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DETECTION OF FRAUDULENT FINANCIAL STATEMENTS : FRAUD HEXAGON S.C.C.O.R.E MODEL APPROACH

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ABSTRACT

This research using quantitative study aimed to analyze effect of Fraud Hexagon S.C.C.O.R.E Model specifically financial stability, external pressure, financial target, capability, collusion, effective monitoring, rationalization, arrogance on fraudulent financial statements. This study uses sample financial sector companies listed Indonesia Stock Exchange 2017 – 2019 with purposive sampling. Acceptable sample size is 89% of population. Hypothesis testing used Logistic Regression Analysis with significant level 0.05. The results that (1) there is significant positive effect of financial stability on fraudulent financial statement meaning more stable company's financial condition, the lower fraudulent financial statements indication, (2) there is significant negative effect of external pressure on fraudulent financial statement meaning more fulfilled company's needs, the lower fraudulent financial statements indication, (3) there is significant negative effect of financial targets on fraudulent financial statement meaning the lower profit, the higher fraudulent financial statements indication, (4) there is no significant effect of capability on fraudulent financial statement, (5) there is no significant effect of collusion on fraudulent financial statement, (6) there is no significant effect of effective monitoring on fraudulent financial statement, (7) there is no significant effect of rationalization on fraudulent financial statement, (8) there is no significant effect of arrogance on fraudulent financial statement.

Keywords: fraudulent financial statement; hexagon theory; S.C.C.O.R.E model

ABSTRAK

Penelitian menggunakan studi kuantitatif bertujuan untuk menganalisis pengaruh Fraud Hexagon S.C.C.O.R.E Model, khususnya stabilitas keuangan, tekanan eksternal, target keuangan, kapabilitas, kolusi, pengawasan efektif, rasionalisasi, dan arogansi terhadap kecurangan pada laporan keuangan. Penelitian menggunakan sampel perusahaan sektor keuangan terdaftar di BEI tahun 2017 - 2019 dengan metode sampel tujuan tertentu. Jumlah sampel yang diterima adalah 89% dari populasi. Pengujian hipotesis menggunakan Analisis Regresi Logistik taraf signifikansi 0,05. Hasil penelitian menunjukkan bahwa (1) terdapat pengaruh positif signifikan antara stabilitas keuangan terhadap kecurangan pada laporan keuangan artinya semakin stabil kondisi keuangan perusahaan, semakin rendah indikasi kecurangan pada laporan keuangan, (2) terdapat pengaruh negatif signifikan antara tekanan eksternal terhadap kecurangan laporan keuangan artinya semakin terpenuhi kebutuhan perusahaan, semakin rendah indikasi kecurangan pada laporan keuangan, (3) terdapat pengaruh negatif signifikan antara target keuangan terhadap kecurangan pada laporan keuangan artinya semakin rendah laba, semakin tinggi indikasi kecurangan pada laporan keuangan, (4) tidak terdapat pengaruh signifikan antara kapabilitas terhadap kecurangan laporan keuangan, (5) tidak terdapat pengaruh signifikan antara kolusi terhadap kecurangan

laporan keuangan, (6) tidak terdapat pengaruh signifikan antara pengawasan efektif terhadap kecurangan laporan keuangan, (7) tidak terdapat pengaruh signifikan antara rasionalisasi terhadap kecurangan laporan keuangan, (8) tidak terdapat pengaruh signifikan antara arogansi terhadap kecurangan laporan keuangan.

***Kata kunci**: kecurangan pada laporan keuangan; fraud hexagon; S.C.C.O.R.E model*

INTRODUCTION

Public companies in Indonesia are showing significant enthusiasm. As of October 2020, the Indonesia Stock Exchange (IDX) recorded 46 companies carrying out Initial Public Offerings (IPO) throughout 2020, so that the number of companies listed on the IDX is 713 companies (Indonesia Stock Exchange, 2020). Unfortunately, the interest and growth of public companies in Indonesia has not been accompanied by improvements in the existing fraud prevention and detection system.

The 2019 Indonesian Fraud Survey (SFI) conducted by the Association of Certified Fraud Examiners (ACFE) concluded that fraud in financial statements occurred as much as 9.2%, but the average value of losses was more than IDR 10 million as much as 67.4% (Association of Certified Fraud Examiners, 2020). Financial reports have an important role as a company communication tool to interested parties to display information related to the company's financial management activities. The effectiveness of financial reports as a means of corporate communication is evidenced by the results of a survey which concludes that reports, including the company's financial statements (38.9%) as the media for disclosing the most fraud compared to other media such as internal audit (23.4%), and external audit (9.6%), and other media (15.1%) (ACFE, 2020). ACFE also supports its survey results regarding the effectiveness of financial reports as a medium for corporate communication by concluding that fraud in financial reports has the fastest detected time period, namely in the 0-12 months period, as many as 93.7% of the sample studied. Based on the results of SFI 2019, BUMN ranks second as the most disadvantaged organization due to fraud (31.8%) after the government first (48.5%).

The SFI 2019 concluded that Finance and Banking Industry ranks first out of ten other industries as the type of industry that is most disadvantaged by fraud with a yield of 41.4%, followed by the government (33.9%), the mining industry (5%), the health industry (4.2%), the manufacturing industry (4.2%), and other industries (3.7%) (ACFE, 2020). Meanwhile, SFI 2016 concluded that Financial and Banking Industry ranks second out of ten other industries as the type of industry that is the most disadvantaged due to fraud with a result of 15.9% after the government was in the first position (58.8%), this is due to the tendency of fraud perpetrators in Indonesia takes advantage of projects organized by government. Furthermore, it is followed by the fisheries and marine industries (9.3%), health industry (3.5%), manufacturing industry (3.5%), and so on (ACFE, 2017). According to the Strategic Management and Policy Formulation of the Deposit Insurance Corporation (LPS), the status increase in the financial industry from 2016 to 2019 was due to the high number of fraud in the financial and banking industry in Indonesia, especially fraud in the preparation of financial reports (LPS, 2019).

