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The Strategy of Digital in Business for Gaining Competitive Advantages after Pandemic

Keynote Speakers :

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Proceeding Book of The 4th International Conference on Business and Banking Innovations (ICOBBI) 2022 "The Strategy of Digitalization in Business for Gaining Competitive Advantages after Pandemic"

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FOREWORD

Alhamdulillah, praise be to Allah Subhanahu Wa Ta'ala for granting us the opportunity to organize and publish the proceedings of the 4th International Conference on Business and Banking Innovations (ICOBBI) with the topic "The Strategy of Digitalization in Business for Gaining Competitive Advantages after Pandemic". This proceeding contains several researches articles from many fields in Business & Marketing, Banking & Sharia Banking, Accounting & Financial Management, Human Resources Management, Operations Management, Investasi, Insurance & Capital Market, Strategic Management, Technology Management, and Information System.

The 4th International Conference on Business and Banking Innovations was held on 29th January 2022 by virtual (online) zoom meeting and organized by the Master Management Study Program of Universitas Hayam Wuruk Perbanas in Collaboration with five Higher Education Institutions in Indonesia and three Universities from Asia countries. Keynote speakers in this conference were: Chonlatis Darawong, P.hD (Sripatum University, Thailand), Associate Prof. Dr. Ellisha Nasrudin (University of Science, Malaysia), Dr. Sanju Kumar Singh (Postdoctoral Fellowship in Universitas Airlangga, Tribhuvan University Nepal) and Prof. Dr. Abdul Mongid, MA., P.hD (Universitas Hayam Wuruk Perbanas, Indonesia).

I would like to give high appreciation to the Rector of Universitas Hayam Wuruk Perbanas for his support at this event. Acknowledgments and thank you to all the steering and organizing committees of the ICOBBI for the extra ordinary effort during the conference until this proceeding published. Thank you very much to all presenter and delegates from various Universities. Beside it, I would like to express our gratitude to the three universities, namely Universitas 17 Agustus Surabaya, STIE YKPN Yogyakarta, Universitas Negeri Gorontalo, Universitas Surabaya and Universitas Muhammadiyah Surakarta which has been the co-host of this event.

Hopefully, the proceeding will become a reference for academics and practitioners, especially the business and banking industry to get benefit from the various results of the research field of Business and Banking associated with Information Technology. Proceedings also can be accessed online on the website http://eprints.perbanas.ac.id/

Chair of the Master Management Study Program
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Prof. Dr. Tatik Suryani, M.M.

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Fraud Financial Statement Detection:
Fraud Hexagon Model Analysis in the Financial Sector Listed on the Indonesia Stock Exchange

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ABSTRACT

The financial sector is the main axis of the economy in Indonesia because it is the center of cash flow. This industrial sector has the highest level of vulnerability to crises. Financial sector itself is on the first rank that receives the most cyber-attacks and is on the fourth out of nine sectors in the Indonesia Stock Exchange in terms of stock performance. Research using the Fraud Hexagon Model has been carried out in various industrial sectors, but less review in the financial sector. This study aims to analyze all the factors of the Fraud Hexagon Model to detect financial statement fraud in the financial sector. The research' sample is the financial sector companies listed on the Indonesia Stock Exchange 2017-2020. This study uses the purposive sampling method to characterize the sample and 62 companies are obtained as data. The data is analyzed using logistic regression. The results show that the pressure factors (financial stability, external pressure, and financial targets) and the opportunity factor (nature of industry) affect financial statement fraud. Meanwhile, the pressure factor (personal financial need), capability, opportunity (effective monitoring), rationalization, arrogance, and collusion does not affect financial statement fraud.

Keywords: *financial statement fraud, fraud hexagon, financial sector*

1. INTRODUCTION

The financial sector is one of nine sectors listed on the Indonesia Stock Exchange consisting of service industry companies. There are five sub-sectors in the financial sector, namely the banking sub-sector, financial institutions, securities companies, insurance companies, and other funding companies. The financial sector is an important part that determines the economic development of a country. If a country's financial sector experiences a decline, the country's economy also will certainly decline as well [1]. In the Indonesian economic system, the financial sector plays a role in maintaining stability and contributes to the country's economic recovery. Currently, financial sector companies continue to improve and experience an increase in their stock index on the Indonesia Stock Exchange that they are ranked fourth out of nine sectors. The positive image of the financial sector indicates that the company is in a good performance, which become the main aspect for investors today to invest in this sector.

