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ANALYSIS OF HEXAGON FRAUD MODEL, THE S.C.C.O.R.E MODEL INFLUENCING FRAUDULENT FINANCIAL REPORTING ON STATE-OWNED COMPANIES OF INDONESIA

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ABSTRACT

This research aims to analyze the influence of each Hexagon Fraud factor that causes fraudulent financial reporting, namely Pressure, Opportunity, Rationalization, Arrogance, Capability and Collusion based on respondents' perceptions of the content. The research methodology used is a quantitative method, sample determination was carried out using a purposive sampling method with certain criteria. The questionnaire was distributed to 3 leaders and 3 officials based on the selected sample. Primary data was obtained to test 6 research hypotheses based on the answers of 96 respondents from 16 State-Owned Enterprises (SOEs) from the selected sample. Data processing uses Smart PLS version 3.00 to test validity and reliability and test research hypotheses. The results of research on hexagon fraud theory show that Opportunity, Arrogance and Capability have a positive and significant effect on Fraudulent Financial Reporting, while Pressure, Rationalization and Collusion do not have a significant effect on Fraudulent Financial Reporting. Research findings reveal that fraud perpetrators are parties who have a deep understanding of the company's internal control policies, especially knowledge about the effectiveness or ineffectiveness of internal controls, both from within and from outside SOEs. Fraud perpetrators may come from leaders or officials who are knowledgeable about the organizational structure and governance of officials in strategic positions.

Keywords: *Arrogance, Capability, Collusion, Hexagon, Opportunity, Pressure, Rationalization*

1. INTRODUCTION

Fraudulent financial reporting can raise doubts among investors about management, and also has the potential to criticize the accounting profession. The Association of Certified Fraud Examiners (ACFE) states that fraudulent financial reporting practices can threaten a country's economic activities (Association of Certified Fraud Examiners (ACFE), 2018). Association of Certified Fraud Examiners Indonesia, (2019) also shows that fraudulent practices have caused a loss of around 5% of a company's gross income. Many conflicts of interest are caused by personal interests of employees, management or executives cannot be disclosed so that they have a negative impact on the company (Wells, 2017). Conflicts of interest between several officials and employees in management can be one of the reasons for management to act fraud. Based on agency theory, where management acts as an agent, meanwhile and investors or the government as principals, in accordance with this agency theory, principals and agents act as long as they provide advantages and convenience and have the potential for fraudulent financial reporting. Moreover, fraudulent financial reporting is an act of fraud that is consciously performed by top management to present a convincing financial statement rather than real financial statement (Albrecht, W.S, Albrecht, C.O, Albrecht, 2018). The company management can present improvements in its performance in a financial statement, but in some cases this information only aims to give an impression to readers of the financial statement (Kayoi & Fuad, 2019). Fraudulent financial reporting has a high long-term risk to the company's business activities (Kayahan & Murat, 2022). To prevent greater fraud, companies must be able to develop strat- egies to prevent fraud (Sihombing & Rahardjo, 2014). However, it is not only necessary to develop a fraud prevention strategy, but also to detect fraudulent practices early on in the company, and to understand the methods used to detect fraud. In carrying out audit planning and realizing the audit program, auditors and forensic accountants must be more careful in dealing with risk factors and fraud (Devy, et.al, 2017). Fraud is an act of a person within a company who misleads users of financial reports because fraudulent acts can change the financial reports. Fraud is carried out to deceive users of financial reports by correcting them so that the enterprises poor performance does not appear. In general, fraud by companies is very dangerous for the country's economy. In several cases of fraud that have been revealed, starting with ordinary fraudulent practices to fraud carried out by companies that will go public through IPO activities to deceive their investors (Puspitadewi & Sormin, 2018).

ACFE, 2019 revealed that state-owned companies in position number 3 often commit fraud, and these companies are the go public state-owned companies. There are several cases of window dressing carried out by PT Asabri and PT Garuda, and window dressing itself can change the picture of company profits to deceive users of financial reports (Kayoi & Fuad, 2019). Meanwhile, Suhartono et al., (2021) revealed a dual position, namely the main director of PT Garuda Indonesia (Persero) and the main commissioner of PT Sriwijaya Air. This condition creates unhealthy competition because both of them work together to determine ticket prices. Financial reporting that contains fraud can create long-term risks that damage the company's business (Shemshad & Karim, 2023). Therefore, companies need to develop fraud prevention strategies to detect potential fraud early (Sihombing & Rahardjo, 2014). Not only in preparing strategies to detect fraud, but also starting from the preparation of audit planning and audit programs, auditors or forensic accountants must be more careful in anticipating the risk of fraud (Devy et al., 2017). Many cases of fraud as described are still ongoing today, even the theory of fraud has developed in 6 phases of development to reach the hexagon theory of fraud (Vousinas, 2019).

The choice of State-Owned Enterprises as research objects is because in a SOE there are many interests, including the interests of the government as the majority shareholder, the interests of management, and the interests of individuals, both the interests of party officials and career officials. Meanwhile, SOEs is also a company that has a very large market capitalization so it is not surprising that there is a lot of fraud, especially financial statement fraud. The difference between this study and previous study is that this study raises the psychological aspect of perceptions of fraud in fraudulent financial reporting by distributing questionnaires to SOEs employees after the Covid-19 recovery period is over. The data is processed using Smart PLS version 3.00 because the data collected is primary data. In previous research which also used hexagon fraud theory (Rizkiawan, 2021), it was revealed that 5 of the 6 hexagon Fraud factors, namely opportunity, rationalization, pressure, capability and collusion, had an impact on fraudulent financial reporting on SOES, while arrogance had no effect to that reporting. However, the research data processing carried out (Rizkiawan, 2021) uses logistic regression with Fraud financial reporting as the endogen variable with using the M score while the 6 hexagon factors of Fraud and Corporate Governance as independent variables.

