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An analysis of fraud hexagon in detecting fraudulent financial reporting

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Abstract

The aim of this study is to present empirical data regarding the impact of the fraud hexagon component onthe identification of financial reporting fraud. Using the SPSS software, the investigation included logistic regression analysis. A sample of manufacturing companies that were listed between 2018 and 2022 on theIndonesia Stock Exchange was used in the study. The study's conclusions indicate that financial targets areless effective at identifying financial reporting fraud. The ability to detect dishonest financial reporting is positively impacted by financial target and ego. External pressure, opportunity, rationalization, capability, and collusion are the factors listed above; however, they have no bearing on identifying false financial reporting.

Keywords: fraud hexagon, fraudulent financial reporting

INTRODUCTION

Financial reports are the main indicators for increasing or decreasing company performance and are a means of conveying information to internal and external users of financial reports. The importance of financial reports requires company management to provide financial reports that look good and are free from material misstatements. However, in reality, financial reports still contain material errors and cause events in the financial reports sent to users of accounting information (Dumaria & Majidah, 2019).

According to agency theory, the principle and agent have a reciprocal relationship in which the management is given the authority to run the company and make decisions on behalf of the owners. Nonetheless, managers and principals have different interests, with managers typically possessing greater knowledge of internal corporate affairs than principals. The principal will assess the performance of company managers in carrying out operations in accordance with the mutually agreed-upon contract. Agents sometimes deliberately do several things to fulfill the principal's demands, such as providing information that is not true.

Fraudulent financial reporting is carried out by manipulating accounting records or financial report supporting documentation by falsifying information or purposefully altering and removing events, transactions, or important data regarding financial reports and deliberately implementing undesirable accounting principles.

According to a 2019 fraud report by the Association of Certified Fraud Examiners, corruption is the most common type of fraud in Indonesia, accounting for 69.9% of cases, followed by asset protection at 20.9% and the condition of financial statements at 9.2 %. A case of manipulation of financial reports occurred at PT Tiga Pilar Sejahtera Food (AISA), wherein the firm attempted to falsify the 2017 financial reports in order to make them appear better, and AISA shares experienced a sharp decline. In addition, there is another case, namely that in 2022, PT Waskita Beton Precast Tbk was proven to have misappropriated funds for several development projects and carried out fictitious procurement for several projects.

The growing number of corporate financial reporting fraud cases has made fraud control planning necessary, which can be an attempt to identify fraudulent acts undertaken at an early stage.

Several fraud detection models created by Cressey (1953), a well-known member of the Association of Certified Fraud Examiners (ACFE), have demonstrated the elements that influence fraud. These models are based on Cressey's technique, also referred to as the fraud triangle hypothesis. The combination of these elements creates a fraud hexagon that includes opportunity, rationalization, capability, ego, and collusion.

This study was conducted because there is still a research gap, namely differences in previous research results from Handoko & Tandean (2021), Bawekes et al. (2018), Sari & Nugroho (2021), Sagala & Siagian (2021) and due to the significance of clear financial reports in facilitating economic decision-making for financial report users. The selection of the manufacturing sector was based on its notable frequency of events and the prevalence of financial reporting irregularities within this sector.

LITERATURE REVIEW AND HYPHOTESIS DEVELOPMENT

Literature Review

Agency Theory

According to Jensen & Meckling (1976), agency theory describes a situation in which shareholders or other stakeholders act as principals and assign agents, such as firm management, to manage the business in the principal's best interests. Agency issues may arise from the two parties' presence of a contract. The principal or shareholder will assess the performance of company managers in carrying out operations in accordance with the mutually agreed-upon contract. The manager will try to continue to fulfill requests from the principal. The management, in their capacity as company managers, possesses a greater depth of knowledge regarding internal company affairs, but the principal, as an external entity, faces difficulties in acquiring comprehensive information pertaining to the firm's current state. The presence of divergent interests and knowledge asymmetry between agents and principals can serve as catalysts for the perpetration of false financial reporting activities by agents.

Fraud Hexagon Theory

One idea that describes the reasons for a person or specific entity committing fraud is called the "fraud hexagon." By including collusion as a new element, this hypothesis builds on earlier ideas of fraud. Collusion is an agreement with the aim of jointly committing fraud between two or more people for one party by committing a crime to deceive a third party.

