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ANALYSIS OF THE INFLUENCE OF HEXAGON FRAUD PERSPECTIVE ON FINANCIAL STATEMENT FRAUD WITH AUDIT COMMITTEE QUALITY AS A MODERATING VARIABLE

Felicia Hartono[1)], Hasan Mukhibad[2)]
[1, 2)]Accounting Study Program, Universitas Negeri Semarang, Indonesia
Corresponding author: feliciahartono19@students.unnes.ac.id

Abstract

This study aims to determine how the influence of financial targets, CEO educational background, number of boards of commissioner meetings, change in auditor, frequent number of CEO's pictures, and government projects on financial statement fraud with audit committee quality as a moderating variable in state-owned companies listed on the Indonesia Stock Exchange in 2018-2022. The population in this study were all state-owned companies listed on the Indonesia Stock Exchange, while the sample was 21 state-owned companies taken using purposive sampling techniques. The results of this study indicate that financial targets, CEO educational background, and frequent number of CEO's pictures have a positive and significant effect on financial statement fraud. The number of boards of commissioner meetings, auditor changes, and government projects do not affect financial statement fraud. The quality of the audit committee is able to weaken the influence of financial targets, CEO educational background, and frequent number of CEO's pictures on financial statement fraud. This research is expected to be useful for companies to identify factors that can influence financial reporting fraud.

Keywords: Fraud, Financial Statements, Fraud Hexagon, Audit Committee Quality

Introduction

One of the key instruments that stakeholders use to assess a company's financial success is its financial statements In this instance, the financial statements are used as a standard by the management of the company to evaluate management performance, which will influence future investment levels (Siddiq et al., 2017). Naturally, the corporation wants to demonstrate that its financial situation is sound when it presents facts. This enables internal and external consumers of financial accounts to make decisions that satisfy the company's requirements. However, management occasionally alters data to make financial statement information appear better in order to satisfy these expectations. Financial statement manipulation is a type of fraud. One example of a fraud case that has occurred in a state-owned company is the case of PT. Garuda Indonesia in 2018. This case began when two commissioners did not want to sign the financial statements because they suspected that there was fraud. These two commissioners did not agree with one of the cooperation transactions with PT. Mahata Aero Teknologi. The cooperation was valued at US$ 239.94 million or around Rp. 3.48 trillion. The funds are actually still receivable with the contract valid for 15 years, but it has been booked in the first year and recognized as income and included in other income.

This study uses the agency theory introduced by Jensen and Meckling (1976), this theory explains that there is a contractual relationship between the manager (agent) and the other party. Jensen and Meckling (1976) defined agency theory as a framework for explaining the contractual connection between principals and agents, namely between two or more individuals, a group, or an organization. The principal is the one with the authority to decide on the company's destiny and delegate accountability to an agent.

Frischanita & Bernawati (2020) and Tarjo & Herawati (2015) state that financial targets that are difficult for companies to achieve are a factor in increasing financial statement fraud. Research conducted by Budiyanto & Puspitawati (2022); Julia & Yunita (2022); Mukaromah & Budiwitjaksono (2021) shows that ROA which is a measurement of the company's financial targets is a factor in increasing financial statement fraud shows that ROA, which is a measurement of financial targets, has a positive and significant effect on detecting fraudulent financial statements.

H1: Financial targets have a positive effect on financial statement fraud

When it comes to the financial reporting process, CEOs with an economics degree undoubtedly comprehend accounting principles better. In this manner, there will be more opportunities to make false financial statements. This is due to the CEO's propensity for having a deeper comprehension of corporate governance and accounting standards. H2: CEO's educational background has a positive effect on financial statement fraud.

Effective monitoring is a situation where the company has an effective supervisory unit to monitor the performance of company management (Sari & Nugroho, 2020). The frequency of the board of commissioners' meetings serves as a gauge for this kind of effective supervision. The company's supervisory function, which can reduce the likelihood of misleading financial statements, is carried out by the board of commissioners.

H3: The number of board of commissioners' meetings has a negative effect on financial statement fraud

Rationalization is an attempt to find justification for the actions taken. fraud committed, one of the proxies for measuring rationalization is by looking at auditor turnover by the company (Antawirya et al., 2019). An auditor is a person who does audits on different kinds of financial reports for an organization, whether it be a government agency, business, institution, or group.

