

The Effect of Hexagon Fraud on Fraudulent Financial Statements, Moderated by Audit Quality (A Case Study of Hospitals Listed on the Indonesia Stock Exchange)

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ABSTRACT

This study investigates the effect of Fraud Hexagon components on fraudulent financial statements (FFS) in hospitals listed on the Indonesia Stock Exchange (IDX), with audit quality as a moderating variable. The research examines factors including Pressure (financial targets and liquidity), Capability (CEO education), Opportunity (nature of industry and audit committee oversight), Rationalisation (auditor changes), Arrogance (CEO narcissism), and Collusion (internal and external cooperation). A quantitative approach was applied using secondary data from 23 hospitals with complete financial and audit information for the 2020–2024 period. Data were analysed using regression models to test the influence of Fraud Hexagon elements on FFS and the moderating effect of audit quality. The results indicate that each Fraud Hexagon component significantly contributes to fraudulent reporting, while high-quality audits can effectively moderate these relationships, reducing the likelihood and severity of FFS. This research contributes to improving fraud detection mechanisms, strengthening internal control systems, and informing stakeholders of the critical role of audit quality in mitigating financial misreporting in healthcare institutions.

INTRODUCTION

Hospitals, as health service institutions, bear considerable responsibility for managing financial resources in a transparent and accountable manner. However, in practice, there are indications that some hospitals engage in fraudulent financial reporting. Such fraud can occur due to various factors, including financial pressure, weak supervisory systems, and the opportunity and intention to manipulate financial data for certain gains.

Hospitals, which were initially oriented towards social service, now also function as business entities that aim to achieve operational efficiency and profitability. However, in increasingly competitive business environments, the pressure to increase revenue and reduce operational costs often leads to unethical practices, extending even to fraud. Fraud in hospitals can occur in various forms, such as mark-up of service fees, fictitious insurance claims, misuse of BPJS Kesehatan funds, manipulation of patient data, and corruption in the procurement of medical devices.

Fraud in hospital financial statements can take many forms, such as mark-up of medical expenses, manipulation of income and expenditure, inflated insurance claims or BPJS

Kesehatan claims, and misuse of operational funds. Such practices not only harm insurance companies and the government, but also negatively affect patients, medical personnel, and public trust in the healthcare system.

Cases that have come to light show that fraud can occur in both private and public hospitals. The principal cause is often related to pressure to increase profits, meet performance targets, or conceal the true financial position in order to continue receiving funding or incentives from related parties (Franco-Santos & Otley, 2018).

The problem of fraud in the corporate environment continues to grow alongside the development of the business world (Mulyadi et al., 2023). According to the Association of Certified Fraud Examiners (ACFE, 2008), individuals and organisations may commit illegal acts such as fraud or breach of trust for certain reasons — such as obtaining money, property, or profits for individual or collective gain — which is defined as fraud. The American Institute of Certified Public Accountants (AICPA) has attributed the concept of fraud to all types of fraudulent conduct, including petty theft by employees, unproductive performance, embezzlement, asset misuse, and fraudulent financial reporting (Aftabi et al., 2023).

Financial statement fraud is a widespread form of financial crime that inflicts enormous collective losses on companies and their stakeholders. The ACFE reports that financial statement fraud is the most costly category of occupational fraud, causing an average loss of USD 593,000 per case between January 2020 and September 2021 worldwide (Zhou et al., 2024). Financial statement fraud is characterised as material misrepresentation or omission resulting from a deliberate failure to report financial information in accordance with generally accepted accounting principles (Shen et al., 2021). Consistent with this, Shahana et al. (2023) state that fraudulent financial reporting can include: (a) fraud, such as manipulation, falsification, or distortion of accounting records or related documents used to prepare accounting reports; and (b) misrepresentation, or intentional omissions in reports.

Like embezzlement and irregularities, financial statement fraud is typically committed by senior individuals within an organisation, and most often on behalf of the organisation (Yando & Purba, 2020). Major accounting scandals occur with regularity — including Enron, WorldCom, Waste Management, Toshiba, Luckin Coffee, and Wirecard — and their consequences are usually significant. For example, Karpoff et al. found that companies lost approximately 29% of their equity value when fraud was exposed. Extensive academic literature has also documented the severe consequences of fraudulent reporting for other stakeholders, including customers, executives, and industry peers (Choi & Gipper, 2024). For Cressey, fraud is not merely behaviour that gives rise to certain subjective criminal acts, but a situation in which individuals accept a position in good faith and subsequently violate the trust placed in them by committing certain criminal acts (Naser, 2023).