Financial statements are the main indicator in assessing the performance of a company and as an information tool that is often used by stakeholders to find out the state of a company. The practice of fraudulent financial statements or financial statement fraud is one of the most vulnerable actions in a company. In the increasingly fierce competition in the business world, many companies are trying to convey information about the company's best financial performance to investors. Given the importance of financial statements for a company, sometimes management covers up the actual situation in the financial statements that their performance looks positive, namely by committing fraudulent financial reporting [2]. The Association of Certified Fraud Examiners (ACFE) find that more than half of the perpetrators of fraud are management [3]. Management manipulates financial statements by presenting inaccurate and irrelevant financial statements through material value engineering. Indications of manipulation of financial statements are usually marked by insignificant asset growth, increased cash requirements and the presence of associated external funding.

Based on the 2020 Report to the Nations, it is found that 2,504 cases from 125 countries caused a total loss of more than US$3.6 billion with an average loss of US$1.5 million per case. Individuals commit approximately 85 percent of fraud through their work units, and there has been an increase in financial statement fraud in 2020 since 2012 (10% in 2020; 6% in 2018; 7.6% in 2016; 9% in 2014, and 9.6% in 2012). The banking industry and financial services sector found 386 cases or 19% of the total number of cases found. This sector is ranked first in terms of the number of cases found. The biggest losses for fraud came from asset misappropriation (85%) which caused a total loss of US$90,000, corruption (40%) which resulted in a loss of US$200,000, and financial statement fraud (10%) resulted in a total loss of US$1,600,000 [4].

In Indonesia, according to [3] it is found that there are 239 cases of fraud causing a total loss of Rp873,430,000,000 with an average loss per case of Rp7,248,879,668. The survey results show that the largest loss of fraud comes from corruption with a total of 167 cases (69.9%) equal to Rp257,520,000,000 total loss, and financial statement fraud with a total of 22 cases (9.2%) resulting in a total loss of Rp242,260,000,000. Based on the results of the survey, it can be seen that both nationally and globally, financial statement fraud cases are the cases with the smallest frequency, but cause the greatest losses among other fraudulent acts [5].

The government seeks to reduce fraud cases through the Financial Services Authority (OJK) by issuing Financial Services Authority Regulation Number 39/POJK.03/2019 concerning the Implementation of Anti-Fraud Strategy for Commercial Banks. In this regulation, the government requires commercial banks to implement an anti-fraud strategy and requires more comprehensive reporting for banks to provide added value. The implementation of an anti-fraud strategy must at least contain four pillars consisting of prevention, detection, investigation, reporting, and sanctions, as well as monitoring, evaluation, and follow-up.

The fraud case that occurred in Indonesia was the case of the Bank Indonesia Liquidity Assistance (BLBI) fund. Assistance was issued by Bank Indonesia to some banks experiencing liquidity periods due to the monetary crisis which caused the rupiah exchange rate to depreciate deeply, reaching Rp15,000 per US dollar. Through the BLBI program, Bank Indonesia disbursed funds amounting to Rp147.7 trillion to 48 banks with a note that the loaned funds must be returned to the government. However, 95% of these funds turned out to be misappropriated, based on the findings of the Supreme Audit Agency (BPK), this case was considered the biggest corruption in Indonesia [6]. In addition to the case of Century Bank, the BPK admitted to finding indications of misuse of the disbursement of bailout funds for Century Bank. This case has cost the national finances as much as Rp7.4 trillion. The BPK in coordination with the Ministry of Law and Human Rights will confiscate assets belonging to the former owner of Century Bank, Robert Tantular, which amounted to around Rp100 billion [7].

The emergence of financial statement fraud is caused by a misstatement in financial statements. These errors can be intentional or unintentional which can have an impact on decision-making by stakeholders. The number of companies that carry out fraudulent actions today causes the need for continuous efforts to detect financial statement fraud. The detection of financial statement fraud was first proposed by Donald Cressey in 1953 who is one of the founders of the Association of Certified Fraud Examiners (ACFE) who pointed the fraud triangle theory, which explains the three factors that cause fraud in financial statements: pressure, opportunity, and rationalization [8]. In 2004 [9] proposed the fraud diamond concept, this concept adds one element to the fraud triangle, considering individual capability. In 2011 [10] developed the theory of fraud triangle and fraud diamond by changing the risk factor for fraud. According to [10] the elements of competence and arrogance affect the occurrence of fraudulent financial statements. There are five elements in the fraud pentagon theory developed by [10]. In 2019 [11] pointed the fraud hexagon theory which is the latest approach, developed from all the factors in the previous model by adding one more factor, namely collusion. In the fraud hexagon theory, there are six elements: pressure, capability, opportunity, rationalization, arrogance, and collusion.

