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The Influence of Hexagon Fraud Theory on Fraudulent Financial Reporting: The Moderating Role of the Audit Committee

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Abstract

The purpose of this study is to review the potential for fraud with the fraud hexagon theory. In addition, statistical analysis is conducted to determine the moderating impact of the audit committee. Uses the Moderated Regression Analysis (MRA) technique and F-Score as a measurement of FFR. The sample consisted of 492 observations from 2020 to 2023 consumer cyclical sector companies. This study indicates that external pressure, ineffective monitoring, quality of external audit, ceo duality, political connection, and arrogance have a significant effect. Meanwhile, the financial targets, auditor switching, change in director, and nature of the industry do not have a significant effect. Audit committees can reduce the impact of financial targets, ineffective monitoring, changes in directors, ceo-duality, political connections, and arrogance. However, it is not possible to control for the impact of external pressure, auditor switching, quality of external audit, and nature of the industry. The audit committee can reduce negative impacts within the company, while external impacts have not been able to reduce them. Thus, management must pay more attention to the existence of the audit committee as a front guard to prevent fraud.

Keywords: *Financial Fraud Reporting, Hexagon Fraud Theory, Audit Committee.*

Introduction

Currently, the quantity and quality of fraud go hand-in-hand with the development of the global economy (Putra et al., 2020). This is particularly the case for manipulated financial reports. Sari et al. (2022) explain that financial reports are a result of the accounting process that provides information about the performance and financial condition of a company, which is useful for stakeholders in making decisions about the economy. Financial reports are important because they provide information about the financial position, financial performance, and cash flow of a company, which will help stakeholders make economic decisions (Kusumawadhani, 2015).

In general, fraud continues to exist if there is no prevention or early detection (Putra & Rahayu, 2019). Fraud is defined by the Association of Certified Fraud Examiners (ACFE) as an act carried out with the intent of deceiving or violating the law (Association of Certified Fraud Examiners Indonesia, 2019). Fraud is an illegal act motivated by the goal of gaining personal gain (Sari et al., 2022). Without realizing this, fraud can damage a company's name or reputation while maintaining business continuity (Rahma & Sari, 2023).

According to the information gathered from Kompas, the Banten High Prosecutor's Office (Kejati) Investigation Team arrested a BRI Priority Banking Officer (PBO) employee with the initial FRW (38) and her husband, HS (40), Wednesday (10/25/2023), in Ciputat Timur, Tangerang Selatan, Banten (Kurnia, 2023). The modus operandi of suspects' criminal acts was that FRW, together with HS, opened a savings account with a fictitious customer identity (Kurnia, 2023). The latest case of fraudulent banking financial reports in Semarang City was carried out by suspect ABM as Head of the Marketing Unit of Bank Jateng, Kaligawe Branch Office, from March 17, 2017, to April 7, 2021. The incident was carried out by the suspect on behalf of the ABP as Head of the Kaligawe Branch Office. The suspect's method was to make a disbursement, but there was no supporting data. He then made an insurance claim for the deceased PLO but it was not transacted. As a result of suspected ABM, Bank Jateng suffered a loss of more than IDR 7.7 billion (KompasTV, 2024).

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Hexagon theory is the latest fraud theory developed by Vousinas (2019), in which collusion is included as one of its elements. Hexagon theory is a development of the previous fraud theory, namely the triangle fraud theory by Donald R. Cressey (1950), with three elements: 1) pressure, 2) opportunity, and 3) rationalization or justification (Febriani et al., 2023). Wolfe and Hermanson (2004) stated that actions are also influenced by ability, which is known as diamond fraud theory. Over time, the problem of fraud has become increasingly complex; thus, in 2012, a new theory emerged: Crowe's pentagon fraud theory (Febriani et al., 2023). This theory states that five factors can encourage fraud: pressure, opportunity, rationalization, competence, and arrogance (Dewi & Anisykurlillah, 2021). Vousinas (2019) then developed Crowe's pentagon fraud theory into hexagon theory.

Previous research by Achmad et al. (2023) and Nadziliyah and Primasari (2022) showed that financial targets have no effect on financial reports. Febriani et al. (2023) reported different results in that financial targets had an effect on FFR. Sihombing and Rahardjo (2014) showed that external pressure has a positive effect on the FFR. Meanwhile, different results were reported by Septriani and Handayani (2018), Yulianti et al. (2019), and Yusrianti et al. (2020), who found that external pressure had no effect on FFR. Research using auditor changes conducted by Ardiyani and Utaminingsih (2015), Lastanti (2020), and Noble (2019) found that auditor changes had a positive effect on FFR, in contrast to research conducted by Septriani and Handayani (2018), Sihombing and Rahardjo (2014), and Yulianti et al. (2019), who found that auditor changes had no impact on FFR. Research conducted by Sihombing and Rahardjo (2014) and Syahria et al. (2019) found that the nature of the industry has a positive effect on FFR, while research conducted by Akbar (2017), Ardiyani and Utaminingsih (2015), Octani et al. (2022), and Sari et al. (2022) found that the nature of the industry is not affected. Research conducted by Putri and Deviesa (2017) showed that CEO duality had a beneficial impact on dishonest financial statements, while research conducted by Akbar (2017), Dewi and Anisykurlillah (2021), and Sari et al. (2022) found that FFR was unaffected by CEO duality. The inconsistency of previous research findings prompted researchers to add the audit committee as a moderating variable in the study, which is expected to strengthen or weaken the relationship between the independent variables and FFR. (Mansoor et al., 2024).

This study examines the factors that influence financial reporting fraud in the consumer cyclical sector in Indonesia. This study uses hexagon theory as a reference to test the influence of pressure, opportunity, rationalization, capability, arrogance, and collusion in determining whether these elements influence financial reporting fraud in the consumer cyclical sector in Indonesia, with the audit committee as the moderating variable. The findings in this study contribute to the existing literature and provide an understanding of the factors that influence financial reporting fraud in consumer cyclical companies. Furthermore, these factors can lead to the formulation of strategies to mitigate these activities.

