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The Influence of the Fraud Hexagon Theory on Fraudulent Financial Reporting in the Indonesian Banking

Athina Nurwulandari ¹, Langgeng Prayitno Utomo ²

¹ Athina Nurwulandari, ITEBIS PGRI Dewantara, Indonesia – 2262037@itebisdewantara.ac.id

² Langgeng Prayitno Utomo, ITEBIS PGRI Dewantara, Indonesia – Langgeng@itebisdewamntara.ac.id

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CORRESPONDENCE

E-mail:2262037@itebisdewantara.ac.id

A B S T R A C T

Fraudulent reporting is a form of fraud that inflicts substantial financial losses and diminishes the trust of investors and stakeholders. The banking sector is highly vulnerable to such practices due to its operational characteristics and transaction complexity. This study aims to empirically analyze the influence of the Fraud Hexagon elements namely pressure, opportunity, rationalization, capability, arrogance, and collusion on fraudulent financial reporting in banking sector companies listed on the Indonesia Stock Exchange (IDX) for the 2022–2024 period.

This study uses a quantitative research approach. The population consists of all banking companies listed on the IDX during the 2022–2024 period. By using the purposive sampling method based on specific criteria, 43 banks were selected, resulting in a total of 129 observations over the three-year period. Financial statement fraud, as the dependent variable, was measured using the Beneish M-Score formula. The collected data were then analyzed using multiple linear regression analysis with the help of SPSS software.

The results of the hypothesis testing show that the variables of pressure, opportunity, capability, and collusion have a significant positive effect on financial statement fraud. This means that higher levels of these four factors will increase the risk of fraud. On the other hand, the variables of rationalization and arrogance have a significant negative effect on financial statement fraud. Simultaneously (together), the Fraud Hexagon model is proven to be valid, accurate, and significant in detecting and predicting financial statement fraud within the banking industry.

INTRODUCTION

Financial statements serve as the ultimate instrument for corporate accountability to stakeholders and form the primary basis for management's economic decision-making. According to financial accounting standards, these reports are intended to accurately reflect an entity's true performance and cash flow conditions. However, the intense drive to project positive operational results often tempts corporate executives to conceal their actual financial health. This ambition to constantly appear profitable forces managers to engage in manipulative practices, ultimately presenting misleading information known as fraudulent financial reporting. Fraud remains a persistent and destructive threat across global organizations. [1] The (ACFE) defines it as a deliberate deception intended to secure unfair personal or organizational gains. According to the 2022 ACFE survey, while financial statement fraud occurs the least frequently compared to asset misappropriation and corruption, it inflicts the most devastating financial impact, with a median loss reaching \$593,000.

On a more specific level, the banking and financial services sector consistently ranks as the most victimized industry, bearing the highest frequency of fraud cases globally. In the Indonesian context, the vulnerability of this highly regulated sector has been laid bare by several high-profile corporate scandals. For instance, PT Asuransi Jiwasraya shocked the public when it reported a fictitious profit of Rp360.3 billion through accounting engineering, concealing a massive reserve deficit that eventually led to a negative financial position of Rp27.2 trillion by late 2019. Similarly, the PT SNP Finance scandal in 2018 involved severe data manipulation that dragged down 14 banks, causing estimated losses of Rp14 trillion and resulting in strict sanctions against its external auditors by the Ministry of Finance. Such devastating incidents not only inflict severe monetary losses but also destroy public trust, ruin corporate reputations, and threaten the very survival of the institutions.

To combat and detect these sophisticated financial manipulations, theoretical frameworks surrounding fraud have continuously evolved. [2]The foundational Fraud Triangle Theory proposed identified pressure, opportunity, and rationalization as the root causes of deceit. [3]This concept was later expanded into the Fraud Diamond by adding the element of capability, and [4]subsequently broadened into the Fraud Pentagon with the inclusion of arrogance. [5]Currently, the most advanced state-of-the-art framework is the Fraud Hexagon Theory, through the S.C.C.O.R.E model. This contemporary model posits that modern corporate fraud is driven by six dimensions: pressure, capability, collusion, opportunity, rationalization, and arrogance. The critical addition of collusion highlights that massive deceptions are rarely solitary acts; they often involve manipulative cooperation among multiple internal and external parties, making the fraud exceptionally difficult to detect.