Research related to financial statement fraud according to the fraud hexagon perspective has been carried out in several sectors, but not many have researched the financial sector as a whole. The strengthening of the financial sector by the government for economic recovery has made this sector continue to seek to attract public interest in using financial services. With the development of increasingly sophisticated technology, it has a positive impact on the financial sector to innovate in providing ease of use of financial services. The convenience and speed of service are the main keys to attracting public interest. It can be proven that with the innovations made by the financial sector, the interest of users of financial services has increased and the performance of the stock index has increased. The quality of the financial services sector which is increasingly in demand by the public makes investors interested in looking at the prospects for future profits. The high interest of investors can provide a gap for management to commit financial statement fraud. This is reinforced by the many old cases in the financial sector that continues to roll until now, making it interesting to research in the financial sector.

2. LITERATURE

2.1. Agency Theory

Agency theory is often considered as a working relationship between two parties who act as principals or investors and agents or management in an entity in which there is an agreement to take an action. The main purpose of agency theory is to explain that parties who enter into a contractual relationship can design contracts that aim to minimize costs due to the impact of asymmetric information and uncertainty [12].

2.2. Fraud

Fraud is an act that is intentionally carried out to deceive other people by hiding, eliminating, or even changing information that is deemed capable of influencing and changing decisions, these actions can provide benefits for those who do it [13]. According to [4], fraud is an act of fraud or deviation that is intentionally made by a person or entity and knows that the error will have an impact on several benefits that are not good for the individual or entity. There are three (3) categories of fraud, namely corruption, asset misappropriation, and financial statement fraud.

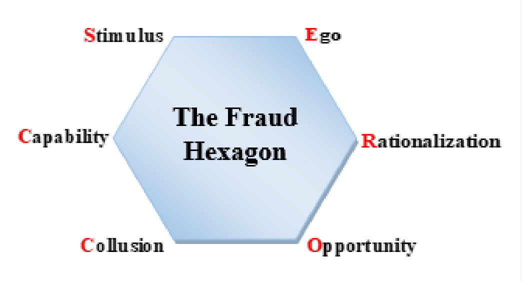
2.3. Financial Statement Fraud

According to [14], financial statement fraud is defined as a deliberate misrepresentation of a company's financial condition, omission of material information, or misdisclosure in financial statements to deceive users. Financial statement fraud occurs on the grounds of overstatement of assets, income, or profits and understatement of liability, the burden of losses suffered by the company. According to [15], fraud is a deliberate act by one or more individuals in management, those charged with governance, employees, or third parties, which involves the use of deception to obtain an unfair or unlawful advantage. Financial statements that contain fraud can reduce the integrity of financial statement information and this can affect the decisions of various parties.

In disclosing financial statement fraud, several methods can be used, one of which is using the Beneish M-Score. According to research conducted [5], the Beneish M-Score Model can ensure immediate detection of reports manipulation actions through potential financial statement frauds carried out before public announcements by the stock exchange authority as well as narrow the disclosure gap. The calculation of the Beneish M-Score consists of eight indices, namely the Days Sales in Receivables Index (DSRI), Gross Margin Index (GMI), then Asset Quality Index (AQI), Sales Growth Index (SGI), and Depreciation Index (DEPI), Sales General and Administrative Expenses Index (SGAI), and Leverage Index (LVGI) and Total Accruals to Total Assets [16] . The eight indexes will then be re-calculated to determine whether the company is indicated by financial statement fraud or not using the cut off value.

2.4. Fraud Hexagon Theory

Fraud Hexagon is a factor development from the previous model, namely the fraud pentagon. The fraud detection model for financial statements was first discovered by Donald R. Cressey in 1953 which was named the fraud triangle. The fraud triangle explains the three factors that cause fraud in financial statements: pressure, opportunity, and rationalization [8] . Over time the fraud triangle was developed by several scientists into the fraud diamond, fraud pentagon, and most recently fraud hexagon. In the fraud hexagon theory, there are six elements: pressure, capability, opportunity, rationalization, arrogance, collusion.



Gambar 1 Fraud Hexagon Model by Vousinas (2019)

2.5.1. Pressure

Pressure is the urge to commit fraudulent acts by employees and managers. Pressure can cover almost anything including financial and non-financial matters [17]. Pressure can be viewed from several factors:

2.5.1.1. Financial Stability

Financial stability is a description of the company's stable financial condition. The company's finances can be said to be stable by measuring its financial growth through company sales, the value of company profits per year and the growth of company assets [18]. The number of total assets owned by the company is a special aspect for investors, creditors, and other decision-makers [19]. If the company has enough total assets, it will attract investors because the company is considered capable of providing good returns for investors. Meanwhile, companies with small total assets will be considered less able to provide maximum returns to investors. Research conducted [20] and research [21] stated that financial stability affect financial statement fraud. Companies with low total assets tend to commit fraud in attracting investors to invest in the company.