Literature Review and Hypothesis

Agency Theory

Agency theory was developed by Jensen & Meckling, (1976) which explains that agency theory is a relationship that arises because of a contract between one or more people (principals) and agents by delegating a number of authorities to make the best decisions to agents. Sometimes the decisions given by the management system are not in accordance with the interests of shareholders so that a conflict of interest occurs which is called a conflict of interest (Jensen & Meckling, 1976). The unit of analysis in the analysis of agency theory is the contract that underlies the relationship between the principal and the agent so that the focus of this theory is to determine the most efficient contract in establishing a relationship between the principal and the agent (Iswantari & Sasongko, 2023).

Fraudulent Financial Reporting

Association of Certified Fraud Examiners, (2024) explains that financial statement fraud is an act of deliberate and incorrect presentation of financial statements and is based on management errors or negligence intended to mislead parties who use the financial statements. Financial statement fraud is an

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intentional act of negligence and error in making financial statements with a presentation that is not in accordance with generally accepted accounting principles (Iswantari & Sasongko, 2023).

Hexagon Fraud Theory

Vousinas, (2019) developed a hexagonal fraud theory that aims to refine the existing fraud theory by adding a collusion factor. Collusion is a condition that describes a deceptive agreement between two or more individuals to deceive another party (Vousinas, 2019). Vousinas, (2019) argues that political connections can be seen from the closeness of the relationship between the company and the government. This condition can be seen, among others, whether the corporation has political connections or has close relationships with public officials and political elites. This closeness triggers the emergence of political connections in the form of companies that obtain convenience and privileges in the agreements that have been formed (Sari et al., 2022). This advantage can be used by company leaders to deceive principals by manipulating reports.

Audit Committee

Definition of audit committee based on Otoritas Jasa Keuangan (OJK) Regulation No. 55/POJK.04/2015: "The Audit Committee is a committee formed and responsible to the Board of Commissioners whose task is to assist in implementing the functions and duties of the Board of Commissioners. "The Audit Committee consists of at least 3 (three) members consisting of Independent Commissioners and Parties outside the Issuer or Public Company," reads article 4 of the government regulation. "It can be concluded that in a company there are at least 3 audit committees and the more audit committees there are, in terms of supervision, the company's operational monitoring will run better and the implementation of corporate governance will be better (Sari et al., 2022).

Hypothesis Development

The Influence of Financial Targets and the Moderation Effect of Audit Committees in Detecting FFR.

The first element of the sixth fraud is the stimulus. This is because there is encouragement or pressure from management to commit fraud in financial statements (Khamainy et al., 2022). Every company has financial goals that it wants to achieve (Achmad et al., 2023). Because these targets create pressure, and this pressure occurs when company managers are asked to show their best performance in achieving the planned targets (Khamainy et al., 2022). Return on Assets (ROA) is a measure used to indicate management performance in generating overall profits (Skousen et al., 2009).

The Hexagon Theory is related to financial targets. According to hexagon theory, managers are required to seek maximum profits (Achmad et al., 2023). Managers will be influenced to commit financial reporting fraud by meeting financial targets in return for significant incentives (Skousen et al., 2009). In the presence of an audit committee, the stimulus will not encourage managers to respond by making an FFR, because the audit committee controls managers from deviant behavior (Nugroho & Diyanty, 2022).

This assumption suggests that financial targets can encourage managers to engage in fraudulent reporting. However, this deviant behavior is eroded by the audit committee's control over the managers. This statement is supported by previous studies by Achmad et al. (2023), Iswantari and Sasongko (2023), Octani et al. (2022), Meidijati and Amin (2022), Yusrianti et al. (2020) and Khamainy et al. (2022).

Hypothesis H1a. *Financial Target affects FFR.*

H1b. *The audit committee weakens the relationship between the manager's stimulus to the probability of FFR.*

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The Influence of External Pressure and the Moderation Effect of Audit Committees in Detecting FFR.

External pressure comes from third parties outside of the company. This pressure can trigger fraud in the financial statements. This is because third parties have high expectations for obtaining additional funds when a company can remain competitive in the market. External pressure can arise from a company's inability to pay debt or meet debt requirements (Skousen et al., 2009). In addition, pressure on management forces them to report financial figures as accurately as possible to convince external parties that the company can repay loans (Achmad et al., 2023).

External pressure is proxied by the leverage ratio (LEV). When a company has a high leverage ratio, it means that the company has a large debt and high pressure. This is because companies have a higher risk of defaulting (Skousen et al., 2009). External pressure has been shown to have a positive effect on financial reporting fraud (Sihombing & Rahardjo, 2014). Based on these assumptions and supported by previous studies, Achmad et al. (2023), Achmad, Ghozali, and Pamungkas (2022), Barezki et al. (2023), Yadiati et al. (2023), Sari et al. (2022), Khamainy et al. (2022), and Rahma and Sari (2023) hypothesized that external pressure affects financial reporting fraud.

Hypothesis H2a. *External pressure affects FFR.*

H2b. *The audit committee weakens Pressure's external relationship to FFR.*

The Influence of Ineffective Monitoring and the Moderation Effect of Audit Committees in Detecting FFR.

SAS No.99 ineffective supervision is a condition under which a company's supervisory system is ineffective. The dominance of management by individuals or small groups without compensation and internal control, among others (Brickner & Pearson, 2003). Corporate supervision is closely related to the board of commissioners (Sagala & Siagian, 2021). Siddiq et al. (2017) explained that fraudulent actions within a company can be prevented by increasing the ratio of the board of commissioners. Furthermore, Achmad et al. (2023) explain that the lack of supervision from within a business allows managers to maximize their profits. Corporate supervision is expected to be more effective with an independent board of commissioners and fraudulent practices will be reduced.

Ineffective supervision is related to hexagon theory, which states that the principal delegates authority to the agent to carry out the principal's goals, but the agent prioritizes his interests in managing the company. Based on this assumption, and in line with the research results of Barezki et al. (2023), Achmad et al. (2023), Octani et al. (2022), and Sagala and Siagian (2021), ineffective supervision affects FFR, and it is concluded that a lack of supervision can result in false financial reporting.

