documents which ends in fraud pthere is a theft of customer funds. At least this has happened at Bank Syariah Mandiri (BSM) mid-2014-2015 involving two BSM employees with losses of the case this time reached IDR 50 billion. Two employees are BSM Marketing Managers Gatot Subroto Branch and BSM Trade Specialist Officer ("Reporting and Analysis Center Financial Transactions," n.d.)Another case also occurred in 2018. The West Java and Banten Regional Development Bank (BJB) Syariah was one of the companies that suffered losses due to fraud.

The issue surrounding Bank BJB Syariah is the alleged fictitious credit with a loss value of IDR 548 billion. Based on the 2018 good corporate governance (GCG) report, the company recorded four cases of internal fraud which had a significant impact on operational activities and the bank's financial condition in 2018. There is a strong suspicion that the background to the occurrence of the fraud was due to the opportunity for Bank BJB Syariah's permanent employees to manipulate data. This manipulation is carried out when the customer wants to apply for a loan, but the employee deliberately manipulates the amount of the credit proposed ("Financial Business" 2019). Other evidence that fraud also occurs in Islamic Commercial Banks can be seen in the case of fictitious financing carried out by PT Bank Panin Dubai Syariah in 2018, namely giving to customers who are not eligible (Fernandez, n.d.) Next, PT. Bank Jawa Barat Syariah was also proven to have made allegations of fictitious financing that cost Rp. 548 billion in 2018 (Arief 2019). In addition, Bank Nusa Tenggara Barat Syariah has a case of embezzlement of Rp. 11 billion in customer funds committed by bank employees ("Suarantb.Com" 2021)

This is why empirical research must be carried out even though fraud is impossible to eliminate. The possibility of fraud occurring can be minimized by understanding the causes of fraud and taking proactive action against it (Kazimean et al. 2019). The novelty of this research is to test the deception hexagon. The new fraud model with eight factors adds the collusion variable. Using the number of commissioners with multiple positions to analyze ways to prevent fraudulent financial reporting in the Islamic banking sector in Indonesia. This study examines the potential for fraudulent financial reporting using the fraud hexagon theory based on factors such as stimulus (financial targets, financial stability, and external pressure) and capability (change of directors).

One detection technique that focuses on financial statement fraud to determine whether a company is a manipulator or not is to use the Beneish-M Model developed and discovered by Messod D. Beneish (1999). The Beneish MModel includes eight ratios to identify financial fraud (*financial fraud*) or the tendency to manipulate earnings (*earning manipulation*). According to (Istaiteyeh and Milhem 2022) profit is considered as a sign of development and improvement and indicates the sustainability and future of a company's competitiveness. Another study conducted by Mavengere (2015) in the country of Zimbabwe which resulted in the validity of measurement of fraud, that is, from data manipulation it yielded true positives. A stable business with strong profitability can generate sufficient income to fund sustainable development to attract interest and investment from both domestic and foreign investors. Research in Indonesia that examines the significance of the eight ratios of the Beneish M-Model is still limited. Therefore, this study aims to test empirically the eight variables of the Beneish M-Model to identify the occurrence of fraud in financial statements or the tendency of companies to manipulate profits in Islamic banks in Indonesia.

II. Literature Review and Theoretical Perspectives

The theory used in this research is agency theory and fraud hexagon theory. This fraud theory can explain why the fraud phenomenon occurs. By determining what factors contribute to fraudulent acts by categorizing the causes of fraud. The latest fraud theory is Fraud Hexagon, introduced in 2019 by (Vousinas 2019). Based on this theory, shareholders want management to display financial statements in accordance with the real conditions of the company, while management tries to fulfill this request by doing various ways to get high salaries and bonuses. *Hexagon Fraud* explains the elements that cause fraud through five elements, namely: *pressure, capability*, *collusion*, *Opportunity*, *Arrogance*, and *rationalization*. This model is considered better because there is a collusion factor that plays a big role. Factors leading to financial fraud commitments (Tarjo et al. 2021). These studies employ different theories, although most of them employ fraud-related theories, such as the fraud triangle theory or the fraud diamond theory. Assessment of the factors that influence fraudulent financial reporting in the banking sector using the hexagon theory is still lacking.