The SFI 2019 also shows that collutive fraud ranks first, namely 36% when compared to fraud committed by individuals or only involving two to three people, where the majority of the perpetrators of fraud have positions as managers. (ACFE, 2020). These results are in line with SFI 2016 which also places collutive fraud in the first place, namely 44%, but the majority of the perpetrators of fraud work in the financial and operational divisions. (ACFE, 2017). Both SFI 2019 and SFI 2016 concluded the same thing, namely the losses incurred as a result of collutive fraud reaching the largest loss position, namely above Rp 10 billion on average.

Fraudulent financial statement’s research continues to develop in line with the increasingly diverse modes of fraud committed by individuals within an institution or company. The latest approach that discusses fraud detection was found by (Vousinas, 2019), namely the hexagon fraud theory. In the fraud hexagon, Vousinas added one factor that can be used as fraud detection, namely collusion so that fraud detection can be measured through six causal

factors, namely: pressure, capability, collusion, opportunity, rationalization and arrogance. These six factors were later introduced by Vousinas as the S.C.C.O.R.E Model. Vousinas defines collusion as a deceptive or compact agreement between two or more people, in order to take action for some unfavorable purpose, such as to deceive a third party from their rights.

This study uses a collusion measure that is often found in cases of fraud, namely the existence of cooperation with the government or institutions under direct government control that allows companies to earn large revenues and opens the possibility of fraud in the presentation of the company's financial statements. With the use of this measurement, it is expected to be able to stimulate other, broader research, so that companies are able to reliably present information in audited financial reports and annual reports.

LITERATURE REVIEW

Fraud Theory

Donald Cressey concluded there are three main factors that cause fraud. This theory detects the possibility of fraud based on three main factors; pressure, rationalization, and opportunity (Arens, et al., 2015). Wolfe and Hermanson (2004) developed the fraud triangle theory by adding one other factor as an indicator of the fraudulent financial statements, namely capability. Furthermore, Crowe Howarth developed the fraud triangle theory by adding two other factors as indicators of the occurrence of fraudulent financial statements, namely competence and arrogance (Crowe Horwath, 2012). Newest, (Vousinas, 2019) developed previous theories to detect fraudulent financial statements as known Fraud Hexagon Approach. Vousinas added one factor that can be used as fraud detection. So that, fraudulent financial statements can be detected through six factors (S.C.C.O.R.E Model).

Fraudulent Financial Statement

Fraudulent Financial Statements is an act of deliberately providing misleading information and or manipulating material value in financial statements for certain purposes of personal gain or to harm other parties (Arens, et al., 2015). Fraudulent financial statements includes falsification, manipulation, and or changes to accounting records or supporting documents from financial statements that are prepared with misstatements and ignoring generally accepted accounting principle.

Beneish M-Score Model

The Beneish M-Score Model is a calculation used to detect fraud in financial statements. This model was developed by (Beneish M. D.,1999) to ensure and detect fraud immediately through fraudulent financial statements (Beneish, Lee, & Nichols, 2013). Beneish uses the eight components of the financial statements under study to analyze its index. The higher the index value displayed, the higher the potential for fraud in the financial statements.

Fraud Hexagon S.C.C.O.R.E Model

Fraudulent financial statements detection can be measured through six causal factors (S.C.C.O.R.E Model); pressure/stimulus, capability, collusion, opportunity, rationalization, and ego/arrogance.

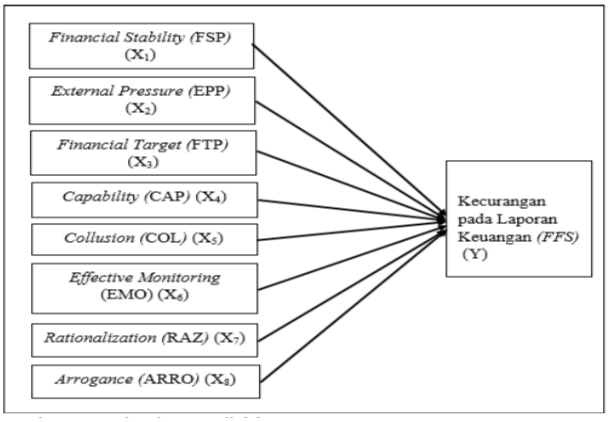
RESEARCH METHODOLOGY

Research Model

This study detects Fraudulent Financial Statements using Fraud Hexagon approach. Fraud Hexagon consists of six components (stimulus/pressure, capability, collusion, opportunity, rationalization, ego/arrogance) as known SCCORE Model. The variable of stimulus/pressure is examined using proxies financial stability, external pressure and financial targets. Financial

stability is measured by calculating the ratio of changes in assets compared to total assets last year. External pressure is measured using liquidity by comparing total liabilities to total assets. Finally, the financial target is calculated by comparing total net income with total assets. For variable capability, it is measured using a proxy for changing of directors, by providing code 1 if the company changes directors, and code 0 if there is no change of directors during the year the study sample was taken. For the collusion variable, it is measured using a government cooperation agreement proxy, by providing code 1 if the company cooperates with the government, and code 0 if there is no collaboration with the government during the year the research sample is taken. For the opportunity variable, it is measured using the proxy effective monitoring, which is measuring the ratio of the number of independent commissioners to the total board of commissioners owned by the company. For the rationalization variable, it is measured by the proxy for auditor change, by providing code 1 if there is a change in the auditing Public Accounting Firm (KAP), and code 0 if there is no change in KAP during the year the research sample is taken. Meanwhile, the ego or arrogance variable is measured using a proxy for the number of photos of executives or CEOs that are displayed in the company's annual report.