H1: Financial stability affect financial statement fraud

2.5.1.2. External Pressure

External pressure is excessive pressure for management to meet the requirements or expectations of third parties [22] . Management will look for all kinds of ways to get loans and try to present perfect financial reports that present their good performance. Companies overcome these pressures, by adding their debt or external sources of financing to remain competitive, including financing research and development expenditures or capital [23] . Research [24] and research [21] state that external pressure affect financial statement fraud. Pressure from external parties will be a trigger for management to manipulate the company's financial statements.

H$_2$: External pressure affect financial statement fraud

2.5.1.3. Personal Financial Need

Personal financial need is a pressure that will encourage someone to commit fraud. The pressure can be in the form of financial or non-financial pressure. The existence of share ownership by management in the company raises prejudice by himself on the right to income and company assets that will affect the company's financial condition. The unclear separation between the management and control functions of the company can lead to arbitrary executives using company funds for their interests [25]. Research conducted by [13] and research [16] state that personal financial need affect on financial statement fraud. In this condition it is shown that the greater the individual share ownership by the management, it increases the fraud of financial statements.

H$_3$: Personal financial need affect financial statement fraud

2.5.1.4. Financial Targets

Financial targets are the desired outcomes for individuals, groups and all financial organizations to be achieved. Good company performance is often measured by the achievement of profits earned and this is what encourages management to commit fraud in financial statements. The financial target is the management's want to get a bonus for the results of their performance towards the fulfillment of the principal's need, namely the fulfillment of the financial target in the form of profit [19]. Research conducted [17] and [26] show that financial targets affect financial statement fraud. The company's profit is in line with the target, triggering the attention of investors to the company and will encourage the management to commit financial statement fraud.

H$_4$*:* Financial targets affect financial statement fraud

2.5.2. Capability

Capability is a person's ability to commit fraud in the company environment. The change in directors is a form of conflict of interest [9]. Change of Directors is one of the factors driving the occurrence of financial statement fraud because the impact of these changes is the management's efforts to improve the results of the previous directors' performance by changing the company's organizational structure or recruiting new directors who are considered more capable than the previous directors. Research [20]and research [27] show that capability affect financial statement fraud. The company changed directors to cover up the fraud that had been committed.

H$_5$: Capability affect financial statement fraud

2.5.3. Opportunity

Opportunity is an opportunity that allows fraud to occur. Opportunities can occur due to weak internal controls, poor management supervision or through the use of positions [17]. Opportunity can be view from several factors:

2.5.3.1. Nature of Industry

Nature of Industry is the ideal state of a company in the industry [16]. Company estimates can be used in calculating the balances in the accounts contained in the financial statements. In financial reporting, there are certain accounts which balances are determined by the company based on an estimate, such as bad debts and obsolete inventories. Bad debts require subjective assessment in estimating uncollectible accounts [20]. Research [16] and [21] show that nature of industry affect financial statement fraud. An increase in the company's receivables in the previous year may indicate that the company's cash turnover is less performance. A significant Increase in trade receivables can be a serious indication of financial statement fraud in a company.

H$_6$: Nature of industry affect financial statement fraud

2.5.3.2. Effective Monitoring

Effective monitoring is a condition where the company has effective supervision to monitor the performance of the company's management. In minimizing the occurrence of fraud in a company, the structure of the supervisory unit members may consist of a board of commissioners from an independent party. The results of research [13] and [2] show that effective monitoring affect financial statement fraud, especially if management intends to take inappropriate actions by exploiting weaknesses in the company's internal control system.

H$_7$: Effective monitoring affect financial statement fraud

2.5.4. Rationalization

Rationalization is a justification that arises in management's mind when fraud has occurred [16]. The auditor has an important task to oversee the financial statements, where the opinion given by the auditor can be used as a basis for assessment by users of financial statements. De Angelo (1981) in [18] states that audit quality is the probability of an auditor in detecting and reporting the results of audited activities. The quality of external auditors can be determined by distinguishing the selection of public accounting firms (KAP) which are members of BIG4 which consists of PwC, EY, Deloitte, and KPMG from those that do not categorized into the BIG 4. Research [18] and [27] show that rationalization affect on financial statement fraud. Changes in external auditors and public accounting firms (KAP) cover fraud that occurs in the company's financial statements.

