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PERSPECTIVE OF FRAUD HEXAGON THEORY: DETERMINANTS OF FINANCIAL STATEMENT FRAUD (CASE STUDY OF BANKING COMPANIES LISTED ON THE INDONESIAN STOCK EXCHANGE IN 2020-2022)

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Abstract. The objective of the study is to examine the influence of external pressure, financial stability, ineffective monitoring, change in auditor, change in director, CEO Duality and political connection disclosure on a company's fraudulent financial reporting. The population in this study included the banking companies listed on the Indonesia Stock Exchange from 2020 to 2022. The samples were determined using the purposive sampling technique with several predetermined criteria, resulting in a total of 111 samples. The data used in this study is secondary data obtained from the company's annual reports, financial statements, and independent auditor's report. The data analysis technique used is panel data regression using Eviews 12 to test each hypothesis in this study. The results of this study demonstrate that external pressure measured by leverage ratio and financial stability measured by change in assets can improve the company's fraudulent financial reporting. Additionally, ineffective monitoring by the presence of the board of independent commissioners less than the entire board of commissioners in the company can also enhance the company's fraudulent financial reporting. However, change in auditor, change in director, CEO Duality and political connection does not affect the company's fraudulent financial reporting.

Keywords: External Pressure, Financial Stability, Ineffective Monitoring, Change in Auditor, Change in Director, CEO Duality, Political Connection, Fraudulent Financial Reporting, Hexagon Fraud Theory, Agency Theory.

I. INTRODUCTION

Fraudulent financial reporting has increased significantly during the Covid-19 pandemic, as supported by a survey conducted by the Association of Certified Fraud Examiners (ACFE) in 2020. The survey showed that 71% of respondents stated that financial statement fraud increased during the pandemic (Sintabela & Badjuri, 2023). The situation is associated with the massive mobilization of resources and funds which opens up opportunities for fraud in financial statements (Santia, 2021). The government through the Financial Services Authority (OJK) also issued a credit restructuring policy during the pandemic to promote economic stability, but this policy adds liquidity risk for banks and affects bank income, as expressed by the Directors of PT Bank Rakyat Indonesia (Sunarso) and PT Bank Central Asia (Jahja Setiaatmadja) (Soepriyanto et al., 2022). This liquidity risk, along with other economic pressures, worsens the financial stability of banks, thus creating pressure for management to maintain financial statement performance, which may trigger fraud (Ozsoy et al., 2020).

Several cases of banking fraud in Indonesia also show its impact. For example, the breach of customer funds by the head of the Maybank branch, which reached IDR 22.8 billion in 2020, and the case of lost deposit funds involving 14 customers of PT Bank Mega Tbk in 2021, which totaled IDR 56.45 billion (Sidik, 2020; Kencana, 2021). According to the ACFE survey (2020), the finance and banking sector is the sector most harmed by fraud, with 41.4% of reported losses. This shows that the finance and banking industry has experienced an increase in fraud losses during the pandemic, in contrast to ACFE's previous findings in 2016 which placed this sector in second place in terms of fraud losses.

The banking industry has a strategic role in a country's economy because of its role as an intermediary institution that collects and distributes funds to other economic sectors (Simatupang, 2019). Therefore, the stability of the banking sector is very important for the stability of the country's economy and the welfare of society. In an effort to maintain this stability, good planning in the detection of financial statement fraud is very important to minimize the risk of fraud.

Agency Theory, proposed by Jensen & Meckling (1976), explains that financial statement fraud can occur due to differences in interests between principals (company owners) and agents (managers), which trigger conflicts of interest and fraud opportunities. In addition, Fraud Theory introduced by Cressey (1953) through the Fraud Triangle, as well as further development into the Fraud Diamond (Wolve & Hermanson, 2004), Fraud Pentagon (Crowe Howarth, 2011), and Fraud Hexagon (Vousinas, 2019) explain the various factors that cause fraud. The Fraud Hexagon adds the collusion factor as a new component that affects the occurrence of fraudulent financial statements, in addition to the factors of pressure, opportunity, rationalization, ability, and arrogance. External pressure and financial instability are important factors in triggering fraud (Albizri et al., 2019). Opportunities for fraud are created due to the ineffectiveness of supervision, as well as industry conditions that provide opportunities for fraud (SAS No.99). The rationalization factor relates to a person's thoughts or attitudes that justify wrongdoing, while the ability factor refers to a person's level of competence that allows them to commit large amounts of fraud, as seen in the change of directors (Sari et al., 2022). The arrogance factor, which is related to an attitude of superiority, can be seen in the phenomenon of CEO duality, while collusion includes political relationships that can influence the company's behavior in committing fraud (Pamungkas et al., 2018; Vousinas, 2019).

Several previous studies have shown that the variables of pressure, opportunity, and rationalization affect financial statement fraud (Hartadi, 2022; Alifa & Rahmawati, 2022), but there are inconsistencies in the results of these studies. This study aims to fill the gap by adding novelty to the measurement of independent variables, such as external pressure and financial stability to measure pressure, and supervisory ineffectiveness to measure opportunity. This study also focuses on banking companies listed on the Indonesia Stock Exchange (IDX) in the period 2020-2022, with special attention to the credit restructuring policy issued by the OJK during the Covid-19 pandemic, which affects bank liquidity and increases the risk of financial statement fraud. Companies that go public also have higher fraud potential than non-public companies due to the obligation to disclose annual reports to the public and OJK (Agustin et al., 2022). By considering these factors, this study is expected to contribute to the understanding of the determinants of financial statement fraud in the banking sector.