Figure 1. Research Model



Source : Data processed (2020)

Operational Definition

The dependent variable, fraudulent financial statements, is an act of deliberately providing misleading information and or manipulating the material value of the financial statements for a specific purpose (Arens, et al., 2015).

The independent variable in this study is the fraud hexagon model that consists of six factors; stimulus/pressure, capability, collusion, opportunity, rationalization, and ego/arrogance. Proxies for stimulus/pressure variable are financial stability, external pressure, and financial targets. The proxy for the opportunity variable is effective monitoring.

Financial stability is a stable company financial condition, described by the stable growth of company assets from year to year (Pratiwi & Nurbaiti, 2018).

(Agusputri & Sofie, 2019) defines external pressure as the pressure that is faced due to the company's funding needs that come from third parties.

Financial target is target financial that are determined in relation to management effectiveness in carrying out company operations with the minimum possible resources (Sihombing & Rahardjo, 2014).

Capability is defined as a special ability possessed by a perpetrator to commit a fraud, be it related to his position or expertise (Siddiq & Hadinata, 2016).

(Vousinas, 2019) defines collusion as a deceptive or compact agreement between two or more parties which is full of political elements and opportunistic attitudes, for several unfavorable purposes, such as to deceive third parties of their rights.

Effective monitoring is defined as a condition that describes the strength of company supervision because of the existence of an independent supervisory unit (Jaunanda, et al., 2020).

Rationalization is defined as a justification for the perpetrator's mind to cover up his fraud by eliminating the fraud trail found by the auditor (Tessa & Harto, 2016).

Ego/arrogance is an effort to show superiority by displaying status, position, or position (Haqq & Budiwitjaksono, 2019).

Variable Measurement

The measurement of fraudulent financial statements is adopted from (Beneish, Lee, & Nichols, 2013) developed by (Beneish M. D., 1999) as the latest and more detailed measurement using eight components obtained through information in financial statements. The measurement of Beneish M-Score each component is obtained by the formula:

Table 1. Dependent Variable Measurement

No	Rasio	Keterangan	Rumus
1	DSRI	Days Sales in Receivable	$\left(\frac{receivables_{t-1}}{sales_{t-1}}\right) : \left(\frac{receivables_{t-1}}{sales_{t-1}}\right)$
2	GMI	Gross Margin Index	$\left(\frac{sales_{t-1} - COGS_{t-1}}{sales_{t-1}}\right) : \left(\frac{sales_t - COGS_t}{sales_t}\right)$
3	AQI	Asset Quality Index	$\frac{\left(\frac{Total\ Asset_t - (Current\ Asset_t + PPE_t)}{Total\ Asset_t}\right)}{\left(\frac{Total\ Asset_{t-1} - (Current\ Asset_{t-1} + PPE_{t-1})}{Total\ Asset_{t-1}}\right)}$ *PPE = Property, Plant, & Equipmen*
4	SGI	Sales Growth Index	$\frac{Sales_t}{Sales_{t-1}}$
5	DEPI	Depreciation Index	$\left(\frac{Depreciation_t}{PPE_t + Depreciation_t}\right) : \left(\frac{Depreciation_t}{PPE_t + Depreciation_t}\right)$ *PPE = Property, Plant, & Equipmen*
6	SGAI	Sales General Administrative Index	$\frac{\left(\frac{Sales\ and\ General\ Expense_t}{sales_t}\right)}{\left(\frac{Sales\ and\ General\ Expense_{t-1}}{sales_{t-1}}\right)}$
7	LVGI	Leverage Index	$\frac{\left(\frac{Current\ Liability_t + Long\ Term\ Debt_t}{Total\ Asset_t}\right)}{\left(\frac{Current\ Liability_{t-1} + Long\ Term\ Debt_{t-1}}{Total\ Asset_{t-1}}\right)}$
8	TATA	Total Accrual to Total Asset	$\frac{NI\ from\ continuing_t - Operation\ Cashflow_t}{Total\ Asset_t}$ *NI = Net Income*

Source : Data processed (2020)

Fraud in financial statements can be measured by the Beneish M-Score, calculated by :

M-Score = -4,84 + 0,920*DSRI + 0,528*GMI + 0,404*AQI + 0,892*SGI + 0,115*DEPI – 0,172*SGAI + 4,679*TATA – 0,327*LEVI …….(1)

If the Beneish M-Score calculation is obtained, the following results are:

- The Beneish M-Score is less than -1.78, so the company is not indicated to have committed fraud in the financial statements or is classified as a non-manipulator company.

- If the Beneish M-Score is more than -1.78, the company is indicated to have committed fraud in the financial statements or is classified as a manipulator company.