H$_8$: Rationalization affect financial statement fraud

2.5.5. Arrogance

Arrogance is a greedy attitude from or within a person. Arrogance can have an impact on financial statement fraud. The number of images of the Chief Executive Officer (CEO) displayed in the company's annual report represent the level of arrogance that the CEO has [19]. Research [18] and research conducted by [16] show that arrogance affect financial statement fraud. The higher the level of arrogance triggers the occurrence of financial statement fraud.

H$_9$: Arrogance affect financial statement fraud

2.5.6. Collusion

Collusion is an agreement made by two or more people to deceive a third party [11]. Collusion causes cooperation between fraud perpetrators that can become a large fraud scheme occurs and causes a large total loss for fraud victims [28]. Research [16] shows that collusion affect financial statement fraud. The acquisition of cooperation with government projects has led to the company's efforts to commit financial statement fraud.

H$_{10}$: Collusion affect financial statement fraud

3. METHODS

3.1. Population, Sample, dan Research Data

The population in this study is the financial statements of companies in Indonesia with a sample of financial sector companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2020 period. The type of data used in this research is secondary data. Data are obtained from the official website of the Indonesia Stock Exchange (IDX) https://www.idx.co.id or the company's official website. In this study, the data is collected using purposive sampling method.

The number of financial sector companies listed on the Indonesia Stock Exchange in 2017-2020 amounted to 81 companies. From the 81 companies, there are 62 financial sector companies that publish complete annual reports during the research year (2017-2020), present financial reports in rupiah currency, and are indicated to commit fraudulent at least once in the observation period.

3.2. Variable Operational Definition

3.2.1. Financial Fraud Detection

Financial statement fraud measures using the Beneish M-Score model. There are eight points of Beneish M-Score index according to [29] and [30] which is calculated by:

3.2.1.1. Day's Sales in Receivable Index (DSRI)

DSRI is the ratio of total sales in receivables in the year the manipulation occurred (year t) to the previous year (year t-1).

3.2.1.2 Gross Margin Index (GMI)

GMI is the ratio of gross profit margin between the previous year (year t-1) to the first year of manipulation (year t).

3.2.1.3 Asset Quality Index (AQI)

Asset Quality Index (AQI) is the ratio of non-current assets (excluding plant, property, and equipment) to total assets to measure the proportion of total assets to future profits that are less certain.

3.2.1.4 Sales Growth Index (SGI)

Sales Growth Index (SGI) is the ratio of sales in the first year (year t) to sales in the previous year (year t-1).

3.2.1.5 Depreciation Index (DEPI)

Depreciation Index (DEPI) is a ratio that compares depreciation expense to fixed assets before depreciation in a year (t) and the previous year (t -1).

3.2.1.6 Sales, General and Administrative Expenses Index (SGAI)

The Sales General And Administrative Expenses Index (SGAI) is a ratio that compares selling, general and operating expenses administration of sales in a year (t) and the previous year (t -1).

3.2.1.7 Leverage Index (LVGI)

Leverage Index (LVGI) is a ratio that compares the amount of debt to total assets in a year (t) and the previous year (t -1).

3.2.1.8 Total Accruals to Total Assets (TATA)

Total Accruals to Total Assets Index (TATA) is the ratio of total accruals to total assets.

The results of the calculation of the eight indexes are be recalculated with a mathematical model to obtain the *Benesih M-Score value*:

M-Score = -4.84 + 0.920*DSR + 0.528*GMI + 0.404*AQI + 0.892*SGI + 0.115*DEPI – 0.172*SGAI – 0.327*LEV + 4,679*TATA

This study uses a dummy variable which is categorized into 2 types of companies, namely companies that commit fraudulent financial reporting (fraud) are coded 1 (one) and companies that do not commit fraudulent financial reporting (nonfraud) are coded 0 (zero). If the Beneish M-Score is greater than -2.22, the company is categorized as a company that commits fraud.

3.2.2. Measurement of Hexagon Fraud Variables

The independent variables in this study consist of the main factors of the fraud hexagon which is used as a measurement of the financial fraud statement. There are six elements of the fraud hexagon: pressure, capability, opportunity, rationalization, arrogance, and collusion.

3.2.2.1 Pressure

Pressure is the urge to commit fraudulent acts. In this study, pressure is proxied into four variables, namely financial stability (FNS), external pressure (EXP), personal financial need (PRFN), and financial targets (FNT) [23] [16].