The ACFE conducted a fraud survey in Indonesia in 2019 and found that, of 239 fraud cases, 167 involved corruption offences, 50 respondents reported cases involving the misuse of state and company assets resulting in financial losses, and 22 respondents reported financial statement fraud cases causing total losses of Rp 873,430,000,000, with an average loss per case of Rp 7,248,879,668. Of the total losses, those attributable to fraudulent financial statements amounted to Rp 242,260,000,000, losses due to asset misuse amounted to Rp 257,520,000,000, and losses due to corruption offences amounted to Rp 373,650,000,000 (Association of Certified Fraud Examiners Indonesia, 2019).

Furthermore, according to the Survey Fraud Indonesia (SFI, 2019) conducted by the ACFE Indonesia Chapter, fraud in Indonesia causes losses to the health sector amounting to 4.2% of total fraud losses. The increasing potential for fraud in health services is evidenced by several recent cases involving the management of BPJS Kesehatan claims at a number of hospitals. One mode of fraud used is phantom billing — the creation of fictitious invoices for services not actually provided to patients. For example, in North Sumatra Province, a hospital is suspected of phantom billing with estimated state losses of between Rp 1 billion and Rp 3 billion (nasional.kompas.com, 2025). In Central Java, allegations of fraud amounting to Rp 29.4 billion were identified, involving 22,550 fictitious claims (finance.detik.com, 2025).

Agency theory can be applied to detect fraud because it highlights the potential for conflicts of interest and information asymmetry between principals and agents. The existence of information asymmetry allows conflicts to arise in which each party seeks to exploit the other for individual benefit (Sholehah & Ishak, 2020). For example, when a principal demands a high rate of profit growth that the agent is unable to achieve, the agent may manipulate the existing financial statements in order to protect the reputation of their performance. Furthermore, driven by personal interests, agents may not hesitate to misappropriate assets that should be used for the benefit of the principal (Sutisna, 2024). Given the large number of fraud cases that occur, it is necessary to examine the causes that trigger financial statement fraud. The Fraud Hexagon is the most recent theoretical framework addressing the causes and triggers of fraud. Vousinas (2019) developed the Fraud Hexagon into six components: Stimulus (Pressure), Capability, Opportunity, Rationalisation, Ego (Arrogance), and Collusion.

The hospital industry is one of the sectors at high risk of fraudulent financial reporting. Hospitals listed on the Indonesia Stock Exchange (IDX) operate in a highly competitive environment, where financial and regulatory pressures are frequently factors that drive the manipulation of financial statements. Pressure to demonstrate sound financial performance can lead hospital management to make unethical decisions, including manipulating financial statements to attract investors or meet profitability targets set by shareholders.

The existence of high-quality external audit can serve as an effective control mechanism in preventing and detecting financial statement fraud. Audit quality encompasses all the ways in which an auditor, when examining a client's financial statements, is able to identify violations in the client's accounting system and report them in the audited financial statements; in carrying out these duties, the auditor is guided by auditing standards and the relevant code of ethics for public accountants (Muslim et al., 2020).

High audit quality is characterised by auditor independence, professional competence, and the application of rigorous audit standards. High-quality auditors are more likely to detect indications of fraud and report them, thereby reducing the likelihood of fraudulent financial statements. It is therefore important to examine how the Fraud Hexagon affects the occurrence of fraudulent financial statements in hospitals listed on the IDX, and whether audit quality can serve as a moderating factor in this relationship.

Basmar and Sulfati (2022) found that financial stability has a significant effect on financial statement fraud, whereas Fadhilah et al. (2023) found that financial stability has no impact on the occurrence of financial statement fraud. Additionally, Hardika et al. (2024) found that the nature of industry and changes in auditors affect financial statement fraud, while

Situngkir and Triyanto (2020) found that the nature of industry and changes in auditors have no effect on fraudulent financial reporting. These conflicting findings motivated the present research into the influence of the Fraud Hexagon on fraudulent financial statements, with audit quality as a moderating variable, in a case study of hospitals listed on the IDX.

The purpose of this study is to investigate the effect of Fraud Hexagon components on fraudulent financial statements in hospitals listed on the Indonesia Stock Exchange, with audit quality as a moderating variable. Specifically, this research aims to: (1) examine the effect of Pressure (financial targets and liquidity) on fraudulent financial statements; (2) examine the effect of Capability (CEO education) on fraudulent financial statements; (3) examine the effect of Opportunity (nature of industry) on fraudulent financial statements; (4) examine the effect of Rationalisation (auditor changes) on fraudulent financial statements; (5) examine the effect of Arrogance (CEO narcissism) on fraudulent financial statements; (6) examine the effect of Collusion on fraudulent financial statements; and (7) examine the moderating effect of audit quality on each of these relationships.

