

The Influence of Fraud Hexagon Perspective on Fraud Financial Statement

(Case studies on Manufacturing in the Chemical and Basic Industries Sub-Sector Listed on the Indonesia Stock Exchange for the Period 2019-2021)

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Abstract

This study aims to determine the influence of dependent and independent variables simultaneously and partially. The variables in the study consisted of pressure (financial stability), opportunity (nature of industry), rationalization (accrual accounting), capability (change of directors), arrogance (frequency of appearance of CEO photos), and collusion (market performance) on financial statement fraud. The population used is manufacturing companies in the basic and chemical industry sub-sectors that are consistently listed on the Indonesia Stock Exchange (IDX) in 2019-2021. The sample selection technique uses the purposive sampling technique, which uses 147 sample data and is processed using SPSS 25 software and the analysis tool used in this study is logistic regression analysis. The test results show that the variables of independent pressure, opportunity, rationalization, capability, arrogance, and collusion simultaneously affect financial statement fraud. Meanwhile, partial testing shows that financial stability has a positive effect and changes in directors have a negative effect. Meanwhile, the nature of industry, accrual accounting, the frequency of the appearance of CEO photos, and market performance has no effect on financial statement fraud.

Keywords: Beinish F-Score model, Fraud Hexagon, and Financial Statement Fraud

1. Introduction

The stock exchange owned by Indonesia, namely the Indonesia Stock Exchange (IDX), is useful as a forum to become a means, facilitate, organize the sale and purchase of securities, and make rules for the sale and purchase of shares in the capital market. The Indonesia Stock Exchange (IDX) has one of sector, namely the manufacturing sector, which according to the Minister of Industry Mr. Agus Gumiwang Kartasasmita, during the 2nd quarter of 2020, the manufacturing sector still contributed the largest to the structure of the national gross domestic product (GDP) which reached 19.87 percent. Despite the pressure caused by the Covid-19 pandemic that entered Indonesia since the beginning of 2020 and while of contracting national economic conditions, a number of manufacturing subsectors continued to record positive performance in the 2nd quarter of 2020. (www.kemenperin.go.id)

Table 1. Manufacturing Companies listed on the Indonesia Stock Exchange (IDX) in each industry in the last three years each sector in the last three years.

Sector	2019	2020	2021
Basic and Chemical Industries	77	78	71
Miscellaneous Industries	51	53	48

Goods and Consumption Industry	55	77	51
Total	183	208	170

(Data processed by the author, 2022)

From Table 1, the number of manufacturing companies listed on the Indonesia Stock Exchange (IDX) has increased from 2019 to 2020 but decreased in 2021, but manufacturing companies always remain a mainstay for the government so that manufacturing companies can always make a significant contribution to affect the structure of the national gross domestic product (GDP).

A manufacturing company is an industrial company that becomes an economic activity that makes changes in raw materials into semi-finished goods or finished goods. With large number of manufacturing companies listed on the Indonesia Stock Exchange (IDX) and the pressure from the government that manufacturing companies can always affect the structure of the gross domestic product (GDP) can be one of the triggers for fraud. Then due to pressure, company managers can manipulate data and think there is no mistake. Moreover, manufacturing companies have differences from other companies because manufacturing companies are changing from raw materials to finished materials, therefore it is certain that the company has a lot of inventory in its storage. A large amount of inventory that is the company's asset also makes the inventory very vulnerable to manipulation, such as doing fictitious recordings or double recordings (Mufidah, 2017).

A healthy financial report will make it more attractive for investors to carry out investment activities in companies that do not have any indication of fraud in their financial statements. Therefore, companies will always be required to have good financial statements to get a reasonable opinion from auditors, but this results in managers justifying various ways that can lead to financial reporting fraud or what is commonly called fraud.

The factors of hexagon fraud in this study aimed to detect financial reporting fraud. as happened to PT Kimia Farma TBK in 2001. It is known that Kimia Farma is strongly suspected of marking up net profit in the 2001 financial statements. In the report, Kimia Farma said that it managed to make a profit of IDR 132 billion. Later, the striped Chemical Farma unfolded wide. The pharmaceutical company in 2001 only made a profit of Rp99 billion. Public Accounting Firm Hans Tuanakotta & Mustofa (HTM) was allegedly involved in the inflated act. Indeed, later Kimia Farma and HTM corrected the financial statements. They reasoned that there had been a recording error. An excuse that violates general common sense (bisnis.tempo.co retrieved May 17, 2022).

