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Fraudulent Financial Statements Analysis Using Hexagon Fraud Approach with Audit Committee as Moderating Variable

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ABSTRACT:
This paper aims to determine how audit committees contribute to fraudulent financial statements and answer the following research questions: Can audit committees strengthen the relationship between stimulus, opportunity, rationalization, capability, ego, and collusion toward fraudulent financial statements? Fraudulent financial fraud is measured using the f-score model. A purposive sampling technique was used to obtain research samples. Data analysis methods and techniques include descriptive statistics, evaluation of the SEM-PLS model, and hypothesis testing. The results showed that stimulus and opportunity had a positive effect on Fraudulent Financial Statements, while Rationalization, Capability, ego, and collusion did not affect Fraudulent Financial Statements. The role of the audit committee as a moderating variable weakens the collusion relationship with Fraudulent Financial Reports.

***KEY WORD**: Fraudulent Financial Statements, Audit Committee, Hexagon Fraud*

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I. INTRODUCTION

The Association of Certified Fraud Examiners (ACFE) (2022)defines fraud as intentionality, errors in reporting, or eliminating data and material facts that are taken into consideration with the data presented will cause financial losses for users of the statement to change or replace their decisions. In practice, financial statement fraud requires the intentional removal of activities, transactions, accounts, or other essential details from financial statements, as well as the misapplication of accounting rules, regulations, or procedures used to calculate, register, monitor, and disclose transactions (Christian *et al*., 2021).

In line with this, under SAS No. 99, misstatements arising from fraud in Fraudulent Financial Statementsare misstatements or omission of amounts or deliberate disclosures in financial statements to defraud users of financial statements. According to Priantara (2013), misstatements in financial statements can be caused by two things, namely error, and fraud. The meaning of these two misstatements is different, error is a mistake that refers to accounting errors made accidentally caused by mathematical miscalculations, measurements, or errors in interpreting accounting standards. Meanwhile, fraud is a misstatement that is carried out intentionally, where this action is carried out with an impulse or motivation that makes the management and employees of the company commit fraudulent acts to obtain personal benefits. Based on Rasiman and Rachibiin (2018), Afraudulent financial statements is the presentation of the financial condition of an entity that is intentionally misstated through misstatement, namely the omission of several values in financial report which aims to deceive financial statements users that are identical to management, because many persons are indeed at managerial position (officer, senior executives, and senior managers). This explanation in line with studies from Ghozali*et al.*, (2019) which Fraudulent financial reporting is the presentation of financial statements that contain material misstatements that are detrimental to users of financial statements. Losses caused by fraudulent actions can be financial or non-financial. False financial statements reduce the reliability of financial information, leading users of financial statements to make poor decisions.

According to ACFE (2022), in 2022, fraud is a global problem that occurs almost all over the world and throughout industries around the world covering 2,110 cases from 133 countries and causing losses of $3.6 billion with an average loss per case of $1,783,000, while the average loss per case is $1,000,000. This is consistent with the findings in previous years that the company loses 5% of its revenue annually due to fraud.The majority of frauds that took place included collaboration with internal companies. The involvement of management in the majority of fraud instances that happen in businesses has a negative influence on credibility and the accomplishment of company objectives (Reskino *et al.,* 2021)

According to Reskino & Bilkis (2022), State-Owned Enterprises (BUMN) as one of the main actors that have an essential role in national economic development are currently in the public spotlight in fraud cases. This is because many instances of financial statement fraud that have recently occurred in Indonesia are in state-owned companies.Cases of Fraudulent Financial Statements in Indonesia often occur from State-Owned Enterprises (BUMN). Several cases of Fraudulent Financial Statements of state-owned companies, namely PT Kimia Farma in 2002 (Tempo, 2003), PT WaskitaKarya in 2009 (Tempo, 2009) and 2018 (Tribun News, 2020), PT Timah in 2015 (Oke Finance, 2016), PT Garuda Indonesia in 2019 (CNN Indonesia, 2019) and PT AsuransiJiwasraya in 2020 (Oke Finance, 2020). Based on the results of the 2019 Indonesia Fraud Survey from the ACFE Indonesia Chapter, several organizations experienced material losses. The most losses were borne by government organizations at 48.5% of the total material losses, the second-largest loss was borne by state-owned enterprises (BUMN) at 31.8%, the third-largest loss was borne by private company organizations by at 15.1%, then institutional organizations non-profit that bear a loss of 2.9%, and finally other organizations with a total loss of 1.7%. The consequences arising from fraudulent practices are not only in the form of material losses but in the form of non-material losses. Practitioners or academics begin to question the credibility of a company's financial statements and the performance of a Public Accounting Firm.

Much research has already been conducted on fraudulent financial statement (An & Suh, 2020; Craja *et al.,* 2020; Hajek *et al.,* 2017; Omar *et al.,* 2017; Reskino and Anshori, 2016; Reskino and Bilkis, 2022; Thamlim and Reskino, 2023; Tonye and Boloumbele, 2023; Wei *et al.,* 2022; Yao *et al.,* 2019). Referring to the results of the ACFE survey, cases of financial statement fraud from state-owned enterprises and several studies related to hexagon fraud, the practice of fraudulent financial statements are still rife, especially in state-owned enterprises in Indonesia. This is considered as an activity that leads to practices fraudulent that not only involve the directors but also parties outside the company (Hamidah & Reskino, 2021). Using the measurement of the Audit Committee Financial and Accounting Expertise (ACFAE) to measure the audit committee variables, because based on OJK Regulation No. 55/POJK.4/2015 the audit committee is tasked with assisting the supervisory system of management when presenting the company's financial statements so that audit committee members must have financial and financial expertise accounting to carry out the supervisory function.