Table 2. Pressure Measurement

Variable Operational Formula
$\text{FNS} = \dfrac{\text{Total Asset}_{(t)} - \text{Total Asset}_{(t-1)}}{\text{Total Asset}_{(t)}}$
$\text{EXP} = \dfrac{\text{Total Liabilities}}{\text{Total Asset}}$
$\text{PRFN} = \dfrac{\text{Total Managerial Shares}}{\text{Total Shares}}$
$\text{FNT} = \dfrac{\text{Net Income After Taxes}}{\text{Total Asset}}$

3.2.2.2 Capability (CAPB)

Capability is possessed changes in the board of directors [18]. This measurement uses a dummy variable, which uses code 1 if there is a change of company directors during the 2017-2020 period and code 0 if there is no change of directors during the 2017-2020 period.

3.2.2.3 Opportunity

Opportunity is proxied into two variables, namely nature of industry and effective monitoring [23] [16].

Table 3 . Opportunity Measurement

Variable Formula
$\text{NOI} = \dfrac{\text{Receivable}}{\text{Sales}} - \dfrac{\text{Receivable}_{(t-1)}}{\text{Sales}_{(t-1)}}$
$\text{EFMO} = \dfrac{\text{Total Independent Commissioners}}{\text{Total Board of Commissioners}}$

3.2.2.4 Rationalization (RAZA)

Rationalization is a state in which a person justifies his wrongdoing. In general selection of a public accounting firm (KAP) affects the chances of fraudulent financial statements [23] [16]. The measurement in this study uses a dummy variable, which uses code 1 if there is a change in the public accounting firm (KAP) during the 2017-2020 period and code 0 if there is no change in the public accounting firm (KAP) during the 2017-2020 period.

3.2.2.5 Arrogance (ARGA)

The number of photos of the CEO displayed in a company's financial statements can show the level of arrogance and superiority of the CEO because a CEO usually wants to show the public his status and position in a company because he does not want to lose that status or position [20].

3.2.2.1 Collusion (COL)

Collusion refers to a deceptive or compact agreement between two or more people, for one party to take other actions for some unfavorable purpose, such as to defraud third parties of their rights [11] [16]. An indication of the potential for fraudulent financial statements if there is a project with the government. This study uses a dummy variable to measure collusion which is proxied by the presence or absence of a government project. The measurement provides code 1 if the company cooperates with government projects during the 2017-2020 period and code 0 if the company does not collaborate with projects with the government during 2017-2020.

3.3. Data Analysis Method

This research is quantitative research that uses a hypothesis with statistical test tools to conclude the hypothesis. The data analyze using logistic regression. The significance used is 10% with the reference model as follows:

FSF = a + b_1FNS + b_2EXP + b_3PRFN + b_4FNT + b_5CAPB + b_6NOI + b_7EFMO + b_8RAZA + b_9ARGA + b_{10}COL + e

4. RESULTS AND DISCUSSION

4.1. Descriptive Statistics Test Results

The results of the descriptive statistical test is presented at Table 4:

Table 4 . Descriptive Statistics Test Results

Variable	Min	Max	Mean	Variable	Min	Max	Mean
Financial Stability	-0,83	0,85	0,0653	Nature of Industry	-12,64	4,39	0,1429
External Pressure	0,01	0,94	0,6617	Effective Monitoring	0,33	1,00	0,5415
Personal Financial Need	0,00	0,62	0,0171	Rationalization	0,00	1,00	0,1976
Financial Targets	-0,27	0,15	0,0124	Arrogance	0,00	6,00	2,6371
Capability	0,00	1,00	0,5726	Collusion	0,00	1,00	0,9879
Financial Statement Fraud	0,00	1,00	0,5000				

Source: Data processed, 2021

Based on the data in Table 4. it can be explained that the dependent variable of financial statement fraud has a mean value of 0.5000, meaning that there are 50.00% of the total sample of companies indicated as having the potential to commit fraud. Variable financial stability has a mean value of 0.0653, meaning that the company's ability to manage assets is 6.53%. The external pressure variable has a mean value of 0.6617, meaning that the majority of debt is under 66.17% of total assets. Personal financial need variable has a mean value of 0.0171, meaning that the level of ownership owned by key management in the company is 1.71%. Financial targets variable has a mean value of 0.0124, meaning that the level of ability to obtain company profits is 1.24%. Capability variable has a mean value of 0.5726, meaning that the level of change in the composition of the board of directors in the sample company is 57.26%. Nature of industry variable has a mean value of 0.1429, meaning that the level of the ideal state of a company in the financial sector in Indonesia is 14.29%. Effective monitoring variable has a mean value of 0.5415, meaning that the proportion of supervision carried out by independent commissioners is 54.15%. Rationalization variable has a mean value of 0.1976, meaning that the turnover rate of Public Accounting Firms (KAP) in the sample companies is 19.76%. Arrogance variable has a mean value of 2.6371, meaning that the level of presentation of photos of the president of the board of directors or the main director in the annual report of the sample companies is equivalent to 3 photos in each annual report. Collusion variable has a mean value of 0.9879, meaning that the level of government project cooperation with financial sector companies in Indonesia is 98.79% or it can be interpreted that almost all financial sector companies cooperate with the government.