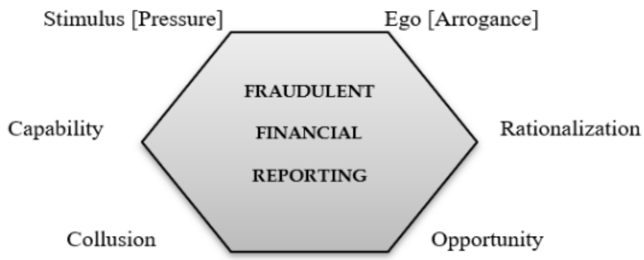
2. THEORICAL FOUNDATION OF RESEARCH

2.1 THE BRIEF DEVELOPMENT OF FRAUD THEORY TOWARD TO HEXAGON THEORY OF FRAUD

The development of fraud theory has developed into 6 theories. The theory of fraud begins with the emergence of white-collar crime, where at that time the victim of the crime did not feel that he was a victim of economic and business crimes because the crime was committed professionally. Sutherland, (1940) explained that this white-collar crime was different from street crimes that occurred during the second world war in the European region. White-collar crimes are carried out in a structured manner and include criminal acts because they harm the general public without them knowing it, which is then known as fraud. In the following developments, this white-collar crime became the basis for the triangle theory. The triangle theory of fraud by (Cressey, 1950), was one of the impacts of the European economic recovery after the second world war. Cressy, (1950) has deepened his understanding of white-collar crime and revealed that there are 3 factors that give rise to fraud in organizations or companies that carry out activities in the economic and business fields where these crimes are detrimental to the general public or citizens, namely pressure, opportunity and rationalization. Pressure to do an act because of compulsion. Financial pressure, for example; fraud due to lifestyle and drug addiction. Opportunities to commit fraud can be reduced by strengthening internal control, for example: the courage to commit fraud is limited for fear of being detected by tight internal controls. misuse of authority and fail of supervision. Rationalization is interpreted as justification for the perpetrator of fraud so that he feels that his actions are legitimate (Moraliyska, 2023). Of the three factors that trigger fraud, what needs to be highlighted is the opportunity because it starts with an opportunity so that financial pressure can be channeled after obtaining some justification. The next stage of development is marked by the presence of the Scale Theory of Fraud as stated by (Albrecht, W.S, Albrecht, C.O, Albrecht, 2018) as a correction to the Triangle Theory of Fraud because the triangle theory of fraud was considered not clear enough. In the Fraud Scale Theory, situational pressure factors as corrections for financial pressures, opportunity factors are corrected to become opportunities for fraud, and personal integrity factors as corrections for rationalization. Situational pressure to assess the condition of each individual when committing fraud, whether they feel guilty or not. The opportunity to commit fraud depends on the risk borne by the perpetrator of the fraud. Personal integrity factor to assess the potential to commit fraud based on past character. These three factors are interdependent on each other, namely the possibility of high fraud occurring under conditions of situational pressure and the opportunity to commit fraud is high but personal integrity is low, or the probability of fraud is low because one has high integrity even though situational pressure and opportunity to act fraud remains low (Ahmić & Isović, 2023). Then, on the fraud scale theory, personal integrity is an important factor related to detecting fraud, including fraud financial reporting. In subsequent developments, the pentagon theory of fraud or A-B-C analysis emerged, with additional factors in the fraud triangle theory, namely capability and arrogance (Wolfe & Hermanson, 2004). Capability is a very important factor to be able to commit fraud because fraud perpetrators have the capability to minimize the risk of their actions, and according to (Dorminey, 2011) that capability is related to adequate ability to act fraud so that the higher a person's capability, the higher his ability to act fraud. Subsequent developments from fraud theory led to the Diamond theory of fraud and Money, Ideology, Coercion and Rights.

This Diamond Fraud Theory wants to clarify that the main factor that must be considered is the behavior of the perpetrators of fraud (Dorminey, 2012). The Hexagon Theory of Fraud still uses the factors of Stimulus, Capability, Collusion, Opportunity, Rationalization and Ego [Arrogance] which influence the occurrence of Fraud, and what is meant by fraud in this study is Fraud Financial Reporting. Fraud theory has reached a new phase marked by the release of the Hexagon theory of Fraud known as the S.C.C.O.R.E Model by (Vousinas, 2019) as shown in figure 1 below.

Figure 1. The S.C.C.O.R.E. Model



Source: Vousinas, 2019

The explanation of the five factors referred to above is the same as in the previous fraud theory, it's just that there is an additional collusion factor. According to Vousinas, 2019, Collusion is an agreement between a first party and a second party with the aim of deceiving a third party.

2.2 FRAUDULENT FINANCIAL REPORTING

According to (Association of Certified Fraud Examiners (ACFE), 2018), fraud in financial reporting can be interpreted as fraud action by management through exercising control in the form of artificial or deliberately engineered misstatements in financial reports. Fraudulent Financial Reporting can be interpreted as planned fraud, actions that violate the law, and intend to benefit certain parties (Kayoi & Fuad, 2019). This action not only deceives users of financial statements, especially it can mislead users in reading a financial report. According to (Bryan et al., 2002) the Statement on Auditing Standards (SAS) No.99, fraudulent financial reporting can be done: a. Deliberately manipulating, falsifying, or changing accounting policies or additional documents when preparing financial reports. b. Intentional errors or omissions in information that are significant to the financial statements. c. Committing an abuse of principles relating to amount, categories, method of presentation, or disclosure. Todorović et al., (2020) underlines the importance of Anti-Fraud Strategy to be developed for decreasing many cases of fraud and corruptions.