Apart from that, there are still some inconsistent results between the various results from previous studies that make it interesting to test and obtain empirical evidence regarding the influence of stimulus, opportunity, rationalization, capability, ego and collusion as factors that can cause indications of fraudulent financial statements and its relation to the role of audit committeeto weaken the influence of stimulus, opportunity, rationalization, capability, ego and collusion on any indications of fraudulent financial statements. So, understanding the role of these elements is expected to minimize the risk of fraudulent financial statements. The objective of the research is to analyse the effect of stimulus, opportunity, Rationalization, capability, ego,and collusion onFraudulent Financial Statementsandto analyse the role of the audit committee in influencing stimulus, opportunity, Rationalization, capability, ego, and collusion onFraudulent Financial Statements.

II. LITERATURE REVIEW AND HYPOTHESIS

2.1. Agency Theory

According to Jensen and Meckling (1976), agency theory is a theory related to the problem between principals and agents regarding the separation of ownership and control over a company. When one of the parties (the principal) orders the other person (the agent) to do something and delegated authority to that agent to make decisions, an agency relationship is formed (Jensen and Meckling, 1976).With this contract, the manager of the company as an agent has more information related to the company than shareholders as principals. The existence of a condition in which the agent has more information about the company than the principal is known as asymmetric information. Asymmetric information is the difference in the information held between the agent and the principal. The manager, as the agent, has more information related to the company than the shareholders, as the principal. This allows agents to take advantage of existing opportunities to manipulate the information they have.

Jensen and Meckling (1976) state that agency costs consist of: (1) monitoring costs, which are costs incurred and borne by investors (principals) to monitor the behavior of managers (agents). Examples of monitoring costs are audit costs, manager compensation plan costs, and budget restrictions. (2) Bonding costs are costs borne by the agent to establish and comply with the mechanism that guarantees that the agent will act in the interests of the principal. An example of this cost is the cost of issuing financial statements to the principal. (3) Residual costs are costs arising from the fact that agents sometimes take actions that do not maximize the interests of the principal or shareholders.

The use of agency theory in this study is due to differences in interests between shareholders and managers, where the existence of opportunity attitudes, agency conflicts, and reward schemes based on the performance of financial statements makes management motivated to commit financial statement fraud. Jensen and

Meckling(1976) also stated that agency problems occur at any level of organization, including any level of management, universities, corporations, various forms of cooperation, and the government. The problem of information asymmetry is the basis of any problem of conflict of interest and consequently increases the risk of fraud. Managers have an obligation to convey information in accordance with the actual condition of the company to shareholders, but sometimes the information submitted is not in accordance with the actual situation. So, fraud can occur because it is armed with more information about the company. Information asymmetry is a condition in which agents have more information about a company than principals, so managers tend to try to manipulate reported company performance.

2.2. Hexagon Fraud

Hexagon fraud is a progression from previous fraud theories. Cressey (1953), in SAS No. 99, introduced a conceptual framework called the Fraud Triangle. The fraud triangle is the initial conceptual framework for fraud. The fraud triangle has three stages: incentive (or pressure), opportunity, and rationalization (or attitude). The existence of some individuals who have an attitude, character, or set of ethical values that allow them to rationalize committing dishonest acts The concept of the fraud triangle is the basis for the emergence of new points of view related to fraud. In 2004, Wolfe and Hermanson in their research suggested a new point of view that was felt to be considered as the next element of the fraud triangle, where the nature and ability of an individual play the main role in whether fraud can really occur even with the presence of three other elements, namely incentives or pressure, opportunity, and rationalization. With the expansion of the concept proposed by Wolfe and Hermanson (2004), the fraud triangle developed into "diamond fraud" by adding capability as a factor that creates the opportunity for fraud to occur.

In 2011, Crowe Howarth came up with the Pentagon fraud theory. This theory expands on the fraud triangle theory previously proposed by Cressey (1953) and diamond fraud developed by Wolfe and Hermanson (2004) by changing capability to competence and adding arrogance as an additional factor. According to Howarth (2011), competence is the ability of employees to ignore internal control, develop concealment strategies, and control social situations for their personal benefit. A person's position and function in an organization can provide the ability to create or take advantage of fraud opportunities. Research conducted by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) found that 70% of fraud perpetrators have a profile consisting of a combination of pressure, arrogance, and greed (Horwath, 2011). Howarth (2011) states that arrogance is an attitude that demonstrates superiority and a lack of awareness caused by greed and the thought that internal corporate oversight goes personally to them.

The latest development of theories related to fraud originated in Vousinas in 2019. Vousinas (2019), who transforms pressure and arrogance into stimulus and ego and introduces a new element, collusion, According to Vousinas (2019), "collusion" refers to an agreement that deceives a party, where the deceived party is two or more people, for one party that aims to take other actions for some less good purpose, such as deceiving a third party from the rights it has. With the addition of these elements, the pentagon fraud concept previously known as the S.C.O.R.E. model changed to the S.C.C.O.R.E. model, and the theory evolved into a fraud hexagon proposed by Vousinas (2019).

2.3. Fraudulent Financial Statements

Fraudulent financial statements, including actions taken by company executives or government agencies to cover up the actual financial condition by manipulating the presentation of financial statements for profit. Misrepresentations in financial statements can occur as a result of fraud or errors, according to ISA 240.The thing that distinguishes the two is whether the underlying actions that result in misrepresentations in the financial statements are intentional or unintentional. Fraud, whether in financial reporting or the misuse of assets, includes incentives or pressure to commit fraud, opportunities to do so, and justification for such actions. Financial statements that contain fraud include deliberate misrepresentations, including the omission of an amount or disclosure in the financial statements to influence the perception of users of financial statements. This can be due to management's efforts to manage profits with the aim of deceiving users of financial statements by influencing their perception of the performance and profitability of the entity.