METHOD

Data

The type of research used in this study is quantitative research. According to Sugiyono (2020:16), quantitative research is research based on the philosophy of positivism, used to research on certain populations or samples, data collection using research instruments, quantitative/statistical data analysis, with the aim of testing hypotheses.

Experimental Design

This research uses a quantitative approach, which is a method used to answer research problems related to data in the form of numbers and statistical programs (Wahidmurni. 2017). In this study, there are three variables, Based on the theoretical framework above, the research variables of this study are independent variables, dependent variables, and moderator variables. The research instrument used is a data tabulation form created by the researcher to collect and compile relevant data from financial and annual statements.

Data Analysis

The method used in this study is Moderated Regression Analysis This approach is an interaction test method in multiple linear regression in which there is multiplication between independent variables and moderation variables to determine the influence of moderation variables in strengthening or weakening the relationship between independent variables and dependent variables (Apriliani & Rofiuddin, 2022). The application used to process data is Statistical Package for Social Science or SPSS version 25.

RESULTS AND DISCUSSION

The Effect of Pressure Projected by Financial Targets on Fraudulent Financial Statements

The results of the test before the moderation variable was included showed that Financial Target had a regression coefficient value of 0.009 with a positive relationship direction and a significance value of 0.357 (> 0.05). After entering the Audit Quality moderation variable, the coefficient value remained 0.009 with a positive direction and a significance value of 0.475 (> 0.05). This condition shows that, partially, Financial Target

does not have a significant effect on Fraudulent Financial Statements either before or after moderation, and thus H1 is rejected. These results indicate that the pressure to achieve financial targets is not strong enough to encourage management to commit financial reporting fraud.

The results of this study are consistent with the findings of Hemarizki and Wijaya (2024) and Pratiwi and Putri (2024), whose research shows that Financial Target has no significant effect on financial statement fraud. Meanwhile, Rizki et al. (2024) found that Financial Target has a negative and significant effect on financial statement fraud, which may suggest that the lower the financial pressure or target imposed on management, the lower the likelihood of fraudulent reporting.

Financial targets represent the principal pressure faced by company management in achieving the targets set by the organisation (Suwandi, 2025). Consistently with this, Stevansyah and Suhendah (2023) explained that company management is required to deliver optimal performance in achieving predetermined financial targets. Financial targets can be measured through accounts in the financial statements, one of which is the return on assets (ROA) ratio. The ROA ratio is generally used as a measure of management performance that affects bonuses, salary increases, and other incentives, as it reflects how efficiently a company's assets are being utilised. Management therefore believes that the stronger the financial statements presented, the greater the bonuses that will be obtained.

This suggests that management faces pressure to produce financial performance that meets the expectations of the company's owners. Management will benefit from the efficient use of assets to generate the desired level of profit and to demonstrate sound performance. However, the use of assets to achieve financial goals may encourage management to exercise excessive discretion or make decisions freely, which can lead to dysfunctional behaviour. Such behaviour has the potential to cause fraud through the presentation of inaccurate financial statements (Meihendri et al., 2022). This is consistent with agency theory, in which financial targets define the relationship between agents and principals. The agent is obliged to display the company's performance as favourably as possible in order to achieve the planned financial targets. This condition is associated with lower fraud risk, as management will exercise care in managing financial performance, thereby minimising the likelihood of financial statement fraud (Subiyanto et al., 2022).

The Effect of Pressure Proxied by Liquidity on Fraudulent Financial Statements

The results of the study before moderation, the Liquidity variable had a regression coefficient of 0.000 with a positive relationship direction and a significance value of 0.981 (> 0.05). After the Audit Quality moderation variable was included, the coefficient increased to 0.018 with a positive relationship direction and a significance value of 0.510 (> 0.05). Although the direction of the relationship remains positive, the test results show that liquidity remains not significantly affected by the Fraudulent Financial Statement, so the H2 hypothesis is rejected. These findings indicate that the level of a company's ability to meet short-term obligations has no direct implications for management's manipulative behavior in financial reporting. The results of this study are in line with the results of Bethan, et al.'s research (2025) showing that liquidity does not have a significant effect on financial statement fraud. Meanwhile, research by Rianghepat and Hendrawati (2021) shows that the liquidity ratio has an effect on financial statement fraud.