H4: Change in auditor has a positive effect on financial statement fraud

Arrogance is the nature of a person who feels powerful over everything in the company, by ignoring the internal controls in the company. (Crowe, 2011), (Yusof, 2016) state that the number of CEO images in the company's annual financial report can represent the level of arrogance or superiority possessed by the CEO. the CEO. With the increasing number of CEO images appearing in the company's financial statements, the CEO will appear more arrogant.

H5: Frequent number of CEO's picture has a positive effect on financial statements fraud

Government projects are seen as beneficial to businesses because they facilitate borrowing money from third parties or entering into contracts with the government. According to Yusrianti et al. (2020) working on government projects can lead to financial fraud. Company participation in government programs emphasizes the company's efforts to contribute to development projects and improve their performance.

H6: Participation in government projects has a positive effect on financial statements fraud

Financial targets are financial targets set by the board of directors related to the financial performance to be achieved by the company, such as company profits (Agusputri & Sofie, 2019). Management must be able to accomplish the goals set in order to carry out its operational operations; this is done, of course, in order for the company's performance to be seen as good and to continue. A high-quality audit committee will minimize possible conflicts of interest and improve the efficacy of monitoring management actions.

H7: The quality of the audit committee weakens the effect of financial targets on financial statement fraud

The CEO's educational history shows how capable he is of doing his job on a daily basis. while performing his everyday tasks. A CEO with an economics degree is more likely to comprehend accounting concepts in financial reporting, which reduces the likelihood of fraud. in order to reduce the likelihood of committing fraud. The audit committee is in charge of internal oversight and inspection, which includes keeping an eye on adherence to financial regulations and accounting standards. The CEO's performance may be routinely assessed by the audit committee, which may include a review of their familiarity with and comprehension of financial ethics, accounting standards, and anti-fraud procedures. H8: Audit committee quality weakens the effect of CEO educational background on financial statement fraud

The opportunity component can be projected using the number of board of commissioners meetings. Ineffective monitoring may provide management with possibilities to conduct fraud. Because the board of commissioners oversees agents who are shareholders in the company, it is thought that regular meetings will reduce the likelihood of fraud by management. Of course, a strong and efficient audit committee keeps an eye on the company's health and reduces the likelihood that management would conduct fraud.

H9: The quality of the audit committee strengthens the effect of the number of meetings of the board of commissioners on financial statement fraud

The accuracy, relevance, and dependability of the financial data that management presents can be guaranteed by a strong audit committee. This is consistent with agency theory's transparency principle, which states that shareholders can make wiser investment choices when they have access to high-quality information. The calibre of financial data gleaned by the audit committee's careful observation can boost investors' faith in the business's leadership. The audit committee is in charge of overseeing the audit process, which includes making sure the auditor performs an impartial and independent examination. This includes keeping an eye on the audit's development, analysing the auditor's techniques, and assessing the sufficiency of the evidence gathered.

H10: The quality of the audit committee weakens the effect of auditor turnover on financial statement fraud

Frequent number of CEO's picture is the number of CEO pictures contained in the financial statements. in the financial statements. According to Pamungkas & Utomo (2018) the number of pictures of the CEO in the company's annual report shows that the CEO wants to be recognized by the wider community and treats himself as a celebrity. It can be concluded that with the number of CEO images in the financial statements indicates the level of arrogance of the CEO so that he can behave as he pleases.
so that he can behave at will and ignore all company regulations.

H11: The quality of the audit committee weakens the effect of frequent number of CEO's picture on financial statement fraud

The term "government project participation" describes a business's involvement in initiatives that are managed, funded, or overseen by the government. There are many different kinds of government projects, from building infrastructure to offering public services. Involving businesses in these initiatives can have both strategic and financial advantages, but there are dangers and difficulties involved. The company's image and reputation among investors, stakeholders, and the community can be improved by taking part in government projects.

H12: The quality of the audit committee weakens the effect of participation in government projects on financial statement fraud

Methods

This study employs a hypothesis testing study design and is quantitative in nature. The yearly report is the source of the data. State-Owned Enterprises (BUMN) businesses that were listed on the Indonesia Stock Exchange between 2018 and 2022 made up the study's sample. 2018–2022. Purposive sampling was used to obtain the sample, or it was based on predetermined standards. Businesses who publish annual reports, employ rupiah currency in financial records, and are BUMN firms are included in the sample.

There are moderating, independent, and dependent variables in this study. The dependent variable in this study is financial statement fraud, while the independent variables are financial targets, CEO educational background, number of board meetings, change in auditor, frequent number of CEO's pictures, and participation in government projects, government projects, as well as the quality of the audit committee as a moderating variable. In this study, all variables were measured using certain proxies. Table 1 below shows the measurements for each research variable.