Pressure on Financial Statement Fraud

The fraud triangle theory put forward by Cressey and Ray (1953) suggests that one of the causes of fraud is pressure. The higher the pressure, the more likely the individual will commit fraud. Management may also find themselves being offered incentives or placed under pressure to commit fraud. For example, because remuneration or advancement is significantly affected by individual, division, or company performance, individuals may have incentives to manipulate results or pressure others to do so. According to Skousen et al. (2015) stated that pressure is stimulated when an organization's performance is below the average performance of other organizations. Misappropriation of assets and is called employee fraud or *defalcation*. Employees may abuse their position to steal from or divert employer assets because they are aware of “flaws” in the control system and take advantage of them (Othman and Ameer 2022). Pressure in this study is measured using the Leverage ratio because when a company faces great difficulties in fulfilling a loan, there will be a high risk and raises concerns for the company's management about the inability to return capital and fulfill the conditions given. Thus, the pressure faced by managers or employees can cause them to commit violations or fraud as an easy way to get rid of their problems. A number of researchers have found that there is a significant relationship between stress and the incidence of employee fraud (Kazimean et al. 2019).

H1: External pressure has a positive effect on fraudulent financial statements

Opportunities for Financial Statement Fraud

Monitoring ineffectiveness is a condition when a corporation does not have an appropriate monitoring mechanism for its personnel. Ineffective monitoring has no effect on the detection of financial statement fraud. This is because the large number of independent commissioners does not indicate good internal control. According to research conducted by Shi et al. (2017). The commissioners feel they have full responsibility for the division of their duties, so they feel that this is an opportunity to commit fraud in managing financial reports. In accordance with research conducted by Kazimean et al. (2019) have a confirmed a significant positive relationship between the elements of opportunity and the occurrence of fraud. Meanwhile, according to Daddzie-Dennis et al. (2019) also states that employee fraud involves employees*nonsenior* involving, but not limited to, embezzlement, petty theft, asset misappropriation, bribery, corruption, and computer fraud.

H2: Opportunity has a positive effect on Fraudulent Financial Statements

Rationalization of fraudulent financial statements

Rationalization occurs because the perpetrator seeks the truth of his activities in committing fraud. In this study, rationalization uses total accruals as a proxy, because accrual accounting principles are one of the reasons for company management to rationalize manipulation of financial statements (Nadia et al. 2023). According to research conducted by Suh et al. (2019) argue that elements of “pressure” and “rationalization” in fraud theory are indivisible financial issues, whereby elements of non-transparency are attacked for organizations to prevent fraud from occurring. In addition, Said et al, (2017) indicated that in PwC's 2011 global economic crime survey, 12 percent of participants claimed the reason fraudsters made excuses for their mistakes was the biggest fraud risk. The results of research by Ghafoor et al. (2019) stated that the previous violation occurred due to a change of auditors, which was used to test elements of rationalization, contributing to the occurrence of fraud.

H3: Rationalization has a positive effect on fraudulent financial statements

Capability against fraudulent Financial Statements

Researchers have a broad belief that the Fraud Triangle Theory can be further strengthened by adding a fourth dimension, namely the element of capability, to improve fraud prevention and detection in organizations (Vousinas 2019). According to Kazimean et al. (2019), several fraud cases in recent years have been committed by intelligent, knowledgeable, and experienced fraudsters who have good knowledge of organizational controls. In contrast to research conducted by (Cahyani and Annisa 2021) suggests that the size of the level of turnover of directors does not affect fraud in financial reports. The hypothesis was rejected due to effective supervision from the board of commissioners on each management performance, so that in this year's research changes in directors made by banking companies have no effect on fraudulent financial statements.