1.1 Objectives

This research is aimed to determine the effect of Pressure, Opportunity, Rationalization, Capability, Arrogance, and Collusion on Fraud Financial Statement in Manufacturing Companies in the Chemical and Basic Industries Sub-Sector Listed on the Indonesia Stock Exchange for the Period 2019-2021

2. Literature Review

2.1 Fraud Financial Statement

According (Mardianto & Tiono, 2019) fraud is an act that is carried out intentionally by violating several rules that have been determined by the regulator, which are intended to obtain personal benefits and harm other parties. Fraud is an act and act that is done intentionally, consciously, knowingly and willingly to abuse everything that is shared, for example: company and state resources for personal enjoyment and then presenting misinformation to cover up the abuse (Rahmayuni, 2018). Fraud is a treatment that is deliberately carried out to deceive or deceive the parties involved in it, which in the end will cause losses to some related parties and benefits to the parties who commit (perpetrators) (Faridah & Suwanti, 2019).

2.2 Fraud Hexagon

Hexagon fraud is the development of the last fraud theory of the pentagon fraud theory developed by (Vousinas, 2019). In the theory of hexagon fraud, there is a developer of the theory of pentagon fraud, namely the addition of a factor, namely the collusion factor.

2.3 Pressure

According (Christian & Visakha, 2021) in an aspect of life, someone will commit fraud on the company because of an impulse or a pressure that causes the perpetrators to be forced to do so. Financial problems, debts that are wrapped up, and a greedy attitude to meet personal satisfaction are factors that someone can commit fraud. Pressure is a condition where someone will feel that they have an impulse that forces them to commit fraud. Generally, the pressure experienced will be related to the condition of the company, the urgent need for funds, targets that are not achieved or pressure from external parties so that someone who receives the pressure will try to escape the pressure by cheating (Faridah & Suwarti, 2019).

Pressure on management or employees of the company is always pressured to strive for the company to have a stable financial condition this is done by the company aiming to attract investors to invest in the company. Pressures reviewed with financial stability have a significant positive influence on financial reporting fraud (Apriliana & Agustina, 2017).

2.4 Opportunity

According to Aghgheleh in a study conducted by (Mardianto & Tiono, 2019) perpetrators of financial statement fraud cannot take such actions if there is no opportunity, which can arise when internal control is weak, and lack of management supervision. Thus, pressure and rationalization can attract a person to act fraudulently but the individual himself must have the appropriate ability to allow him to identify opportunities so that he can enter tactically into the open door that is presented with the "opportunity" and get the maximum benefit (Avortri & Agbanyo, 2021).

Opportunities reviewed with the nature of industry as proxies show a significant positive influence in detecting financial reporting fraud (Faridah & Suwarti, 2019).

2.5 Rationalization

According to (Ristianingsih, 2017) said that rationalization is thought when someone thinks that the action taken is reasonable and morally acceptable by society in general. According to (Kurniawati, 2021) rationalization is an act of justification for an individual in committing fraud that makes someone who initially did not want to commit an act of cheating turn into wanting to do it. Accrual Basis is an accounting base where economic transactions and events are recognized, recorded, and presented in the financial statements at the time of the occurrence of such transactions regardless of the time cash is received or paid (Yusuf & Nurhayati, 2017). Rationalization has a significant positive effect in detecting financial reporting fraud (Yesiariani & Rahayu, 2017).

2.6 Capability

According to (Sari & Nugraha, 2020) if a person accidentally enters incorrect data when recording a transaction, then it cannot be said to be fraud because it was done accidentally. Different things that show someone with their abilities, engineering financial statements to attract potential investors to invest in their company, then this is fraud. (Kazemian et al., 2019) capability refers to the position or function of a person in an organization that can provide the ability to take advantage of opportunities for fraud that are not available to others Basheka and Bisangabasaija in research. The change of directors is considered capable of describing the ability to carry out stress management. Changes in the board of directors can cause a stress period which results in the opening of opportunities for fraud. And also This change of directors may also indicate a certain political interest to replace the previous board of directors (Septriani & Handayani, 2018).