Table 1 Operational Definition of Variables

No	Variable Name	Definition	Indicator
Dependent Variable			
1	Financial Statement Fraud	Intentional manipulation and material misstatement of financial statements to mislead users of financial statements.	Beneish M-Score M-Score = -4.84 + (0.92 × DSRI) + (0.528 × GMI) + (0.404 × AQI) + (0.892 × SGI) + (0.115 × DEPI - 0.172 × SGAI) + (4.679 × TATA -0.327 × LVGI)
Independent Variable			
1	Financial Target	Targets take the form of profits regarding the business that management must achieve as a measure of good company performance.	Achieving the ROA target desired by the company
2	CEO Educational Background	Competencies possessed by the CEO that can influence decision-making	Dummy variable where the value is 1 if the CEO has a background in economics, and the value is 0 if he does not have a background in economics
3	Number of Board of Commissioners Meetings	Communication media between members of the board of commissioners that can be used to make decisions regarding existing policies and solve problems faced by the company.	Frequency of the number of meetings held by the board of commissioners during the year

No	Variable Name	Definition	Indicator
4	Change in Auditor	The transfer or rotation of public accountants who provide their services to organizations / companies to examine the results of financial reports that have been made whether they are in accordance with reality or not, so that they are free from misstatements.	Dummy variable, namely value 1 for companies that make auditor changes and value 0 for companies that do not make auditor changes during the study period.
5	Frequent number of CEO's picture	CEO photo appearance in annual report	The number of CEO photos appearing in the company's annual report
6	Government projects	Companies take part in government projects that usually aim to meet the needs of the community or to provide public services	Dummy variable, value 1 for companies that participate in government projects and value 0 for companies that do not participate in government projects.
Moderating Variable			
1	Audit committee quality	The level of effectiveness and competence of an audit committee in carrying out its duties	Average working experience of each audit committee in the field of audit

Source: Data Processing Result, 2024

The independent factors in this study are tested using the panel data regression approach, while the moderating variables are tested using Moderated Regression Analysis (MRA). and the test of moderation factors using Moderated Regression Analysis (MRA). With the aid of STATA statistical software, the analytical technique was conducted. To ascertain the mean, median, standard deviation, minimum, maximum, and number of observations, a descriptive statistical analysis test is performed. The Common Effect Model (CEM) is the most appropriate panel data regression model to be used as the basis for conducting data analysis in this study after the Chow Test and Lagrange Multiplier Test were completed using STATA. Therefore, the multicollinearity and heteroscedasticity tests are required as prerequisites. The hypothesis test and the coefficient of determination test are the model feasibility tests that are employed. as well as testing hypotheses.

Results

Descriptive analysis results regarding financial targets, CEO educational background, number of board meetings, auditor turnover, frequent number of CEO's picture, government projects, and the audit committee quality as a moderating variable seen in Table 2 below:

Table 2 Descriptive Statistical Analysis Results

	FSF	ROA	CEOEDU	EF	AUDCHANGE	CEOPIC	GOVPRO	ACQ
Mean	-2,6916	2,2712	0,6266	23,0266	0,1733	5,3733	0,76	4,8821
Max.	2,198	15,62	1	62	1	19	1	19,8
Min.	-12,296	-11,62	0	6	0	2	0	0
Std. Dev.	1,7325	3,4589	0,4997	14,6877	0,3810	3,5058	0,4299	4,61325
Observ.	75	75	75	75	75	75	75	75

Source: Data Processing Result, 2024

Based on the results of testing the panel data regression model, namely the chow test and the lagrange multiplier test, the common effect model was chosen as the best model to use in this study. The classical assumption test or prerequisite test conducted in this study consists of heteroscedasticity test and multicollinearity test. The Variance Inflation Factor (VIF) test is conducted to determine whether there is a high correlation between independent variables and the mean VIF value is 1.26 < 10. Therefore, it can be concluded that there is no multicollinearity problem in the data in this study. Next, the Breusch Pagan test method is carried out to determine whether there is inequality of variance and residuals in this data or not. The result obtained is a probability value of 0.2803 > 0,05. Therefore it can be concluded that the data in

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this study does not occur heteroscedasticity problem. The magnitude of the coefficient of determination (R2) can be seen in the R-squared value obtained of 0.4719. This value indicates that the overall independent variables in this study are only able to explain the dependent variable by 47.19%, while the rest is explained by other variables outside the variables studied. while the rest is explained by other variables outside the variables studied.