Fraud

According to the Association of Certified Fraud Examiners (ACFE), fraud is defined as the willful conduct of fraudulent acts or errors by a person or organization, knowing that doing so could benefit them personally at the expense of other parties. This encompasses deliberate illicit activities that are subsequently concealed, with the aim of deriving advantages through the conversion of such activities into monetary or tangible assets. Fraudulent activities can be perpetrated within an organization, by an organization, or on behalf of an organization. These behaviors are executed both inside and externally, with intentionality and concealment (Suprajadi, 2009).

Fraudulent Financial Reporting

Fraudulent financial reporting refers to deliberate actions or inactions, particularly when it comes to overseeing financial statements, which result in material misstatement and the inclusion of deceptive information. Fraudulent financial reporting has the potential to be perpetrated by individuals across all levels of an organization, as long as they possess the necessary opportunity to do so. Fraudulent financial reporting is frequently employed by organizations that find themselves in a position of financial turmoil, driven by a false sense of opportunism.

Hyphotesis Development

Financial Target

Financial targets provide financial pressure for management to successfully achieve financial targets within a period. Management is urged to manipulate in order to reach the financial targets that have been set when the financial targets imposed are too onerous and the financial performance requirements cannot be met. As a result, there may be signs of fraud in the financial report production process (Aprilia, 2017). A company with good performances frequently based on the level of profits achieved might incentivize management to engage in fraudulent activities when preparing financial reports. A low ROA value can trigger managers to manipulate profits in financial reports because management wants their performance results to be seen as good.

This research is supported by research by Harman & Bernawati (2020), Ozcelik (2020), and Nauval & Irianto (2016) The proposition posits that the establishment of financial targets is associated with an adverse impact on the ability to identify instances of fake financial reports. Thus, the following conjecture can be made:

H1: Financial targets have a negative effect on detecting fraudulent financial reporting.

External Pressure

External pressure is the capacity to complete trade needs, maintain accurate records, settle debts, or honor debt agreements widely recognized by external entities. The possibility of false financial statements may arise when management faces excessive pressure exerted by third parties or external entities. When a firm's leverage ratio is elevated, it indicates that the company possesses substantial debts and is exposed to a heightened level of credit risk. The degree of credit risk and the level of anxiety creditors display while evaluating whether or not to grant a company a loan are positively correlated. Corporations possess the capacity to engage in fraudulent activities with the aim of presenting a favorable image to creditors and other entities that offer sources of financial support.

Research by Sihombing & Rahardjo (2014), Imtikhani & Sukirman (2021), and Quraini & Rimawati (2018) which states that external pressure has a positive effect in detecting fraudulent financial reporting, support this study. Thus, the following conjecture can be made:

H2: External pressure has a positive effect on detecting fraudulent financial reporting.

Ineffective Monitoring

In the fraud hexagon theory, Specifically, the presence of an opportunity component and unfavorable conditions within a company, such as the absence of an adequate monitoring mechanism for workers, might give rise to the possibility of people manipulating financial reports.The establishment of an autonomous board of commissioners can facilitate enhanced oversight ofcorporate management, thereby mitigating instances of fraudulent activities perpetrated by said management. The limited presence of independent commissioners in weak supervision scenarios presents managers or agents with the chance to commit fraud (Skousen et al., 2009). One way to quantify ineffective oversight is to look at the percentage of independent commissioners compared to the total number of commissioners on the board. Increasing the number of independent commissioners in a company has the potential to reduce the amount of false financialreporting that management engages in.

This research is supported by Tiffani & Marfuah (2015), Amara et al. (2013), and Prasastie & Gamayuni (2015) all support this research by stating that inadequate monitoring hinders the ability to identify fake financial reports. Thus, the following conjecture can be made:

H3: Ineffective monitoring has a negative effect on detecting fraudulent financial reporting.

Change in Auditor

According to the fraud hexagon hypothesis, individuals who engage in fraudulent activities seek justifications that can rationalize their conduct. The act of rationalization may be undertaken by individuals within the organization with the intention of providing justification for engaging in fraudulent practices related to financial reporting. The concept of rationalization can be observed through the use of a change in auditor, since this alteration reflects the perspective of the auditor about the financial

accounts' fairness and serves as their justification for any fraudulent activities conducted by the organization. The act of replacing auditors inside a firm might be viewed as a means of eradicating evidence of fraud that was uncovered by the prior auditor. The regular turnover of auditors inside a firm is indicative of the company's efforts to evade the detection of falsified financial statements by the preceding auditor. This phenomenon leads managers to engage in cognitive processes aimed at justifying or rationalizing their dishonest behaviors.