II. LITERATURE

A. Agency Theory

Agency Theory proposed by Jensen & Meckling (1976) explains the contractual relationship between the principal (company owner or investor) and the agent (manager or employee) in which the principal delegates decision-making authority to the agent. In practice, differences in interests between principals and agents can lead to agency conflicts (conflict of interest), which lead to agent actions that are contrary to the wishes of the principal.

Management (agent) tends to report good performance to attract investors, while investors (principal) want to know clear information about company activities, including management activities related to their funds (Larasati & Puspitasari, 2019). Public companies, as described by Jensen & Meckling (1976), often face this conflict because the principal wants to share profits according to conditions, while the agent wants to get a large bonus from a performance that is considered good (Astuti & Aryani, 2016).

Agency theory is relevant in explaining conflicts of interest that can encourage agents to improve performance for rewards from the principal. Agents often have more information than the principal, which causes information asymmetry (Kusnurhidayati, 2020). This provides an opportunity for agents to hide certain information, which can trigger fraud, including inaccurate financial reports for personal gain. This difference in interests is also in line with the determinants in the Fraud Hexagon Theory which explains the factors that drive fraud.

B. Fraud Hexagon Theory

The initial theory of fraud was first introduced by Donald R. Cressey in 1953 in his research "Other People's Money: A Study in the Social Psychology of Embezzlement" (Alifa & Rahmawati, 2022). This research produces a fraud theory known as the fraud triangle theory which consists of three factors that can influence a person to commit fraud, namely pressure, opportunity, and rationalization. David T. Wolfe and Dana R. Hermanson in 2004 developed the fraud triangle theory into a fraud diamond theory by adding the capability factor. Crowe Horwath in 2011 developed the fraud diamond theory fraud pentagon theory by adding the arrogance (ego) factor. Then, Georgios L. Vousinas in 2019 refined the fraud pentagon theory into a fraud hexagon theory by adding the collusion factor. Therefore, the factors that can cause fraud based on fraud hexagon theory are stimulus/pressure, opportunity, rationalization, capability, arrogance, and collusion (Novarina & Triyanto, 2022).

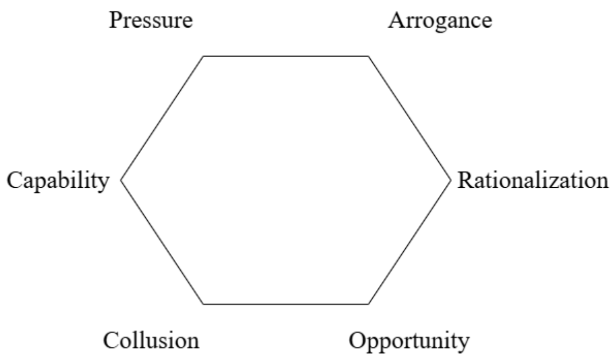

Figure 1. The Fraud Hexagon

C. Pressure

The American Institute of Certified Public Accountants (2002) defines pressure as an impulse that arises when managers are under pressure to commit fraud in a company because the company's profitability is threatened by economic conditions, industry, and other situations (Agustina & Pratomo, 2019). Pressure is proxied through external pressure and financial stability.

Skousen et al. (2009) revealed that external pressure can be overcome by obtaining additional external financing sources. The company's liabilities that are higher than its assets cause the company's leverage ratio and liquidity risk to also be higher, so it is possible that this triggers fraud in the financial statements to minimize the leverage ratio (Agustina & Pratomo, 2019). Financial stability is a constant or stable financial condition in a company that is influenced by economic conditions, entity operations and industries shown by the condition of assets that represent the company's wealth (Skousen et al. 2009).

D. Opportunity

Opportunity is a condition that can occur when an opportunity to commit fraud is formed because the internal control system is not running effectively due to weak supervision (ineffective monitoring), so that this creates an opportunity to commit fraud (Agustina & Pratomo, 2019). Supervisory ineffectiveness is a condition that shows weak supervision in monitoring company performance. Supervisory ineffectiveness can be represented through the presence of an independent board of commissioners as a supervisor who will strengthen supervisory effectiveness.

E. Rationalization

Rationalization is the attitude of board members, managers, or employees that allows them to seek justification for fraudulent financial statements. Changing auditors is a form of rationalization because new auditors need time to adapt to new clients compared to previous auditors who have received audit findings. In addition, the new external auditor still does not understand the condition of the company as a whole, so there is a possibility for a manager to commit fraud that is not detected by the external auditor (Aulia & Afiah, 2020).

F. Ability

Ability is the power of someone who is competent and has a big role and influence that makes it possible to commit an act of fraud (Lamawitak & Kutu Goo, 2021). Wolfe & Hermanson (2004) reveal that many frauds with large amounts are impossible if there are no certain people with special capabilities in the company. The ability of someone who has a big role and influence can be created when there is a change of directors in a company for certain reasons and purposes, so that the position of the position will allow someone to commit fraud or cover up the fraud that occurred before.