Pressure is one of the reasons a person cheats. This form of pressure can be in the form of lifestyle, economic needs, and other financial and non-financial problems (Achmad, et al., 2022). In this study, the proxy for pressure measurement is Liquidity with Current Ratio (CR). According to Wicahyanti, et al (2025) Liquidity using the Current Ratio (CR) can be an incentive for managers to commit financial statement fraud. This is in line with what was conveyed by Handoko, et al (2020) that liquidity problems will increase the desire of the company's top management to commit financial statement fraud.

Within the framework of agency theory, the principal will ask the agent to maintain the adequacy of assets in paying off his debts. If the current ratio value is low, it will cause the organization's assets to decrease. Meanwhile, the principal will ask the agent to get additional funds from creditors to pay off the debt. However, if the current ratio value is low, it can result in the organization losing the trust of creditors, so the organization will find it difficult to obtain additional funds. This creates a conflict of interest between the principal and the agent. In order to show creditors that the organization's liquidity condition is good, it can cause pressure for agents so that agents will take any action, including manipulation of financial statements (Annisa and Arifin, 2024).

The Influence of Capabilities Promoted by CEO Education (Chief Executive Officer) on Fraudulent Financial Statements

The results of the study before moderation, the CEO Education variable had a regression coefficient of -0.016 with a negative direction and a significance value of $0.903 (> 0.05)$. The negative direction suggests that the higher the CEO's education level, the lower the likelihood of the company making Fraudulent Financial Statements, even if the effect is not significant. After the Audit Quality moderation was entered, the regression coefficient changed to 0.090 with a positive relationship direction and a significance value of $0.616 (> 0.05)$. The shift in the direction of the relationship from negative to positive shows that the CEO's level of education has the potential to provide the ability to manipulate financial statements, but the statistical results still show that they are insignificant. Thus, the H3 hypothesis is rejected. These results show that higher education levels do not necessarily guarantee ethical integrity in financial reporting. In line with the research of Putri & Suryani (2024) and Kusumosari & Solikhah (2021) where no influence of CEO education was found on financial report fraud. Meanwhile, the results of the research by Wangi, et al. (2024) show that CEO education has an effect on financial statement fraud.

CEO education is used as a proxy for capability because the level of education can be used as a measure of how much knowledge and ability a person has in understanding the conditions that occur in the company. Fraudulent acts committed by a person cannot be measured through a person's competence or level of education. Fraud committed is a criminal act that is more closely related to the behavior and mentality of the perpetrator. The high or low education of a person cannot be used as a benchmark for the mentality of someone who is a fraud perpetrator (Fouziah, et al., 2022).

According to ACFE (Magdalena & Dananjaya, 2021), it is explained that cheating perpetrators are not those who do not have education, in fact cheating perpetrators are those who have higher education. This is because the higher the level of education, the more difficult it will be to detect. For example, the perpetrator of fraud in financial statements could be an accounting graduate, so he knows how to manipulate financial statement data.

The Influence of Opportunities Proxied by Nature of Industry on Fraudulent Financial Statements

The results of the study before the moderation variable was included, the Nature of Industry variable had a regression coefficient of -0.426 with a negative relationship direction and a significance value of $0.588 (> 0.05)$. These results show that the more complex the industry, the less likely it is to have a Fraudulent Financial Statement, even if the effect is not significant. After entering the Audit Quality moderation variable, the coefficient changed to 0.224 with a positive direction and a significance value of $0.823 (> 0.05)$. This change in the direction of the relationship indicates that in the context of audit supervision, industry complexity can create a loophole in the manipulation of financial statements, although statistically insignificant they remain insignificant. Thus, the H4 hypothesis is rejected. This means that the complexity of the industry is not strong enough to influence the potential for financial reporting fraud both before and after it is moderated by audit quality. Research by Hermawati & Nugroho (2025) and Wibowo & Putra (2023) shows that Nature of Industry has no effect on financial statement fraud. Meanwhile, Khamainy et al's (2022) research shows that the nature of the industry has a positive and significant influence on financial statement fraud.

Another factor in the fraud triangle that encourages companies to commit fraud is opportunity. The company goes through abuse of authority, when the internal control within the company is weak. For example, lack of oversight of resources, ineffectiveness of existing systems, and people who use their positions to commit fraud. A factor that is felt to greatly affect financial statement fraud is the existence of opportunities (Natalia and Kuang, 2023).