3. METHODOLOGY

3.1 DATA SOURCES

This study is categorized as quantitative research because this research aims to obtain data, and process it with Smart PLS to test hypotheses, then analyze the results of this research to answer the research phenomenon. The population of state-owned enterprises officially registered in 2018-2022 is 107 enterprises. The sample was determined using a purposive sampling method with certain criteria, namely 107 companies - 4 companies with incomplete data - 87 companies did not go public, so the valid sample is 16 companies. The 16 selected companies were then visited to distribute questionnaires to be answered by 3 leaders and 3 employees. The questionnaire was answered by 96 respondents or 16 companies x 6 respondents. Data collected from the first source is classified as primary data (Puška et al., 2020). According to (Sugiyono, 2018), primary data is a field data that directly provides information to data collectors so that the data obtained is data that comes from first hand, and has not been further processed for any purpose. Smart PLS is a data processing application that is more widely used for primary data where filling out questionnaires is based on a Likert scale. In addition, Smart PLS is a sophisticated application that can be used without many assumptions (Juliana et al., 2022), such as normality tests and multicollinearity tests between these variables (Ramzan & Khan, 2010). It can even be used in all data scale categories, from nominal, ordinal, interval to ratio data scales (Puška et al., 2018). Another advantage of Smart PLS is that the data used can be under 100 respon dents (Ghozali, 2006), like this research.

The research objects are 16 state-owned enterprises go public on the Indonesian Stock Exchange (IDX). The specificity of state-owned companies because companies whose share ownership by the Government of Republic of Indonesia is above 51%, and is certainly suitable for fraudulent financial reporting. Based on these 16 companies, research questionnaires were then distributed with taking respondents 3 leaders and 3 employees for each company.

Table 1. List of Research Indicators

Variables	Indicators	Question	Sources
Fraudulent Financial Reporting (FFR)	1. Accounting Records 2. Disclosure 3. Inappropriate Budget Allocation 4. Cost Standards 5. Fraud 6. Manipulation 7. Gratification	12	(ACFE, 2019) (Vousinas, 2019) (Desviana et al., 2020)
Pressure (PRE)	1. Pressure from superiors 2. Accounting Standards	5	
Opportunity (OPP)	1. Organizational Structure 2. Internal Control 3. Policy 4. Facility	4	
Rationalization (RAT)	1. Follow up 2. Review	2	
Arrogance (ARR)	1. Directing of Work 2. Work of Guidelines 3. Discussion about Work 4. Decision making 5. Career	6	
Capability (CAP)	1. Initiative 2. Knowledge 3. Awake of Failure 4. Communication 5. Help to Friend	7	
Collusion (COL)	1. Self-aware 2. Reprimand 3. Burden of work 4. Integrity	4	

Source: Data processed by Author, 2023

Table 1 shows the indicators that are translated into research questions using a Likert scale. The sequence of research variables is based on the sequence of fraud theory journeys starting from diamond fraud theory to hexagon fraud theory.

3.2 RESEARCH HYPOTHESIS

3. 2. 1 PRESSURE ON FRAUDULENT FINANCIAL REPORTING

Shareholders or investors as principals in a cooperation contract hand over responsibility to management who acts as an agent to get good company performance. Along with high expectations from shareholders, there is pressure felt by management in formulating strategies so that these expectations are met. Pressure can give rise to the idea of committing fraud in the company's financial reports carried out by management in meeting the interests of shareholders. Financial Target is a condition where the pressure felt by the manager in achieving the economic goals obtained by the manager and the company's president director.

Financial targets are measured by the Return on Assets (ROA) indicator which presents a profitability ratio calculated by dividing profits with assets utilized (Kushnir et al., 2023). The manager's idea to commit fraud on financial statements by manipulating the ROA ratio is by increasing this ratio from the company's profits to the assets used (Skousen & Twedt, 2009). Therefore, it can be a judgement that the higher the financial target proxied by ROA profitability, the greater the opportunity for companies to practice fraud in the company's financial reports. This is supported by the results of research from (Wiharti & Novita, 2020), (Kayoi and Fuad, 2019), (Maryadi et al., 2020), (Santoso, 2019) which stated that financial targets had a significant positive influence on fraud in financial reporting. Financial targets from anywhere, especially from the shareholders or investors to the enterprise management, will certainly impact the way of management makes it happen. Based on agency theory that the management as an agent works in accordance with the authority and responsibility it receives from shareholders or investors as principals. In the real world, shareholders or investors always demand management to always obtain satisfactory performance regardless of the condition of the company. This demand puts pressure on management to be able to display performance that satisfies the share- holders or investors even though it does not always succeed in realizing it. Management that is less successful in meeting financial targets from shareholders or investors tends to commit fraud on financial statements so that financial reports look better. For the purposes of financial ratio analysis, the company can act fraud against the number of records in the desired posts. A stimulus can be in the form of pressure to increase financial ratios, such as ROA, ROE, ROI, Net Profit, EPS by comparing the results of the ratios of the last year with the results of the ratios of the previous year.

H1: Pressure has a positive effect* on *Fraudulent Financial Reporting

3. 2. 2 OPPORTUNITY ON FRAUDULENT FINANCIAL REPORTING

Crime is not only the intention of the perpetrator but also the opportunity, so be aware, be aware. Another jargon that golden opportunity will not come twice in a lifetime. Any crime, including fraud, can occur because of the opportunity and the perpetrator of the crime will dare to carry out his actions when he is sure that his actions will not be detected by other parties. The reason people act fraud is because the internal control are not so good that people who do not think about committing fraud think about doing it. Internal control and opportunity are inversely proportional, the tighter the internal control, the lower the opportunity, so it should be. Related to the ineffectiveness of internal control explained by (Siddiq, F,R, 2017)1953 that the tightness of internal supervision depends on the ratio of the board of commissioners serving in the enterprise with the record that the board of commissioners is able to detect fraud earlier and provide security for company assets (Zhukevych & Zhuk, 2023). This discussion is in line with what was stated by (Putriasih,K, 2016) that ineffective internal control has an impact on fraudulent financial reporting. However, in other studies the opportunities that arise due to the lack of effective internal control have no effect on fraudulent financial reporting (Damayani et al., 2019) the target of financial, the external stimulus, the managerial ownership, ineffective in monitoring, character of industry, exchange in auditor, exchange in directors, and frequent number of CEO's picture. While endogen variable is financial statement fraud. Population on this study are infrastructure companies that listed in Indonesian Stock Exhange (IDX, (Bawekes, H.F, Simanjuntak A.M, Daat, 2018).