H4: Capability has a negative effect on Fraudulent Financial Statements

Arrogance towards fraudulent financial statements

The role of a leader is the main key to the success of a company. A good leader is a leader who not only wants to be respected and respected by his employees but a leader who wants to cooperate and participate in building the company. According to Halilbegovic et al. (2020), The CEO on the annual report will make a significant contribution to the success of the company but probably not to corporate fraud. The results of research conducted by Vousinas (2019) show that narcissistic people are more likely to commit fraud because of their greed for rights, the desire to dominate and protect their self-esteem, which are important drivers of deception. A person who is often self-centered, self-assured, and arrogantly egotistical, who is motivated to excel at all costs, is a character trait that characterizes those who commit fraud.

H5: Arrogance has a positive effect on fraudulent financial statements

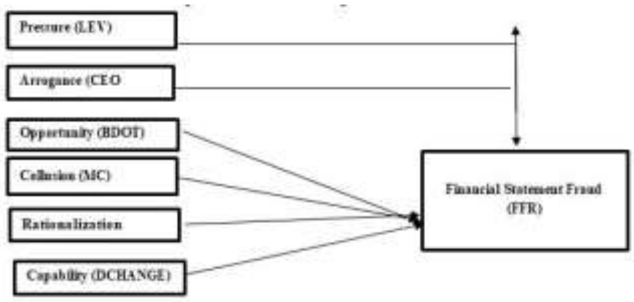
Collusion against Fraudulent Financial Statements

The Hexagon theory introduces collusion as one element, bringing the total element of fraud to six. Collusion is defined as a conspiracy between two or more people to commit a crime and protect each other from the consequences of brand crime (Sukmadilaga et al. 2022). According to research conducted by Abubakar et al. (2020) that collusion has a positive effect on fraud because of the placement of positions between the board of commissioners and directors as a kinship system. In contrast to the results of research conducted by (Achmad et al. 2023), the underlying statement that H8 states that collusion has an effect on fraudulent financial reporting is rejected. The dual positions of the independent commissioners do not make them independent in corporate governance, but each independent commissioner is relatively independent. This is supported by the dual positions of independent commissioners as research objects who do not violate Law Number 19 of 2003 concerning State-Owned Enterprises or the Financial Services Authority (OJK).

H6: Collusion has a negative effect on fraudulent financial statements

Based on the theoretical basis, several previous studies that have been carried out by several researchers, and the formulation of the problem above, the hypothesis proposed is as follows:

Figure 2.1 Theoretical Thinking Framework



III. Research Method

The method used in this study is to use a quantitative method by analyzing all Indonesian Sharia Banking. The population in this study is all Syari'ah People's Financing Banks registered in Indonesia for the 2019-2021 period. The data taken is unaudited BPRS data for the 2019 – 2021 quarter. Sampling using technique *purposive sampling*. The criteria used as sample determinants are: 1) Sharia People's Financing Banks registered with the Financial Services Authority (OJK) from 2019-2021; 2) Sharia People's Financing Bank which does not present annual reports from 2019-2021; and 3) Syari'ah People's Financing Banks which cannot provide complete information regarding the data needed in this study include, LEV, BDOT, TACC, DCHANGE, CEODUAL, MC Year 2019 - 2021.

Dependent Variable

The dependent variable used in this study is financial statement fraud. According to Halilbegovic et al. (2020), The Beneish M-Score is known as an efficient model for detecting companies that tend to commit financial statement fraud, to categorize companies that are likely/impossible to commit fraud by detecting profit manipulation carried out by the company. In addition, the M-Score can be used in the Indonesian context as it is also used in other developing countries as a predictor of financial statement fraud, for example, Bangladesh (Othman and Ameer 2022). If the results of the M-Score equation are > -2.22, this indicates that the company is within the criteria of being detected financial statement fraud. Conversely, if the results of the M-Score equation are <-2.22, this indicates that the company has not detected fraudulent financial reporting. According to the Beneish Model, it can be represented as follows:

$$M = -4.84 + 0.920DSR + 0.528GMI + 0.404\ AQI + 0.892\ SGI + 0.115\ SINCE - 0.172SGAI + 4.679ACCRUALS - 0.327\ LEVI$$

Descriptions:
DSR: Income Index
GMI: Gross Margin Index
AQI: Asset Quality Index
SGI: Income Growth
DEPI: Depreciation Index
SGAI: Administrative Expense Index
TATA: Total Accruals
LVGI : Index Leverage