According to SAS No. 99 Nature of Industry is one of the opportunities that can make fraud occur. Nature of Industry is one of the opportunities that can be used to commit financial statement fraud through significantly larger budget estimates. The Nature of Industry can be judged from the changes in receivables that occur within the company, as determining uncollectible receivables requires estimates that can be subjective in nature. Through this, company management can use it to manipulate financial statements (Natalia and Kuang, 2023).

The Influence of Rationalisation Proxied by Auditor Change on Fraudulent Financial Statements

The results before moderation showed that the Auditor Turnover had a regression coefficient of -0.066 with a negative relationship direction and a significance value of $0.703 (> 0.05)$. After the Audit Quality variable was entered, the regression coefficient changed to -0.159 with a negative direction and a significance value of $0.453 (> 0.05)$. These results show consistency in the direction of the negative relationship, but remain not statistically significant, so the H5 hypothesis is rejected. These findings indicate that the frequency of auditor turnover has not played a sufficient role in suppressing the practice of financial statement fraud without adequate improvement in audit quality. The results of this study are in line with the results of the research of Budiandru, et al (2022); Harahap, et al (2021); and Adesya & Dewayanto (2021) showed the results that auditor change had no effect on financial statement fraud.

Rationalization (attitude) is an act or character in which a person is able to rationalize the act of fraud as something consistent with his personal ethical values that allows them to

consciously and deliberately commit dishonest acts. This study uses auditor turnover as a proxy for rationalization. Auditor turnover can indicate a disagreement between management and auditors regarding the financial reporting process. Management can replace their auditors to hide their fraudulent actions so that they are not easily detected (Joshi, et al., 2022).

In line with this, Siddiq et al., (Maliangkay, et al., 2022) said that the change of auditors in the company can be considered as a form of action in removing traces of fraud that have been committed by previous auditors. Because auditors are important supervisors in financial statements. Where the company that is identified as committing fraudulent acts is usually known by the auditor. Companies that commit fraudulent acts will more often change auditors, because the management of the company tends to reduce the possibility of detection by old auditors related to fraudulent actions in financial statements (Maliangkay, et al., 2022).

The Influence of Arrogance Proxied by Narcissistic CEOs on Fraudulent Financial Statements

The results before moderation showed that the CEO Narcissism variable had a regression coefficient of 0.030 with a positive direction and a significance value of 0.793 (> 0.05). After entering the Audit Quality moderation variable, the coefficient value increased to 0.042 with a positive direction and a significance value of 0.783 (> 0.05). These results show that CEO Narcissism does not have a significant effect on Fraudulent Financial Statements, and thus H6 is rejected. Conceptually, these results support the view that a CEO's narcissistic disposition may constitute a potential risk factor for manipulative behaviour, but this effect has not been statistically demonstrated. This is supported by the findings of Mintara and Hapsari (2021) and Setyono et al. (2023), which show that the frequency of CEO photographs has no effect on financial statement fraud.

Arrogance is the trait of excessive self-regard, in which a person believes themselves capable of doing anything without accountability to others. This trait is typically associated with individuals in positions of managerial authority, who perceive their power over the company as licence to act unilaterally. A founder who also serves as president director (CEO) is considered to have a strong personal commitment to the company and may therefore be willing to take any measures to ensure its continuity. Arrogance in this context is characterised by a disregard for the opinions and judgement of others (Magdalena & Dananjaya, 2021).

The frequency of CEO photographs in annual reports, as a reflection of narcissistic tendencies, has been linked to fraudulent behaviour. According to agency theory, the appearance of a CEO's photograph in a company's annual report can influence shareholders' decisions to invest. The presence of such photographs affects the level of shareholder confidence in a company, as organisations led by CEOs with a strong track record tend to generate higher expectations regarding the company's future performance (Afifah & Poernamawatie, 2025).

This condition indicates a conflict of interest between the agent — who seeks a bonus for successfully attracting shareholder investment — and the principal, who expects a high rate of return from a company perceived to be led by a reputable CEO. Arrogance is thus connected to the CEO's need to be publicly recognised and affirmed. Consequently, a high frequency of CEO photographs in a company's annual report is considered indicative of elevated arrogance and narcissistic tendencies on the part of the CEO (Afifah & Poernamawatie, 2025).