G. Arrogance

Arrogance is the arrogant attitude and superiority of someone who feels that no internal policies apply to him because of his high status and position in a company (Pamungkas et al. 2018). Arrogance can be attached to the position of a director who concurrently serves as a commissioner in a company (Putri & Deviesa, 2017). The absence of separation of duties causes CEO Duality to cause fraud.

H. Collusion

Political connections are the relationships of company executives with politicians, government and public officials. Politically affiliated companies will receive assistance in the form of financial loans and have easy access to work contracts through the government. The existence of privileges encourages companies to borrow more frequently which will then cause financial distress, causing financial difficulties for the company to pay its obligations (Kristen et al. 2021).

I. Fraud

Political connections are the relationships of company executives with politicians, government and public officials. Politically affiliated companies will receive assistance in the form of financial loans and have easy access to work contracts through the government. The existence of privileges encourages companies to borrow more frequently which will then cause financial distress, causing financial difficulties for the company to pay its obligations (Kristen et al. 2021).

J. Financial Statement Fraud

The American Institute of Certified Public Accountant (AICPA) defines financial statement fraud as intentional, misstatement or omission of material facts, or misleading accounting data, so that it will cause readers to change their judgment or decision based on the financial statements presented (Sari & Safitri, 2019). Financial reports are a means of management accountability to all stakeholders for the company's performance during a certain period. Financial reports must be presented correctly, honestly and transparently in accordance with the actual circumstances for mutual benefit without one or several parties benefiting personally.

K. Research Hypothesis

1. The Effect of External Pressure on Financial Statement Fraud

   Management often faces external pressure to perform well, which can be addressed by obtaining external financing. Credit restructuring requires an injection of funds so that the company avoids liquidity risk and can fulfill obligations and finance operations. Based on Agency Theory, company owners (principals) want to get maximum returns, which encourages management (agents) to maximize company value and show good performance.

   According to the Fraud Hexagon Theory, external pressure can be measured by the leverage ratio, which reflects the relationship between liabilities and assets. The higher the leverage ratio, the greater the opportunity for agents to understate the ratio in an unauthorized manner.

   Previous research supports the relationship between external pressure and non-transparent financial statements. Damayanti & Suryani (2019) found that external pressure has a positive effect on financial reports in Basic Industry and Chemical Sector Manufacturing Companies listed on the Indonesia Stock Exchange. Agustin et al. (2022) also found similar results in Insurance Companies. Hartadi (2022) found a positive relationship in state-owned companies. Based on these findings, the hypothesis of this study is:

   H1: External pressure has a positive effect on financial statement fraud
2. The Effect of Financial Stability on Financial Statement Fraud

Financial stability is the company's stable financial condition, influenced by economic, operational, and industrial conditions, which is reflected in the company's total assets. The amount of total assets attracts investors' attention and encourages management to increase the company's assets every year. Financial stability can be measured by the ratio of changes in assets, because the higher the total assets, the greater the wealth the company has (Skousen et al., 2009).

According to the Fraud Hexagon Theory, pressure (stimulus/pressure) can be measured using the asset change ratio. The greater the ratio of changes in total assets, the higher the possibility of manipulating financial statements, because management may try to increase the value of assets to make financial statements look more attractive to external parties, who will assess the company's liquidity and business continuity. Therefore, a high asset change ratio can open up opportunities for financial statement manipulation.

Previous research supports the relationship between financial stability and financial statement manipulation. Situngkir & Triyanto (2020) found a positive effect of financial stability on financial statement manipulation in LQ 45 companies listed on the Indonesia Stock Exchange. Preicilia et al. (2022) also found the same thing in property and real estate sector companies. Putra & Lestanti (2023) found a similar relationship in food and beverage subsector manufacturing companies. Based on these findings, the hypothesis of this study is:

H2: Financial stability has a positive effect on financial statement fraud

3. The Effect of Opportunity on Financial Statement Fraud

According to the American Institute of Certified Public Accountants (2002), opportunities for fraud arise when the internal control system is ineffective, which is caused by a lack of supervision (ineffective monitoring), thus providing opportunities for fraud (Agustina & Pratomo, 2019).

Based on the Fraud Hexagon Theory, one of the factors that can influence non-transparent financial statements is *opportunity*, which can be measured by the proxy of supervisory ineffectiveness. This can be seen from the ratio of the number of independent commissioners to the total company commissioners. The presence of an independent board of commissioners as a supervisor strengthens the effectiveness of supervision, while ineffective supervision increases the possibility of fraud. In the context of agency theory, the pressure faced by managers (agents) by company owners (principals) opens up opportunities for agents to commit fraud in order to show good performance. The ineffectiveness of this supervision makes it easier for fraud to occur.