Hypothesis H3a. *Ineffective monitoring affects FFR.*

H3b. *Audit committee increases the effectiveness monitoring of FFR.*

The Influence of Auditor Switching and the Moderation Effect of Audit Committees in Detecting FFR.

Auditor change can also affect audit report lag. Auditor change is the change in auditors and public accounting firms that conduct audits of a company (Widharma & Susilowati, 2020). Auditor change is a form of entity compliance with the law mandate. Otoritas Jasa Keuangan (OJK) has regulated auditor changes in Regulation Number 13/POJK.03/2017, where it is explained that parties carrying out financial service activities are required to limit the use of audit services from the same public accountant for a maximum of 3 (three) years.

In the context of hexagon theory, which describes the existence of a company, rotation is necessary. Lee and Ha (2021) note that even if one auditor rejects a risky client, another auditor will eventually take over the risky client. If a particular auditor is more likely to manage portfolio risk than another auditor, auditor switching can occur from an auditor who is more sensitive to risk to an auditor who is less sensitive to

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fraud risks. Therefore, companies that change auditors are more likely to commit fraud in financial reporting (Achmad et al., 2023).

Companies that change auditors may be suspected of committing fraud and covering their tracks (Sari et al., 2022). If there is a problem, management is likely to change auditors (Achmad et al., 2023), to cover up traces of fraud or to collude with a new auditor. This needs to be understood and supervised by the audit committee. Audit committees must be able to detect fraud indications through changes in auditors. The size of the audit committee can facilitate the operational supervision of management performance so that it can perform its various roles and obligations more effectively (Sari et al., 2022). Based on these assumptions and previous research by Achmad et al. (2023), Widharma and Susilowati (2020), and Utomo et al. (2019), it can be concluded that frequent changes in auditors imply fraud.

Hypothesis H4a. *Auditor switching affects FFR.*

H4b. *The audit committee reduces the relationship between auditors and FFR.*

The Influence of Quality of external audit and the Moderation Effect of Audit Committees in Detecting FFR.

Research on external auditor quality focuses on the differences between the selection of audit services from public accounting firms by the Big4 companies (PWC, Deloitte, Ernst, & Young, KPMG) and non-Big4. The underlying reason is that the audit quality of Big4 is classified as good because they have more resources, education, expertise, competence, and independence compared to non-Big4 (Wicaksono & Suryandari, 2021). Thus, the level of quality and competence possessed by external auditors reduces the chances of agents committing fraud. Therefore, if a company uses audit services from the Big4 to auditing its financial statements, the possibility of detecting financial statement fraud will be higher (Wicaksono & Suryandari, 2021).

The selection of a public accounting firm should be discussed with the audit committee as the company's internal spearhead. Audit committees may find irregularities in financial statements, but management ignores their inputs and supervision. Therefore, an objective, independent, and skeptical independent auditor is required to reduce the risk of FFR. Based on these assumptions and in line with the results of Octani et al. (2022), Wicaksono and Suryandari (2021), and Dewi and Anisykurlillah (2021), it can be concluded that selecting an external auditor outside the Big4 can increase the risk of fraud.

Hypothesis H5a. *Quality of external audit affects FFR.*

H5b. *The audit committee improves the quality of external auditors in minimizing FFR.*

The Influence of Change In Director and the Moderation Effect of Audit Committees in Detecting FFR

Wolfe and Hermanson (2004) explain that the capability element can encourage someone to commit fraud in financial reports. With their competence, perpetrators find it easier to take advantage of these conditions as opportunities to commit fraud. Changes in directors represent the capacity to articulate their ability to manage stress (Achmad et al., 2023). Additionally, a change in directors is carried out by appointing new directors who are considered more competent (Khamainy et al., 2022).

A change in the number of directors was implemented to improve performance. Thus, when there is no change in directors, there is a greater possibility of fraud in financial statements is greater (Khamainy et al., 2022). However, the results of this study will differ if a change in directors is carried out to cover up fraud committed by previous directors (Sihombing & Rahardjo, 2014). This is in accordance with the fraud hexagon theory, in which fraud can occur and be increasingly detrimental in large amounts if carried out by the right person, so that they can take advantage of existing opportunities. The audit committee is expected to identify indications for fraud committed by managers in changing directors.

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Based on these assumptions and in line with the research results of Yadiati et al. (2023), Achmad, Ghozali, and Pamungkas (2022), Iswantari and Sasongko (2023), and Febriani et al. (2023), it can be concluded that changing directors have the potential to cause fraud.

Hypothesis H6a. *Change in director affects FFR.*

H6b. *Audit committee reduces the correlation between change in directors and FFR.*

The Influence of CEO Duality and the Moderation Effect of Audit Committees in Detecting FFR

CEO duality indicates a lack of separation of control in decision making and management (Fama & Jensen, 1983). Sari et al. (2022) explained that CEO duality occurs when someone holds the position of CEO and president of the board or board of commissioners in the same company. The Board of Commissioners must be independent of the board as a body that oversees the performance of the board of directors. According to OJK Regulation Number 55/POJK.03/2016, the CEO or board of directors is not allowed to answer questions more than once in their capacity as the president of the board or board of commissioners. CEO duality has a negative impact when viewed from fraud hexagon theory because it can complicate the performance of commissioners in supervising and evaluating the board of directors.

The possibility of FFR occurring in a company increases because of its dual position and the presence of an audit committee actively involved in monitoring managerial performance (Sari et al., 2022). Based on these assumptions and in line with the research results of Febriani et al. (2023), Khamainy et al. (2022), and Sari et al. (2022), it can be concluded that CEO duality has the potential to cause fraud.

Hypothesis H7a. *CEO duality affects FFR.*

H7b. *The audit committee reduces the connection between CEO duality and FFR.*

The Influence of Nature of industry and the Moderation Effect of Audit Committees in Detecting FFR.