The measurement of the independent variables in this study uses the S.C.C.O.R.E Model developed by (Vousinas, 2019) as an approach to researching the factors that cause financial statement fraud. The S.C.C.O.R.E Model is the latest approach that measures fraudulent financial statements in more detail:

Table 2. Independent Variable Measurement

Variable	Variable Measurement	References
Financial Stability (FSP)	Total Asset (t) - Total Asset (t-1) / Total Asset (t)	Beasley, *et al.* (2000)
External Pressure (EPP)	Total Liability : Total Asset	Skousen, *et al.* (2009)
Financial Target (FTP)	Net Income : Total Asset	Skousen, *et al.* (2009)
Capability (CAP)	Code 1, if there is a change of directors during 2017-2019 Code 0, if there is no change of directors during 2017-2019	Wolfe & Hermanson (2004)
Collusion (COL)	Code 1, if the company having a collaborative project with the government in 2017 – 2019 Code 0, if the company does not have a collaborative project with the government for 2017-2019	Vousinas (2019)
Effective Monitoring (EMO)	Number of Independent Commissioners / Total Board of Commissioners	Skousen, *et al.* (2009)
Rationalization (RAZ)	Code 1, if there is changes in KAP during 2017-2019 Code 0, if there is no changes in KAP during 2017-2019	Skousen, *et al.* (2009)
Arrogance (ARRO)	Number of CEO photos in annual report during 2017-2019	Crowe (2012)

Source : Data processed (2020)

Population and Sample

The population in this study are financial industry companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2019 period. Financial industry companies were chosen because from 2016 to 2020 they had changed from second to first as the industry that was most disadvantaged due to fraud with the result 41.4% compared to ten other industries based on SFI 2019 (ACFE, 2020). The specified sample criteria are:

[1] The company presents and / or reports its annual report in full and has been audited for the period 2017– 2019 consecutively.
[2] The company is listed on the Indonesia Stock Exchange (IDX) or not delisted from 2017 to 2019.
[3] The company is fulfilled the data required in this study.

Based on these criteria, the following samples were obtained :

Table 3. Samples Criteria

No	Information	Total
1	Financial sector service companies listed on the Indonesia Stock Exchange (IDX) for the period 2017 - 2019	90
2	The company does not present and or report its annual report in full and it has been audited for the period 2017 to 2019 consecutively	(4)
3	The company delisted during the period 2017 to 2019	0
4	The company does not fulfill the required data	(6)
	Total of companies that were the research samples	80
	Total of research periods	3
	Total of samples during research periods	240

Source : Data processed (2020)

Data Collection Technique

The type of data used in this research is secondary data. The data source used in this study is the financial statements of Financial Industry listed on the Indonesia Stock Exchange (IDX) for the period 2017 to 2019 and then analyzed through literature studies and financial statement observation techniques.

RESULT

Descriptive Statistics Analysis

Descriptive statistical analysis was used to determine the general description of the variables in this study.

Table 4. Fraudulent Financial Statements

FFS Y	Freq.	Percent	Cum.
0	183	76.25	76.25
1	57	23.75	100.00
Total	240	100.00	

Source : Data processed (2020)

Based on the results of the Table (FFSY), concluded that Fraudulent Financial Statements (Y) is a dummy variable that gives a value of 0 if the company is classified as non-manipulator (Beneish M-Score less than -1.78) and a value of 1 for companies that are classified as manipulators (Beneish Score greater than equal to -1.78). Of the 240 samples tested, 183 samples or 76.25% were not indicated to have committed fraudulent financial statements because they were categorized as non-manipulators or had a Beneish M-Score less than -1.78. The rest, 57 samples or 23.75% indicated that fraudulent financial statements maybe occurred because they were categorized as manipulators or had a Beneish M-Score greater than -1.78.

Table 5. Descriptive Staticstics

Variabel	Obs	Mean	Std. Dev	Min	Max
FFSY	240	0.2375	0.4264405	0	1
FSPX1	240	0.0790898	0.166781	-0.8978385	0.7658648
EPPX2	240	0.6814262	0.233783	0.0095679	0.9393876
FTPX3	240	0.012649	0.0392066	-0.1982918	0.1253973
CAPX4	240	0.5166667	0.5007665	0	1
COLX5	240	0.3208333	0.4677724	0	1
EMOX6	240	0.5299447	0.1427023	0.25	1
RAZX7	240	0.1916667	0.3944348	0	1
ARROX8	240	6.183333	4.728589	1	33

Source : Data processed (2020)

Based on the results of the Table (FSPX1), it can be seen that Financial Stability (X1) has an average value (mean) of 0.0790898 smaller than the standard deviation or standard deviation of 0.166781 meaning that Financial Stability has a low distribution and fluctuation. The minimum value of Financial Stability is -0.8978385 which means that the company has a low level of financial stability compared to other samples during the three years of research. Meanwhile, the maximum value of Financial Stability is 0.7658648 which means that the company has a high level of financial stability compared to other samples during the three years of the study.

Based on the results of the table (EPPX2), it can be seen that External Pressure (X2) has a mean 0.6814262 which is greater than the standard deviation or standard deviation of 0.233783 meaning that External Pressure has high distribution and fluctuation. The minimum value of External Pressure is 0.0095679, which means that the company has high pressure due to low fulfillment of funds compared to other samples during the three years of the study as evidenced by the low value of debt when compared to assets owned. Meanwhile, the maximum value of External Pressure is 0.9393876.

Based on the results of the Table (FTPX3), it can be seen that the Financial Target (X3) has an average (mean) value of 0.012649 which is smaller than the standard deviation or standard deviation of 0.0392066 meaning that the Financial Target has a low distribution and fluctuation. The minimum value of the Financial Target is -0.1982918 which means that the company has not been able to meet financial targets well compared to other samples during the three years of research as evidenced by the low level of profit generated compared to the assets used. Meanwhile, the maximum value of the Financial Target is 0.1253973, meaning that the company has been able to meet financial targets well compared to other samples during the three years of research as evidenced by the high level of profit generated compared to ssets used.