Several studies support the relationship between supervisory ineffectiveness and financial statement fraud. Hartadi (2022) found that supervisory ineffectiveness has a positive effect on financial statement fraud in state-owned companies listed on the Indonesia Stock Exchange. Nurbaiti & Putri (2023) found the same thing in transportation and logistics companies, while Putra & Lestanti (2023) found it in food and beverage companies listed on the Indonesia Stock Exchange. Based on these findings, the hypotheses proposed in this study are:

H3: Supervisory ineffectiveness has a positive effect on financial statement fraud

4. The Effect of Rationalization on Financial Statement Fraud

According to Statement of Auditing Standards No. 99, rationalization is the reason used by managers or employees to justify fraudulent financial statements, one of which is through a change of auditors. New auditors need time to adapt to new clients, while previous auditors may have found evidence that indicates fraud.

Based on the Fraud Hexagon Theory, one of the factors affecting financial statement manipulation is rationalization, which can be measured by auditor turnover. Pressure from company owners or investors (principal) can encourage managers (agents) to commit fraud, but agents may cover up the fraud by changing auditors. Changing auditors is considered a form of rationalization to eliminate evidence of fraud found by the previous auditor, which has the potential to increase the risk of audit failure (Aulia & Afiah, 2020). This step is taken to show good performance to the principal.

Several studies support the relationship between auditor turnover and financial statement manipulation. Kirana et al. (2019) found that auditor turnover has a positive effect on financial statement manipulation in state-owned companies listed on the Indonesia Stock Exchange. Arifin & Rachmawati (2022) also found a positive effect on banking sector companies listed on the Indonesia Stock Exchange. Nurbaiti & Putri (2023) get similar results on transportation and logistics sector companies listed on the Indonesia Stock Exchange. Based on these findings, the hypotheses proposed in this study are:

H4: Auditor change has a positive effect on financial statement fraud

5. The Effect of Ability on Financial Statement Fraud

Ability refers to the power of a competent person with a large role and influence in the company, which makes it possible to commit fraud. Fraud with large amounts is difficult to occur without individuals with special abilities in the company (Lamawitak & Kutu Goo, 2021). The ability factor can be measured through changes in directors, because this replacement can be done to cover up fraudulent financial statements from previous management.

Based on the Fraud Hexagon Theory, the capability that affects financial statements can be measured using the proxy for change of directors. The pressure faced by managers (agents) from company owners or investors (principals) can encourage agents to commit fraud, one of which is by changing the board of directors. Changing directors can create a gap for management to commit or cover up fraud, because new directors need time to adapt to their new position.

Previous research supports the effect of changing directors on financial statement fraud. Faradiza (2019) found that the change of directors has a positive effect on financial statement fraud in manufacturing companies listed on the Indonesia Stock Exchange. Preicilia et al. (2022) also found the same thing in property and real estate sector companies listed on the Indonesia Stock Exchange. Based on these findings, the hypotheses proposed in this study are:

H5: Change of Board of Directors has a positive effect on financial statement fraud

6. The Effect of Arrogance on Financial Statement Fraud

Arrogance refers to the arrogant attitude and superiority of someone who feels that no internal policies apply to him because of his high position or status in the company (Pamungkas et al., 2018). This attitude can be reflected in the position of CEOs who have CEO Duality, namely serving as CEO (board of directors) and chairman of the board (commissioner) in one company. This position should not be held by the same person, because the board of directors is tasked with managing company resources with the authority granted by the board of commissioners, while the board of commissioners functions as a supervisor of the directors (Putri & Deviesa, 2017).

Based on the Fraud Hexagon Theory, one of the factors that influence financial statement fraud is arrogance, which can be measured using the CEO Duality proxy. When a CEO holds more than one position, the CEO has broader authority and power, opening up opportunities to commit fraud for personal gain.

Previous research supports the positive relationship between CEO Duality and financial statement fraud. Widyatama & Setiawati (2020) found that CEO Duality has a positive effect on financial statement fraud in banking companies listed on the Indonesia Stock Exchange. Kusumosari & Solikhah (2021) also found that CEO Duality has a positive effect on financial statement fraud in manufacturing companies listed on the Indonesia Stock Exchange. Based on these findings, the hypotheses proposed in this study are:

H6: CEO Duality has a positive effect on financial statement fraud

7. The Effect of Collusion on Financial Statement Fraud

Collusion factors include close relationships between company and government officials that can facilitate the licensing process and loan applications (Vousinas, 2019). Companies with political connections can obtain government assistance during an economic crisis or other problems.

Based on the Fraud Hexagon Theory, one of the factors that can influence financial statement fraud is collusion, which can be measured by the proxy of political connections, namely when commissioners also hold positions as politicians associated with political parties, government, or military. The privilege of companies with political connections facilitates access to borrowing funds, which in turn can increase the frequency of borrowing and create the risk of financial distress.

Financial distress is a condition in which a company struggles to meet its financial obligations due to factors such as declining revenues, high operating costs, excessive borrowing, or market changes due to economic downturns, which cause stress for the company. Commissioners who also hold political positions related to political parties, the government, or the military will have broader authority and power, opening up opportunities to commit fraud for personal gain through such power.