This is in line with the agency theory proposed by Jensen and Meckling (1976), where this can arise due to pressure to achieve market expectations or the desire to maximize compensation based on performance, so that management deliberately takes a position that leads to fraudulent financial statements by presenting materially incorrect financial statements. Despite the reports of the ACFE, most frauds are not detected in time because they are normally hidden from the eyes of the public or even the auditors. The high losses due to fraud reported by different organizations also confirmed a failure in detection. Therefore, an effective tool is required to identify the signals of fraud.Referring to the results of Hugo's research (2019), this study will use the F-Score model from Dechow et al. (2011). This is because the F-Score model can better predict the level of fraud risk from the perspective of financial statements, with an accuracy rate of 95% compared to the Beneish M-Score model, which produces an accuracy of 86%. Aviantara (2021) used the Dechow f-score because the f-score claimed to be more comprehensive than the m-score, which was introduced earlier by Beneish (1999), since the f-score is based on an examination of all Accounting and Auditing Enforcement Releases (AAERs) issued by the SEC between 1982 and 2005 (23 years), while the Beneish study was based only on AAERs issued between 1982 and 1992 (10 years). And studied by Aghghaleh*et al*. (2016), who examined Malaysian listed companies from 2001 to 2014, the results reveal that the Dechow F-score model outperforms the Beneish M-score model in the sensitivity of predicting fraud cases with 73.17% compared to 69.51%. However, Dechow*et al*. (2011) found that their first model offers the "bulk of the power" in predicting material accounting misstatements. A score higher than 1.0 indicates higher probabilities of misstatement. The following are the measurement details for the F-Score Model:

$$\text{F-Score} = \frac{\text{Probability Value}}{\text{Unconditional Probability}}$$

Details:

$$\text{Unconditional Probability} = 0.0037$$

$$\text{Probability Value} = \frac{e^{\text{Predicted Value}}}{1 + e^{\text{Predicted Value}}}$$

$$\text{Predicted Value} = -7.893 + 0.790{*}\text{RSST} + 2.518{*}\Delta\text{REC} + 1.191{*}\Delta\text{INV} + 1.979{*}\text{SoftAssets} + 0.171{*}\Delta\text{CashSales} - 0.932\Delta\text{ROA} + 1.029{*}\text{ISSUE}$$

Below are details for the measurement that contains in predicted value above:

a. RSST *Accrual*

$$\text{RSST}_{\text{Acc}} = \frac{\Delta\text{WC} + \Delta\text{NCO} + \Delta\text{FIN}}{\text{Average of Total Assets}}$$

b. *Changes in Receivables*

$$\text{Ch}_{\text{Rec}} = \frac{\Delta\text{Accounts Receivable}}{\text{Average of Total Assets}}$$

c. *Changes in Inventories*

$$\text{Ch}_{\text{Inv}} = \frac{\Delta\text{Inventory}}{\text{Average of Total Assets}}$$

d. *Percentages of Soft Assets*

$$\text{Soft}_{\text{Assets}} = \frac{\text{Total Assets-PP\&E-Cash and Cash Equivalent}}{\text{Total Assets}}$$

e. *Changes in Cash Sales*

$$\text{Ch}_{\text{CS}} = \frac{\text{Sales}_t - \Delta\text{Accounts Receivable}_t}{\text{Sales}_{t-1} - \Delta\text{Accounts Receivable}_{t-1}}$$

f. *Changes in Return on Assets*

$$\text{Ch}_{\text{ROA}} = \frac{\frac{\text{Earnings}_t}{\text{Average total Assets}_t}}{\frac{\text{Earnings}_{t-1}}{\text{Average total Assets}_{t-1}}}$$

g. *Issuance*

Where the number 1 indicates if a bond or stock is issued,and the number 0 indicates if the bond or stock is not issued.

2.4. Hypothesis Development

2.4.1. The Effect of Stimulus onFraudulent Financial Statements

Stimulus is pressure to commit fraud, both financially and non-financially (Vousinas, 2019). The stimulus as measured by financial stability shows that the higher the financial stability pressure shown by the growth in asset value, the more it will encourage management to carry out fraudulent financial statements. This is consistent with agency theory, which states that there is a relationship resulting from a contract between the principal party and another person, namely the agent, who commands the agent to do something and delegated decision-making authority to the agent. This has been proven by Aviantara (2021), Riyanti and Trisanti (2021), and Larum *et al.*, (2021), which show that if a company experiences a business failure that can interfere with financial stability, it allows managers to make decisions to do everything possible to keep the company's finances visible, including the possibility of committing fraudulent financial statements.

H1: Stimulus has a positive effect on fraudulent financial statements

2.4.2. The Effect of Opportunity on Fraudulent Financial Statements

According to Vousinas (2019), "opportunity" is an opportunity for fraud to be carried out, and with this opportunity, those who commit fraud will not be detected. In addition, a person's position and authorization can also be an opportunity for that person to cheat. As measured by effective monitoring, opportunity shows that if supervision does not run effectively, it will be increasingly used by parties who commit fraud. This is in line with one form of agency problem, where moral hazard problems occur because the principal cannot directly supervise the agent regarding what activities are carried out by the agent, so the principal is unable to control the agent's actions. Aviantara (2021), Riyanti and Trisanti (2021), and Larum *et al*., (2021) have demonstrated that this opportunity has a significant impact on fraudulent financial statements. Thus, if internal supervision by the independent board of commissioners of the company is low, the situation will be an opportunity for some parties to carry out fraudulent financial statements.

H2: Opportunity has negative effects on fraudulent financial statements

2.4.3. The Effect of Rationalization on Fraudulent Financial Statements

Rationalization is related to justifying fraud, where those who commit it view themselves as honest people, ordinary people, and not as criminals who have committed crimes (Vousinas, 2019). Jensen and Meckling (1976), in agency theory, state that human nature is generally selfish and does not see the interests of others (selfish interest). The managers will always attach importance to their personal interests to obtain profits and bonuses from the company in an improper manner, through fraudulent financial statements, or by not providing actual information to shareholders. Therefore, the principal employs auditors as third parties outside the agent to ensure that the agent has worked properly and compiled financial statements without any material misstatements or fraud. Auditors are one of the most important supervisors of financial statements. Auditors are also a source of information for knowing where there are companies that commit fraud. Aviantara (2021), Sukmadilaga et al. (2022), and Suryandar and Valentin (2021) have demonstrated that rationalization has a significant impact on fraudulent financial statements. Rationalization is measured by the change of auditors, and the more often it is done by a company, the more likely it is that the company is committing fraud.