The nature of the industry is the ideal state of a company in an industry (Septriani & Handayani, 2018). Skousen et al. (2009) explain that one of the characteristics of an industry is the state of the company's receivables. SAS Statement No. 99 explains that opportunities can be obtained from the nature of a company's industry. The nature of an industry provides opportunities for companies to commit fraud. Sihombing and Rahardjo (2014) explained that receivables and inventory require subjective assessments to estimate bad debt and obsolete inventory. This is an opportunity for company managers or a party to commit fraud because both accounts are determined based only on estimates (Febriani et al., 2023).

The existence of an audit committee should reduce the risk of fraudulent inventory misuse, reserve accounts, and bad debts. Based on these assumptions, and in line with the research results of Sihombing and Rahardjo (2014), Septriani and Handayani (2018), and Yadiati et al. (2023), it can be concluded that the nature of the industry has the potential to cause fraud.

Hypothesis H8a. *Nature of industry affects FFR.*

H8b. *The Audit committee is able to strengthen the nature of industry against FFR.*

The Influence of Political Connection and the Moderation Effect of Audit Committees in Detecting FFR.

Collusion is an act carried out by two or more people who reach an agreement or deviate for the benefit of collusion perpetrators (Sari et al., 2022). Vousinas (2019) explained that the purpose of the agreement was negative, such as deceiving third parties for personal gain. Collusion is related to the hexagon theory, where management can exploit the company's convenience and privileges to commit financial reporting fraud through manipulation (Achmad et al., 2023). Companies with political ties take the opportunity for personal gain without consideration (Sari et al., 2022).

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Politically connected businesses take the opportunity for personal gain without considering how to improve their company performance (Sari et al., 2022). The challenge of the audit committee is to ensure accurate information and prevent it from being influenced by managers who collaborate to commit fraud (Lastanti, 2020). An audit committee that plays an optimal role can determine the activities of managers who collude with parties that commit FFR (Nugroho & Diyanty, 2022). Based on this assumption, we can conclude that the stronger the connection in a company, the higher is the level of collusion that leads to fraud. This assumption is consistent with previous studies (Octani et al., 2022; Sagala & Siagian, 2021; Cao et al., 2019; Octaviani et al., 2021).

Hypothesis H9a. *Political connection affects FFR.*

H9b. *Audit committee weakened the political connection to FFR.*

T*he Influence of Arrogance and the Moderation Effect of Audit Committees in Detecting FFR*

A very arrogant attitude can lead to fraud (Achmad et al., 2023). Managers with large egos consider themselves capable of achieving high targets to obtain the image that they are the best managers (Nugroho & Diyanty, 2022). The number of CEO photos displayed in a company's annual report can represent the level of arrogance or superiority possessed by the CEO (Octani et al., 2022). A high level of arrogance leads to fraud because, with the arrogance and superiority possessed by the CEO, the CEO feels that no internal control will apply to him because of the status and position he holds (Iswantari & Sasongko, 2023).

Selfish managers create information processing barriers for audit committees. The audit committee is required to suppress the manager's ego and strengthen its position as a supervisor so that the manager does not take advantage of his power and position (Nugroho & Diyanty, 2022). The results of studies conducted by Achmad et al. (2023), Apriliana and Agustina (2017), and Bawekes et al. (2018) show that the frequent number of CEO pictures has a positive effect on FFR.

Hypothesis H10a. *Arrogance affects FFR.*

H10b. *Audit committee moderates the relationship between manager ego and FFR probability.*

Research Design

Sample and Data Description

The type of secondary data used in this study, data sourced through intermediaries or media, is not direct data. The secondary data in this study are in the form of annual reports of companies in the consumer cyclical sector published on the official website of the Indonesia Stock Exchange (IDX) from 2020 to 2023. The references used in this study were journal articles, official reports, trusted websites, and data from Bloomberg Lab FEB Undip (Bloomberg L.P, 2024), which were used as reinforcement for understanding the framework and problems of this study. The technique used in this study is purposive sampling to determine the research sample, while data processing uses panel data regression analysis techniques with Moderated Regression Analysis (MRA). The study sample met the following three requirements:

Companies in the consumer cyclical mining sector are listed on the Indonesia Stock Exchange (IDX) between 2020 and 2023.

From 2020 to 2023, consumer cyclical sector companies posted audited annual financial reports on the Indonesia Stock Exchange (IDX) website or their own website.

Consumer cyclical sector companies have comprehensive data relevant to the research variables.

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Based on predetermined sample selection criteria from a total population of 163 consumer cyclical sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2020–2023, 123 company samples were obtained. Details of the research objects and samples are listed in table 1.

Table 1. Determination of the Number of Research Samples

No	Criteria	Excluding Criteria	Total
1	Consumer cyclical sector companies on the Indonesia Stock Exchange		163
2	Consumer cyclical sector companies that did not release financial reports in 2020 – 2023 consecutively	(15)	148
3	Annual financial reports released between 2020 and 2023 have incomplete research variable data	(25)	123
Number of analysis units that meet the requirements as research samples			**123**

Source: table created by authors.

Regression Models

Regression 1 was used to study the relationship between one dependent variable and the following formula:

$$FFS = \propto + \beta 1FT + \beta 2EP + \beta 3IM + \beta 4AS + \beta 5QA + \beta 6CiE + \beta 7CD + \beta 8NI + \beta 9PC + \beta 10Ar + \beta 11Gr + \varepsilon$$

Equation 2 of the moderated regression analysis was used to determine whether the relationship between the independent and dependent variables could be strengthened or weakened.

$$\begin{aligned} FFS = \propto &+ \beta 1FT + \beta 2EP + \beta 3IM + \beta 4AS + \beta 5QA + \beta 6CiE + \beta 7CD + \beta 8NI + \beta 9PC \\ &+ \beta 10Ar + \beta 11Gr + \beta 12|FT * AC| + \beta 13|EP * AC| + \beta 14|IM * AC| \\ &+ \beta 15|AS * AC| + \beta 16|QA * AC| + \beta 17|CiE * AC| + \beta 18|CD * AC| \\ &+ \beta 19|NI * AC| + \beta 20|PC * AC| + \beta 21|Ar * AC| + \varepsilon \end{aligned}$$

Information :