According Siddiq et al. (2017), Sari & Nugroho (2021), and Ulfah et al. (2017) changes in auditors have a favorable impact on identifying false financial reporting, which lends credence to this research. Thus, the following conjecture can be made:
H4: Changing auditors has a positive effect on detecting fraudulent financial reporting.

Change in Director

According to the fraud hexagon theory, one element that can be used to identify fraud is capability. Under certain circumstances, managers may exploit this ability to perpetrate fraud in order to benefit personally. This skill is the capacity to seize opportunities to perpetrate fraud within the organization. According to Wolfe & Hermanson (2004), fraud cannot be committed by someone who lacks the necessary personal skills or competencies. The company's capability is measured by the frequency of directorial changes implemented. The ramifications of fraudulent activities perpetrated by corporate directors can be observed in the turnover rates of both directors themselves and their subordinates. There exists a positive correlation between the turnover rate of directors and the propensity to submit false financial reports (Wolfe & Hermanson, 2004).

This research is supported by (Nisa et al., 2019), (Jullani et al., 2020), and (Aviantara, 2021) which state that change in director has a positive effect in detecting fraudulent financial reporting. Thus, the following conjecture can be made:
H5: Change in director has a positive effect on detecting fraudulent financial reporting.

Frequent Number of CEO's Picture

Ego or arrogance can trigger fraudulent financial reports because a person has an arrogant attitude that makes them feel that the regulations in force in the organization do not relate to them. A CEO who exhibits a high degree of conceit and superiority may commit fraud because he believes that no internal controls may threaten his current standing and position. One can gauge a CEO's arrogance by looking at how they appear in the company's financial reports. It is possible to conclude that the CEO wishes to be well-known to the public if their photograph is displayed regularly (Tessa & Harto, 2016). Vousinas (2019) suggests that the ego is driven morally so that individuals cannot function properly. A CEO tends to be more satisfied if he shows his position to everyone so that his position can be considered, and with a sense of arrogance, they assume that any policy cannot be tied to him because of the position he has. The more often the CEO's photo is displayed on the company's financial reports, it indicates that the CEO has a high level of arrogance. There exists a positive correlation between the degree of arrogance exhibited by a CEO and the likelihood of fraudulent activities being present in financial reports.

Research by Bawekes et al. (2018), Crowe (2012), and Tessa & Harto (2016) supports this study. According to the hypothesis, a higher frequency of CEO photos improved people's capacity to assess the dependability and correctness of financial reporting. Thus, the following conjecture can be made:
H6: Frequent number of CEO's picture has a positive effect on detecting fraudulent financial reporting.

Collusion

Collusion is the last element in the fraud hexagon hypothesis, which refers to a deceitful agreement or arrangement among multiple individuals who have malicious goals. This collusion is aimed at deceiving a third party by leveraging their abilities to exploit the position of another person (Vousinas, 2019). Collusion leads to a state of cooperation among those involved in fraudulent activities, hence giving rise to expansive fraudulent schemes that inflict substantial financial damages upon the victims of fraud. Collaborating with government projects can be a reason for companies to collude so that their financial reports appear impressive and they can participate in government projects. The existence of a cooperative relationship in carrying out projects between companies and the government makes companies carry out

collusion efforts. Companies that collaborate with the government want to get large revenues, which will be reported in financial reports. This action is carried out by jointly carrying out unlawful actions that are detrimental to the state. One of these detrimental actions is manipulating financial reports.

This research is supported by Handoko & Tandean (2021) and Sari & Nugroho (2021) which state that collusion has a positive effect on fraudulent financial reporting. Thus, the following conjecture can be made:

H7: Collusion Collusion has a positive effect on detecting fraudulent financial reporting.