H2: Opportunity has a positive effect on Fraudulent Financial Reporting

3. 2. 3 RATIONALIZATION ON FRAUDULENT FINANCIAL REPORTING

According to SAS No. 99 (2002) that an auditor must have awareness of the occurrence of fraud in financial reports, especially related to the rationalization indicator. Rationalization is a behavior that considers that the fraudulent act that has been carried out does not deviate from the existing regulations so that it is appropriate to do so and the perpetrators of fraud always look for justifications for their criminal actions.

Factors that can indicate risk include ineffective value communication, management that participates excessively but does not participate in financial aspects, and management's excessive interest in increasing or maintaining the entity's profit trend. Other factors that indicate the action of fraud can be seen from management activities in minimizing profits to be reported to taxation, as well as the attitude of management trying to justify an accounting treatment that is trivial or not supported for material reasons. The relationship between the enterprises' internal and auditors that is not always in line or looks tense, both the previous auditor and the successor auditor can be a factor that causing the rationalization risk in financial statement fraud. Because of this explanation, it can be said that the poor relationship between auditors and management is due to the failure of management to operate the enterprises' finances, and the behavior of earnings management in the company is related to the factors that causing fraud on financial reports from rationalization.

Findings of fraud in financial reporting or fraud trails detected by the old auditor can be avoided by replacing auditors within the company. This motivates companies to replace external auditors to avoid detecting fraudulent financial reporting (Skousen & Twedt, 2009). In the two-year period there was a change in the services of a public accountant which could indicate the occurrence of fraud. Previous findings from research (Novitasari & Chariri, 2018), (Koharudin & Januarti, 2021) financial target, external pressure, and (Maryadi et al., 2020), show a positive influence between exchange in auditor and fraudulent financial reporting. The higher rationalization can be seen from the change in the services of public accounting firms. Based on this, it can indicate that fraudulent financial reporting is getting higher.

H3: Rationalization has a positive effect on Fraudulent Financial Reporting

3. 2. 4 ARROGANCE ON FRAUDULENT FINANCIAL REPORTING

According to (Koharudin & Januarti, 2021) that arrogance is shown in a person's lack of conscience to empathize with others and feel he has superiority and the right to be greedy which makes him confident that he is immune to control. Meanwhile, in the KBBI, arrogance includes an attitude that is arrogant, haughty, and arrogant towards someone who feels superiority in himself which is realized in an action that likes to be pushy or arrogant. Usually occurs in people who are in the highest position, their careers are on the rise or are experiencing rap- id development in their business. In large companies, the arrogant attitude of a leader is very common.

Arrogance can have a negative effect, both on individual enterprises and corporate companies because it can damage company operations (Horwath, 2011). Then continued by (Horwath, 2011) that there are 5 types of ego from the sight of the CEO, namely:

a. Arrogant actors tend to look like celebrities rather than the authority of a CEO.

b. Perpetrators feel immune to internal controls and are less likely to be detected.

c. Perpetrators have characteristics as people who like to disturb

d. The perpetrator has a habit of leading his subordinates in an authoritarian way

e. Arrogant perpetrators tend to acutely lose their position or status.

The number of narcissistic photos of the president director appearing narcissistically in the enterprises' annual report can show the level of ego or arrogance.

H4: Arrogance has a positive effect on Fraudulent Financial Reporting

3. 2. 5 CAPABILITY ON FRAUDULENT FINANCIAL REPORTING

Not everyone has the ability to be able to commit fraud without being detected by the company, and successful acts of fraud are always due to knowledge and experience so that the perpetrators of crimes are said to have the ability or competence. Wolfe & Hermanson, (2004) revealed that it is impossible for individuals who do not have individual abilities or capabilities to be able to commit fraud, especially fraudulent financial reporting, without cooperating with insiders, namely those who have the capability to work with the system. In the case of changing directors, the enterprise's performance is not always getting better because the new director is not necessarily as good as the previous one. Moreover, the longer the transition period when a vacuum occurs, the greater the potential for fraud that can be exploited. During periods of stress will increase the possibility of fraud (Wolfe & Hermanson, 2004). It could be that the reason for changing a director is one of the efforts to eliminate traces made by perpetrators of fraud so that fraud cannot be detected and conditions remain safe for him. In line with the research results of (Siddiq, F,R, 2017)1953, (Faradiza, 2019), it is revealed that capability, in this case the ability of fraud perpetrators to change the situation of changing directors, affects fraudulent financial reporting. With this discussion, the hypotheses that can be raised are:

H5: Capability has a positive effect on Fraudulent Financial Reporting

3. 2. 6 COLLUSION ON FRAUDULENT FINANCIAL REPORTING

Collusion can be classified as a moral crime because with collusion people are willing to make payments for trade to benefit themselves or their group. Collusion comes from the Latin collusion which means a secret conspiracy to carry out unethical work (Sihombing and Rahardjo, 2014). The unethical act could be in the form of an act that is punishable by a criminal act, such as taking advantage of manipulating financial reports or fraudulent financial reporting. Based on this, collusion can be projected as an act that is bad and is detrimental to the company. Wilopo, (2006) stated that several cases of collusion such as the cases at WorldCom, Enron, Xerox were also caused by unethical acts. Likewise, the collusion case that occurred four years before at CIMA (2002) also occurred because companies had low ethics, which led to high fraudulent financial reporting. Moreover, another case of collusion is the protection of authority and position to commit fraudulent financial reporting (Beaulieu & Reinstein, 2010). Including other unethical acts such as political connections are also detrimental to the company. The company has political connections with the government, privileged to get help from the government in dealing with difficult economic conditions. When loans are made continuously and are not restrained, there will be certain parties who take advantage of engineering accounting records so that fraudulent financial reporting occurs. Another opinion originating from (Vousinas, 2019) states that collusion includes white collar crimes which occurred a lot in the early days after the end of the second world war. Companies that get many buyers for working on government projects, have the potential to commit collusion because fraud perpetrators have a great opportunity to manipulate accounting records and financial reports (Sari & Nugroho, 2020). With this discussion, the hypotheses that can be raised are:

H6: Collusion has a positive effect on Fraudulent Financial Reporting

3.3 STATISTICAL ANALYSIS

This study uses a quantitative method to test the hypothesis of the exogen variable against the endogen variable based on empirical data. Quantitative analysis is used to measure re- search data so as to produce information that can be interpreted in analysis and discussed to determine conclusions, suggestions and implementation. Operationalization of exogen variables, are elements of the Hexagon Theory of Fraud including, Pressure (PRE), Opportunity (OPP), Rationalization (RAT), Arrogance (ARR), Capability (CAP) and Collusion (COL), with one endogen variable, namely Fraudulent Financial Reporting (FFR). The author chooses to use empirical data on state-owned companies that go public on the Indonesian stock exchange in 2022 with the consideration that all fraud detection elements, namely S.C.C.O.R.E affect fraudulent financial reporting in the Hexagon Theory of Fraud scheme. The selection of the sample was determined by purposive sampling based on certain criteria so that the population of 20 companies became 16 sample companies. Questionnaires were distributed to the 16 companies with 6 officials per company each, so there were 96 respondents.

To determine the quality of the data, and validity and reliability tests are carried out on the outer model so that it is suitable for further processing in smart PLS 3.00 on the next stage. This validity and reliability test includes 3 criteria, namely convergent validity, discriminant validity and composite reliability. The next stage is to carry out hypothesis testing on the inner model to determine the influence of each element of hexagon fraud on fraudulent financial reporting. Then a discussion of the results of hypothesis tests on 6 research hypotheses is carried out.

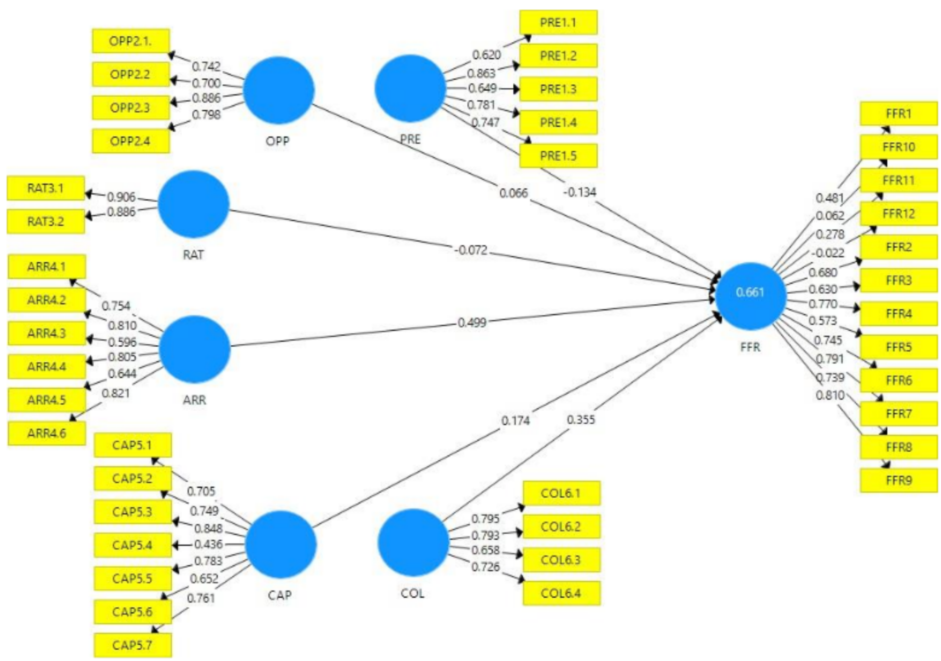
4. RESEARCH RESULTS

4.1 OUTER MODEL

Before testing the hypothesis, validity and reliability tests were first done to determine the feasibility and reliability of the data. Smart PLS version 3.00 processes the outer model based on 3 criteria, namely Convergent Validity, Discriminant Validity and Composite Reliability.

Convergent Validity, reflective measurement model based on the correlation between item scores estimated using Smart PLS version 3.00. Individual reflective measure is said to be high if it correlates > 0.700 with the construct being measured. The research model that has been made in the framework of thought is continued and the same model is made again in the Smart PLS version 3.00 application accompanied by all the indicators used in the operationalization of variables. The following of the initial model of this study as shown in Figure 2 below.

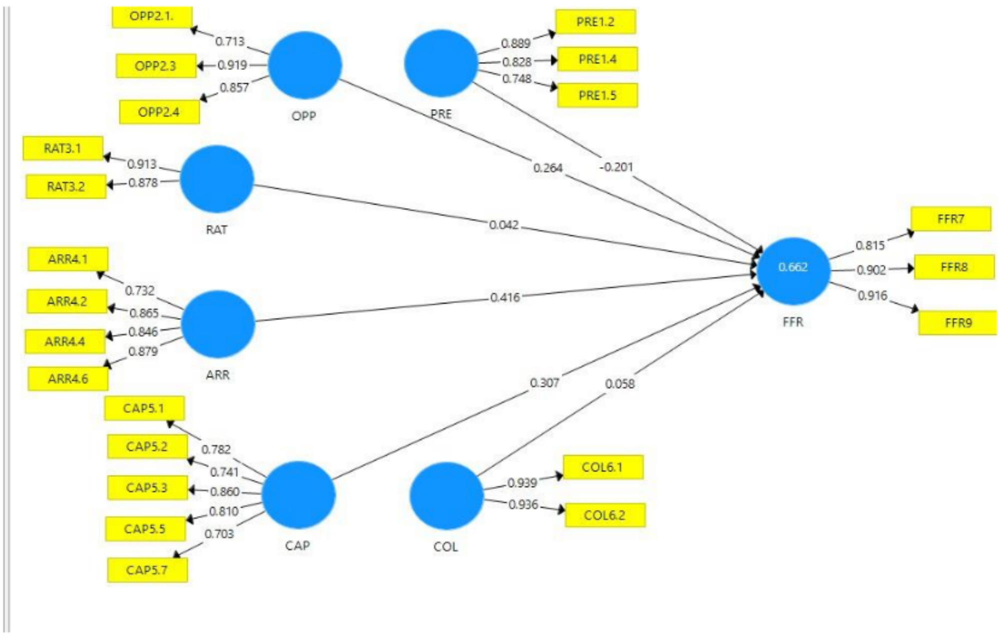
Figure 2. Outer Loading Result, First Run