H3: Rationalization has positive effects on fraudulent financial statements

2.4.4. The Effect of Capability on Fraudulent Financial Statements

Capability refers to the personal nature and skills of a person who play a big role in achieving the occurrence of an action (Vousinas, 2019). According to Wolfe and Hermanson (2004), fraudulent financial statements are impossible to produce unless someone in the company possesses the necessary skills. The frequency with which the company's directors change is a measure of its capability. A company's board of directors has clout. All company policies are made by the board of directors. Employees who have certain intellectualities or abilities are considered capable of identifying opportunities and committing fraud in accordance with their abilities. Therefore, a change of directors who are more competent is considered capable of committing fraud on financial statements. Aviantara (2021), Suryandar and Valentin (2021), and Larum et al. (2021) have demonstrated that rationalization has a significant impact on fraudulent financial statements. When the board of directors, as an agent, has international experience, the board has more information and higher competence compared to the principal, so information asymmetry occurs. The lack of information owned by the principal will be used by the agent to commit fraud. Based on these assumptions, the managers will attach importance to their personal interests in order to get profits and bonuses from the company in an incorrect way or through fraudulent financial statements. This is related to the effect of a change of directors on fraudulent financial statements.

H4: Capability has a positive effect on fraudulent financial statements

2.4.5. The Effect of Ego on Fraudulent Financial Statements

According to Eisenhardt (1989), agency theory assumes that humans have basic traits like being generally selfish or selfish and not seeing the interests of others (self-interest), having a limited intellect regarding understanding the future (bounded rationality), and always avoiding risk (risk aversion). Humans will always avoid risk due to their limited rationality (risk aversion). Pedneault*et al*., (2012) state that a person must have a strong ego and a great belief that he will not be detected to commit fraud. The ego also proves to be a common thread in some white-collar crimes. Ego is measured using managerial ownership, where this ownership can make a person's sense of arrogance even higher because they feel they have rights to the company. Sari and

Nugroho (2020), Larum *et al*., (2021), and Sukmadilaga*et al*., (2021) have demonstrated that ego has a significant impact on fraudulent financial statements. Thus, the greater the managerial level, the greater the likelihood of fraudulent financial statements.

H5: Ego has a positive effect on fraudulent financial statements

2.4.6. The Effect of Collusion on Fraudulent Financial Statements

Collusion is the act of making certain agreements dishonestly by two or more persons for the personal benefit of the parties involved (Shleifer and Vishny, 1994). Collusion is measured using Political connection, which can provide benefits for companies in terms of making it easier to borrow funds from banks, avoid paying taxes, to get projects or contracts from the government that are carried out in a way that tends to be dishonest or fraudulent in agreements. Collusion in companies can be identified through political connections owned by company officials (Riyanti and Trisanti, 2021). Thus, the higher the political connection, the higher the occurrence of Fraudulent Financial Statements.

H6: Collusion has a positive effect on fraudulent financial statements

2.4.7. The Effect of the Audit Committee in Moderating Stimulus on Fraudulent Financial Statements

Stimulus or known as pressure in fraud triangle theory, usually coming from external parties can cause the risk of fraudulent financial statements. Therefore, it is necessary to have an oversight that can guarantee that the financial reporting process is carried out properly and free from fraudulent actions. According to Sugita (2018), supervision of the financial reporting process can be carried out by the audit committee. The existence of an audit committee is one of the components of corporate governance that plays an important role in the financial reporting process by supervising the work of independent auditors (Latrinni, 2016). That way, the presence of an audit committee in the company can moderate the influence between external pressures on fraudulent financial statements.

H7: The audit committee weakens the effect of stimulus on fraudulent financial statements

2.4.8. The Effect of the Audit Committee in Moderating Opportunity on Fraudulent Financial Statements

Ineffective monitoring is a condition where the company's internal control system is not running effectively. According to SAS No. 99, this happens because there is a person or a small group that dominates the management within the company without compensation supervision and ineffective supervision by the board of commissioners, directors, and audit committees over the financial reporting process, resulting in the opening of opportunities for fraudulent actions. Weak internal control in a company can result in the company's vulnerability to fraudulent financial reporting behavior. The establishment of an audit committee by the company can help supervise the company's operating activities, especially in the financial reporting process. The audit committee has the duty and responsibility to review and provide advice to the board of commissioners regarding potential conflicts of interest of issuers or public companies (Sugita and Rofika, 2018). The existence of an audit committee in the company is expected to be more helpful in detecting fraudulent financial statements. That way, the presence of an audit committee in the company can moderate the influence between opportunity and fraudulent financial statements. This is in line with the results of research conducted by Sugita and Rofika (2018), which proves that the audit committee can moderate the influence of opportunity on fraudulent financial statements.

H8: The Audit committee strengthens the effect of opportunity on fraudulent financial statements

2.4.9. The Effect of the Audit Committee in Moderating Rationalization on Fraudulent Financial Statements

SAS No. 99 stated that the relationship between the company's management and the auditor is a form of management rationalization. Companies that commit fraud tend to change auditor services more frequently in order to avoid being detected as fraudulent by management by auditors. The auditor's relationship with a company can be considered a form of eliminating fraud trails found by previous auditors. The existence of an audit committee is one of the components of good corporate governance and plays an important role in the financial reporting process by supervising the work of independent auditors in the financial statement audit process. The existence of an audit committee in a company is expected to further encourage the creation of good company conditions and help avoid fraudulent financial statements. That way, the presence of an audit committee in the company can moderate the influence between auditor turnover and fraudulent financial statements.