METHODS

This study uses quantitative approaches and is based on secondary data from manufacturing companies' 2018–2022 annual reports that were obtained from the Indonesia Stock Exchange and the companies' websites. Manufacturing companies that are registered on the Indonesia Stock Exchange and have a public listing between 2018 and 2022 are included in the study. The participants in the study were chosen using the purposive sampling technique. In order to obtain focused and pertinent data, purposeful sampling is a sampling strategy that involves choosing participants based on predetermined criteria. The concept of "desired" refers to something that is sought after or wished for. The requirements include manufacturing firms that list on the Indonesia Stock Exchange for the period of 2018 through 2022, manufacturing companies that transact in the Indonesian rupiah currency, and manufacturing companies that have maintained their listing status without being delisted. Manufacturing companies have access to financial resources over the period of 2018 to 2022, as evidenced by their listing on the Indonesia Stock Exchange. Financial and annual reports for the years 2018–2022 are available for access through the company's website, the IDX website, or other websites that host financial and annual reports of firms and manufacturing companies. These reports contain comprehensive data that can be utilized for research purposes.

Variable Measurement

Dependent Variable

In this study, the Altman Z-Score and Beneish M-Score models were coupled to measure the dependent variable. Companies that exhibit a Beneish M-Score value > -2.22 and an Altman Z- Score value < 1.81 are categorized as engaging in fraud, according to the combination of the two models. In the meantime, if a company's Altman Z-Score is greater than 2.99 and its Beneish M- Score is less than -2.22, it is considered to be free of fraud. The company is categorized as not engaging in fraud if the Altman Z-Score is greater than 2.99 and the Beneish M-Score score is greater than -2.22. Similarly, if the Altman Z-Score is less than 1.81 and the Beneish M-Score value is less than -2.22, then the business is categorized as one that doesn't engage in fraud. A categorical variable that is coded "1" when fraud is identified and coded "0" otherwise will be used to measure fraud. The Z-Score and M-Score models' equations are as follows:

$$\text{M-Score} = -4{,}84 + 0{,}920\text{DSRI} + 0{,}528\text{GMI} + 0{,}404\text{AQI} + 0{,}892\text{SGI} + 0{,}115\text{DEPI} - 0{,}172\text{SGAI} - 0{,}327\text{LVGI} + 4{,}697\text{TATA}$$

$$\text{Z-Score} = 1{,}2\ X1 + 1{,}4\ X2 + 3{,}3\ X3 + 0{,}6\ X4 + 1{,}0\ X5$$

Independent Variable

Financial Target

Financial targets put financial pressure on management to meet these goals within a given time frame. A company's financial goals are typically established by taking into account a scenario or state that characterizes the stability of the business's financial position. One method for doing this is by figuring out the company's return on assets ratio for the current year (Aprilia, 2017). Using the formula that follows:

$$ROA = \frac{Net\ Income}{Total\ Asset}$$

External Pressure

External pressure refers to the significant pressure encountered by firm management in their pursuit of meeting the demands and expectations established by external entities, such as creditors, with regard to loan funds (Sapulette & Risakotta, 2020). The way to detect corporate fraud is to look at the value of the company's leverage. The leverage formula is as follows:

$$Lev = \frac{Total\ Debt}{Total\ Asset}$$

Ineffective Monitoring

Ineffective monitoring is situation in which an organization lacks proficient supervisors who are capable of effectively overseeing the company's performance (Bawekes et al., 2018). An organization's monitoring is more effective the more independent commissioners it has. The following formula is used to calculate the measurement of BDOUT, which is used to quantify the level of ineffective monitoring:

$$BDOUT = \frac{total\ number\ of\ board\ independent\ commissioners}{total\ number\ of\ board\ commisioners}$$

Change in Auditor

Changing auditors can be an indicated as a fraud in a company. Existing research indicates that there is a correlation between a change of auditor and an increase in audit failures and litigation. This can be attributed to the possibility of attempts being made to eradicate any evidence of fraud that may have been uncovered by the prior auditor. Auditor change measured with dummy variable for auditor change where code "1" indicates a change in auditor during the research period and code "0" otherwise.

Change in Director

The change of director refers to the process in which the former director relinquishes their authority and transfers it to the incoming director, with the objective of enhancing the performance of the organization under the new leadership. A binary variable is employed to represent alterations in auditors, with the value "1" denoting a change in auditors within the designated research timeframe, and the value "0" indicating the absence of such a change.