Based on the results of the table (EMOX6), it can be seen that Effective Monitoring (X6) has an average value (mean) of 0.5299447 which is greater than the standard deviation or standard deviation of 0.1427023 meaning that Effective Monitoring has a high distribution and fluctuation. The minimum value for Effective Monitoring is 0.25, which means that the company has independent commissioners as much as 25% of the total commissioners in office. The maximum value for Effective Monitoring is 1, which means that all commissioners who serve in the company are independent commissioners.

Based on the results of the table (ARROX8), it can be seen that Arrogance (X8) has an average (mean) value of 6.1833333 which is greater than the standard deviation or standard deviation of 4.728589 meaning that Arrogance has a high distribution and fluctuation, it can also be concluded that the average - The average appearance of photos of the President Director or CEO on the annual report of the sample companies is 6 (six) times. The minimum value for Arrogance is 1, which means that the number of CEO photos displayed by the company is 1 (one) time on each published annual report. The maximum score for Arrogance is 33, meaning that the number of CEO photos displayed on the company's annual report is 33 (thirty three) times.

Table 6. Capability

CAP X4	Freq.	Percent	Cum.
0	116	48.33	48.33
1	124	51.67	100.00
Total	240	100.00	

Source : Data processed (2020)

Based on the results of Table (CAPX4), it can be seen that Capability (X4) is a dummy variable. A score of 0 is given if there is no change in the board of directors (BoD) in the research year compared to the previous year. Meanwhile, a value of 1 is given, there is a change in the BoD in the research year compared to the previous year. Of the 240 samples tested, 116 samples or 48.33% did not have a change of directors during the study period. The rest, 124 samples or 51.67% changed the board of directors during the study period.

Table 7. Collusion

COL X5	Freq.	Percent	Cum.
0	163	67.92	67.92
1	77	32.08	100.00
Total	240	100.00	

Source : Data processed (2020)

Based on the results of the Table (COLX5), it can be seen that the Collusion variable (X5) is a dummy variable. A score of 0 is given if there is no collaboration with the government and / or government-owned institutions in the research year. Meanwhile, a value of 1 is given if there is cooperation with the government and / or government-owned institutions in the research year. Of the 240 samples tested, 163 samples or 67.92% did not collaborate with the government and / or government-owned institutions in the research year. The rest, 77 samples or 32.08% collaborated with the government and / or government-owned institutions in the research year.

Table 8. Rationalization

RAZ X7	Freq.	Percent	Cum.
0	194	80.83	80.83
1	46	19.17	100.00
Total	240	100.00	

Source : Data processed (2020)

Based on the results of Table (RAZX7), it can be seen that Rationalization (X7) is a dummy variable. A value of 0 is given if there is no change in the Office of the Public Auditor (KAP) that audits in the research year compared to the previous year. Meanwhile, a value of 1 is given if there is a change in the Office of the Public Auditor (KAP) that audits in the research year compared to the previous year. Of the 240 samples tested, 194 samples or 80.83% did not change the Public Auditor Office (KAP) that audited in the research year compared to the previous year. The rest, 46 samples or 19.17% made changes to the Public Auditor Office (KAP) that audited in the research year compared to the previous year.

Overall Model Fit Test

Overall Model Fit Test in this study was done by -2 Log Likelihood and the Nagelkerke R Square test. The Overall Model Fit Test is conducted to assess the suitability of the model used in the hypothesis with the available data.

Table 9. Overall Model Fit Test

Iteration 0 :	Log likelihood =	-131.56345
Iteration 1 :	Log likelihood =	-124.35522
Iteration 2 :	Log likelihood =	-124.18156
Iteration 3 :	Log likelihood =	-124.18151
Iteration 4 :	Log likelihood =	-124.18151

Logistic regression

Log likelihood = -124.18151

Source : Data processed (2020)

Based on the -2 Log Likelihood test, the result is that the value at -2 final Log Likelihood or Iteration 4 is greater than the initial -2 Log Likelihood value or Iteration 0 (-131.56345 <- 124.18151), besides that it can also be seen that the Iteration 3 and Iteration 4 values are consistent, it can be stated that the regression model is good and the model is in accordance with the data used.

Nagelkerke R Square Test

Table 10. Nagelkerke R Square Test

Number of obs	=	240
LR chi2 (8)	=	14.76
Prob > chi2	=	0.0639
Pseudo R2	=	0.0561

Source : Data processed (2020)

Based on the Nagelkerke R Square test, the results show that the value of R Square interpreted through Pseudo R2 is 0.0561, meaning that each independent variable in this study (Financial Stability, External Pressure, Financial Target, Capability, Collusion, Effective Monitoring, Rationalization, and Arrogance) able to influence the dependent variable, namely the Quality of Financial Statements of 5.61%. While the rest, 94.39% is influenced by factors outside this study.

Goodness of Fit Test

Goodness of Fit Test in this study uses the Hosmer Test and Lameshow's Goodness of Fit Test. The purpose of this test is to test the suitability of the data used with the research model. Determining whether the model is fit or not can be seen from the statistical test, if it is less than 0.05 then there is a significant difference in the model with the data so that the Goodness fit of this model is declared not good because the model cannot predict the data used (H0 is rejected). Conversely, if the statistical test value is more than 0.05, it can be stated that the model can predict or match the data used (H0 is accepted).

Table 11. Goodness of Fit Test

Logistic model for FFSY, goodness-of-fit test		
Number of observations	=	240
Number of covariate patterns	=	240
Pearson chi2 (231)	=	245.54
Prob > chi2	=	0.2439

Source : Data processed (2020)

Based on the table, it is concluded that the probability result is greater than the chi square which is equal to 0.2439. Thus, it can be concluded that the model used in this study is

declared fit, meaning that the model is able to predict the value of the research data and is suitable for use in this study.