H9: The Audit committee weakens the effect of rationalization on fraudulent financial statements

2.4.10. The Effect of the Audit Committee in Moderating Capability on Fraudulent Financial Statements

The change of company directors could be one of the company's efforts to get rid of directors who are suspected of knowing about the company's fraud. In addition, the change of company directors can also cause initial performance that is not optimal because the new director needs time to adapt. The change of company director can also cause a stressful period, which can have an impact on opening opportunities for cheating. Sugita and Rofika (2018) said that the audit committee has the duty and responsibility to review the risk management implementation activities carried out by the company's directors. The audit committee also supervises the implementation of follow-up actions carried out by the company's board of directors on the findings of internal auditors. The fulfillment of the duties and responsibilities of the audit committee is expected to further assist in the detection of fraudulent financial statements in the company. That way, the presence of an audit committee in the company can moderate the influence between director changes and fraudulent financial statements.

H10: The Audit committee weakens capability on fraudulent financial statements

2.4.11. The Effect of the Audit Committee in Moderating Ego on Fraudulent Financial Statements

The audit committee is present as a party that assists the board of commissioners to carry out extra monitoring and supervision of the company's management performance. The audit committee also provides accurate information and assists the board of commissioners in analyzing the company's financial statements. That way, the presence of an audit committee in the company can moderate the influence of the CEO's arrogance on fraudulent financial statements. However, this is not supported by the results stated in the research by Indriyani and Suryandari (2021), which explain that fraud detection is carried out by internal companies, namely the audit committee, which is expected to create good conditions and avoid fraud but still does not guarantee its role in weakening the influence of ego towards their discretion in conducting fraudulent financial statements.

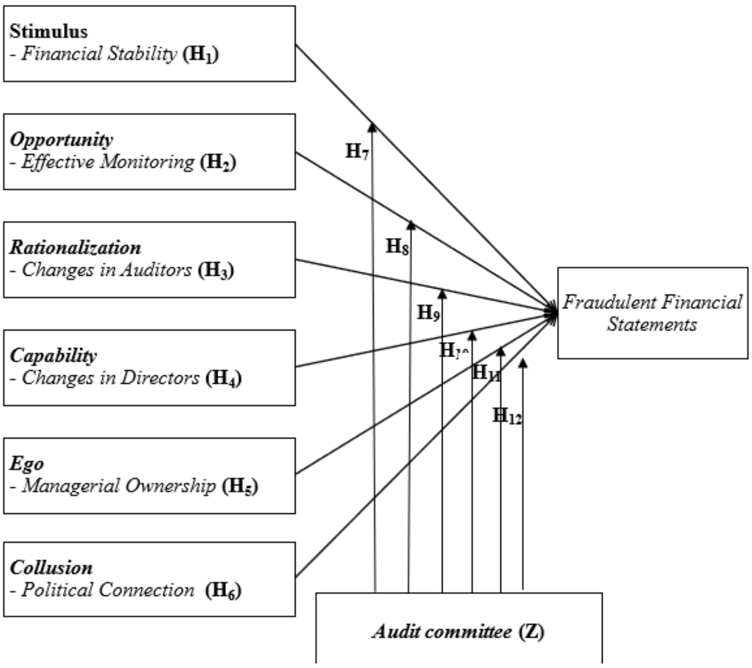
H11: The Audit committee weakens ego on Fraudulent Financial Statements

2.4.12. The Effect of the Audit Committee in Moderating Collusion on Fraudulent Financial Statements

Collusion is an act committed by two or more people who make a deal and diverge for the benefit of the collusion perpetrator. Osazuwa et al. (2016) argue that political connections can be found in companies where there are directors who have held positions as political officials or former government, military, or ex-military officials. Politically connected businesses will seize opportunities for personal gain without considering how to improve the company's performance. The board of directors' risk management implementation actions will be reviewed by the audit committee, which is also tasked with overseeing the company's operational management performance.

H12: The Audit committee weakens collusion on Fraudulent Financial Statements

Figure 1: Conceptual Frameworks



III. RESEARCH METHODOLOGY

The form of this research is causality research and employs hypothesis-testing research. This study aims to examine the effect of one variable that causes changes effectin other variables (Sekaran and Bougie, 2016). The method used in this research is quantitative descriptive analysis. This paper obtained 5 years observation (2017 -2021) from Indonesian State-Owned Enterprises listed on Indonesian Stock Exchange. This study aims to determine whether there is a possibility that the dependent variable can be predicted with the independent variable.The independent variables used in this study are stimulus, opportunity, rationalization, capability, ego, and collusion. While the dependent variable used in this study is Fraudulent Financial Statements as measured by the Dechow F-Score model. The test equipment used in this study used SMART PLS.The equation regression model in this study as follows:

$$FFS = \alpha + \beta_1 AGROW + \beta_2 BDOUT + \beta_3 CHGAUD + \beta_4 CHGDIR + \beta_5 MOG + \beta_6 POC + \beta_7 AGROW*ACFAE + \beta_8 BDOUT*ACFAE + \beta_9 CHGAUD*ACFAE + \beta_{10} CHGDIR*ACFAE + \beta_{11} MOG*ACFAE + \beta_{12} POC*ACFAE + \varepsilon$$

Table 1. The Variables Measurement

Variables	Indicators	Proxy and Measurement	Scale	Reference
Y	Fraudulent Financial Statements	$\text{F-Score} = \frac{\text{Probability Value}}{\text{Unconditional Probability}}$	Ratio	Aviantara (2021)
X1	Stimulus	**Financial Stability (AGROW)** $AGROW = \frac{\Delta\text{Total Assets}}{\text{Total Assets}_{n-1}}$	Ratio	Aviantara (2021)
X2	Opportunity	**Effective Monitoring (BDOUT)** $BDOUT = \frac{\text{Total Independent Commissioners}}{\text{Total Commissioners}}$	Ratio	RiyantiandTrisanti (2021)
X3	Rationalization	**Changes in Auditor (CHGAUD)** Code 1,if there is a changesin auditor, andcode 0 ifthere is no changes in auditor.	Nominal	Larum *et al.*, (2021)
X4	Capability	**Changes in Directors (CHGDIR)** Code 1,if there are changes of directors, and code 0 if there are no changes ofdirectors.	Nominal	Larum *et al.*, (2021)
X5	Ego	**Managerial Ownership (MOG)** Code1,if there is a managerial ownership, andcode 0 ifthere is no managerial ownership	Nominal	PamungkasandUtomo (2018)
X6	Collusion	**Political Connection (POC)** $POC = \frac{\text{Total Commissioners connected to politic}}{\text{Total Commissioners}}$	Ratio	Riyanti dan Trisanti (2021)
Z	Audit Committee	**Audit Committee (ACFAE)** $ACFAE = \frac{\text{Total audit committe member with financial and accounting expertise}}{\text{Total Audit Committee}}$	Ratio	RiyantiandTrisanti (2021)