4.2 The Hypothesis Test Result

The results of the feasibility test of the regression model using Hosmer and Lemeshow's Goodness of Fit Test as measured by the chi-square value showed a value of 10.910 and a significance value of Hosmer and Lemeshow's of 0.207. From these results, the significance value obtained from this research model is greater than 0.05 or 5% and it can be concluded that the model can predict the research value. Furthermore, the results of the feasibility test of the entire model have a value of -2 likelihood at the beginning (block number = 0) of 343.801. After entering the ten independent variables, the value of -2 likelihood at the end (block number = 1) decreased to 293,215. This decrease in likelihood value indicates a better regression model or it can be said that the model is hypothesized to fit the data. The value of Nagelkerke R Square is 0.246 which means that each component of the independent variable (Fraud Hexagon) can explain the dependent variable (Financial Statement Fraud) of 24.6%, while the remaining 75.4% is explained by other factors not included in the hypothesized research model.

The results of the classification matrix test show that there are 80 sample companies (64.5%) that are predicted to practice financial statement fraud out of a total of 124 samples that practice financial statement fraud and there are 84 sample companies (67.7%) that are predicted not to practice financial statement fraud from a total of 124 samples that do not practice financial statement fraud. The overall percentage value is 66.1%. The results of data classification can be seen in Table 5. The results of hypothesis testing in this study can be seen in Table 6.

Table 5 . Classification Matrix Test Results

Observed		*Predicted*		
		FSF		*% Correct*
		Non Fraud	*Fraud*	
FSF	*Non Fraud*	84	40	67,7 %
	Fraud	44	80	64,5 %
Overall Percentage				66,1 %

Source: Data processed, 2021

Table 6 . Hypothesis Testing Results

Variable	Regression Coefficient	Sig	Description	Variable	Regression Coefficient	Sig	Description
Financial Stability	4,136	0,000	H_1 accepted	Nature of Industry	0,219	0,080	H_6 accepted
External Pressure	-1,396	0,042	H_2 accepted	Effective Monitoring	0,567	0,639	H_7 rejected
Personal Financial Need	-3,264	0,128	H_3 rejected	Rationalization	0,164	0,656	H_8 rejected
Financial Targets	13,310	0,012	H_4 accepted	Arrogance	-0,029	0,867	H_9 rejected
Capability	0,163	0,585	H_5 rejected	Collusion	0,313	0,821	H_{10} rejected
Constant	-0,166	0,921					

Source: Data processed, 2021

Hypothesis testing is carried out by logistic regression analysis and a significance level of 0.1 showed the following regression equation:

$$\mathbf{FSF = -0{,}166 + 4{,}136\ FSP - 1{,}396\ EPP - 3{,}264\ PRFN + 13{,}310\ FTP + 0{,}163\ CAPB + 0{,}219\ NOI + 0{,}567\ EFMO + 0{,}164\ RAZA - 0{,}029\ ARGA + 0{,}313\ COL + e}$$

4.3 Discussion

Financial stability variable shows a significance level of less than 0.1, which is 0.000 with a regression coefficient of 4.136. Based on these results, **H_1 is accepted** and it can be concluded that financial stability affect financial statement fraud. This study is following research conducted by [26] but does not in line with research [16]. Companies with low total assets tend to commit fraudulent financial statements. This fraud is fueled by the need to make the company presents in a good performance and attract investors.

Furthermore, the results of the study on the external pressure variable shows a significance level of less than 0.1, namely 0.042 and the regression coefficient value of -1.396. These results state that **H_2 is accepted**, meaning that external pressure affect financial statement fraud. This study is following research conducted by [21] but does not in line with research [16]. Pressure from outside the company makes management try to meet this pressure. Management will do everything possible to obtain loans and will try to present perfect financial reports so that their performance is assessed as good.