Source: Data processed by Smart PLS 3.00

To obtain a final result that meets the criteria > 0.700 and up to the last run, the indicators that eliminate successively are PRE1.1, PRE1.3, ARR4.3, ARR4.5, CAP5.4, CAP5.6, COL6.3, FFR1, FFR2, FFR3, FFR5, FFR10, FFR11 and FFR12. on first run, then OPP2.2 dan COL6.4 on second run. Then the removed third run is the FF4 indicator. Finally, on the fourth run, the FFR6 indicator was removed. The following is presented last run outer loading in Figure 3 below:

Figure 3. Outer Loading Result, Last Run



Source: Data processed by Smart PLS 3.00

Based on figure 3 it is known that all the loading values of each construct have shown a value of 0.700 so that the data using convergent validity is said to be good.

Discriminant Validity, for ensuring that all concepts of each latent variable are different from other variables. Good discriminant validity if each loading value of each indicator of a latent variable has the greatest value over other loading values as shown in table 2 below.

Table 2. Result of Process for Discriminant Validity

	ARR	CAP	COL	FFR	OPP	PRE	RAT
ARR	1.833						
CAP	0.758	0.781					
COL	0.457	0717	0.937				
FFR	0.751	0.739	0.493	0.879			
OPP	0.764	0.738	0.468	0.715	0.834		
PRE	0.781	0.728	0.575	0.606	0.752	0.823	
RAT	0.738	0.647	0.384	0.637	0.740	0.689	0.896

Source: Data processed by Smart PLS, 2023

Composite Reliability, the reliability value of each construct can be seen in the Average Variance Extracted (AVE) results, and a construct is said to have a high reliability value if the value is > 0.700 and the AVE is above 0.500.

Table 3. Result of Process for Composite Reliability and Average Variance Extracted [AVE]

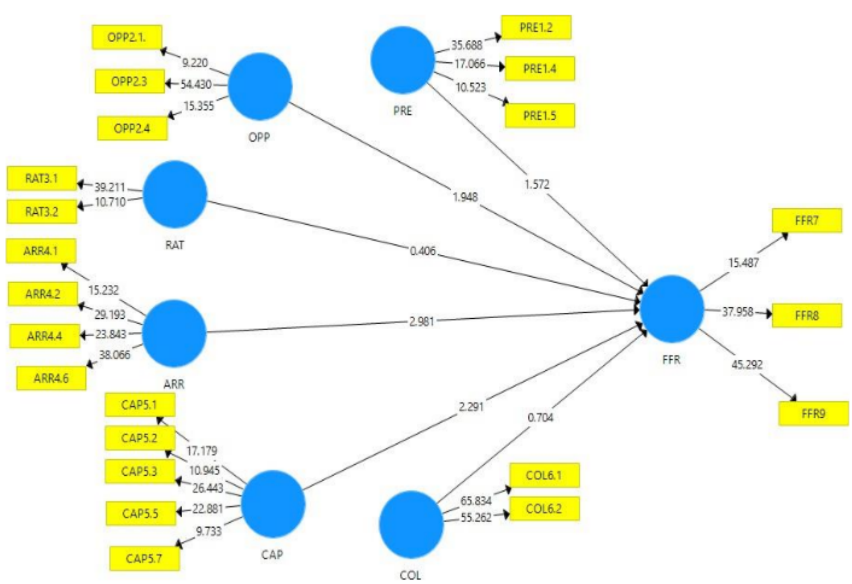
	Composite Reliability	AVE
Pressure [PRE]	0.863	0.678
Opportunity [OPP]	0.872	0.696
Rationalization [RAT]	0.890	0.803
Arrogance [ARR]	0.900	0.693
Capability [CAP]	0.886	0.610
Collusion [COL]	0.935	0.879
Fraud Financial Reporting [FFR]	0.910	0.772

Source: Data processed by Smart PLS, 2023

Based on Table 3 that composite reliability is above > 0.700 and AVE > 0.500, it can be said that the construct presented can be recommended as a reliable construct.

Inner Model, in testing the inner model or structural model, it is conducted to determine the effect between constructs, significance value and R-square. The following is presented in Figure 4 as a structural model that has been tested.

Figure 4. Result of Evaluation for Inner Model



Source: Data processed by Smart PLS, 2023

To test a model, Smart PLS version 3.00 starts by looking at the R-square for each dependent variable. In this research, the variable is Fraud Financial Reporting, as shown in table 4 below.

Table 4. Output of R-Square

Variable	R-square
Fraudulent Financial Reporting [FFR]	0.662

Source: Data processed by Smart PLS, 2023

Based on the R-square results of 0.662, it means that Fraudulent Financial Reporting is influenced by the combined contribution of pressure, opportunity, rationalization, arrogance, capability and collusion of 66.2%.

Hypothesis Test

Hypothesis testing was conducted to determine the impact of one variable on another variable, and in this study the data needed for the need for hypothesis testing has been processed by Smart PLS can be presented in table 5 in the form of inner weights below.