IV. RESULT AND DISCUSSION

The population of this study is state-ownedenterprises listed on the Indonesia Stock Exchange in 2017-2021. The research sample was obtained using a purposive sampling technique which has been categories in 5 criteria.The details of the sample used in this study are shown in table 2 as below:

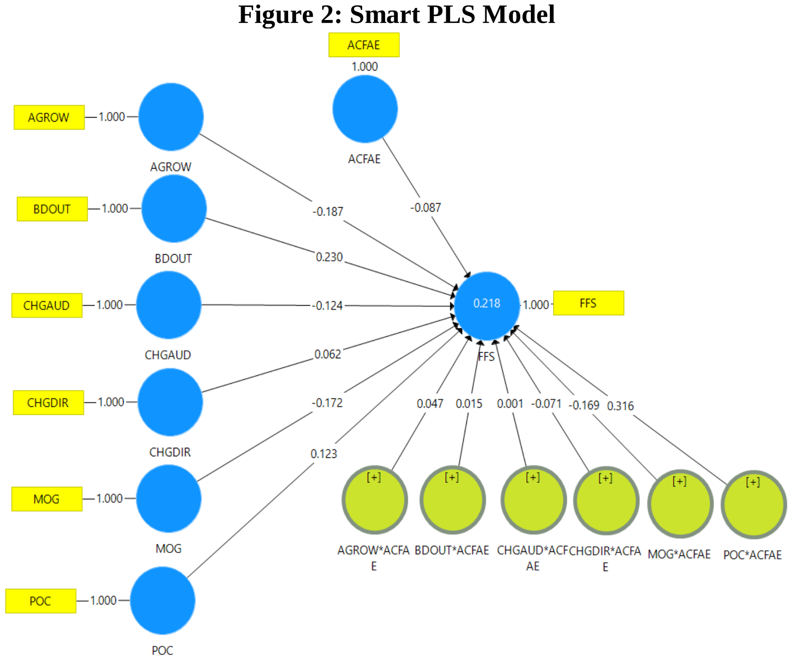
Table 2. Sample Selection Result

No.	Criteria	Number of Company	Number of Observation Data
1.	State-owned enterprises which listed on the Indonesia Stock Exchange	28	
2.	State-owned enterprises which not consistently listed on the Indonesia Stock Exchange during 2017 - 2021	(1)	
3.	State-owned enterprises which not consistently publish annual reports and financial statementsas of December 31 during 2017 - 2021	(0)	
4.	State-owned enterprises which not consistently present financial statement using Indonesian Rupiah Currency during 2017 - 2021	(4)	
5.	State-owned enterprises whichdo not provide related information such as current assets, current liabilities and others required datato the research variables during 2017 - 2021	(5)	
	Total Companies that meet criteria for sampling	**18**	
	Total observation data used in this study (18 x 5years)		**90**

Based on Table 2, the research sample is 28 companies per year and due to the observation period starting from 2017 to 2021 the total sample used in this study is 90. From the total of 28stated-owned enterprises listed in the IDX Industrial Classification Statistic list, it was found 1 entity has not been listed consecutively during the 2017-2021 period on the IDX list and this can be seen on the date of the company's IPO. Concluded 4 companies did not meet criteria number 4 and 5 companies did not meet criteria number 5.

In this study, the influence of stimulus, opportunity, rationalization, capability, ego, and collusion on Fraudulent Financial Statements with the audit committee as a coding variable will be analyzed using SmartPLS analysis. Based on the operational definition of each research variable, the specifications of the SmartPLS model that will be estimated in this study are as follows:

Figure 2: Smart PLS Model



Based on the results of the PLS model estimate in figure 2, all indicators have a loading factor value above 0.7 so that all indicators are declared valid in measuring their constructs.

Table 4. Goodness of Fit Model

	Saturated Model	Estimated Model
SRMR	0.000	0.008

The results of the PLS model goodness of fit test in table 4 show that the SRMR value of the saturated model is 0.000 as well as the SRMR value of the estimated model that has an SRMR of 0.000. Because the SRMR saturated model andestimated model value is below 0.10, this PLS model is declared fit, so it is feasible to use it to test research hypotheses.

Table 5. Hypothesis Testing Model

	Original Sample	T Statistics	P-Values	Result
ACFAE -> FFS	-0.087	0.876	0.191	Rejected
AGROW -> FFS	-0.187	1.667	0.049	Accepted
AGROW*ACFAE -> FFS	0.047	0.341	0.367	Rejected
BDOUT -> FFS	0.230	1.917	0.029	Accepted
BDOUT*ACFAE -> FFS	0.015	0.100	0.460	Rejected
CHGAUD -> FFS	-0.124	1.177	0.121	Rejected
CHGAUD*ACFAE -> FFS	0.001	0.005	0.498	Rejected
CHGDIR -> FFS	0.062	0.567	0.286	Rejected
CHGDIR*ACFAE -> FFS	-0.071	0.558	0.289	Rejected
MOG -> FFS	-0.172	1.433	0.077	Rejected
MOG*ACFAE -> FFS	-0.169	1.440	0.076	Rejected
POC -> FFS	0.123	1.152	0.126	Rejected
POC*ACFAE -> FFS	0.316	1.997	0.024	Accepted

The P-Value of AGROW to FFS is 0. 049 witha statistical T valueof 0.876 and a path coefficient marked negative. By the value of P-Value< 0.05 and the statistical T <1.96 and the coefficient of the path marked positive, Ha is accepted, or Ho is rejected, and it is concluded that AGROW has a significant positive effect on FFS, so that H1 is accepted.The results of this study are in line with the research of Aviantara(2021), Larum *et al.*,(2021), Achmad*et al.*,(2022), Chantia*et al.*, (2021) and Suryandar and Valentin (2021), where the stimulusmeasured by financial stability shows that the higher the pressure of financial stability shown by the growth of asset value will encourage management to doFraudulent Financial Statements, where there is a relationship arising from a contract between the principal party who commands another person, namely the agent to do something and delegates the authority to make decisions to the agent. If a Company experiences a business failure that can interfere with financial stability, it allows managers to make decisions to do everything possible to keep the Company's finances visible, including the possibility of committing Fraudulent Financial Statements.