Personal financial need variable, it shows a significant level of more than 0.1, which is 0.128 with a regression coefficient of -3.264. The results of the study state that **H_3 is rejected** and it can be concluded that personal financial need does not affect financial statement fraud. This study is in line with research [21] but does not in line with research [16]. The low share ownership by company insiders shows that the division between shareholders as owners and management is clear. This can reduce the level of fraudulent financial statements committed by management.

Financial target variable shows a significance level of less than 0.1, namely 0.012 and the regression coefficient value of 13.310. Based on the results of this study, **H_4 is accepted** and it can be concluded that the financial target affect financial statement fraud. This study is in line with research [26] but does not in line with [16]. Good financial performance can be seen from the profit achieved by the company. Investors will be more interested in companies that have good financial performance with the achievement of profit targets as planned. To achieve the profit target, the management carries out earnings management or commit fraud in the financial statements.

Research on the capability variable shows a significance level greater than 0.1, which is 0.585 with a regression coefficient of 0.163. These results state that **H_5 is rejected,** meaning that capability does not affect financial statement fraud. This study is following research conducted by [16] but does not in line with [27]. In the study, it is known that companies are more likely to retain directors because of their good and competent performance. The change of directors is carried out by the company, not because of fraudulent acts in the financial statements, but rather because of the dissatisfaction with the performance of the directors concerned or because the term of office has expired.

Furthermore, research on the nature of industry variables shows a significance level of less than 0.1, namely 0.080 and a regression coefficient value of 0.219. Based on the research results, **H_6 is accepted** and it can be concluded that the nature of industry affect financial statement fraud. This study supports research [16] but does not in line with [27]. An increase in the company's receivables in the previous year may indicate that the company's cash turnover in a good performance. A significant increase in trade receivables can be a serious indication of financial statement fraud in a company because the increasing number of company accounts receivable definitely reduce the amount of cash that the company can use for its operational activities. This cash limitation can be an impetus for management to manipulate financial statements.

Effective monitoring variable show a significance level greater than 0.1, which is 0.639 with a regression coefficient of 0.567. From the research results, **H_7 is rejected**, which means that effective monitoring does not affect financial statement fraud. This research is following research [26] but does not in line with [2]. The level of supervision of an independent board of commissioners influences on the level of fraud in a company's financial statements. The higher level of supervision carried out by the board of commissioners, the level of financial statement fraud can be minimized. If the level of supervision of the independent board of commissioners is low, then the opportunity for management to commit fraudulent financial statements is high.

Research on the rationalization variable shows that the significance level is greater than 0.1, namely 0.656 and the regression coefficient value is 0.164. Based on the research results, **H_8 is rejected** and it can be concluded that rationalization does not affect financial statement fraud. The results of this study support research [16] but does not in line with [27]. The company's dissatisfaction with the performance of the Public Accounting Firm (KAP) made the company replace the Public Accounting Firm (KAP). This change is made by the company to improve the results of external audits to provide the best quality to attract investors.

Arrogance variable show a significance level greater than 0.1, which is 0.867 with a regression coefficient of -0.029. Based on the results of this study, **H_9 is rejected** and it can be concluded that arrogance does not affect financial statement fraud. This study following with research [21] but does not in line with [16]. The photo of the board of directors contained in the annual report is only a profile photo of the company's leadership. In addition, the photo of the board of directors is also intended as an introduction to the company's leaders to stakeholders.

Collusion variable research shows that the significance level is greater than 0.1, namely 0.821 and the regression coefficient value is 0.313. Based on the research results, **H_{10} is rejected**, which means that collusion does not affect financial statement fraud. This study supports research conducted by [21] but does not in line with [16]. In the BPK, the majority of them have a relationship or cooperation with the government. This is due to direct supervision by the government through the Financial Services Authority through policies issued to maintain the country's economic stability.

5. CONCLUSION

Based on the tests that have been carried out, it shows that pressure factors (financial stability, external pressure, and financial targets), and opportunity (nature of industry) affect financial statement fraud. Temporary other factors such as pressure (personal financial need), capability, opportunity (effective monitoring), rationalization, arrogance, and collusion do not affect financial statement fraud. In contrast to other studies, in this study it is known that the financial target factor influences financial statement fraud, meaning that the higher the planned profit target affects the level of financial statement fraud committed by management. The profit of a company affects the company's image in the eyes of investors. The higher the profit obtained, it can be concluded that the company's performance is good. This is what causes management to do various things to meet the planned profit targets.

This research is conducted over four years period, further research can be carried out for the medium and long term periods. This study uses several measurements of the fraud hexagon, further research can use other measurements recommended by [23] and [11]. In addition, research can be carried out on the Islamic Stock Exchange that can provide broad insight to investors rother than the conventional stock market.

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