Table 5. The Result for Bootstrapping to Research Data

	Original Sample	Sample Mean	Standard Deviation	T Statistics	P Values
Pressure → Fraudulent Financial Reporting	-0.20	-0.18	0.13	1.57	0.12
Opportunity → Fraudulent Financial Reporting	0.26	0.24	0.14	1.95	0.05
Rationalization → Fraudulent Financial Reporting	0.04	0.05	0.10	0.41	0.68
Arrogance → Fraudulent Financial Reporting	0.42	0.41	0.14	2.98	0.00
Capability → Fraudulent Financial Reporting	0.31	0.32	0.13	2.29	0.02
Collusion → Fraudulent Financial Reporting	0.06	0.06	0.08	0.70	0.48

Source: Data processed by Smart PLS, 2023

Technically, hypothesis testing is done by bootstrapping the sample to minimize data abnormalities. (Aisyah et.al, 2019). The test results of hypothesis by bootstrapping based on smart PLS version 3.00 are as follows:

Hypothesis Test 1: Pressure has a positive effect on Fraudulent Financial Reporting

The first hypothesis test shows the impact of Pressure on Fraudulent Financial Reporting with a path coefficient of -0.20 with a t-value of 1.57. This calculation of t value is smaller than t table (1,661), then on other criteria it is known that P value (0.12) ≥ alpha (0.05), so based on these two criteria it is stated that the first hypothesis is rejected, meaning that Pressure has no effect on Fraudulent Financial reporting

Hypothesis 2 test: Opportunity has a positive effect on Fraudulent Financial Reporting

The second hypothesis test shows the impact of Opportunity on Fraudulent Financial Reporting with a path coefficient of 0.26 with a t-value of 1.95. This calculation of t value is greater than t table (1,661), then on other criteria it is known that P value (0.05) ≥ alpha (0.05), so based on these two criteria it is stated that the second hypothesis is accepted, meaning that Opportunity has a positive and significant influence on Fraudulent Financial Reporting

Hypothesis 3 test: Rationalization has a positive effect on Fraudulent Financial Reporting

The third hypothesis test shows the impact of Rationalization on Fraudulent Financial Reporting with a path coefficient of 0.04 with a t-value of 0.41. Calculation of t value is smaller than t table (1.661), then on other criteria it is known that P value (0.68) ≥ alpha (0.05), so based on these two criteria it is stated that the third hypothesis is rejected, meaning Rationalization has no effect on Fraudulent Financial reporting

Hypothesis 4 test: Arrogance has a positive effect on Fraudulent Financial Reporting

The fourth hypothesis test shows the impact of Arrogance on Fraudulent Financial Reporting with a path coefficient of 0.42 with a t value of 2.98. Calculation of t value is greater than t table (1,661), then on other criteria it is known that P value (0.00) ≤ alpha (0.05), so based on these two criteria it is stated that the fourth hypothesis is accepted, meaning Arrogance has a positive and significant influence on Fraudulent Financial Reporting

Hypothesis 5 test: Capability has a positive effect on Fraudulent Financial Reporting

The fifth hypothesis test shows the impact of Capability on Fraudulent Financial Reporting with a path coefficient of 0.31 with a t value of 2.29. Calculation of t value is greater than t table (1,661), then on other criteria it is known that P value (0.02) ≤ alpha (0.05), so based on these two criteria it is stated that the fifth hypothesis is accepted, meaning Capability has a positive and significant influence on Fraudulent Financial Reporting

Hypothesis 6 test: Collusion has a positive effect on Fraudulent Financial Reporting

The sixth hypothesis test shows the impact of Collusion on Fraudulent Financial Reporting with a path coefficient of 0.06 with a t value of 0.07. Calculation of t value is smaller than t table (1.661), then on other criteria it is known that P value (0.48) ≥ alpha (0.05), so based on these two criteria it is stated that the sixth hypothesis is rejected, meaning Collusion has no influence on Fraudulent Financial reporting

5. DISCUSSION

The results of this research show that of the six factors that trigger people to commit fraudulent financial reporting, there are three factors, namely opportunity, arrogance and capability. Meanwhile, other factors that do not influence fraudulent financial reporting are pressure, rationalization and collusion. Based on the study results, pressure or stimulus has no effect on fraudulent financial reporting, even though the hypothesis states that pressure or stimulus has a positive influence on fraudulent financial reporting. A number of questions asked to respondents regarding pressure from superiors and accounting standards were answered smoothly, namely that there was no pressure in doing work and superiors were not able to dictate to subordinates whether to do or not do a job. Therefore, fraudulent financial reporting can occur without pressure or stimulus. Research questions related to the content of pressure and stimulus have not yet touched on the sanctions imposed on those who commit fraud in financial reports. These findings indicate that financial pressure effects fraudulent financial reporting. Meanwhile, pressure from aspects of implementing accounting standards and receiving stimulus is not yet strong enough to force fraud. This study is in line with the opinion of (Khamainy et al., 2022), (Sukmadilaga et al., 2022) which measures pressure or stimulus factors with financial targets and financial stability and reveals that pressure does not influence on fraudulent reporting. Meanwhile, study that are not in line with the results of this study are those from (Yadiati, 2023) and (Sudirman & Ornay, 2023) who found that stimulus actually had an influence on fraudulent financial reporting, even in research (Sudirman & Ornay, 2023) it was revealed that there was a significant influence of stimulus on fraudulent financial reporting moderated by political connections.