Previous research that supports the positive relationship between political connections and financial statement fraud includes Kusumosari & Solikhah (2021), who found a positive effect on manufacturing companies listed on the Indonesia Stock Exchange, and Cipta & Nurbaiti (2022), who found a positive effect on Infrastructure, Utilities, and Transportation sector companies listed on the Indonesia Stock Exchange. Based on these findings, the hypotheses proposed in this study are:

H7: Political connections have a positive effect on financial statement fraud

8. Research Framework

Fraudulent financial reporting can be explained through the Fraud Hexagon Theory which is related to Agency Theory. Agency Theory describes the relationship between company owners (principals) and management (agents) who have different interests, which can cause conflicts. This conflict creates pressure for agents to improve company performance in order to get rewards, such as greater compensation. Agents tend to seek justification (rationalization) for their actions, feel that their actions will not be discovered, and are easier to commit fraud if they have broad access (capability) and opportunities (opportunity) caused by weak supervision. Other factors that exacerbate the risk of fraud are self-justification, superior attitude (arrogance), and external connections (collusion). The following conceptual framework explains the relationship between variables in this study.

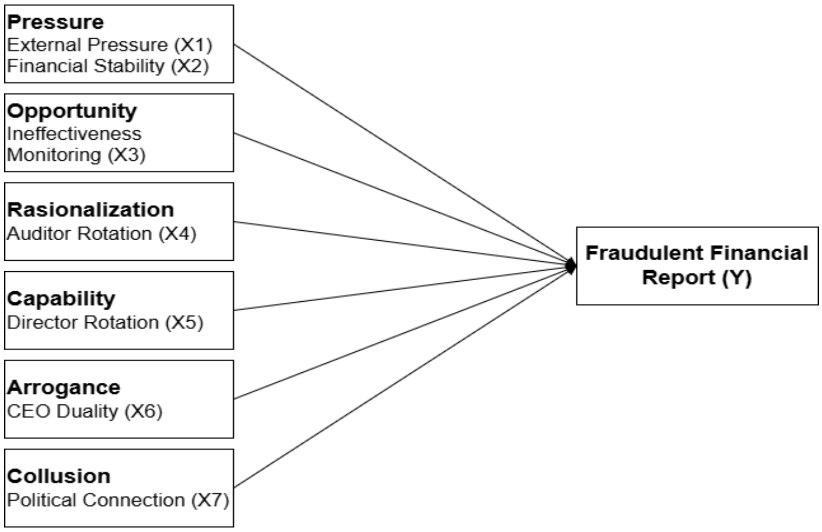

Figure 2. Research Framework

III. RESEARCH METHODOLOGY

A. *Type of Research*

This research uses quantitative methods by testing data using statistical procedures to analyze the influence between independent and dependent variables. Based on the background and problem formulation, this research is a type of explanatory research. According to Darwin (2021: 09), explanatory research aims to explain the causal relationship between variables through hypothesis testing. The purpose of this study is to analyze the effect of external pressure, financial stability, supervisory ineffectiveness, auditor turnover, board of directors turnover, CEO Duality, and political connections on financial statements. The approach used is quantitative descriptive analysis.

B. *Population and Sample*

This study uses a population of all banking companies listed on the IDX in 2020-2022. Banking companies were chosen because based on the provisions of POJK No. 11/POJK.03/2020, the government encourages banking performance through credit restructuring due to the impact of Covid-19. This restructuring can affect the financial stability of banks, increase liquidity risk, and put management under pressure to present good financial reports, which has the potential to trigger fraud (Soepriyanto et al., 2022). Based on the ACFE survey (2020), the banking sector is the most disadvantaged sector due to fraud with a figure of 41.4%.

The sample in this study was taken using purposive sampling method, with the following criteria:

1. Banking companies listed on the IDX and implementing POJK No. 11/POJK.03/2020 during 2020-2022.
2. Have complete data related to research variables in annual reports published during 2020-2022.
3. Publish fully audited annual reports during 2020-2022.
4. Using rupiah currency in annual reports during 2020-2022.

C. Data Analysis Method

Data analysis methods are techniques used to process and analyze data in order to understand observed phenomena and test hypotheses. This study uses a quantitative method with a panel data regression model to test the effect and direction of the independent variable on the dependent variable. Quantitative data in the form of numbers is processed using Eviews 12 software.

D. Panel Data Estimation Model

Panel data is a combination of time-series and cross-section data, with several advantages such as providing more data thus increasing the degree of freedom. Combining information from time-series and cross-section data is also considered to be able to overcome the omitted-variable problem. There are three types of panel data analysis approaches as follows.

1. Common Effect Model (CEM)
   The Common Effect Model is the simplest panel data model approach by combining time-series and cross-section data. In addition, the time and individual dimensions are not considered because the behavior of company data is assumed to be the same in various time periods (Napitupulu et al. 2021: 117). The CEM method uses the Ordinary Least Square (OLS) approach, also known as the least squares technique.

2. Fixed Effect Model (FEM)
   The Fixed Effect Model or Least Squares Dummy Variable (LSDV) technique assumes that differences between individuals can be accommodated from differences in intercepts, while the slope between individuals is fixed or the same (Napitupulu et al. 2021: 117). The dummy variable technique is used to estimate this panel data model. In this method, the fixed effects of each individual or unit are taken into account directly in the analysis, making it possible to accurately trace the effect of the independent variable on the dependent variable.