Independent Variable:

Table 1. Variable Operational Definition

Variable	**Draft**	**Measurement**	**Scale**	**Reference**
Pressure (LEV)	Pressure on the part external to the company's internal parties	Total Debt/Total assets	Ratio	(Site 2020)
Chance (BDOT)	Ineffective company internal control	Independent amount commissioners/Number of commissioners	Ratio	(Husmawati et al. 2017)
Rationalization (TACC)	The difference between profits net company to cash flow from the company's operations in the same period	Net income - Activity cash flow Operations (CFO).	Ratio	(Skousen et al, 2015)
Capability (DCHANGE)	Change of directors in a company	The dummy variable is coded 1 if there is a change of directors and coded 0 if there is no change of directors.	Nominal	(Mirfazli 2019)
Arrogance (CODUAL)	One's selfish attitude in showing his power	Number of photos of the Chief Executive Officer featured in the financial statements yearly	Nominal	(Ramantha 2020)
Collusion (MC)	An agreement or cooperation between two or more parties potential for fraud	The number of commissioners cum department	Nominal	(Vousinas 2019)

IV. Results and Discussion

Sample Selection Results

In selecting the sample, there are 210 companies that meet the criteria that can be used as samples in the 2019-2021 period. Table 1 shows the sample selection procedure.

Table 2. Sample Selection Procedure

Information	**Total**
Population: Sharia People's Financing Banks (BPRS) registered with OJK	
Sampling-based on criteria (purpose sampling)	
Criterion 1: Sharia People's Financing Bank registered with the Financial Services Authority (OJK) From 2019-2021	167
Criterion 2: Syari'ah People's Financing Bank that does not present an annual report from year 2019-2021	-75
Criterion 3: Sharia People's Financing Bank that cannot provide complete information regarding the data needed in this study include, LEV, BDOT, TACC, DCHANGE, CEODUAL, MC 2019 – 2021	-22
Total Sample	70
Years of Observation	3
Total Sample During Observation	210

Source: Processed data (2023)

Uji Data Panel

This study uses panel data regression. Therefore it is necessary to select the right panel data model by carrying out the following tests through the Eviews 12 software. The results of model testing use *Fix Effect Models.*

Results of Descriptive Statistics

Based on the results of taking this research sample, the following descriptive statistics are presented:

Table 3. Descriptive Statistics

Variabel	N	Mean	Median	Max	Min	SD
_FFR	210	-256.945	-240.8900	19.31000	-1387.780	127.5807
_LEV	210	0.832696	0.865893	0.990710	0.272673	0.118397
_BDOT	210	2.000.000	2.000.000	2.000.000	2.000.000	0.0000000
_TACC	210	-0.054239	-0.050877	0.004799	-0.295871	0.027229
_DCHANGE	210	0.0109524	0.000000	1.000.000	0.000000	0.313042
_CEODUAL	210	0.433333	0.000000	2.000.000	0.000000	0.703942
_MC	210	0.138095	0.000000	2.000.000	0.000000	0.420726

Source: Secondary data processed (2023

Based on Table 3 above, it shows that N, or the amount of data for each valid variable is 210. With 6 independent variables and 1 dependent variable, it can be seen that all valid sample variables are 210 samples. From all the descriptive statistical data above, it can be seen that the variable that has a mean value that is smaller than the standard deviation is the financial statement fraud variable (FFR) with a mean value of -256.6945 <127.5807 of standard deviation value, Rationalization (TACC) to the mean value-0.054239 < 0.027229 from the standard deviation value, Capability (DCHANGE) with the mean value0.109524 < 0.313042 from the standard deviation value, Arrogance (CEODUAL) with the mean value0.433333 < 0.703942 and Collusion (MC) with mean values0.138095 < 0.420726 from the standard deviation value. This means that the data is heterogeneous. so that the data deviation that occurs from these variables is low. Thus, the distribution of values is even.