Opportunity shows a significant effect on fraudulent financial reporting. The availability of opportunities has the potential to create fraudulent financial reporting. When respondents were asked about organizational structure, internal control, policies and facilities, it was seen how tight the organizational structure was, and how good internal control was, how good the physical security of company assets was, and how sophisticated the available facilities, there are still weaknesses, and they can be exploited. In the end, what really determines is the attitude of people who always want to look for and take advantage of opportunities. The research results show that opportunities arise due to weak internal control systems which influence fraudulent financial reporting. A similar opinion from (Alyani et al., 2023) & (Mulya et.al, 2019) states that the availability of opportunities influences fraudulent financial reporting. The opposite results, Dewi C.K, & Yuliati A, (2021) reveal that even though there is no opportunity at all, fraudulent financial reporting still has an impact. Other similar opinions from (Khamainy, 2022) and (Yudiati, el.at, 2023), (Sumadilaga et.al, 2022) expressed that opportunity influences fraudulent financial reporting, there were even findings of insignificant influence from (Raihan Noval Akbar, et. al. 2022), (Chantia, et.al, 2021), (Sudrajat, et.al, 2023). Not all SOEs employees are good and trustworthy people, but because they do not have the opportunity to act fraud. This opinion is in line with (Chantia et.al, 2021), (Alyani et.al, 2023) that weak internal supervision creates opportunities to commit fraud on financial reports. Another opinion from (Raihan Noval Akbar et al., 2022), (Sudrajat et al., 2023) reveals that whether internal control is effective or not has no impact on fraudulent financial reporting. Apart from that, another opinion states (Dewi & Yuliati, 2022) that the internal supervision effectiveness has a negative effect on fraudulent financial reporting. According to (Rahma et al., 2022) there are eight special functions that a state-owned company must have and one of the most important is that the state-owned company provides goods and services that the community needs. This state-owned company function was chosen because of its relevance to the preparation of financial reports (Dluhopolskyi & Zhukovska, 2023). Rationalization does not affect fraudulent financial reporting. The company has responded quickly to follow up on all findings and provide direct advice to complete and evaluate these findings, however this policy has no effect at all on fraudulent financial reporting. Fraudulent financial reporting does not only occur on the issue of whether the response given to the findings is continued or discontinued or for other reasons. In line with study by (Khamainy, 2022), (Yadianti, et.al, 2023) & (Sumadilaga et.al. 2022) that rationalization has no significant effect on fraudulent financial reporting. SOEs employees do not have the courage to commit fraud because they work as career officials and not from a particular party. However, this is not in line with the study results of (Sudirman et.al. 2023) that the rationalization element influences fraudulent financial reporting, even the effect of rationalization on fraudulent financial moderation by political connections has a significant effect, although indirectly. Arrogance has a significant effect on fraudulent financial reporting based on the results of study indicator answers, namely work direction, career, work guidelines, decision making, and work discussions. These results are in line with study (Dewi, C.K & Yuliati, 2021), (Sumadilaga, et.al, 2022) which revealed that arrogance or ego affects fraudulent financial reporting empirically. Measuring arrogance by highlighting content related to work, decision making, and career was different from the results of company CEO arrogance selfies. The arrogance factor is not only visible from many selfie photos in the enterprise report, but is also visible in origin of officials who occupy strategic positions. Fraudulent financial reporting like this can happen and the perpetrators are almost certainly committed by public officials. The arrogance of political party administrators who are placed in SOEs could have the potential to commit fraud in financial reports. However, there are opinions that are not in line with arrogance influencing fraudulent financial reporting from (Chantia et al., 2021), (Raihan Noval Akbar et.al, 2022), (Khamainy, 2022), (Sudirman, et.al. 2022) & (Yadianti, et. al, 2023) that a stylish CEO image in annual reporting has no effect on financial report fraud because the photo is just narcissistic. In contrast to career officials from SOEs, they do not like taking selfies in annual reports.

Capability has a significant impact on fraudulent financial reporting. Answers to questions asked to SOEs leaders and employees regarding indicators of initiative, knowledge, awareness of failure, communication and helping friends show that not only technical competency of human resources but also soft skills influence fraudulent financial reporting. Soft skills have proven their usefulness in planning fraud, supported by good technical capacity. almost all cases of fraud are committed by skilled insiders looking for opportunities in adversity. The results of this research are in line with research by (Yadianti et.al. 2023) & (Sudirman et.al, 2022) stated that capability significantly affects fraudulent financial reporting, only in the study of (Yadianti et.al. 2023) & (Sudirman et.al, 2022) will pay more attention to the issue of director changes. Discordant opinions from (Khamainy, 2022) & (Sudirman et.al 2022) are that changes in directors have no impact on fraudulent financial reporting.

Collusion has an insignificant effect on fraudulent financial reporting and questionnaire questions asked by SOEs leaders and employees, regarding indicators of self-awareness, warnings, workload and integrity, cannot influence fraud. Collusion occurs for other reasons unrelated to self-awareness, reprimand, workload, and integrity. The research results are in line with Kaimainy's research, 2022, that indicators of collusion using COSO internal control have no impact on fraudulent financial reporting. Meanwhile, opinions that are not in line with the results of this study come from (Sumadilaga, et.al. 2022), (Sudirman, et.al. 2022) & (Yadiati et.al. 2023) determines that collusion has an impact on fraudulent financial reporting.

6. CONCLUSION

Based on the results of study with using premier data with the effect factors in the hexagon Fraud theory on Fraudulent Financial Reporting, it can be concluded that:

1. It has been empirically proven that there are 3 factors from the hexagon Fraud Theory that influence Fraudulent Financial Reporting, namely opportunity, arrogance and capability. By paying attention to the type of study that takes SOEs leaders and employees as research objects, the measurement of fraud and fraudulent financial reporting is based on a human approach. In the case of opportunity, no matter how good the company regulations are and how strict the internal controls are, there are still individuals who can take advantage. The ability to understand Standard Operation Procedures [SOP] and career paths makes employees try to commit fraud, and this arrogance is almost the same as the arrogance in the number of CEO photos in annual reports. The ability to learn tricks at work so that you become capable of doing things and are supported by opportunities so that you have the potential to commit fraud.

2. However, the factors of pressure, rationalization and collusion empirically apparently have no effect on fraudulent financial reporting. Any pressure has no effect on fraudulent financial reporting, whether economic and financial pressure such as financial pressure, financial sta-

bility and financial targets or psychological pressure at work. Rationalization and collusion have no effect on fraudulent financial reporting because the hexagon fraud theory measurement indicators are only based on respondents' answers.

For further research, for obtaining the best research that the author suggests:

1. In measuring hexagon fraud: Stimulus, Capability, Collusion, Opportunity, Rationalization, and Ego, moderating variables can be used for each of these factors to obtain information about the direct and indirect influences on fraudulent financial reporting.

2. The research object can be expanded by adding respondents to all SOEs, both go public and non-go public SOEs.

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