The change of directors can be used as one of the company's efforts to cover up existing fraud or reduce the symptoms of fraud in the company. Ability to be the most dominant factor against financial reporting fraud (Avortri & Agbanyo, 2021).

2.7 Arrogance

According to (Sari & Nugraha, 2020) a high level of arrogance can trigger fraud, so that if a CEO has a high level of arrogance and superiority, it will make the CEO feel that any internal control will not apply to him because of his status and position. According to (Sasongko & Wijyantika, 2019) a person with the position of CEO is more willing to show the status and position to everyone because they do not want to lose the status or position. It can be concluded that acts of arrogance cannot be applied in a company which can result in internal conflicts and also fraud committed by company leaders.

Usually with the large frequency of photos company leaders in the company, it can show that the head of the company has an arrogance or has a haughty nature. the nature of arrogance in a company has a significant positive effect on financial reporting fraud (Handoko & Aurelia, 2021).

2.8 Collusion

Collusion is a conspiracy or cooperation between two or more parties to carry out an act that may harm another person or a company. In the research carried out by (Vousinas, 2017) also argued that collusion is an attitude and dishonest act between two or more people by making certain agreements or agreements. Collusion can be carried out between employees within the company, groups of individuals in several companies, as well as between companies simultaneously. According to (Imtikhani & Sukirman, 2021) Collusion refers to an agreement between several people, to carry out an act with evil purposes, such as deceiving a third party for its rights. The greater the market performance ratio produced by the company, the higher the concentration so that financial statement fraud will also increase Sari and Nugroho in (Jannah et al., 2021). collusion reviewed with market performance has a significant positive effect in detecting financial reporting fraud (Jannah et al., 2021).

3. Methods

This study applied a quantitative approach. The population in this study is Manufacturing companies in the Chemical and Basic Industries Sub-Sector Listed on the Indonesia Stock Exchange for the Period 2019-2021. Data were gathered from financial reports and company annual reports accessed on the Indonesia Stock Exchange (IDX) website. The data used in this study was secondary data. In this study, purposive sampling method, a sample methodology with specific considerations, was implemented, namely: (1) Manufacturing companies in the Chemical and Basic Industries Sub-Sector Listed on the Indonesia Stock Exchange for the Period 2019-2021, (2) Inconsistent manufacturing companies of basic and chemical industry sub-sectors are listed on the Indonesia Stock Exchange (IDX) for the 2019-2021 period Manufacturing companies of the basic and chemical industry sub-sectors that are inconsistently publish annual reports in the 2019-2021 period through the website and (4) Manufacturing companies of basic and chemical industry sub-sectors that do not present data according to the needs of the variables used in the research. Based on the predetermined sample criteria, the number of samples involved in this study were 47 banking companies listed on the Indonesia Stock Exchange with a study period of three years, the total observations obtained were 147.

Based on the research objectives mentioned in the prior section, data will be processed using SPSS 25 software and the analysis tool used in this study is logistic regression analysis. Based on logistic regression data analysis using the SPSS 25 program, the following hypotheses are proposed:

- H1: Pressure, opportunity, rationalization, capability, arrogance, and collusion simultaneously have a significant effect on fraud financial statement.
- H2: Pressure partially has a significant positive effect on fraud financial statement.
- H3: Opportunity has a significant positive effect on fraud financial statement.
- H4: Rationalization has a significant positive effect on fraud financial statement.
- H5: Capability partially has a significant positive effect on fraud financial statement.
- H6: Arrogance partially has a significant positive effect on fraud financial statement.
- H7: Collusion partially has a significant positive effect on fraud financial statement.

3.1 Variable Measurement

Table 2. Research Variable

Variable	Information	Measurement
Fraud Financial Statement	Misstatements arising from financial statement fraud are set up to defraud users of financial statements and intentional by omitting value or disclosure in financial statements which causes the financial	Dummy Variable, with F-Score = Accrual Quality + Financial Performances 1 = if the F-Score result is greater than 1 (can be predicted to cheat) 0 = if the F-Score result is less than 1 (cannot be predicted to cheat) (Handoko & Tandean, 2021).