FFS : Fraudulent Financial Statement

α : Constants

β1-β21 : Regression Coefficient

AC: Audit Committee

FT : Financial Target

EP : External Pressure

IM : Ineffective Monitoring

AS : Auditor Switching

QA : Quality of External Audit

CiE : Change in Director

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CD : CEO Duality

NI : Nature of industry

PC : Political Connection

Ar : Arrogance

Gr : Growth

Measurement of Variables

Tabel 2. Variable Operational Definition

Variable	Concept	Measurement	Scale	Data Source
Fraudulent Financial Reporting	Fraudulent material misstatement of financial statements	F Score = Accrual Quality + Financial Performance (Skousen et al., 2009)	Ratio	Bloomberg
Financial Target	Financial targets/ targets that must be achieved	Net profit after tax/ Total assets	Ratio	Bloomberg
External Pressure	The pressure felt by the company (management) to obtain sources of funds from outside parties in the form of debt and capital	$LEV = \frac{Total\ liabilitas}{Total\ asset}$ (Skousen et al., 2009)	Ratio	Bloomberg
Ineffective Monitoring	Ineffective company internal control	Number of independent commissioners/Number of commissioners	Ratio	IDX
Auditor Switching	Auditor change as a form of covering up fraudulent financial statement committed	The dummy variable is coded one if there is a change of auditor and is given a code of 0 if there is no auditor replacement.	Nominal	IDX
Quality of External Audit	In theory, the big four public accounting firms have quality human resources and are more selective in detecting fraud (Nadziliyah & Primasari, 2022)	With dummy variables. If the company in that year uses KAP Big4, it is given a value of 1. If not, it is given a value of 0.	Nominal	IDX
Change in Director	Change of the board of directors in a company	The dummy variable is coded one if there is a change of directors and is given a code of 0 if there is no change of directors.	Nominal	IDX
CEO Duality	Multiple positions that the CEO has in the company (Sari et al., 2022)	Dummy variables, namely given code 1 if there is a duplicate position or affiliation relationship, and given a code of 0 if there is no duplicate position or affiliation relationship. (Abubakar et al., 2020)	Nominal	IDX
Nature of industry	The nature of the industry is a method that can be used to determine the allowance for uncollectible receivables	NI $\frac{Receivable\ (t)}{\quad} - \frac{Receivable\ (t-1)}{\quad}$ (Situngkir & Triyanto, 2020)	Ratio	Bloomberg
Political Connection	The company's relationship with political circles for profit.	Dummy variables, if the company has a political connection are coded 1, and if the company does not have a	Nominal	Company official website,

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		political connection are given a code of 0.		and google images
Arrogance	A person's selfish attitude in showing his power	Number of Chief Executive Officer photos shown in annual financial statements	Nominal	IDX
Audit Committee	Committees are established by and responsible to the Board of Commissioners in assisting in carrying out their duties and functions.	Number of Audit Committees	Nominal	IDX
Growth	Growth affects the financial structure of the Credit Union and must be monitored seriously (Kurniyati, 2011).	$Gr = \frac{Total\ asset\ (t) - Total\ asset\ (t -}{Total\ asset\ (t-1)}$	Ratio	Bloomber g

Source: table created by authors

Result and Discussion

Descriptive Statistics

Tabel 3. Descriptive Statistics

	N	Minimum	Maximum	Mean		Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic
Financial Targets	492	-9.49823	4.77635	-.0820160	.03491576	.77446901
External Pressure	492	.00145	117.38429	1.7762785	.41952401	9.30549274
Ineffective Monitoring	492	0	7	.87	.032	.707
Auditor Switching	492	0	1	.20	.018	.400
Quality of External Audit	492	0	1	.17	.017	.377
Change in Director	492	0	1	.07	.011	.247
CEO Duality	492	0	1	.38	.022	.486
Nature of Industry	492	-9.45149	220.98555	.4661385	.45182821	10.02203449
Political Connection	492	0	1	.16	.017	.369
Arrogance	492	1	16	2.80	.105	2.328
Valid N (listwise)	492					

Source: table created by authors

From the results of the analysis using the descriptive statistics in table 3, we obtain the following:

- The financial target had a minimum value of -9.498 and a maximum value of 4.776. Some sample companies still experienced losses, while the maximum profit was 477%. The average value of -0.08202 indicates that the company experienced a loss of -8.20%.

- The external pressure had a minimum value of 0.001 and a maximum value of 117.384. This indicated that the external pressure varied significantly. However, many external pressures are above the average of 1.777 and are even experiencing a deficiency in which their liabilities are greater than their assets. The lowest external pressure was 0.1%, and the highest external pressure was 11,738.4%.

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- Ineffective Monitoring with a minimum value of 0 and maximum value of 7. The ratio varied by an average of 0.87. The ratio is close to one, which means that the comparison of the number of independent commissioners to commissioners is balanced.

- The average value of auditor Switching is 0.20, which means that 20% of the sample companies change auditors, while the rest do not change auditors.

- The quality of an External Audit average value is 0.17, which means that 17% of the sample companies use Big4 auditor services, while most others use audit services other than Big4.

- The change in director average value is 0.07, which means that 7% of the sample companies have changed their directors, while the rest have not.

- The average CEO duality value is 0.38, which means that 38% of the sample companies have directors holding dual positions, while the remaining do not hold dual positions.

- The nature of industry shows a minimum value of -9.45149 and a maximum value of 220.98555. The average value is 0.467. A high ratio indicates that the company efficiently manages inventory and working capital.

- The average political Connection value is 0.38, indicating that 38% is related to political figures.

An arrogance with a minimum value of 1 and a maximum value of 16. The level of CEO narcissism in cyclical consumer companies varies significantly. With an average of 2.80, it can be said that the average of the three photos in each financial report.

Table 4 shows that the significance value of the Hosmer Lemeshow test in step 1 is 0.625 (> 0.05). In step 2, after entering the control variable, the significance value increases to 0.764, thus accepting H0, which indicates that the model is acceptable, and hypothesis testing can be carried out because there is no significant difference between the model and its observation value.