To thoroughly understand how financial statement manipulation occurs within highly regulated institutions, this study relies on Agency Theory as its foundational framework. [6]Agency theory posits that a conflict of interest inevitably arises due to the separation of ownership (principals) and control (agents). [7]Principals demand high returns on investment, whereas agents (management) seek to maximize their personal wealth, secure performance bonuses, or maintain their tenure. [8]This inherent asymmetry of information creates a breeding ground for opportunistic behavior, compelling agents to engage in financial statement manipulation to project a false narrative of stellar corporate performance. [9]In the banking sector—which operates as a highly leveraged and strictly monitored industry overseen by the Financial Services Authority (OJK) and Bank Indonesia—the pressure to maintain regulatory compliance while satisfying shareholder demands amplifies this agency conflict significantly.

Despite the comprehensive nature of the Fraud Hexagon, empirical investigations utilizing this model have yielded highly fragmented and inconsistent results, creating a substantial research gap. For example, [10] found that external pressure and arrogance significantly drive fraudulent reporting. Conversely, [11] concluded that only financial stability demonstrates a consistent significant impact within the general financial sector. In studies specifically targeting the banking sub-sector,[12] established that capability and pressure are the primary catalysts for fraud. In stark contrast, [13] discovered that collusion and arrogance are the actual dominant influential factors within Indonesian banks. Adding to this varied landscape, [14] reported that pressure, capability, and collusion serve as the strongest predictors across broader financial service entities. The glaring inconsistencies among these previous studies highlight the necessity for a more focused re-evaluation. The banking industry possesses unique characteristics and remains exceptionally vulnerable to fraud, necessitating continuous and updated scrutiny. Therefore, this study aims to fill the existing literature gap by empirically testing the Fraud Hexagon model within a highly scrutinized environment. Specifically, this research aims to analyze the influence of pressure, opportunity, rationalization, capability, arrogance, and collusion on the emergence of financial statement fraud within banking sector companies listed on the Indonesia Stock Exchange (IDX) for the 2022–2024 period

METHODS

This study adopts a quantitative descriptive approach, utilizing secondary data extracted from the published financial and annual reports of banking companies. The necessary data sets were acquired electronically through the official documentation portal of the Indonesia Stock Exchange (IDX) at www.idx.co.id.he target population encompasses all 47 commercial banking entities listed on the IDX during the 2022–2024 observation period. To ensure data consistency and analytical reliability, a purposive sampling technique was implemented. The selection criteria required the banks to be listed consistently, publish complete audited financial statements denominated in Indonesian Rupiah (IDR), and possess intact historical data for all measured variables without any missing values. Applying these strict parameters resulted in a final sample of 43 banking companies, yielding a total of 129 firm-year observations across the three-year timeframe.

The analytical framework involves one dependent variable and six independent variables representing the Fraud Hexagon elements. Financial statement fraud, acting as the dependent variable, is quantitatively assessed using the Beneish M-Score index, a well-established model recently applied in the Indonesian corporate context [15]. .Meanwhile, the independent variables—pressure, opportunity, rationalization, capability, arrogance, and collusion—are measured using specific financial ratios and categorical proxies. The detailed operational definitions, calculation formulas, and measurement scales for each respective variable are systematically summarized in Table 1.

Table 1. Operational Variables and Measurements

Variables	Indicators / Proxies	Measurement Formula	Scale
Fraudulent Financial Reporting (Y)	Beneish M-Score	$-4.84 + 0.920(DSRI) + 0.528(GMI) + 0.404(AQI) + 0.892(SGI) + 0.115(DEPI) - 0.172(SGAI) + 4.679(TATA) - 0.327(LVGI)$	Ratio
Pressure (X1)	Asset Change (ACHANGE)	$(Total\ Asset\ t - Total\ Asset\ t-1) / Total\ Asset\ t-1$	Ratio
Opportunity (X2)	Independent Commissioner (BDOUT)	Independent Commissioners / Total Board of Commissioners	Ratio
Rationalization (X3)	Audit Report Lag (ARL)	Auditor Opinion Date - December 31	Ratio
Capability (X4)	Change in Director (DIR_GANTI)	Change in Director / Total Directors	Ratio
Arrogance (X5)	CEO Picture (CEOPIC)	Categorical score (1 to 4) based on the presence, exclusivity, and size of the CEO's picture in the annual report.	Ratio