	statements not to be presented in their entirety (SAS no. 99, 2003).	
Pressure	Financial stability is a stable financial condition in an enterprise (Apriliana & Agustina, 2017).	$ACHANGE = \frac{\text{Total assets}_t - \text{Total assets}_{t-1}}{\text{Total assets}_t}$ (Apriliana & Agustina, 2017)
Opportunity	nature of industry is an ideal corporate situation in industry (SAS no. 99, 2003).	$RECEIVABLE = \frac{\text{Receivable}_t}{\text{Sales}_t} + \frac{\text{Receivable}_{t-1}}{\text{Sales}_{t-1}}$ (Faridah & Suwarti, 2019)
Rationalization	is a reason that seems to justify the act of cheating and is a natural thing (Yesiariani & Rahayu, 2017)	TATA $= \frac{\text{Income from operation}_t - \text{Cash flow from operation}_t}{\text{Total assets}_t}$ (Yesiariani & Rahayu, 2017)
Capability	Changes in the board of directors are 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 performance of the previous directors by changing the company's organizational structure or recruiting new directors who are considered to have better abilities than the previous directors (Sari & Nugraha, 2020).	Dummy Variable: 1= If the company changes its board of directors within the year of the study. 0= If the company does not change its board of directors within the research year (Sari & Nugraha, 2020).
Arrogance	The CEO photo displayed in a company's annual report can represent the level of arrogance or superiority that the CEO has (Mertha Jaya & Ambarwati Poerwono, 2019)	The number of photos of the CEO contained in the company's annual report (Mertha Jaya & Ambarwati Poerwono, 2019).
Collusion	Collusion plays an important role in financial statement fraud. When the collusion increases, the potential for fraud will also be higher (Jannah et al., 2021).	$PBV = \frac{\text{Harga saham}}{\text{Nilai buku per lembar saham}}$ (Jannah et al., 2021)

4. Results and Discussion

4.1 Numerical Results

Table 3. Descriptive Statistical Analysis

Variable	Observations	Minimum	Maximum	Mean	Std. Deviasi
Fraud Financial Statement	147	0	1	.65	.480
Pressure	147	-1.2691	.3869	.008295	.1903181
Opportunity	147	.0135	2.6466	.352173	.3465638
Rationalization	147	-.8480	.2743	-.029710	.1243906
Capability	147	0	1	.20	.404
Arrogance	147	0	16	3.38	2.736
Collusion	147	-8005.5057	1710.2506	-25.683990	687.8986751

Based on the SPSS output results in the Table 3 above shows the results of a descriptive statistical analysis of each variable. The results of the descriptive statistical analysis were carried out with the minimum value, maximum value (maximum), average (mean), and standard deviation (std. deviation) from the value of the tested variable.

Table 4. Iteration History

Iteration		-2 Log likelihood	Coefficients Costant
Step 0	1	191.032	.585
	2	191.021	.603
	3	191.021	.603

Based on SPSS output results Table 4 show the results of the feasibility test by paying attention to the numbers obtained in -2Log Likelihood (LL) of 191,021 and at -2Log Likelihood (LL) of 176,581. This shows the overall logistic regression model which is a good model and can provide a clear picture related to the inputted data.

Table 5. Omnibus Test of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	14.440	6	.025
	Block	14.440	6	.025
	Model	14.440	6	.025

Based on the SPSS output in the Table 5 above, it shows that the signification value is 0.025 fewer than 0.05 (5%). Therefore, from the above analysis, it can be concluded that together the free variables consisting of financial stability, nature of industry, accrual accounting, changes in directors, CEO picture, and market performance have a significant effect on the company's Financial Statement Fraud. In other words, H_a and H_0 are rejected.

Table 6. Variables in the Equation

		B	S.E	Wald	df	Sig.	Exp(B)
Step 1	ACHANGE	2.974	1.451	4.201	1	.040	19.568
	RECEIVABLE	-.425	.528	.647	1	.421	.654
	TATA	-1.240	2.115	.344	1	.558	.289

	DCHANGE	-.876	.445	3.866	1	.049	.416
	CEOPICT	-.009	.072	.015	1	.901	.991
	PBV	.006	.014	.205	1	.651	1.006
	Constant	.896	.348	6.613	1	.010	2.449