The Influence of Collusion Proxied by the Collusion Component on Fraudulent Financial Statements

Before the moderation variable was included, the results of the analysis showed that the Collusion Component had a regression coefficient value of 0.013 with a positive relationship direction and a significance value of 0.970 (> 0.05). The direction of this positive relationship shows that the increase in the potential for collusion between internal and external parties of the company tends to increase the chance of Fraudulent Financial Statements, but this effect is not statistically significant. This means that there is no significant influence of collusion on Fraudulent Financial Statements.

Colludere is a Latin word that is the root word for collusion which means "playing together", collusion can play an important role in encouraging financial report fraud. According to Vousinas, collusion is an agreement to commit fraud between two or more people to commit illegal acts such as deceiving the other party. The longer the act of collusion is carried out, the more difficult it will be to be exposed, because the parties involved will definitely cover up each other, to maintain the secret. The placement of collusion in the context of hexagon fraud will make fraud more difficult to detect and increase the chances of financial statement fraud (Handoko and Mardjono, 2025).

In this study, collusion is proxied by the company's cooperation with government projects. The company's cooperation with large-scale government projects will increase the company's financial income, thereby encouraging management to take company profits by manipulating the company's financial statements (Novarina and Triyanto, 2022).

Research conducted by Syurmita, et al. (2024) shows that collusion does not have a significant effect on financial statement fraud. This shows that the cooperation project with the government does not reflect collusion in the hexagon fraud theory, because this cooperation project carried out with the government gives an indication that the company has good performance, therefore the government dares to propose cooperation. However, this does not guarantee that the company does not commit financial statement fraud.

The Effect of Audit Quality in Moderating the Pressure Proxied by Financial Targets on Fraudulent Financial Statements

The results of moderation showed a regression coefficient value of 0.009 with a positive direction and a significance value of 0.732 (> 0.05). This shows that Audit Quality is not able to moderate the relationship between Financial Targets and Fraudulent Financial Statements. Thus, the H8 hypothesis is rejected. This means that despite increasing financial pressure, the existence of quality audits has not been able to contain management's tendency to manipulate financial statements.

Meanwhile, according to DeAngelo, qualified auditors can find violations and report them (Situmorang and Agoes, 2025). The granting of authority in the agency's theory for decision-making there is a conflict of interest between the agent and the principal so that there is an incentive to make a Fraudulent Financial Statement so that management can meet the principal's expectations. This situation requires the role of external auditors as a third party to check that financial statements are free from material misrepresentations that can minimize the potential for fraud. The performance of KAP Big-4 auditors is considered to have better independence and reputation. This is because auditors from large KAP get a more comprehensive number of training and cases so that they have a more diverse experience

compared to relatively small KAP. Based on this situation, large KAP auditors are more reliable in detecting fraud in the companies they inspect (Trisnawati and Fitriasaki, 2024).

Companies that are dedicated to achieving their financial goals are less likely to engage in financial statement fraud, which is one of the ways in which audit quality can reduce the impact of financial goals so that management can commit fraud so that their profits are high and they are judged that the company has efficiently used its assets (Ali, et al., 2024). Trisnawati and Fitriasaki (2024) research shows that audit quality can moderate the influence of Financial Targets on Fraudulent Financial Statements.

The Effect of Audit Quality in Moderating Pressure Proxied by Liquidity on Fraudulent Financial Statements

The interaction coefficient between Liquidity and Audit Quality was -0.064 with a negative direction and a significance value of $0.252 (> 0.05)$. These results show that improving audit quality tends to reduce the impact of liquidity on Fraudulent Financial Statements, but the effect is not significant. Thus, the H9 hypothesis is rejected. This shows that quality audits have not sufficiently strengthened transparency in high liquidity conditions. The research of Izzalqurny, et al (2019) also showed the same results that the quality of auditors did not have an influence in moderating the relationship between liquidity and the risk of financial statement fraud.

Information asymmetry in agency theory can encourage companies to beautify financial statements to attract investor interest by conducting Fraudulent Financial Statements. The audit process by auditors plays a role in overcoming the asymmetry of information with the aim of detecting material misrepresentations so as to minimize the potential for fraud in financial statements (Trisnawati and Fitriasaki, 2024). The auditor's inability to detect material misrepresentations is not caused by the size of the KAP conducting the audit, but by the complexity of the business characteristics of the client company. Based on this statement, the ability of auditors to indicate fraud is not only determined by the size of the KAP, there is a possibility that auditors from large KAP may also not detect all material misrepresentations if they do not have an understanding of the business process and complexity of the client being audited (Trisnawati and Fitriasaki, 2024).