3. Random Effect Model (REM)
   The Random Effect Model will estimate panel data where the possibility of inter-time and inter-individual relationships in the disturbance variables will be considered. In the Random Effect Model, differences in intercepts will be accommodated by error terms that are each related to the company. The advantage of using the Random Effect Model is that it eliminates heteroscedasticity. This model is known as the Error Component Model (ECM) or the Generalized Least Square (GLS) technique (Napitupulu et al. 2021: 118).

E. Classical Asssumption Test

Classical assumption tests are important in regression analysis to ensure the model meets BLUE (Best, Linear, Unbiased, Estimator) criteria. This test ensures that the estimator has minimum variance, is linear, unbiased, and is an estimator of the true value. According to Napitupulu et al. (2021: 121), not all classical assumption tests are required in panel data regression. Multicollinearity and heteroscedasticity tests will be used in this study, because multicollinearity can occur if there is more than one independent variable, and heteroscedasticity is often found in cross-section data which is more similar to panel data.

1. Multicollinearity Test
   The multicollinearity test is used to determine whether there is a correlation between the independent variables in the regression model. A good regression model should not have a correlation between independent variables. Symptoms of multicollinearity can be detected by looking at the correlation coefficient between the independent variables (Ghozali, 2018: 107).
2. Heteroscedasticity Test
   The heteroscedasticity test is used to check whether the residuals from the model have a constant variance. A good model is one that has a constant residual variance (Napitupulu et al., 2021: 121).

F. Panel Data Regression Analysis

The following is the regression equation that will be used in the panel data estimation model in this study.

$$Y = \boldsymbol{\alpha} + \boldsymbol{\beta LEV} + \boldsymbol{\beta 2ACHANGE} + \boldsymbol{\beta 3BDOUT} + \boldsymbol{\beta 4AUDCHG} + \boldsymbol{\beta 5DCHG} + \boldsymbol{\beta 6EGO} + \boldsymbol{\beta 7COL} + e$$

Where:

Y	= Financial Statement Fraud
α	= Constant
β1, β2, β3, β4, β5, β6, β7	= Company size
LEV (X1)	= External Pressure
ACHANGE (X2)	= Financial Stability
BDOUT (X3)	= Supervisory Ineffectiveness
AUDCHG (X4)	= Auditor Change
DCHG (X5)	= Change of Board of Directors
EGO (X6)	= CEO Duality
COL (X7)	= Political Connection
e	= Standard Error

G. Hypothesis Test

Hypothesis testing is carried out through three stages, namely simultaneous test, coefficient of determination and partial test. The following is the hypothesis testing that has been carried out. The hypothesis tests carried out in this study are simultaneous tests, coefficient of determination (R^2) tests, and partial tests.

IV. RESULT AND DISCUSSION

A. Model Selection Test

Based on the Chow test results, a significance value of 0.05 and a probability of 0.0079 are obtained, which is smaller than the significance level, so the appropriate model is the Fixed Effect Model (FEM). The Hausman test results show a significance value of 0.05 and a probability of 0.8540 > 0.05, which leads to the acceptance of H0, so the appropriate estimation model is the Random Effect Model (REM). Meanwhile, the Lagrange Multiplier test results show a Breusch-Pagan value of 0.3119 > 0.05, which also leads to acceptance of H0, so the appropriate model is the Common Effect Model (CEM).

B. Classical Assumption Test

The classical assumption test is carried out to obtain a BLUE (Best, Linear, Unbiased, Estimator) estimation of the research value. Testing the fulfillment of basic assumptions is done with the multicollinearity test.

1. Multicollinearity Test

Table 1 Result of Multicollinearity Test

Variable	X1	X2	X3	X4	X5	X6	X7
X1	1.000	0.070	0.156	0.017	-0.015	0.014	-0.195
X2	0.070	1.000	0.047	-0.003	0.104	-0.053	-0.101
X3	0.156	0.047	1.000	-0.093	-0.027	0.130	0.077
X4	0.017	-0.003	-0.093	1.000	-0.071	-0.014	0.018
X5	-0.015	0.104	-0.027	-0.071	1.000	0.115	0.026
X6	0.014	-0.053	0.130	-0.014	0.115	1.000	-0.094
X7	-0.195	-0.101	0.077	0.018	0.026	-0.094	1.000

Based on the multicollinearity test results shown in table 1, each correlation value between the independent variables has a correlation value <0.85, it can be concluded that the research model is free from multicollinearity problems.

2. Heterosceedasticity Test

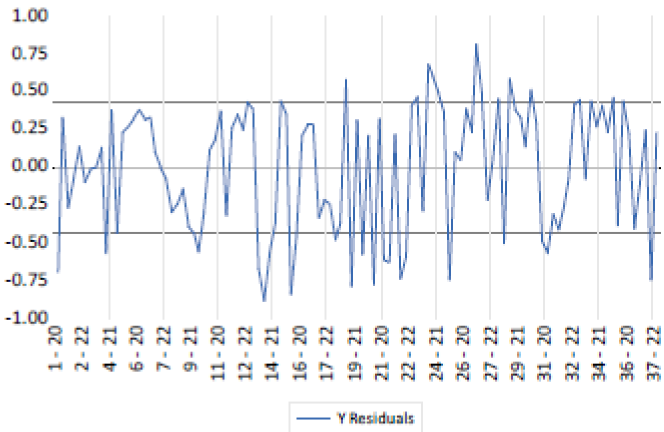

Figure 3 Residual Graph

From the blue residual graph above, it can be seen that the data range does not exceed the 500 or -500 limit, this implies that the residual variance is the same, so it can be concluded that the research model passes the heteroscedasticity test