4.2 Graphical Results

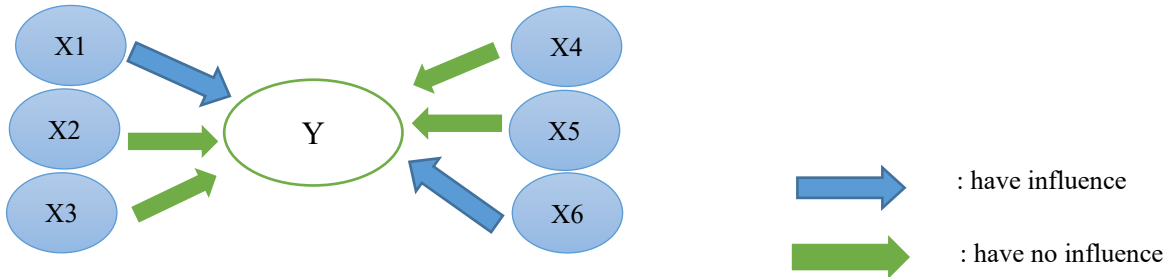


Figure 1. Directed graph of the relationship of all variables

Directed graphs for all variables in Figure 1, concluded the following points.

1. X1 (pressure) has an influence on Y (fraud financial statement).
2. X2 (opportunity) has no effect on Y (fraud financial statement).
3. X3 (rationalization) has no effect on Y (fraud financial statement).
4. X4 (capability) has an influence on Y (fraud financial statement).
5. X5 (arrogance) has no effect on Y (fraud financial statement).
6. X6 (collusion) has no effect on Y (fraud financial statement).

4.3 Proposed Improvements

By expanding the object and period of research, research results change. Figure 2 below shows the approximate trending graph obtained after expanding the object and research period.

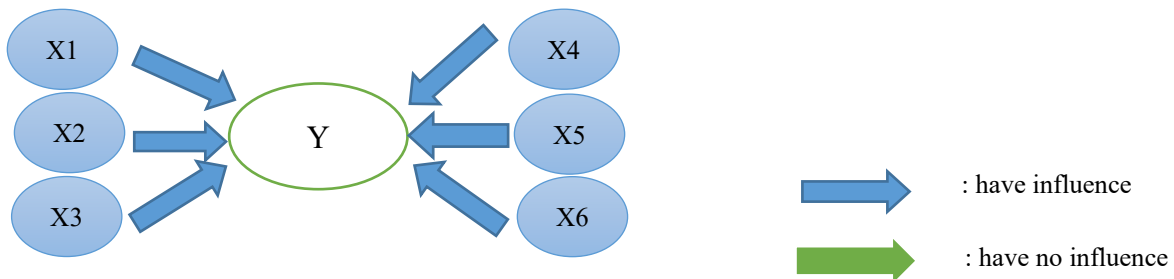


Figure 2. Directed graph of the relationship off all variables. The above Figure 2 shows that all variables x affect variable y

4.4 Validation

The Effect of Pressure, Opportunity, Rationalization, Capability, Arrogance, and Collusion on Fraud Financial Statement

Based on the results of simultaneous testing in the Table 5, the results of statistical tests (f) have been obtained with a level of significance of the overall free variable of 0.025 where the meaning of the figure is variables X1 (financial stability), X2 (nature of industry), X3 (accrual accounting), X4 (changes in directors), X5 (CEO Pict), and X6 (market performance) simultaneously or as a whole affect Y (financial statement fraud) by 0.025 or 2.5% while the rest are

97, 5% is influenced by other variables outside the logistic regression equation or other variables that were not present in this study.

The Effect of Pressure on Fraud Financial Statement

In this study, it can be seen in the Table 6 that the significance value of 0.40 is smaller than 0.050. The regression coefficient value of 2.974 indicates a unidirectional relationship between independent variables and independent variables. Then, a significance level smaller than 0.050 indicates that the Ha1 hypothesis is accepted. Therefore, financial stability partially has a positive effect in detecting financial statement fraud. This result is due to the small amount of assets of the company in the past can be a motivation for the company to increase its total assets. But in achieving these goals, sometimes companies use it as a pressure so that management manipulates financial statements to show a significant increase in assets. The results of this study are in accordance with the research from (Apriliana & Agustina, 2017)

The Effect of Opportunity on Fraud Financial Statement

In this study, it can be seen in the table 6 that the significance value of 0.421 is greater than 0.050. The value of the regression coefficient of -0.425 indicates a unidirectional relationship between an independent variable of nature of industry and an independent variable. Then, a significance level greater than 0.050 indicates that the Ha1 hypothesis is rejected. Therefore, the nature of industry partially does not have a negative effect in detecting financial statement fraud. The results of this study show that the nature of industry cannot prove that the company committed financial statement fraud. The results of the study also proved that the company does not give the opportunity to commit fraud and the company has a low number of receivables.