Table 3 Partial Test Results

Variable	Coefficient	Standard Errors	T Statistics	Probability
ROA	0,117	0,061	1,93	0,058
CEOEDU	-0,691	0,452	-1,53	0,131
EF	0,028	0,014	1,91	0,060
AUDCHANGE	-0,063	0,530	-0,12	0,905
CEOPIC	0,121	0,591	2,05	0,044
GOVPRO	0,058	0,472	0,12	0,902
CONS	-3,869	0,728	-5,31	0,000

Source: Data Processing Result, 2024

Discussions

The analysis's findings indicate that the pressure (stimulus), which is measured by the company's achievement of its intended ROA target, has a coefficient value of 0.117 and a significance value of 0.058 or less than 0.10. This supports the first hypothesis by demonstrating that financial targets have a positive and significant direction on financial statement fraud. The CEO's educational background serves as a proxy for capability, which has a coefficient value of -0.691 and a significance value of 0.131, or more than 0.05. The second hypothesis is disproved since this indicates that educational background has a negative and negligible impact on financial statement fraud. The frequency of board meetings has a coefficient value of 0.028 and a significance value of 0.06 or less than 0.1, which is the opportunity proxied by the frequency of board meetings. This demonstrates that the number of board of commissioners meetings has a large and favorable impact on financial statement fraud, hence disproving the third hypothesis. The more frequently the board of commissioners meets, the more likely it is that the business is having serious issues (Maharani & Ainiyah, 2022). Rationalization, as measured by auditor turnover, has a significance value of 0.905, or higher than 0.05, and a coefficient value of -0.063. This demonstrates the detrimental effects of auditor turnover. The fourth hypothesis is disproved since auditor turnover has a negative and negligible impact on financial statement fraud. The CEO's image frequency as a proxy for arrogance has a coefficient value of 0.121 and a significance value of 0.044, which is less than 0.05. This demonstrates that the frequent presence of CEO photos has a favourable and noteworthy impact on financial statement fraud, supporting the fifth hypothesis. The fifth theory is agreed upon. The coefficient value for collusion as measured by government projects is 0.058, which is less than 0.05. possesses a significance value of 0.902 or higher than 0.05 and a coefficient value of 0.058. This demonstrates that involvement in government initiatives is beneficial and has little bearing on financial statement fraud. and irrelevant to the deception of financial statements, hence the sixth hypothesis is disproved.

Table 4 Moderated Regression Analysis (MRA) Test Results

Variable	Coefficient	Standard Errors	T Statistics	Probability
ROA	0,307	0,069	4,40	0,000
CEOEDU	0,438	0,573	0,76	0,448
EF	0,025	0,016	1,52	0,133
AUDCHANGE	-0,776	0,888	-0,87	0,385
CEOPIC	-0,124	0,100	-1,25	0,218
GOVPO	-1,563	0,681	-2,30	0,025
ROA_KKA	-0,064	0,016	-3,94	0,000
CEOEDU_KKA	-0,214	0,088	-2,43	0,018
EF_KKA	-0,002	0,003	-0,73	0,466
AUDCHANGE_KKA	0,174	0,205	0,85	0,399
CEOPIC_KKA	0,049	0,018	2,59	0,012
GOVPRO_KKA	0,203	0,089	2,27	0,026
CONS	-2,456	0,715	-3,43	0,001

According to the findings of the statistical test, the relationship between the audit committee's quality and the financial target variable on financial statement fraud has a significance value of 0.000, or less than

0.05, and a coefficient value of -0.064. The seventh hypothesis is accepted since the test results show that the audit committee's quality can mitigate the impact of financial targets on financial statement fraud. The findings of the statistical test show that the quality of the audit committee moderates the effects of the CEO's educational background characteristics on financial statement fraud. The coefficient value is -0.214 and the significance value is 0.018. According to the test results, the eighth hypothesis is accepted since the audit committee's calibre can mitigate the impact of the CEO's educational background on financial statement fraud. The ninth hypothesis is rejected because the test results demonstrate that the quality of the audit committee cannot mitigate the impact of the board of commissioners' meeting frequency on financial statement fraud. The eleventh hypothesis is rejected because test findings indicate that the audit committee's quality cannot mitigate the impact of an auditor change on financial statement fraud. The eleventh hypothesis is accepted because the test results demonstrate that the quality of the audit committee can mitigate the impact of the CEO's frequent appearance on financial statement falsification. The twelfth hypothesis is disproved by the test findings, which demonstrate that the effectiveness of the audit committee enhances the impact of government initiatives on financial statement fraud.

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