3. Panel Data Regression Analysis

Table 2 Panel Data Regression Analysis

Dependent Variable	Independent Variable	Coefficient	Std. Errror	t-statistic	Prob.
Y	Constant)	-0.740361	0.273575	-2.706247	0.0080

Dependent Variable	Independent Variable	Coefficient	Std. Errror	t-statistic	Prob.
	X1	0.823600	0.200669	4.104279	0.0001
	X2	0.179557	0.066799	2.688030	0.0084
	X3	1.103404	0.415296	2.656910	0.0091
	X4	-0.083171	0.083582	-0.995083	0.3220
	X5	0.052916	0.094980	0.557129	0.5786
	X6	0.226113	0.146827	1.539998	0.1266
	X7	0.012955	0.101927	0.127105	0.8991

After the panel data regression analysis has been conducted, the following equation can be formulated:

Y = -0.740 + 0.823 LEV + 0.179 ACHANGE + 1.103 BDOUT - 0.083 AUDCHG + 0.052 DCHG + 0.226 EGO + 0.012 COL

4. Simultaneous Test (F-Test)

Simultaneous Test is used to determine whether the independent variable simultaneously affects the dependent variable. If the probability value <0.05, then all independent variables affect the dependent variable. However, if the probability value> 0.05, then all independent variables have no effect on the dependent variable. The simultaneous test results are shown in the table below.

Table 3 Model Feasibility Test (F-Test)

	F-statistic	Prob. (F-statistic)
Results	6.370421	0.000003

Based on the simultaneous test results shown in table 3, the probability value is 0.000003 smaller than 0.05, so it can be concluded that the independent variables, namely external pressure, financial stability, supervisory ineffectiveness, auditor turnover, change of directors, CEO Duality and political connections simultaneously affect financial statement fraud.

5. Partial Test (T-Test)

Partial Test is used to determine whether each independent variable partially affects the dependent variable. If the probability value <0.05, then there is a significant influence between the independent variable on the dependent variable. However, if the probability value> 0.05, then there is no significant influence between the independent variable on the dependent variable. The partial test results are shown in the table below.

Table 4. Result of T-Test

Dependent Variable	Independent Variable	Coefficient	Std. Errror	t-statistic	Prob.
Y	Constant)	-0.740361	0.273575	-2.706247	0.0080

Dependent Variable	Independent Variable	Coefficient	Std. Errror	t-statistic	Prob.
	X1	0.823600	0.200669	4.104279	0.0001
	X2	0.179557	0.066799	2.688030	0.0084
	X3	1.103404	0.415296	2.656910	0.0091
	X4	-0.083171	0.083582	-0.995083	0.3220
	X5	0.052916	0.094980	0.557129	0.5786
	X6	0.226113	0.146827	1.539998	0.1266
	X7	0.012955	0.101927	0.127105	0.8991

From the results of the previous panel data regression analysis, it is known that each variable has a value of t-statistic and different probabilities. And it can be known that:

1. The external pressure variable has a regression coefficient value of 0.823 which shows a positive direction and a probability value of 0.0001 smaller than 0.05. Thus it can be concluded that external pressure has a positive effect on financial statement fraud, so H1 is accepted and H0 is rejected.
2. The financial stability variable has a regression coefficient value of 0.179 which shows a positive direction and a probability value of 0.0084 smaller than 0.05. Thus it can be concluded that financial stability has a positive effect on financial statement fraud, so H1 is accepted and H0 is rejected.
3. The supervisory ineffectiveness variable has a regression coefficient value of 1.103 which shows a positive direction and a probability value of 0.0091 smaller than 0.05. Thus it can be concluded that the ineffectiveness of supervision has a positive effect on financial statement fraud, so that H1 is accepted and H0 is rejected.
4. The auditor turnover variable has a probability value greater than 0.05, namely 0.3220. Thus it can be concluded that auditor turnover has no effect on financial statement fraud, so H0 is accepted and H1 is rejected.
5. The variable change of directors has a probability value greater than 0.05, namely 0.5786. Thus it can be concluded that the change of directors has no effect on financial statement fraud, so that H0 is accepted and H1 is rejected.
6. The CEO Duality variable has a probability value greater than 0.05, namely 0.1266. Thus it can be concluded that CEO Duality has no effect on financial statement fraud, so H0 is accepted and H1 is rejected.
7. The political connection variable has a probability value greater than 0.05, namely 0.8991. Thus it can be concluded that political connections have no effect on financial statement fraud, so H0 is accepted and H1 is rejected.

C. Discussion of the Research Results

1. The Effect of External Pressure on Financial Statement Fraud

The first hypothesis in this study states that external pressure has a positive effect on fraudulent financial reports, and the test results support this hypothesis. External pressures, such as high company liabilities, can encourage management to manipulate financial reports in order to attract investor attention and show good performance. This finding is consistent with the research of Damayanti & Suryani (2019), Agustin et al. (2022), Hartadi (2022), as well as the Fraud Hexagon Theory and Agency Theory, which explain that pressure to improve performance can trigger fraudulent financial report actions.