Frequent Number of CEO's Picture

The Frequent Number of CEO's A Picture refers to a visual representation of a Chief Executive Officer (CEO) within a firm, typically presented as a photograph accompanied by a profile containing relevant information about the CEO. This portrayal is then recurrently featured in the company's annual report (Siddiq et al., 2017). The quantification of this variable can be achieved through the enumeration of CEO photographs shown in the organization's annual report within the designated study timeframe.

Collusion

Collusion refers to a collaborative agreement among two or more individuals with the shared objective of engaging in fraudulent activities with the intention of deceiving a third party. Government programs are purported to incentivize several corporations to participate in government initiatives, including through the manipulation of their financial reports. This manipulation is aimed at enhancing the appearance and perceived reliability of these reports, hence increasing the likelihood of these companies being entrusted by the government to undertake those projects. The measurement of collusion can be operationalized through the utilization of a binary variable, commonly referred to as a dummy variable. In this context, the dummy variable assumes a value of "1" to indicate instances where the corporation engaged in collaboration with a government project throughout the designated study period, while a value of "0" is assigned to denote the absence of such collaboration.

RESULTS AND DISCUSSIONS

139 observations and a sample of 98 manufacturing enterprises were obtained based on the purposive sampling method's criteria. The standard assumption tests, which include the multicollinearity and normality tests, have been passed by the previously gathered data. Following that, a logistic regression test was performed on the data, and the results are shown in table 1.1 below.

Table 1. Logistic Regression Test Results

(Prob.) FRAUD = α + βROA+ βLEV + βBDOUT + βdummyAudChange +βdummyDchange + βFREQCEOPIC + βdummyCollusion

Variabel	Coefficient	Wald	Sig	Conclusion
Constant	0.090	0.003	0.958	
FINANCIAL TARGET	-59.493	26.790	0.000	**H1a Accepted**
EXTERNAL PRESSURE	1.393	0.672	0.412	H1b Rejected
OPPORTUNITY	4.541	1.933	0.164	H2 Rejected
RATIONALIZATION	-0.839	1.028	0.311	H3 Rejected
CAPABILITY	-0.932	1.834	0.176	H4 Rejected
EGO	0.313	4.231	0.040	**H5 Accepted**
COLLUSION	-0.343	0.245	0.621	H6 Rejected

Source: secondary data processed, 2023

Financial Target

Based on table 1, is clear that the coefficient value, which is below the 0.05 threshold at -59.493, shows a tendency towards negativity at a significance level of 0.000. It can be concluded that there is a negative correlation between the financial target and the discovery of fraudulent financial reporting based on the obtained negative and statistically significant coefficient. This suggests that there is a positive correlation between the probability of fraudulent financial reporting occurring and a decline in the financial target, as demonstrated by a lower return on assets.

It has been demonstrated that financial targets have a detrimental impact on the detection of fake financial reports, meaning that a poor return on assets (ROA) will put management under pressure and may even encourage fraud. When management is under pressure to generate large profits but actually generates low earnings, they are more likely to act in their own self-interests, which includes making false financial statements and manipulating profits to make the company appear successful.

The results of this research indicate that a reduction in financial targets is associated with an increased likelihood of future occurrences of fraudulent activities. A low ROA value can trigger managers to manipulate profits in financial reports because management wants their performance results to be seen as good. The high ROA value is in line with the company's high profit from managing its assets well, so a high ROA value does not trigger managers to commit financial reporting fraud.This study is consistent with the study of Abriatika et al. (2022), Ozcelik (2020), and Harman & Bernawati (2020) which states that return on assets has a negative effect in detecting fraudulent financial reporting.

External Pressure

Based on Table 1, the analysis reveals that the regression coefficient of the external pressure variable, represented by leverage, exhibits a positive direction of 1.393 with a significance level of 0.412, surpassing the 5% threshold of α. Based on the aforementioned value, it may be inferred that the magnitude of

external pressure, as quantified by leverage, does not yield a significant impact on the likelihood of fraudulent financial reporting.

Based on the results of this research, a fairly low leverage value indicates that there is no agency conflict occurring. This is because the debt obtained from creditors has a fairly low interest burden compared to other debt, and there is an increase in company assets. With this, the company will be able to pay off its debts without having to commit fraud.