The Effect of Rationalization on Fraud Financial Statement

In this study, it can be seen in the table 6 obtained that the significance value of 0.558 is greater than 0.050. The value of the regression coefficient of -1.240 indicates a unidirectional relationship between the independent variables of accrual accounting and the independent variables. Then, a significance level greater than 0.050 indicates that the Ha1 hypothesis is rejected. Therefore, accrual accounting partially has no negative effect in detecting fraudulent financial statements. The results of this study show that accrual accounting cannot prove that the company committed fraudulent financial statements, this is because accrual accounting reflects the company's activities and depends on the overall activities carried out by the company.

The Effect of Capability on Fraud Financial Statement

In this study, it can be seen in the table 6 that the significance value of 0.49 is smaller than 0.050. The value of the regression coefficient of -0.876 indicates a unidirectional relationship between the independent variable of change of directors and the independent variable. Then, a significance level smaller than 0.050 indicates that the Ha1 hypothesis is accepted. Therefore, changes in the board of directors partially have a negative effect in detecting financial statement fraud. The results of this study prove that the company's change of directors can be the company's goal to cover up fraud or mistakes made by previous directors. The new board of directors certainly needs time to adapt to the things in the company so that with the existence of new directors in the company it will be difficult to detect fraud committed by the previous directors.

The Effect of Arrogance on Fraud Financial Statement

In this study, it can be seen in the table 6 that the significance value of 0.901 is greater than 0.050. The value of the regression coefficient of -0.009 indicates a unidirectional relationship between the CEO Picture independent variable and the independent variable. Then, a significance level greater than 0.050 indicates that the Ha1 hypothesis is rejected. Therefore, CEO Picture partially has no negative effect in detecting financial statement fraud. This result proves that the arrogance of a CEO who affects the fraud of financial statements cannot be proven by the large number of PHOTOS of the CEO in the financial statements. This result also proves that the low or high frequency of THE CEO's photo in the financial statements does not guarantee the existence of financial statement fraud in the company.

The Effect of Collusion on Fraud Financial Statement

In this study, it can be seen in the table 6 that the significance value of 0.651 is smaller than 0.050. The value of the regression coefficient of -0.006 indicates a unidirectional relationship between the independent variable of market performance and the independent variable. Then, a significance level greater than 0.050 indicates that the Ha1 hypothesis is accepted. Therefore, partial market performance does not have a positive effect in detecting financial statement fraud. The results of this study show that collusion or market performance cannot prove that the company

committed financial statement fraud. In other words, the high concentration caused by the large market performance ratio does not cause fraud in the company's financial statements.

5. Conclusion

This study aims to determine the effect of financial stability (ACHANGE), nature of industry (RECEIVABLE), accrual accounting (TATA), changes in directors (DCHANGE), CEO picture, and market performance (PBV) on financial statement fraud in manufacturing companies in the basic and chemical industry sectors that are consistently listed on the Indonesia Stock Exchange (IDX) in 2019-2021 which includes 47 research samples. The test results show that the variables of independent pressure, opportunity, rationalization, capability, arrogance, and collusion simultaneously affect financial statement fraud. Meanwhile, for partial testing, it shows that financial stability has a positive effect and changes in directors have a negative effect. Meanwhile, the nature of industry, accrual accounting, the frequency of the appearance of CEO photos, and market performance have no effect on financial statement fraud. further research is recommended to be able to add longer years of research as well as newer years to obtain more accurate results. Further research is also expected to select other sectors contained in the Indonesia Stock Exchange (IDX). It is expected for company management to be more thorough and careful in presenting financial reports, in order to be able to present the right data so that users can make the right decisions. Then the company's management is also expected to pay attention to the condition of the company's financial stability. This research suggests to potential investors that hexagon fraud can be one of the considerations and evaluation materials in investing. Then potential investors are also advised to know the company's financial stability to predict the state of the company in the future.

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