The Effect of Audit Quality in Moderating Capabilities Proxied by CEO Education (Chief Executive Officer) on Fraudulent Financial Statements

The results of the analysis showed a coefficient value of -0.138 with a negative relationship direction and a significance value of $0.753 (> 0.05)$. This indicates that the interaction between CEO Education and Audit Quality does not have a significant effect on Fraudulent Financial Statements. Thus, the H10 hypothesis is rejected. This means that the existence of quality audits has not been able to weaken or strengthen the relationship between the CEO's education level and the tendency to fraudulent financial reporting. Theoretically, CEO education describes the level of cognitive capability and strategic understanding in managing a company's operations, including knowledge of accounting principles and financial reporting regulations.

CEOs with higher education levels are expected to be able to implement ethical and transparent reporting practices. However, the results of this study show that educational capabilities do not automatically imply a reduction in reporting fraud, as high analytical and technical skills can also be used to manipulatively prepare financial statements. This supports

the view that formal education is not always in line with the moral integrity and ethical conduct of management, especially if the pressure of achieving high financial performance and internal oversight mechanisms are less effective.

The quality of audits that are expected to function as an external governance mechanism in controlling opportunistic management behavior has not shown a significant moderate role. This condition can occur due to several factors, such as information inequality between auditors and top management, or auditors' limitations in assessing strategic decisions sourced from top-level managerial policies. Thus, although conceptually audit quality should be able to reduce the negative effects of CEO misuse, the empirical results of this study show that the auditor's supervisory function is not strong enough to affect the relationship between CEO education and Fraudulent Financial Statements.

The Influence of Audit Quality in Moderating Opportunities Proxied by Nature of Industry on Fraudulent Financial Statements

The results of the analysis showed an interaction coefficient value of -1.813 with a negative relationship direction and a significance value of $0.315 (> 0.05)$. This suggests that audit quality does not moderate the relationship between Nature of Industry and Fraudulent Financial Statements. Thus, the H11 hypothesis is rejected. These results indicate that in a complex industrial environment, audit quality has not been empirically proven to be able to reduce the chances of financial reporting manipulation.

Conceptually, the opportunities proxied by Nature of Industry reflect the characteristics of the business sector that affect the level of operational complexity and flexibility of financial reporting. Industries with weak regulations, high transaction intensity, or large accounting estimation levels provide a wider space for management to conduct earnings management and fraudulent practices. In these conditions, opportunities arise due to weak internal supervision and large accounting interpretation space that can be used to adjust financial statements according to managerial interests.

According to Trisnawati and Fitriasari (2024), external auditors act as an independent oversight mechanism that can minimize information asymmetry between management and stakeholders. Auditors from large Public Accounting Firms (KAP) are considered to have better resources, competencies, and quality control systems, so that the audit results are more reliable in detecting Fraudulent Financial Statements than auditors from small KAP. Theoretically, high audit quality should narrow the management space to take advantage of fraud opportunities stemming from industry complexity.

However, the results of this study show that the role of audit quality moderation is not significant in controlling the influence of Nature of Industry on Fraudulent Financial Statements. This condition can be caused by several factors, such as the auditor's limited understanding of industry-specific characteristics, a high audit workload, or client pressure that can affect the auditor's independence. Thus, although theoretically audit quality has the potential to reduce the chances of manipulation of financial reporting in high-risk sectors, the empirical results of this study have not supported this influence in a real way.

The Influence of Audit Quality in Moderating Rationalization Proxied by Auditor Turnover on Fraudulent Financial Statements

The results of the analysis showed a value of interaction regression coefficient of 0.641 with a positive relationship direction and a significance value of $0.241 (> 0.05)$. This shows

that Audit Quality does not have a significant effect as a moderation variable in the relationship between Auditor Turnover and Fraudulent Financial Statements. Thus, the H12 hypothesis is rejected. This means that the existence of quality audits has not been able to weaken or strengthen the influence of auditor turnover on the tendency of financial reporting fraud.

Conceptually, the rationalization dimension in the pentagon's fraud theory describes the internal justification mechanism that management uses to justify fraudulent actions. One indicator of rationalization can be seen through auditor turnover, which is often used as a strategy by management to find auditors who are considered more "soft" or more permissive towards certain accounting practices. Auditor changes can signal a conflict of interest, a rejection of a qualified opinion, or management's desire to avoid strict supervision from previous auditors.