Table 4. Hasil Hosmer and Lemeshow Test

Step	Chi-square	Df	Sig.
1	4.574	7	0.625

Step	Chi-square	Df	Sig.
2	3.542	7	0.764

Source: table created by authors

Table 5. F test (Omnibus Test)

		Chi-square	df	Sig.
Step 1	Step	53.838	10	0.023
	Block	53.838	10	0.023
	Model	53.838	10	0.023

Source: table created by authors

Based on table 5, it can be inferred that the sig. in the ftest is <0.05, which means that all independent variables have a significant effect on FFR.

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Table 6. Cox and Snell's R Square dan Nagelkereke's R square

Step	-2 Log likelihood	Cox & Snell R square	Nagelkerke R square
1	61.672	0.172	0.252
Step	-2 Log likelihood	Cox & Snell R square	Nagelkerke R square
2	65.835	0.192	0.267

Source: table created by authors

Based on table 6, it can be explained that the R square value is 61,672, meaning that the independent variables in this model are able to explain the dependent variable by 61.67% describe the rest is explained by other variables outside the model. The R-squared value after entering the control variables increased to 65,835, indicating that the control variables (growth) contributed to simultaneously increasing the influence of the variables.

Logistic Regression Results

Based on table 7, it can be explained that in Step 1, the t-test results show that there are six variables that have a sig. <0.05, indicating that they have a significant effect on the FFR. These variables include External Pressure, Ineffective Monitoring, Quality of external audits, CEO duality, political connections, and arrogance. Other variables, namely, Financial Target, Auditor Switching, Change in Director, and nature of industry, have a sig. value > 0.05, indicating that they had no significant effect on FFR.

Table 7. MRA Test Results with Control Variables

		B	S.E.	Wald	Sig.		B	S.E.	Wald	Sig.
Step 1	Financial Target	1.039	1.373	1.173	0.219	Step 2	1.060	1.404	1.181	0.211
	External Pressure	0.829	5.372	2.849	0.033		0.923	5.403	2.857	0.031
	Ineffective Monitoring	4.374	6.971	7.382	0.000		4.395	7.002	7.390	0.000
	Auditor Switching	1.625	1.637	1.103	0.435		1.646	1.668	1.111	0.420
	Quality of external audit	1.183	5.829	3.647	0.004		1.204	5.860	3.655	0.002
	Change in Director	1.037	1.374	1.101	0.537		1.058	1.405	1.109	0.522
	CEO duality	0.983	4.173	3.342	0.002		1.032	4.204	3.350	0.001
	Nature of industry	0.315	1.836	1.115	0.238		0.342	1.867	1.123	0.225
	Political Connection	3.273	6.847	6.273	0.000		3.294	6.878	6.281	0.000
	Arrogance	2.376	6.482	5.272	0.000		2.397	6.513	5.280	0.000
	Audit Committee						1.273	3.273	2.983	0.042
	Growth						1.832	2.452	2.128	0.004
	M1						0.231	5.937	5.829	0.000
	M2						0.037	1.928	1.847	0.092
	M3						0.083	3.526	3.049	0.001
	M4						0.036	1.873	1.773	0.142
	M5						0.057	1.982	1.832	0.094
	M6						0.129	4.073	3.928	0.002
	M7						0.112	2.839	2.381	0.013
	M8						1.383	1.536	1.283	0.173
	M9						1.094	5.637	5.387	0.000
	M10						0.148	3.827	3.472	0.003
	Constant	7.872	1.872	1.883	0.172		1.334	1.981	1.783	0.119

Source: table created by authors

The results of the logistic regression analysis step 2 presented in table 7 are the test results that include the control variable growth. Entry of the control variable increased the coefficient of the independent variable. From the results of the Moderated Regression Analysis (MRA) Analysis, the following moderation test was conducted:

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Financial targets do not have a significant effect on FFR. However, an audit committee can reduce the impact of financial targets on FFR.

Based on table 7, the results of Hypothesis 1 (H1a) testing are rejected in line with (Achmad et al. (2023), Bawekes et al. (2018), and Khamainy et al. (2022) and contradict Akbar (2017), Noble (2019), Wicaksono and Suryandari (2021), and Meidijati and Amin (2022), but (H1b) is accepted. where the financial target proxied by return on assets (ROA) is rejected. Thus, financial targets do not affect the FFR. Thus, a high or low ROA value cannot be used as a benchmark for the FFR. Companies committing fraud are not always measured by increasing ROA alone. However, this can be achieved by improving the quality of operations and recruiting high-quality employees. The company believes in investing in modernizing its information system, improving efficiency in business processes at a higher cost than its benefits, and implementing policies to meet the set goals. As a result, when a company's target increases, management will not feel pressured. This is because ROA can be used to measure performance.

Financial targets do not affect fraudulent reporting. Based on table 7, the audit committee can reduce the impact of financial targets on FFR. The audit committee functions as an independent supervisor that helps ensure the transparency, integrity, and financial stability of the organization, so that financial targets can be achieved in a controlled and sustainable manner.

External pressure significantly influences the increase in fraudulent FFR, but the audit committee is unable to reduce the impact of external pressure on FFR.

Based on table 7, the results for Hypothesis 2 (H2a) are accepted in line with (Achmad et al. (2023), Khamainy et al. (2022), and Wicaksono and Suryandari (2021; Yulianti et al., 2019) and contradict (Sari et al., 2022; Bawekes et al., 2018; Situngkir & Triyanto, 2020), but (H2b) is rejected in line with (Sari et al., 2022). External pressure variables have a significant impact on financial statement fraud. However, it is not the only factor that measures the extent of pressure exerted by external parties on management. Leverage ratio is considered when investing in or lending money to a company. There are other considerations, such as the company's track record in paying off previous debts, the company's name, and a good relationship between creditors and the company. Audit committees fail to reduce the impact of external pressure on financial statement fraud. This is because of the inability of the audit committee to improve weak internal control. Thus, it can be said that the audit committee is powerless to counteract the impact of external pressure. Audit committees do not have a moderating effect.