Classification Table Test

This Classification Table test is used to calculate the correct and false approximate values. The classification table will display the approximate level of the regression model in predicting the possibility of Fraudulent Financial Statements.

Table 12. Classification Table Test

Logistic model for FFSY			
	True		
Classified	D	~D	Total
+	5	4	9
-	52	179	231
Total	57	183	240
Classified + if predicted Pr (D) >=0.5			
True D defined as FFSY ! = 0			
Sensitivity	Pr (+ | D)		8.7%
Specificity	Pr (- | ~D)		97.81%
Positive predictive value	Pr (D | +)		55.56%
Negative predictive value	Pr (~D | -)		77.49%
False + rate for true ~D	Pr (+ | ~D)		2.19%
False - rate for true D	Pr (- | D)		91.23%
False + rate for classified +	Pr (~D | +)		44.44%
False - rate for classified -	Pr (D | -)		22.51%
Correctly classified			76.67%

Source : Data processed (2020)

Based on the Table Test, the overall results obtained were 76.67%, meaning that the logistic regression model used in this study was adequate because it was able to explain the existing conditions correctly by 76.67% of the existing data in this study.

Wald Test

Wald test is intended to simultaneously determine the effect of the independent variable to dependent variable. Wald test is done by looking at the significant value (p-value) on the independent variable.

Table 13. Wald Test

Number of obs	=	240
Wald chi2 (8)	=	12.64
Prob > chi2	=	0.1249
Pseudo R2	=	0.0561

Source : Data processed (2020)

The results obtained 12.64 Wald value greater than Chi Square, meaning that simultaneously the independent variable in this research model can explain the dependent variable.

Logistic Regression Model

The logistic regression model is intended to determine the effect of the independent variable partially on the dependent variable in this study. The logistic regression model in this study was carried out by including all the components of the independent variables and using a significant level of 5%.

Table 14. Logistic Regression Model

FFSY	Coef.	Std. Err.	z	P> | z |	[95% Conf. Interval]	
FSPX1	2.654323	1.017018	2.61	0.009	0.6610048	4.647642
EPPX2	-1.520992	0.7276462	-2.09	0.037	-2.947152	-0.0948312
FTPX3	-8.587156	4.387539	-1.96	0.050	-17.18658	0.0122626
CAPX4	-0.323405	0.3392665	-0.95	0.340	-0.9883551	0.3415451
COLX5	-0.2708917	0.3816931	-0.71	0.478	-1.018997	0.4772131
EMOX6	0.069179	1.144997	0.06	0.952	-2.174974	2.313332
RAZX7	-0.0401589	0.4053144	-0.10	0.921	-0.8345605	0.7542428
ARROX8	0.0141699	0.0393265	0.36	0.719	-0.0629086	0.912483
_cons	-0.1674396	0.7381026	-0.23	0.821	-1.614094	1.279215

Source : Data processed (2020)

Based on the coefficient data in the table, the logistic regression model equation in this study can be formulated as follows:

$$\text{Ln}\frac{FFS}{(1-FFS)} = -0{,}1674396 + (2{,}654323*\text{FSP}) - (1{,}520992*\text{EPP}) - (8{,}587156*\text{FTP}) - (0{,}323405*\text{CAP}) - (0{,}2708917*\text{COL}) + (0{,}069179*\text{EMO}) - (0{,}0401589*\text{RAZ}) + (0{,}0141699*\text{ARRO}) + \varepsilon \quad \ldots\ldots\ldots(2)$$

The logistic regression model equation shows that financial statement fraud has a significant positive relationship to the company's financial stability (2.654323), which means that the company's tendency to commit fraud on financial statements is 2.65 times based on its financial stability, as well as for logistical results on other variables.

Hypothesis Testing

Table 15. Hypothesis Testing

Average marginal effect — Number of obs = 240

Model VCE : OIM

Expression : Pr (FSY), predict ( )

dy/dx w.r.t. : FSPX1 EPPX2 FTPX3 CAPX4 COLX5 EMOX6 RAZX7 ARROX8

	Delta-method dy/dx	Std. Err.	z	P> | z |	[95% Conf.	Interval]
FSPX1	0.4487382	0.1643128	2.73	0.006	0.1266911	0.7707854
EPPX2	-0.2571379	0.1196419	-2.15	0.032	-0.4916317	-0.022644
FTPX3	-1.451739	0.7220154	-2.01	0.044	-2.866863	-0.0366151
CAPX4	-0.0546746	0.0570713	-0.96	0.338	-0.1665323	0.057183
COLX5	-0.0457968	0.0643577	-0.71	0.477	-0.1719355	0.080342
EMOX6	0.0116954	0.1935716	0.06	0.952	-0.367698	0.3910887
RAZX7	-0.0067892	0.0685161	-0.10	0.921	-0.1410783	0.1274999
ARROX8	0.0023956	0.0066446	0.36	0.718	-0.0106277	0.0154188

Source : Data processed (2020)

DISCUSSION

Financial Stability has a significant positive effect on Fraudulent Financial Statements. The results of the research in the table (prob 0.006 <0.05; 0.4487382) prove that the first hypothesis (H1) is accepted. The more stable the financial condition of a company is reflected in the smaller the leverage ratio for changes in total assets between years, the lower the possibility of Fraudulent Financial Statements occurring. A stable financial condition of the company will reduce the pressure or stimulus faced, with the low pressure being faced, it will minimize the occurrence of Fraudulent Financial Statements. The results of this study support the fraud triangle theory, that is, if the company's financial condition is shaken, it will trigger fraud because management is faced with stimulus / pressure to maintain the company's condition in a stable state and optimal growth. The results of this study are also in line with research conducted by Sihombing and Rahardjo (2014), Tiffani and Marfuah (2015), Siddiq et al (2017), Herdiana and Sari (2018), Jaunanda et al (2020), and Haqq & Budiwitjaksono (2020) which concluded that the stability of the company's financial condition will reduce management pressure to commit fraudulent financial statements.