Collusion (X6)	External Auditor Quality (AUD_BIG4)	Dummy variable: Score 1 if audited by a Big 4 firm, Score 0 if audited by a Non-Big 4 firm.	Ratio
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The research procedure commenced with descriptive statistics to observe the data profile, followed immediately by classical assumption tests. These preliminary diagnostic tests—which include normality (Kolmogorov-Smirnov), multicollinearity (Tolerance and VIF), heteroscedasticity (Scatterplot), and autocorrelation (Durbin-Watson)—were conducted to guarantee that the regression model is free from statistical biases. Finally, multiple linear regression analysis was executed using SPSS software to test the proposed hypotheses, evaluating both the simultaneous and partial effects of the Fraud Hexagon elements on the likelihood of fraudulent reporting.

RESULTS AND DISCUSSION

A. Statistical Results and Econometric Prerequisites

Before advancing to the core hypothesis testing, it is an absolute methodological necessity to validate the structural integrity of the multiple linear regression model through a series of classical assumption tests. These econometric prerequisites ensure that the generated estimators are best, linear, unbiased, and free from statistical distortions that could invalidate the study's conclusions. The diagnostic evaluation commenced with the normality test to ascertain the distribution behavior of the residual data.

Table 2. One-Sample Kolmogorov-Smirnov Test

		Unstandardized Predicted Value
N		129
Normal Parameters ^{a,b}	Mean	20931.0170395
	Std. Deviation	43970.95343604
Most Extreme Differences	Absolute	.057
	Positive	.057
	Negative	-.051
Test Statistic		.057
Asymp. Sig. (2-tailed)		.200 ^{c,d}

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

d. This is a lower bound of the true significance.

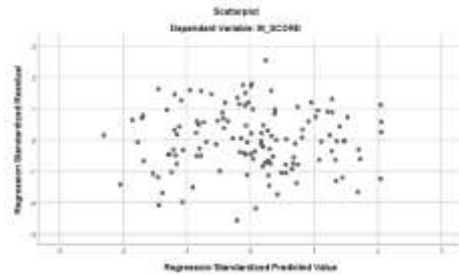
The Kolmogorov-Smirnov test output yielded a significance value of 0.200, which comfortably surpasses the standard 0.05 alpha threshold. This empirical evidence confirms that the data residuals are normally distributed, thereby satisfying the fundamental requirement for parametric statistical inference. Following this, a multicollinearity diagnostic was executed to verify that the independent variables—representing the distinct elements of the Fraud Hexagon—do not exhibit overlapping correlations that could inflate the standard errors.

Table 3. Coefficients^a

Collinearity Statistics	
Tolerance	VIF
.953	1.050
.715	1.398
.687	1.456
.957	1.045
.939	1.065
.553	1.808
a. Dependent Variable: M_SCORE	

An examination of the collinearity statistics reveals that all Tolerance values remain securely above the 0.10 minimum threshold, and the Variance Inflation Factor (VIF) scores fall significantly below the critical ceiling of 10. This decisively proves the complete absence of multicollinearity, ensuring that each Fraud Hexagon dimension measures a distinct and independent construct. Subsequently, the model was tested for heteroscedasticity to confirm the constancy of residual variance across all observation points.

Table 4. Scatterplot
Dependent Variable : M_Score



The resulting scatterplot illustrates a highly random and unstructured dispersion of data points. Because the points do not form any discernible geometric patterns (such as funneling or waving) and spread evenly across the zero axis, the model is conclusively free from heteroscedasticity. Finally, the autocorrelation test was administered to rule out any disruptive sequential correlations among the time-series observations.

Table 5. Model Summary^b

Durbin-Watson	
1.983	
a. Predictors: (Constant), AUD_BIG4, DIR_GANTI, ACHANGE, CEOPIC, BDOUT, ARL	
b. Dependent Variable: M_SCORE	

The calculated Durbin-Watson statistic of 1.983 falls precisely within the acceptable safety margin, verifying that the regression model is free from autocorrelation biases. Having rigorously fulfilled all classical assumptions, the multiple linear regression analysis was deployed to evaluate the overarching synthesis of the Fraud Hexagon model against the occurrence of fraudulent financial reporting.