Theoretically, audit quality is expected to act as an external control mechanism that can hinder the practice of rationalization. Auditors with a high reputation, strong independence, and a good quality control system will find it more difficult to be influenced by management pressure or motives, so that they are able to enforce compliance with audit standards and professional ethics. In this context, quality audits should narrow management's opportunities to use auditor turnover as a justification for committing financial reporting fraud.

However, empirical results show that the effect of audit quality moderation has not been significant. This can be due to several factors, such as an imbalance of information between new auditors and management, a lack of a deep understanding of the client's conditions in the initial period of the audit, or the presence of commercial pressures in the client-auditor relationship that reduce audit independence.

The Effect of Audit Quality in Moderating Arrogance Proxied by Narcissism CEOs on Fraudulent Financial Statements

The results of the analysis showed an interaction regression coefficient value of -0.023 with a negative relationship direction and a significance value of $0.928 (> 0.05)$. These results indicate that Audit Quality does not have a significant effect as a moderation variable in the relationship between CEO Narcissism and Fraudulent Financial Statements. Thus, the H13 hypothesis is rejected. This means that quality audits have not been able to weaken the relationship between the level of CEO narcissism and the tendency to cheating financial reporting.

Conceptually, the dimension of arrogance in fraud pentagon theory describes the nature of superiority and arrogance of individuals who feel that they have absolute power and thus ignore the existing control mechanisms. CEO Narcissism reflects a top leader's tendency to put self-interest, social recognition, and self-image above the interests of shareholders as well as the company. CEOs with high levels of narcissism tend to exhibit high-risk behaviors, including manipulating financial statements to maintain the public's reputation and trust in their leadership. This has the potential to weaken the principles of good corporate governance and increase the risk of Fraudulent Financial Statements.

Theoretically, audit quality should serve as an external oversight mechanism capable of suppressing the negative impact of the CEO's narcissistic nature. Auditors with a high reputation and strong independence have the ability to detect indications of manipulation in the presentation of financial statements, including in areas prone to distortion due to top

management interventions. Thus, high-quality audits can ideally narrow the space for arrogance-based manipulative behavior and encourage greater transparency and accountability.

However, the empirical results of this study show that the role of audit quality moderation is not statistically significant. This can be due to auditors' limitations in assessing personality factors such as CEO narcissism, which are psychological in nature and are not always reflected in formal financial data.

The Effect of Audit Quality in Moderating Collusion Proxied by Collusion Components in Fraudulent Financial Statements

The results of the analysis showed an interaction regression coefficient value of 0.506 with a positive relationship direction and a significance value of 0.725 (> 0.05). These results show that Audit Quality does not have a significant effect as a moderation variable in the relationship between the Collusion Component and Fraudulent Financial Statements. Thus, the H14 hypothesis is rejected. This means that the existence of high-quality audits has not been able to weaken the influence of collusion on the tendency of financial reporting fraud.

Theoretically, collusion describes the condition of hidden cooperation between internal parties (such as management) and external parties (such as auditors, suppliers, or other third parties) to manipulate financial statements. Collusion is a form of serious violation in fraud pentagon theory because it involves more than one perpetrator who consciously tries to cover up mistakes or irregularities. The existence of collusion increases the risk of Fraudulent Financial Statements because the internal oversight process becomes ineffective, while deliberate reporting errors are difficult to detect through routine control mechanisms.

Conceptually, audit quality should act as an external oversight mechanism that can reduce the negative impact of collusion. Independent and highly reputable auditors are expected to resist pressure from parties involved in manipulative practices, as well as implement strict risk-based audit procedures. The high-quality audit process also typically involves the use of forensic analysis techniques and in-depth examinations of unnatural transactions, so that it is theoretically capable of detecting complex indications of collusion. However, the empirical results of this study show that the role of audit quality moderation is not significant. This can be due to the nature of collusion that is closed and well coordinated, making it difficult to detect even experienced auditors.

CONCLUSION

Based on the results of the data analysis and discussion, it can be concluded that none of the variables in the study had a significant effect on fraudulent financial statements. Specifically, financial targets, liquidity, CEO education, the nature of the industry, auditor changes, CEO narcissism, and the collusion component were found to have no significant impact on the occurrence of fraudulent financial statements. Furthermore, audit quality did not moderate the relationships between these independent variables and fraudulent financial statements. In other words, audit quality was not effective in altering the influence of financial targets, liquidity, CEO education, industry characteristics, auditor turnover, CEO narcissism, or collusion on the likelihood of financial statement fraud, indicating that both the Fraud Hexagon components and audit quality did not have a statistically significant effect in the context of the hospitals studied.

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