External Pressure has a significant negative effect on Fraudulent Financial Statements. The results of the study in Table 17 (prob 0.032 <0.05; -0.2571379) prove that the second hypothesis (H2) is accepted. The more fulfilled the company's funding needs as reflected by the higher the ratio of liabilities to assets, the lower the indication of fraudulent financial statements. The results of this study prove that the more the company's funding needs are met, the lower the indication of fraudulent financial statements occured. If these fund needs are not met, the creditor assumes the possibility of the company committing fraud to present an attractive financial report and obtaining an injection of funds from the creditor. The more additional funding is fulfilled through loans, credits, or debt that will be used to develop research, capital, and / or innovation for the company, the lower the indication of fraudulent financial statements that occured. The results of this study support the fraud triangle theory,

that is, if the company's funding needs are not met, it will trigger fraud because management is faced with a stimulus / pressure to meet the company's funding needs. The results of this study support the research of Septriani and Handayani (2018), Agusputri and Sofie (2019), as well as Larasati, Wijayanti, and Maulana (2020) which concluded that external pressure has a significant negative effect on fraudulent financial statements.

Financial Target has a significant negative effect on Fraudulent Financial Statements. The research results in the table (prob 0.044 <0.05; -1.451739) prove that the third hypothesis (H3) is accepted. The lower the profit earned or the smaller the ratio of earnings to assets, the higher the indication of fraudulent financial statements. This is because the company wants to beautify its financial statements by showing a fairly good profit rate so that if the profits earned in that year are low enough, the company will tend to try to commit fraud on its financial statements so that the company's condition looks more prime. The results of this study support the fraud triangle theory, that the set financial target becomes a separate pressure or pressure for management to achieve optimal profit with minimal assets. When the realized profit is not in accordance with the target or is classified as low, it will create pressure to create profit according to the target or at least improve the appearance of profit to make it look more optimal. The pressure created can encourage management to commit fraudulent financial statements. The results of this study also support research conducted by Emalia, Midiastuty, Suranta, and Indriani (2020) that financial targets have a significant negative effect on fraudulent financial statements.

Capability has a negative and insignificant effect on Fraudulent Financial Statements. The results of the research in the table (prob 0.338> 0.05; -0.0546746) prove that the fourth hypothesis (H4) is rejected, and concludes that switching of directors is not only to cover the existing fraud, but also that a change of directors can occur due to the schedule has been determined according to the maximum term of office for example 3 (three) years or 5 (five) years. The results of this study support the fraud diamond theory, stating that the capability of the position held will make a person have the power, authority, and / or opportunity to commit fraudulent financial statements. However, there are other factors that can limit a person's capability to commit fraud, for example, the term of office which is about to end, thus closing the possibility of committing further fraud. So that capability alone is not significant enough to measure the ability that is owned to commit fraudulent financial statements. The results of this study also refute the research of Siddiq, Achyani, and Zulfikar (2017) and Septriani and Handayani (2018) that capability has a significant negative effect on fraudulent financial statements. This research supports the research results of Sihombing and Rahardjo (2014), Tessa and Harto (2016), Taufiq Akbar (2017), Ratnasari and Solikhah (2019), as well as Haqq and Budiwitjaksono (2020) which concluded that capability had no significant effect on fraudulent financial statements.

Collusion has a negative and insignificant effect on Fraudulent Financial Statements. The results of the research in the table (prob 0.477> 0.05; -0.0457968) prove that the fifth hypothesis (H5) is rejected. This proves that although cooperation with the government tends to be influenced by political elements, in its implementation, it is still through established procedures and certain qualifications so that companies can be trusted to obtain such cooperation. Research conducted by Vousinas, 2019 states that cooperation with the government contains a political element and is usually carried out through a tender system or a project of considerable value. Companies tend to try in various ways to win tenders and obtain such cooperation. However, the tenders that are held of course must meet certain criteria and go through various stages of testing so that the project implementer is not arbitrary and it is not easy to commit fraudulent attempts. The results of this study support Vousinas' theory which states that collusion is an agreement between two or more parties that is full of political elements and opportunistic attitudes. However, he refutes further

information that collusion is a compact or deceptive agreement that is full of political elements and opportunistic attitudes for less than good goals. The results of this study also refute the results of research by (Vousinas, 2019), (Sari & Nugroho, 2020), and (Desviana, Basri, & Nazrizal, 2020) that collusion has a significant positive effect on fraudulent financial statements. This study supports the results of the research by Haqq and Budiwitjaksono, 2020, concluding that collusion has no significant effect on fraudulent financial statements.