Ineffective monitoring significantly increases financial reporting fraud, while the audit committee is able to reduce the risk of fraud due to ineffective monitoring.

In this study, the results of Hypothesis 3 (H3a and H3b) testing, where monitoring is ineffective and the moderating effect of the audit committee is accepted, the result H3a contradicts (Achmad et al., 2023; Achmad et al., 2022; Bawekes et al., 2018; Noble, 2019; Yulianti et al., 2019; Manurung & Hardika, 2015; Sihombing & Rahardjo, 2014). Based on the results of the analysis, it can be explained that the effectiveness or ineffectiveness of the commissioner's supervision can be used as a benchmark for the occurrence of fraud in financial reporting. Many or only a few independent commissioners are expected to prevent FFR. The number of independent commissioners may only be a regulatory requirement for good corporate governance. However, independent commissioners can reduce corporate intervention, thereby reducing fraud in financial reporting. The boards of commissioners play an important role in reducing fraud in financial reporting.

The audit committee plays a key role in moderating or bridging the board of commissioners' interventions against potential fraud in financial statements. The audit committee connects the board of commissioners with the audit process and independent supervision of financial statements. With these roles, the audit committee helps create a balance between the board of commissioners' and management's oversight.

Auditor switching has no effect on increasing financial reporting fraud, and audit committees are also unable to reduce the risk of fraud due to auditor switching

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In this study, the results of testing Hypothesis 4 (H4a and H4b), where auditor switching and the moderating effect of the audit committee were rejected, the result H4a in line with (Achmad et al., 2023) and contradicts (Utomo et al., 2019; Praptika & Rasmini, 2016). Based on the analysis findings, auditor switching has no effect on the potential for FFR. This indicates that a change in the company's auditor does not cause the company to commit fraud. Auditor switching is not an automatic indication of fraud in financial statements. There are many legitimate reasons that can encourage a company to change auditors, such as mandatory rotations or internal policies. However, it is also important to evaluate the reasons for this change properly. If there are no additional indicators that point to fraud, auditor switching should be considered part of normal business dynamics.

Audit committees cannot mitigate the relationship between falsified financial statements and auditor changes. Auditor supervision of MP cannot prove that auditor changes are an excuse for management to cover company problems and erase traces of fraud; rather, auditor changes tend to aim to improve the quality of auditors who audit the report.

External audit quality has a significant effect on reducing FFR. However, an audit committee is unable to reduce the relationship between the quality of external audits and FFR

In this study, the results of hypothesis 5 (H5a) testing the quality of external audits are accepted in line with (Apriliana & Agustina, 2017) and contradicts with (Nadziliyah and Primasari (2022), Dewi and Anisykurlillah (2021), Wicaksono and Suryandari (2021), Yulianti et al. (2019), Syahria et al. (2019), and Bawekes et al. (2018), while (H5b) the moderating effect of the audit committee is rejected. High-quality external audits can detect irregularities and fraud indications. There are 21 companies that use Big Four auditors, while the rest use auditors outside the Big 4. Of the 21 companies, eight indicated financial statement fraud. This shows that a high external audit quality plays an important role in reducing financial statement fraud. Quality external audits create pressure on companies to maintain honesty and transparency in their financial reporting. Therefore, it is important for companies to choose auditors who are qualified, maintain integrity, and comply with strict standards.

The AC's inability of the audit committee to reduce the relationship between external audit quality and FFR can be understood as a situation in which the AC's existence or role of the audit committee does not have a significant impact on reducing FFR. This is because of the limitations in the role of the audit committee itself. Many factors make audit committees ineffective in preventing fraud. Although external audit quality is important, the effectiveness of an audit in reducing fraud depends heavily on how audit findings respond to and follow up, especially by the audit committee and the board of commissioners.

Changes in directors do not increase FFR. However, the audit committee can weaken the relationship between changes in directors and FFR

The results of testing hypothesis 6 (H6a), which states that the change of directors has an effect on FFR, is rejected in line with (Achmad et al., 2023; Bawekes et al., 2018; Situngkir & Triyanto, 2020), and contradicts (Sari et al., 2022; Noble, 2019; Siddiq et al., 2017). However, (H6b) the moderating effect of the audit committee is able to reduce the relationship between the change of directors and FFR, which result H6b in line with (Sari et al., 2022). This study's findings indicate that management does not use changes in directors to commit fraud. Changes in directors in a company can occur for various reasons, including the resignation of directors, death of old directors, and need for new directors to fill vacancies. Desire to improve the performance and quality of a company by recruiting directors who are considered better or more capable than before. Seven companies changed their directors during the observation year, and all were indicated to have committed fraud. However, statistically, this had no effect because the probability was small, that is, only 6.7% of the total sample.

The results of the moderation analysis show that audit committees can weaken the relationship between director change and FFR. This is because audit committee play an important role in the form of strong supervision and independence. Director changes are often associated with potential fraud, owing to

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transition risks or pressure from new management to show fast performance. However, if the audit committee functions well, it can weaken or even prevent the negative impact of director change.

CEO duality significantly influences the increase in FFR, and the audit committee can reduce the impact of CEO duality on FFR.

The results of testing hypothesis 7 (H7a and H7b) state that the duality of directors and the moderating effect of the audit committee have an effect on FFR. Hypothesis H7a is in line with (Khamainy et al., 2022) and contradicts (Febriani et al., 2023; Sari et al., 2022; Wicaksono & Suryandari, 2021; Dewi & Anisykurlillah, 2021). The result H7b contradicts with (Sari et al., 2022). CEO duality creates a situation in which power is concentrated on one individual, which can weaken the internal control and oversight mechanisms required to maintain the integrity of financial reporting. There are 16 companies that have a duality of directors, and all of these companies have F-scores indicating FFR. CEO duality significantly increases the risk of financial reporting fraud due to the concentration of power in one individual. Therefore, separating the roles of the CEO and president of the board of commissioners is often recommended as part of good corporate governance to minimize the risk of fraud.