External pressure, as research has demonstrated, has no impact on the ability to identify fraudulent financial reporting. This suggests that management is not forced to participate in false financial reporting practices by outside forces like creditors or other parties. Leverage indicates that debt is a significant component of the company's capital structure. According to the study's findings, less than half of the tested companies' total assets are financed by debt, as shown by their average leverage value. so that businesses may be confident in their ability to repay debt acquired from outside sources and that management can effectively handle the debt acquired, particularly when it takes the form of firm assets to enhance business operations without engaging in financial report fraud. This study is consistent Handoko & Tandean (2021), Khoirunnisa et al. (2020), and Utami & Pusparini (2019) confirm that external pressure measured by leverage does not affect fraud detection.

Ineffective Monitoring

Based on table 1, it can be seen that the regression coefficient of the ineffective monitoring variable has a positive direction of 4.541 and a significance level of 0.164 above α 5%. Based on this It follows that the size of the opportunity, as determined by inefficient monitoring, does not increase the likelihood of fraudulent financial reporting, given this value.

The results of this research do not support agency theory where there is no agency conflict because the company complies with OJK regulations No.73/POJK.05/2016 which requires the number of members of the board of commissioners to consist of at least 3 (three) people and at least 30%. This shows that supervision will get better, so that the ineffectiveness of supervision will be lower and the opportunity for management to take actions that are detrimental to the company will be lower.

Ineffective monitoring has been proven to have no effect in detecting fraudulent financial reports, indicating that the existence of an independent board of commissioners has not been able to prevent management from committing fraudulent financial reports. The establishment of an autonomous board of commissioners serves as a means for corporate management to adhere to the criteria set forth by the Indonesia Stock Exchange, which mandate that firms maintain a minimum of 30% representation of commissioners on their existing board. In addition to this, it should be noted that the role of the independent commissioner is mostly consultative in nature and does not encompass any involvement in the process of financial report creation. The presence of an independent commissioner does not guarantee the prevention of fraudulent activities by management. Despite the growing prevalence of independent board of commissioners within companies, it is important to acknowledge that the presence of such boards does not completely eliminate the potential for management to engage in financial report fraud. This is due to the fact that the effectiveness of independent board of commissioners is not guaranteed, thereby allowing management to potentially engage in financial report fraud without detection. This findings is consistent with Bawekes et al. (2018), Khoirunnisa et al. (2020), Handoko & Tandean (2021) which states that ineffective monitoring has no influence in detecting fraudulent financial reporting.

Change in Auditor

Based on table 1, it can be seen that the regression coefficient of the auditor change variable has a negative direction of -0.839 and a significance level of 0.311 above α 5%. Based on this value, it can be concluded that the size of rationalization as measured by changing auditors will not result in the probability of fraudulent financial reporting.

Changing auditors is proven to have no effect in detecting fraudulent financial reporting, indicating that changing auditors is not a rationalization method used by management to carry out fraudulent financial reporting. This suggests that the act of altering auditors is not a rationalization

strategy employed by management to perpetrate fraudulent financial reporting. The decision to change auditors is not indicative of management's attempt to conceal any fraudulent activities they may have engaged in. Rather, it is a strategic move made by management to engage a more impartial and autonomous auditor to assess the financial statements of their company. Alternatively, this decision may be prompted by the resignation of the previous external auditor. Hence, the decision to replace auditors is not exclusively driven by management's intention to conceal evidence of their own fraudulent activities; rather, it can also serve as an opportunity for management to engage in fraudulent behavior while the newly appointed auditor is still acclimating to the organization. This results is support the findings from Bawekes et al. (2018) and Aprilia (2017) which states that changing auditors has no influence in detecting fraudulent financial reporting.

Change in Director

Based on table 1, it can be seen that the regression coefficient associated with the change of director variable has a negative direction of -0.932, with a significance level of 0.176, which exceeds the predetermined alpha level of 5%. Based on the aforementioned value, one can infer that the magnitude of capability, as assessed through changes in directors, does not yield a significant impact on the likelihood of fraudulent financial reporting.