Meanwhile, for variables that have a mean value that is greater than the standard deviation, namely the pressure variable (LEV) with a mean value0.832696 > 0.118397 from the value of the standard deviation and opportunity (BDOT) with the mean value2.000000 > 0.0000000 from the standard deviation value. This means that the data is homogeneous. so that the data deviation that occurs from these variables is high. So, the data in the variable is increasingly accumulating at its mean value.

Regression Results

Table 4. Regression Results

	Sign	Coefficient	t- Statistic	Prob	Conclusion
C	+/-	-1.496032	-0.754488	0.4514	
_LEV	+/-	-1.208100	-0.578302	0.5637	Rejected
_BDOT	+/-	N/A	N/A	N/A	N/A
_TACC	+/-	4684.384	512.2550	0.0000	Accepted
_DCHAGE	+/-	0.271773	0.361124	0.7184	Rejected
_CHEODUAL	+/-	-0.084841	-0.250082	0.8028	Rejected
_MC	+/-	-0.800743	-1.396256	0.1642	Rejected
Prob (F-Statistic)				0.000000	
R – Square				0.999317	

Source: Secondary data processed (2023)

In Table 4 you can see the value *prop (F-statistic)* of 0.000000 the value of the table is smaller than the t table of 0.05 which means that the independent variables namely pressure (LEV), rationalization (TACC), capability (DCHANGE), arrogance

(CEODUAL), collusion (MC) affect the dependent variable namely fraudulent financial reporting (FFR), with the exception of the independent variable, namely opportunity (BDOT), has no effect whatsoever on fraudulent financial reporting because the values listed are all the same, namely the number of independent commissioners from all samples during the three-year period 2019 - 2021 is the same, nothing has changed. the R-Squared value of 0.999317 means that the ability of the variables pressure, rationalization, capability, arrogance, and collusion in explaining fraudulent financial reporting is 99.9317%, while the remaining 0.0683% can be explained by other factors outside this study.

Discussion

The Effect of Pressure on Fraudulent Financial Statements

Based on the results listed in Table 4, it shows that the pressure variable has a significant value of 0.5637 (0.5637 > 0.05), which means that H1 is rejected. This shows that pressure has no effect on fraudulent financial statements. In contrast to research Previously, our study found that vice and family circumstances were the main sources of motives (pressure). This is in accordance with research conducted in New Zealand which has reported that gambling can result in criminal activity and neglect of responsibility, including the consequences of such actions (Browne et al. 2016). Meanwhile, other studies have found that cases that occurred in Iran's state banking resulted in a positive relationship between pressure on employees and misuse of assets in the banking system (Kazimean et al. 2019).

The same research was also conducted by Albrecht et al. (2018) motive (pressure) to commit fraud can be in the form of financial pressure, crime, or living beyond their means.

The Effect of Opportunity on Fraudulent Financial Statements

Based on the results of research processing in the Eviews system conducted by researchers, the value of the BDOT variable is by measuring the number of independent commissioners or the number of commissioners. There were 210 samples with 70 BPRS units in Indonesia and published their financial reports for the 2019 - 2021 period giving entirely the same results, namely 2 Independent Commissioners who remained during the annual BPRS reporting period. Because the results of each company are the same and do not change from year to year, these variables cannot be measured in the Eviews measuring tool because they have the same value. It can be concluded that according to previous research conducted by Skousen et al. (2015) that many independent commissioners do not affect the existence of fraudulent financial statements that occur. The results of this insignificant study also show a decline in the function of the independent commissioners themselves.