The results of the moderation analysis (H7b) show that the audit committee reduced the impact of CEO duality on FFR. Audit committees play an important role in reducing the negative impact of CEO duality on the FFR. Although CEO duality can increase the risk of financial statement fraud because of the concentration of power in one individual, the existence and effective performance of an audit committee can strengthen supervision and ensure transparency in financial reporting. An effective audit committee can work with external auditors and the board of commissioners to ensure that the integrity of financial reporting is maintained.

The nature of industry does not have an effect on increasing fraudulent FFR, and the audit committee is unable to weaken the relationship between the nature of industry and FFR.

The results of testing hypothesis 8 (H8a and H8b), which state that the nature of industry and the moderating effect of the audit committee have an effect on FFR, are rejected in line with Nurhidayah (2023), Akbar (2017), Sihombing and Rahardjo (2014), and contradicts (Sari et al., 2022; Siddiq et al., 2017). The nature of a company's industry does not always directly affect FFR. This implies that certain industry characteristics do not automatically make companies in that industry more likely to engage in FFR. The lowest receivables ratio for the sample companies was − -9.4514 PT. Anugerah Kagum, Tbk. The highest ratio was 220.985 PT. Panasia Resource, Tbk. However, the F value of the PT. Anugerah Kagum does not indicate fraud. While PT. Panasia Resource indicates fraud. A high receivables ratio does not guarantee freedom from indications of fraud and vice versa.

Based on the results of the moderation test (H8b) contradicts with (Sari et al., 2022), it was also found that the audit committee was unable to weaken the relationship between the nature of industry and FFR. Audit committees function as supervisors in financial control and reporting, and the nature of the industry has a strong impact on the risk of fraud in financial reporting. Thus, although the audit committee plays an important role in maintaining the integrity of financial reporting, the industry's specific nature can still be a dominant factor influencing the risk of fraud.

Political connections significantly influence the increase in fraudulent FFR, and the audit committee can also reduce the impact of political connections on FFR.

The results of testing hypothesis 9 (H9a and H9b) state that political connections and the moderating effect of the audit committee significantly influence financial reporting fraud. The result H9a is in line with (Nadziliyah & Primasari, 2022); and contradicts (Achmad et al., 2023; Sari et al., 2022; Wicaksono & Suryandari, 2021; Riyanti, 2021; Sagala & Siagian, 2021). Political connections significantly influence financial reporting fraud because there are several mechanisms that make companies with political

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connections more vulnerable to manipulative behavior. As in the sample companies, there are several companies whose shares are mostly owned by politicians, including PT. MNC Sky Vision Tbk (MSKY), PT. Media Nusantara Citra Tbk (MNCN) PT. MNC Land, PT. MNC Digital Entertainment for PT. Global Mediacom Tbk (BMTR). Twenty companies had strong political connections.

The results of the H9b hypothesis test show that the audit committee significantly moderates political connections in FFR, contradicting with (Sari et al., 2022). This shows that an effective audit committee can reduce the negative impact of political connections on FFR potential. In other words, although political connections often increase the risk of financial reporting manipulation, a well-functioning audit committee is can weaken this influence.

Arrogance significantly influences the increase in FFR, and the audit committee can also reduce the impact of arrogance on FFR.

The results of testing hypothesis 10 (H10a and H10b) state that arrogance and the moderating effect of the audit committee significantly influence financial statement fraud. The result H10a is in line with (Achmad et al., 2023; Wakik et al., 2023; Sukmadilaga et al., 2022; Purnaningsih, 2022; Apriliana & Agustina, 2017) and contradicts (Achmad et al., 2022; Lastanti, 2020). The number of CEO photos in the financial report can be interpreted as the director's high ego. Arrogant management tends to feel superior and immune to the consequences, and believes that they can get away with manipulation or fraud without being caught. At least one photo of the director and the most were 16 photos, namely, PT. MD Entertainment. In 2020 and 2021, PT. MD Entertainment received an F-score that indicated fraudulent financial reporting.

The results of the H10b moderation hypothesis test show that the audit committee reduces the effect of arrogance on FFR. Management arrogances often drive manipulative behavior, especially in financial reporting. Thus, arrogance-driven FFR can be prevented or minimized so that the company can maintain its financial reporting integrity.

Conclusion, Limitation and Suggestion

Conclusions

This study examines the factors that influence financial reporting fraud. The purpose of this study is to empirically prove the effect of hexagonal fraud theory on FFR. The six components of hexagon fraud theory in this study are represented by the variables financial targets, external pressure, ineffective monitoring, auditor switching, quality of external audit, change in director, CEO duality, nature of industry, political connections, and arrogance on the FFR of consumer cyclical sector companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2023. Based on the analysis that has been carried out, the conclusions that can be drawn are as follows: several variables such as external pressure, ineffective monitoring, quality of external audit, CEO duality, political connections, and arrogance have proven to have a significant effect on FFR. Meanwhile, other variables, such as financial targets, auditor switching, change in director, and nature of the industry, do not have a significant effect. The study also found that the audit committee was able to reduce the impact of several factors, such as financial targets, ineffective monitoring, changes in directors, CEO duality, political connections, and arrogance, on FFR. However, the audit committee is unable to control the influence of external pressure, auditor switching, the quality of external audits, and the nature of the industry.

Limitation

This study has several limitations. First, several variables such as financial target, auditor switching, change in director, and nature of industry do not have a significant effect on FFR. This may be due to the measurement method or data used that is unable to adequately capture the complexity of the relationship between variables; Second, the findings indicate that the audit committee is unable to control the impact of several important variables such as external pressure, auditor switching, quality of external audit, and nature of industry. Third, the results of this study may not be generalizable to all types of industries or companies because certain contexts such as company size, regulation, and corporate governance in each sector may differ and affect the results of the study.

Suggestion

Further, researchers are expected to use other variables, such as company growth variables, audit opinions, whistleblowing systems, and changes in audit committees, which are more varied when using the hexagonal fraud model. For opportunity variables, institutional ownership, external commissioner quality, capability, and CEO quality in a wider population, further research can add moderating variables to improve the accuracy of the research results.

Data Availability Statement: Research data were collected from the company websites IDX and Bloomberg L. P. (2024).

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