The change of directors was no evidence that the board shakeup was an attempt to cover up fraudulent financial reporting, suggesting that management did not try to deceive investors. The company's board of directors had a shakeup, but it wasn't because anyone thought certain individuals were in the know about fraud. Instead, it was the expiration of terms of office for board members and their consequent resignations that brought about this shift. As a result, the organization has been actively seeking out additional board members to join the team. There was a change in leadership, but it wasn't because the previous directors had committed fraud using their position of authority. The results of this study support the research Utami & Pusparini (2019), Bawekes et al. (2018), Handoko & Tandean (2021) which states that changing directors has no influence in detecting fraudulent financial reporting.

Frequent Number of CEO's Picture

Based on table 1, it can be seen that the regression coefficient of the frequent number of CEO's picture variable has a positive direction of 0.313 and a significance level of 0.040 below α 5%. Based on the observed positive and statistically significant coefficient, it can be inferred that ego exerts a negative influence on the ability to detect instances of financial report fraud. This implies that an increase in ego, as indicated by a higher frequency of CEO's photo, is associated with a higher likelihood of financial report fraud occurring.

The results of this research show that the more total photos of CEOs in a company's annual report indicate the higher level of CEO arrogance in the company. Arrogance is a component that can be used to detect fraud. A CEO's narcissistic nature can lead him to commit fraud. The more photos of the CEO displayed in the company's annual report indicate that the CEO's ego is high, which can lead to a high possibility of financial report fraud. The high level of arrogance causes fraud due to the CEO's superiority, so that the CEO feels that internal control does not apply to him. The finding is support the research of Bawekes et al. (2018), (Tessa & Harto, 2016), and Utami & Pusparini (2019) It claims that the presence of a large number of photographs of the company's chief executive officer aids in identifying the health of the company's financial statements.

Collusion

Table 1 shows that the collusion variable's regression coefficient has a negative direction of -0.343 and a significance level of 0.621 above ˆ5%. In light of these values, these figures suggest that the probability of financial reporting fraud is unrelated to the level of collaboration as determined by government partnership programs.

Collaborating with government projects can be a reason for companies to collude so that their financial reports can look good. The presence of collaborative partnerships between corporations and

governmental entities incentivizes enterprises to engage in collusive endeavors. The potential advantages of collaboration between companies and the government are not inherently guaranteed, as it may not always facilitate the government's ability to provide financial assistance in times of economic distress. The company's willingness to engage in collaborative efforts with government initiatives demonstrates its commendable performance, as evidenced by its confidence in proposing such collaborations, which deviates from its customary practices. This research supports research findings from (Octani et al., 2021), which state that collusion proxied by collaboration projects with the government has no influence in detecting fraudulent financial reporting.

CONCLUSIONS

The purpose of this study is to determine the impact of the fraud hexagon's elements rationality, opportunity, capability, ego, and collusion—on manufacturing companies listed on the Indonesia Stock Exchange's capacity to identify fraudulent financial reporting between 2018 and 2022. The hypothesis test results show that while the frequency of CEO photos is positively associated with the ability to detect false financial reports, the financial target variable is negatively associated with this ability. On the other hand, there is no connection between outside pressure, inadequate oversight, the departure of auditors or directors, and cooperation in the identification of false financial statements.

This study was successful in demonstrating the role that the fraud hexagon factors financial target and ego have in identifying false financial statements. According to the fraud hexagon, management may be motivated to satisfy demands and expectations in order to commit fraud as a result of the stimulus that arises from a company's shock to the economy and the avarice or arrogance of those who think they are exempt from internal control. This research can provide information to company management about the factors that encourage management to commit financial report fraud and be used as a consideration for companies to analyze their businesses to avoid financial report fraud. Apart from that, for investors and creditors, this research can be used as an analytical tool related to decision making in investing in a company. Investors and creditors are expected to further analyze the information presented in financial reports because information in financial reports can be manipulated by management if management experiences pressure from the company owner and the ego of the CEO. This is also a form of management's ability to exploit information asymmetry. to commit fraud for their own personal interests.

This research has limitations, namely that the dependent variable and the three independent variables use dummy variables. The use of dummy variables has a weakness, namely the possibility of obtaining poor results compared to quantitative data to describe the actual situation with these variables.

Suggestions that can be conveyed to future researchers are that they hope to be able to use measurements with a ratio scale so that they can provide better results for similar research in the future. In addition, future research can update the dummy variables used in this research or can be combined with qualitative method analysis for variables that cannot be specifically explained by quantitative methods.

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