Effective Monitoring has a positive and insignificant effect on Fraudulent Financial Statements. The results of the study (prob 0.952> 0.05; 0.0116954) prove that the sixth hypothesis (H6) is rejected. This is because the large or small number of independent commissioners in the company does not significantly affect the indications of fraudulent financial statements. Effective supervision is not only influenced by the number of independent commissioners, but is also influenced by other factors such as the ability and suitability of the board of commissioners' educational background, as well as internal controls in the company. The appointment of independent commissioners in companies is generally only to meet applicable regulatory requirements, not to implement fraud prevention mechanisms in financial reports. In Indonesia itself, the rules regarding the minimum limit for independent commissioners are regulated in POJK Number 33 / POJK.04 / 2014 concerning the Board of Directors and Board of Commissioners of Issuers or Public Companies. The results of this study support the fraud triangle theory, which states that opportunities can be minimized with effective supervision. However, effective monitoring carried out by a company is not only limited to the existence of independent commissioners, but must be carried out in a comprehensive and comprehensive manner. The results of this study also refute the research of Tiffani and Marfuah (2015), Septriani and Handayani (2018), and Agusputri and Sofie (2019) that effective monitoring has a significant negative effect on fraudulent financial statements. This research supports the research results of Larasati, Wijayanti, and Maulana (2020), Haqq and Budiwitjaksono (2020), Sari and Nugroho (2020), as well as Jaunanda, Tian, Edita, and Vivien (2020) which concluded that effective monitoring had no significant effect on fraudulent financial statements.

Rationalization has a negative and insignificant effect on Fraudulent Financial Statements. The results of the research in the table (prob 0.921> 0.05; -0.0067892) prove that the seventh hypothesis (H7) is rejected. This is because the change of KAP is not automatically used to eliminate a fraud trail that was found by the previous auditor (Skousen, et al., 2009), but is also related to the end of the contract with the KAP so that a change of KAP must be made. The results of this study support the frau scale theory, that fraud can occur because it is influenced by a person's integrity, not only on rationalization. If the pressure and opportunities are great, but someone has high integrity, the possibility of cheating will be low. Likewise, if someone has low integrity, even though the opportunity and pressure is small, it will still allow fraud to occur. The results of this study indicate that auditors (proxied by the change of KAP) work with self-integrity in mind, so that rationalization alone cannot measure indications of fraudulent financial statements, but must consider the integrity of each individual. The results of this study refute research conducted by Siddiq, Achyani, and Zulfikar (2017), Vousinas (2019), Oktafiana, Nisa, and Sari (2019), Jaunanda, Tian, Edita, and Vivien (2020), as well as Avortri and Agbanyo (2020) that rationalization has a significant positive effect on fraud in financial statements. This research supports the research of Desviana, Basri, and Nasrizal (2020), Haqq and Budiwitjaksono (2020), Sari and Nugroho (2020), Herdiana and Sari (2018) and Damayani, Wahyudi, and Yuniatie (2017) which concluded that rationalization had no effect. significant to fraudulent financial statements.

Arrogance has no significant positive effect on Fraudulent Financial Statements. The results of the study (pro 0.718> 0.05; 0.0023956) prove that the eighth hypothesis (H8) is rejected. The number of CEO’s photos that appear in the annual report is not a strong

indicator that the CEO wants to be seen as a celebrity or to show his power in public. Furthermore, the CEO's photos that is displayed depends on the concept of presenting the annual report whether you really want to display more photos of the executive ranks or use a minimalist concept by minimizing the photos of activities and photos of executives in published annual reports. Another reason, the number of CEO's photos in the annual report is dominated by photos of activities attended by the CEO, such as signing a cooperation agreement or obtaining prestigious awards. This is also reinforced by the role of the CEO as a leader who is considered to be a role model for employees and staff, of course when an activity is held, the eye and the camera will tend to focus on capturing the CEO's presence as a leader and role model. Thus, the photos of the activities displayed tend to be dominated by CEO's photos as a company representative. The results of this study contradict research conducted by Tessa and Harto (2016), Siddiq, Achyani, and Zulfikar (2017), and Haqq & Budiwitjaksono (2020) that arrogance has a significant positive effect on fraudulent financial statements. The results of this study are consistent with the research of Damayani et al (2017), Pratiwi & Nurbaiti (2018), Septriani & Handayani (2018), and Agusputri & Sofie (2019) who concluded that arrogance has no significant effect on fraudulent financial statements.

CONCLUSION

Financial stability has a significant positive effect on fraudulent financial statements. The more stable the company's financial condition, the more indications that fraudulent financial statements occured. Thus, financial stability can be used to detect indications of fraudulent financial statements.

External pressure has a significant negative effect on fraudulent financial statements. The higher the pressure due to debt owned by the company, the lower the indication of fraudulent financial statements. Thus, external pressure can be used to detect indications of fraudulent financial statements.

Financial targets have a significant negative effect on fraudulent financial statements. The higher the financial target achieved, the lower the indication of fraudulent financial statements. Thus, financial targets can be used to detect indications of fraudulent financial statements.

Capability has a negative and insignificant effect on fraudulent financial statements. Changes of directors in the company cannot be used as a measurement for indications of fraudulent financial statements.

Collusion has a negative and insignificant effect on fraudulent financial statements. Cooperation with the government and / or institutions under government management cannot be used as a measurement for indications of fraudulent financial statements.

Effective monitoring has a positive and insignificant effect on fraudulent financial statements. The existence of independent commissioners cannot be used as a measurement for indications of fraudulent financial statements.

Rationalization has a negative and insignificant effect on fraudulent financial statements. The replacement of the Public Auditor's Office cannot be used as a measurement for indications of fraudulent financial statements.

Arrogance has no significant positive effect on fraudulent financial statements. The intensity of the number of photos of the CEO or managing director in the annual report cannot be used as a benchmark for indications of fraudulent financial statements.

For academics and future researchers, suggested to develop research using other factors that influence fraud in financial reports, such as the nature of the industry and personal financial needs. Research development can also be carried out using different proxies, other industrial sectors, and research sample periods at different timescales.

For investors, stakeholders and financial sector companies listed on the Indonesia Stock Exchange (IDX), research results prove that financial stability, external pressure, and financial targets can be used to detect fraud in financial reports.

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