The P-Value of BDOUT to FFS is 0. 029 with a statistical T valueof 1.917 and a pathcoefficient marked negative. By the value of P-Value< 0.05 and the statistical T > 1.96 and the coefficient of the path marked positive, Ha is accepted, or Ho is rejected, and it is concluded that BDOUT has a significant positive effect on FFS, so that H1 is accepted. The results of this study are not in line with the research ofRiyanti and Trisanti (2021), but in line with the research of Sukmadilaga*et al.*,(2022), where the evidence of opportunity as measured by effective monitoring shows that if supervision does not run effectively, it will be increasingly used by parties to commit fraud. This is in line with one form of agency problem, where moral hazard problems occur because the principal cannot directly supervise the agent regarding what activities are carried out by the agent so that the principal is unable to control the agent's actions. Thus, if internal supervision by the independent board of commissioners of the company is low, then the situation will be an opportunity or opportunity for some parties to carry out Fraudulent Financial Statements.

The P-Value ofCHGAUD to FFS is 0. 121 witha statistical T valueof 1.177 and a negatively marked path coefficient. Bythe value of P-Value> 0.05 and the statistical T < 1.96 as well as the positively marked path coefficient then Ha was rejectedor Ho accepted and it was concluded that CHGAUD had no significant effect on FFS, so H3 was rejected.Rationalization is related to justifying fraud, where those who commit it view themselves as honest people, ordinary people and not as criminals who have committed crimes (Vousinas, 2019). Jensen and Meckling (1976), in agency theory states that human nature is generally selfish and does not see the interests of others (self-interest). The managers will always attach importance to their personal interests to obtain profits and bonuses from the company in an improper manner, through fraudulent financial statements, or by not providing actual information to shareholders. Therefore, rationalization is measured by the turnover of auditors, not affecting the act of fraud of financial statements.So, no matter how often there is a change of auditor, it is likely that Fraudulent Financial Statements will still occur.

The P-Value ofCHGDIR against FFS is 0. 286 witha statistical T value of 0.567 and a positively marked path coefficient. By the value of the P-Value>0.05 and the statistical T < 1.96 as well as the positively marked path coefficient, Ha was rejectedor Ho accepted and it was concluded that CHGDIR had no significant effect on FFS, so H4 was rejected. When the board of directorsas an agent has international experience, the board of directors has more information and higher competence compared to the principal so that information asymmetry occurs. The lack of information owned by the principal will be used by the agent to commit fraud. Based on these assumptions, the managers will attach importance to their personal interests to get profits and bonuses from the company in an incorrect way or Fraudulent Financial Statements.So, no matter how often the director is replaced, it will not affect fraudulent financial statements.

The P-Value ofMOG against FFS is 0. 077 witha statistical T valueof 1.433 and a negatively marked path coefficient. Bythe value of P-Value> 0.05 and the statistical T < 1.96 and the path coefficient marked negative, Ha is rejected,or Ho accepted, and it is concluded that MOG has no significant effect on FFS, so H5 is rejected.Ego is measured using managerial ownership, where this ownership can make a person's sense of arrogance even higher, because feeling that having rights to the Company does not have a significant effect on Fraudulent Financial Statements. Untilthen, the greater the managerial level owned will not affect the possibility of fraudulent financial statements.

ThePOC P-Value to FFS is 0. 126 with a statistical T valueof 1.152 and a positively marked pathcoefficientby the value of P-Value> 0.05 and the statistical T < 1.96 and the coefficient of the positively marked path then Haisrejected, or Ho accepted, and it is concluded that the POC has no significant effect on FFS, so H6 was rejected.Collusion is the act of making certain agreements dishonestly by two or more persons for the personal benefit of the parties involved (Shleifer andVishny, 1994). Collusion is measured using Political connection, which can provide benefits for companies in terms of making it easier to borrow funds from banks, avoid paying taxes, to get projects or contracts from the government that are carried out in a way that tends to be dishonest or fraudulent in agreements. Collusion in companies can be identified through political connections owned by company officials (Riyantiand Trisanti, 2021). Thus, the higher the political connection, the no effect on the occurrence of Fraudulent Financial Statements.

The P-Value of AGROW moderated by ACFAE to FFS is 0. 367 with a statistical T valueof 1,440 and a path coefficient marked negative.By the P-Value of > 0.05 and the statistical T < 0.341 and thepositively marked path coefficient,Ha is rejected, orHo accepted, and it is concluded thatthe AGROW moderated by ACFAE cannot strengthen or weaken the effectof AGROW on FFS, so H7 is rejected.Accordingto Sugita (2018), supervision of the financial reporting process can be carried out by the audit committee. The existence of an audit committee is one of the components of corporate governance that plays an important role in the financial reporting process by supervising the work of independent auditors (Latrinni, 2016). That way, the presence of an audit committee in the company cannot moderate the influence between external pressures on fraudulent financial statements.