2. The Effect of Financial Stability on Financial Statement Fraud

The second hypothesis in this study states that financial stability has a positive effect on fraudulent financial reports, and the test results support this hypothesis. Poor financial stability encourages management to manipulate financial statements, especially in terms of assets, to restore financial conditions and attract investors' attention. This finding is in line with the research of Situngkir & Triyanto (2020), Preicilia et al. (2022), Putra & Lestanti (2023), and the Fraud Hexagon Theory which shows that pressure to improve financial performance can trigger fraudulent financial report actions. The greater the ratio of changes in total assets, the higher the possibility of manipulating financial statements, because external parties will analyze this information to assess the liquidity and sustainability of the company's business

3. The Effect of Supervisory Ineffectiveness on Financial Statement Fraud

The third hypothesis in this study states that supervisory ineffectiveness has a positive effect on fraudulent financial reports, and the test results support this hypothesis. Supervisory ineffectiveness, such as the lack of an independent board of commissioners, opens up opportunities for management to manipulate financial reports. This finding is in line with research by Hartadi (2022), Nurbaiti & Putri (2023), Putra & Lestanti (2023), and the Fraud Hexagon Theory which states that supervisory ineffectiveness (opportunity) can trigger fraudulent financial reports. In addition, Agency Theory also supports that pressure from company owners or investors allows managers to commit fraud to show good performance, especially when supervision is ineffective.

4. The Effect of Auditor Change on Financial Statement Fraud

The fourth hypothesis in this study states that auditor turnover has a positive effect on fraudulent financial reports, but the test results show that auditor turnover has no effect on fraudulent financial reports, so H1 is rejected. This finding is in line with the research of Agustina & Pratomo (2019), Faradiza (2019), and Sari & Nugroho (2020), who also found that auditor turnover has no effect on fraudulent financial reports. These results are inconsistent with Fraud Hexagon Theory and Agency Theory, which state that auditor turnover can be used to cover up fraud. However, auditor changes are often made to fulfill government regulations regarding auditor rotation or due to cost factors and discrepancies between clients and auditors, which are not fraudulent financial reports (Faradiza, 2019).

5. Financial The Effect of Change of Directors on Financial Statement Fraud

The fifth hypothesis in this study states that the change of directors has a positive effect on fraudulent financial reports, but the test results show that the change of directors has no effect on fraudulent financial reports, so H1 is rejected. This finding is in line with the research of Agustina & Pratomo (2019) and Novarina & Triyanto (2022), which also found that the change of directors has no effect on fraudulent financial reports. These results are inconsistent with Fraud Hexagon Theory and Agency Theory, which state that changes in directors can affect fraudulent financial reports. Changes in directors are usually made for clear reasons and disclosed in the company's annual report. The board of commissioners is tasked with overseeing the performance of the board of directors, and if deemed inadequate, the directors can be replaced with more competent ones to increase prudence in running the company (Agustina & Pratomo, 2019; Novarina & Triyanto, 2022).

6. Finance The Effect of CEO Duality on Financial Statement Fraud

The sixth hypothesis states that CEO Duality has a positive effect on fraudulent financial reports, but the test results show that CEO Duality has no effect, so H1 is rejected. This finding is in accordance with Agustina & Pratomo (2019) and Wicaksono et al. (2023), who also found the same thing. These results contradict the Fraud Hexagon Theory and Agency Theory which state that CEO Duality can affect fraudulent financial reports. Although in this study there were directors who served as commissioners in subsidiaries, no one served both positions in one company.

7. Financial The Effect of Political Connections on Financial Statement Fraud

The seventh hypothesis states that political connections have a positive effect on fraudulent financial reports, but the test results show that political connections have no effect, so H1 is rejected. This finding is in line with research by Sabrina et al. (2020), Novarina & Triyanto (2022), and Putra & Lestanti (2023), who also found the same thing. These results contradict the Fraud Hexagon Theory and Agency Theory which state that political connections can influence fraudulent financial reports. Although companies with political connections have easy access to loans and contracts, they tend to be cautious because fraud can harm the reputation of the company and the board of commissioners.

V. CONCLUSION

Based on the results of the study, it can be concluded that external pressure, financial stability, and supervisory ineffectiveness have a positive effect on fraudulent financial reports, while auditor turnover, board turnover, CEO Duality, and political connections have no effect. External pressure affects fraud because management tries to attract investors by shrinking the leverage ratio. Financial stability has an effect because management tries to increase the company's assets to make it more attractive to investors. Supervisory ineffectiveness opens up opportunities for fraud due to weak internal control, which is reflected in the lack of an independent board of commissioners. Changing auditors and directors has no effect because it is done to fulfill regulations and improve performance, not for the purpose of fraud. CEO Duality has no effect because there is a clear separation of duties between directors and commissioners in accordance with applicable law. Political connections also have no effect because companies tend to be cautious in making decisions, and the board of commissioners plays a role in overseeing company performance.

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