The Effect of Rationalization on Fraudulent Financial Statements

Based on the test results in Table 4, the Rationalization variable measured by total accruals has a significant value of 0.0000 (0.0000 <0.05), which means H3 is accepted. This shows that rationalization has a positive effect on fraudulent financial statements. The results of this study are in line with research conducted in Iranian banking that the relationship between rationalization and misuse of assets can lead to fraud in financial statements (Kazimean et al. 2019). The same research was also conducted by Othman and Ameer (2022) Most fraudsters rationalize their fraud internally and this rationalization is more often used by those in positions *managerial* compared to those in position *no nmanagerial*. Leaders also have the ability to rationalize bad decisions that are even unethical to support committing fraud and manipulating the results of the company's financial statements (Chenguel 2022).

The Effect of Capability on Fraudulent Financial Statements

Based on the results listed in Table 4, the capability variable has a significant value of 0.7184 (0.7184 > 0.05), which means H4 is rejected. This shows that capability as measured by a change of directors does not have a negative effect on fraudulent financial reporting, in other words, capability has a positive effect on fraudulent financial reporting. The results of this study are in line with research conducted by Kumar et al. (2018) on the organizational culture of employees in Australia which results that capability is a fraud control method with the longest sampling of six years and shows the capability to generate the addition of an element of fraud is very influential. Another research that is in line with this research was conducted by Kazimean et al. (2019) that the element of capability has a significant positive effect on the misappropriation of assets among bank employees and causes fraud on financial reports.

The Effect of Arrogance on Fraudulent Financial Statements

Based on Table 4, the arrogance variable by measuring the number of commissioners who hold concurrent positions has a significant value of 0.8028 (0.8028 > 0.05), which means that H5 is rejected, this provides an explanation that arrogance has no effect on fraudulent financial statements. Before the case is different in the study conducted by Zuberi et al. (2019) conducted in Tanzania which resulted that arrogance has a significant positive effect on fraudulent financial reporting in several financial institutions. Similarly, other research has found that collusion is an effective factor in an organization, the more likely it is to make it *whistleblowing* being the most common detection method (C. O. Albrecht et al. 2021)

The Effect of Collusion on Fraudulent Financial Statements

Based on the results listed in table 4, the collusion variable has a significant value of 0.1642 (0.1642 > 0.05), which means H6 is rejected. This shows that collusion has no negative effect on fraudulent financial reporting, in other words, collusion has a positive effect on fraudulent financial reporting. The results of this study are supported by research conducted by Locatelli et al. (2018) who said that the results of research conducted in Italy resulted that most of the characteristics of collusion have a tendency to be fraudulent projects in producing financial reports. This is not in line with Law Number 19 of 2003 concerning State-Owned Enterprises or the Financial Services Authority (OJK) which states that the dual positions of independent commissioners as research objects do not violate the Law, concurrent positions are only dominated by one of the criteria, namely as ex-officer or ex-military. The results are the same as the research conducted by

Vousinas (2019) which results that collusion cannot support the hexagon theory of fraud. The results of the current study indicate that the highest number of concurrent positions ranges from 2 to 3.

Conclusion

The findings of this study indicate that total accruals as a proxy for rationalization can explain the tendency of fraudulent financial reporting. In addition, the capability proxy, namely the change of directors, and also the collusion proxy, namely the multiple positions of commissioners, has a positive effect on the tendency of fraudulent financial statements. In addition, this study provides evidence that leverage as a proxy for pressure and one's egotistical attitude as a proxy for arrogance cannot be an indication of fraudulent financial statements. However, this study failed to prove the existence of an opportunity proxy by measuring the number of independent commissioners as an explanation for indications of fraudulent financial statements in the fraud hexagon theory. The limitation of this study is that further research is needed on the opportunity proxy for ineffective monitoring of the number of independent commissioners. It is hoped that further research can include new variables such as the Z-SCORE and can also use the bonuses received by managers.

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