The BDOUT P-Value moderated by ACFAE to FFS is 0. 460 with a statistical T valueof 0.100 and a pathcoefficient marked positive.By the P-Value of > 0.05 and the statistical T < 1.96 and the positively marked path coefficient, Ha is rejected, orHo accepted, and it is concluded thatthe BDOUT moderated by ACFAE cannot strengthen or weaken the effectof BDOUT on FFS, so H8 is rejected.Ineffective monitoring is a condition where the Company's internal control is not running effectively. According to SAS No. 99, this happens because there is a person or a small group that dominates the management within the company without compensation supervision, ineffective supervision by the board of commissioners, directors, and audit committees over the financial reporting process, resulting in the opening of opportunities for fraudulent actions.But the study concluded that the audit committee could not moderate the opportunity for Fraudulent Financial Statements.

The P-Value of CHGAUD moderated by ACFAE to FFS is 0. 498 witha statistical T valueof 0.005 and a positively marked path coefficient.By the P-Value of > 0.05 and the statistical T < 1.96 and the positively marked path coefficient, Ha is rejected or Ho Accepted, and it is concluded thatthe CHGAUD moderated by ACFAE cannot strengthen or weaken the effectof CHGAUD on FFS, so H9 is rejected. The auditor's relationship with a company can be considered as a form of eliminating fraud trails found by previous auditors.Theaudit committee in the company cannot moderate the influence between auditor turnover and fraudulent financial statements.

TheP-Value of CHGDIRmoderated by ACFAE against FFS is 0. 289 with a statistical T valueof 0.558 and a path coefficient marked negative.By the P-Value of > 0.05 and the statistical T < 1.96 and the path coefficient marked negative,Ha is rejected, orHo accepted, and it is concluded that the POC moderated by ACFAE cannot strengthen or weaken the POC's effecton FFS, so H10 is rejected.The change of company director may be one of the company's efforts to get rid of directors who are considered to know the fraud committed by the company. In addition, the change of company directors can also cause initial performance that is not optimal because the new director needs time to adapt. The change of company director can also cause a stress period so that it can have an impact on opening opportunities for cheating. Sugita (2018) said that the audit committee has the duty and responsibility to review the risk management implementation activities carried out by the company's directors. The audit committee also supervises the implementation of follow-up actions carried out by the company's board of directors on the findings of internal auditors. The fulfillment of the duties and responsibilities of the audit committee is expected to further assist in the detection of fraudulent financial statements in the company. That way, the presence of an audit committee in the company can moderate the influence between director changes and fraudulent financial statements.

TheP-Value ofMOG moderated by ACFAE to FFS is 0. 076 with a statistical T valueof 1.440 and a path coefficient marked negative. By the value of the P-Value> 0.05 and the statistical T < 1.96 and the path coefficient marked negative,Ha is rejected, orHo accepted, and it is concluded that the POC moderated by ACFAE cannot strengthen or weaken the effectof POC on FFS, so H11 is rejected.The audit committee is present as a party that assists the board of commissioners to carry out extra monitoring and supervision of the company's management performance. The audit committee also provides accurate and accurate information and assists the board of commissioners in analyzing the company's financial statements. That way, the presence of an audit committee in the company can moderate the influence between the CEO's arrogance on fraudulent financial statements.

TheP-Value ofPOC moderated by ACFAE to FFS is 0.024witha statistical T value of sof1.997 and a positively marked path coefficient by the P-Value of < 0.05 and the statistical T > 1.96 andthepositivemarked path coefficient Ha or Ho is rejected, and it is concluded thatACFAEweakens the effect of POC on FFS, so that H12 is accepted.Osazuwa*et al.*, (2016) argues that political connections can be found in companies where there are directors who have positions as political officials or former government, military, or ex-military officials. Politically connected businesses will seize opportunities for personal gain without considering how to improve the company's performance.Thus, the higher the level of supervision of the audit committee on the implementation of risk management of the board ofdirectors, the weaker the occurrence of Fraudulent Financial Statements carried out by directors who have political connections.

V. CONCLUSION

This study aims to obtain empirical evidence of the influence of the hexagon theory's six elements that Vousinas (2019) developed on the potential for Fraudulent Financial Statements of state-owned enterprises listed on the Indonesian Stock Exchange in 2017 - 2021. This study involves an audit committee that moderates the direct relationship between variables from the elements of the Hexagon theory of fraud and financial statement fraud. The results show that not all elements of the fraud hexagon theory affect the potential for Fraudulent Financial Statements, only stimulus and opportunity have a positive effect on Fraudulent Financial Statements, henceforth Rationalization, capability, ego, and collusion do not affect Fraudulent Financial Statements. The audit committee's role as a moderating variable can only weaken the direct relationship in collusion.

This study has several limitations that are expected to be improved or completed by researchers in the future. This study only focuses on the risk of Fraudulent Financial Statements practices in state-owned enterprises, so the results of the study cannot describe the relationship between elements of the theory of fraud hexagon, financial statement fraud, and audit committees in companies other than state-owned enterprises listed on the Indonesian Stock Exchange. This study uses the type of secondary data that is not appropriate to measure subjective variables, while in the fraud hexagon theory there are two subjective elements, namely elements of Rationalization and arrogance. Comparing the number of commissioners involved in politics with the number of commissioners is not appropriate to measure the political connection variable because the research sample is a state-owned enterprises, so the government has the right to supervise state-owned enterprises.The large number of results that have no effect allows for measurements that may be considered inappropriate in describing the element of hexagon fraud.

Some suggestions that researchers can convey for the benefit of further research, namely that further researchers can use research samples of private companies and state-owned enterprises in all industrial sectors except the financial industry so that research results can describe the relationship between elements of the fraud hexagon theory, potential fraud in financial statements, and audit committees. Advanced researchers can use a primary data approach to measure subjective variables, use the number of audit committee meetings to measure the audit committee variable, the number of cooperation projects between companies and the government to measure the political connection variable, use a comparison of the number of boards of directors involved in political connections with the number of the board of directors to measure the political connection variable, using the corporate good governance variable as a moderating variable on the direct relationship between the variables of the fraud hexagon theory element and the potential for Fraudulent Financial Statements, and using the fraud triangle theory to examine the potential for Fraudulent Financial Statements in state-owned enterprises.

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