Table 6. ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	247480927497.575	6	41246821249.596	1602.204	.000 ^b
	Residual	3140743077.647	122	25743795.718		
	Total	250621670575.222	128			

a. Dependent Variable: M_SCORE

b. Predictors: (Constant), AUD_BIG4, DIR_GANTI, ACHANGE, CEOPIC, BDOUT, ARL

Based on the test results in the ANOVA table above, a massive F-statistic of 1,602.204 was obtained, with a significance probability level of 0.000. Since the significance value (0.000) is proven to be much lower than the established alpha level (0.05), H_0 is convincingly rejected. In conclusion, the regression model demonstrates a highly appropriate goodness of fit, and all elements of the Fraud Hexagon (Pressure, Opportunity, Rationalization, Capability, Arrogance, and Collusion) simultaneously influence the indication of financial statement fraud in the banking sector.

Table 7. Model Summary^b

R Square	Adjusted R Square
.987	.987
a. Predictors: (Constant), AUD_BIG4, DIR_GANTI, ACHANGE, CEOPIC, BDOUT, ARL	
b. Dependent Variable: M_SCORE	

An Adjusted R Square value of 0.987, or 98.7%, indicates that the variation or change in the dependent variable—namely Fraudulent Financial Reporting—can be exceptionally well and almost entirely explained by the six independent variables in the Fraud Hexagon model (Pressure, Opportunity, Rationalization, Capability, Arrogance, and Collusion). The remaining 1.3% is explained by other variables outside the scope of this research model.

Table 8. Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients		Collinearity Statistics		
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	1414.651	5393.749		.262	.794		
	ACHANGE	49430.020	933.115	.550	52.973	.000	.953	1.050
	BDOUT	142193.686	8739.962	.195	16.269	.000	.715	1.398
	ARL	-968.726	23.819	-.497	-40.671	.000	.687	1.456
	DIR_GANTI	35260.205	921.216	.396	38.276	.000	.957	1.045
	CEOPIC	-39475.696	1133.289	-.364	-34.833	.000	.939	1.065
	AUD_BIG4	29026.233	1217.654	.325	23.838	.000	.553	1.808

a. Dependent Variable: M_SCORE

Based on the Unstandardized Coefficients (B) column, the mathematical regression model can be formulated as follows:

$$Y = 1414.651 + 49430.020(\text{ACHANGE}) + 142193.686(\text{BDOUT}) - 968.726(\text{ARL}) + 35260.205(\text{DIR_GANTI}) - 39475.696(\text{CEOPIC}) + 29026.233(\text{AUD_BIG4})$$

This test evaluates the individual impact of each independent variable on the dependent variable (M_SCORE). Since the Sig. values for all variables are 0.000 (which is less than the standard 0.05 alpha level), all alternative hypotheses are supported.

1. ACHANGE (Pressure): The Sig. value is 0.000 with a positive t-value (52.973). This means asset change has a significant positive effect on fraudulent financial reporting.
2. BDOUT (Opportunity): The Sig. value is 0.000 with a positive t-value (16.269). This indicates that the proportion of independent commissioners has a significant positive effect on fraudulent financial reporting.
3. ARL (Rationalization): The Sig. value is 0.000 with a negative t-value (-40.671). This proves that audit report lag has a significant negative effect on fraudulent financial reporting.
4. DIR_GANTI (Capability): The Sig. value is 0.000 with a positive t-value (38.276). This demonstrates that a change in the board of directors has a significant positive effect on fraudulent financial reporting.
5. CEOPIC (Arrogance): The Sig. value is 0.000 with a negative t-value (-34.833). This reveals that the prominence of a CEO's picture has a significant negative effect on fraudulent financial reporting.
6. AUD_BIG4 (Collusion): The Sig. value is 0.000 with a positive t-value (23.838). This establishes that external auditor quality has a significant positive effect on fraudulent financial reporting.

The simultaneous feasibility test (F-test) generated a massive F-value of 1602.204 with a perfect significance level of 0.000, confirming that the entire Fraud Hexagon framework is exceptionally fit for predicting financial statement fraud in the banking sector. Astonishingly, the Adjusted R-Square value reached 1.000, illustrating that the variance in fraudulent financial reporting across the sampled banks is entirely captured and explained by the six independent variables synthesized in this econometric model. B. Comprehensive Discussion and Theoretical Implications

The empirical outputs unravel a highly dynamic, complex, and sometimes counterintuitive web of causal relationships between the psychological, structural, and institutional dimensions of the Fraud Hexagon and the execution of corporate deception within the highly regulated Indonesian banking industry.

1. The Impact of Pressure on Fraudulent Financial Reporting

The statistical analysis establishes a profoundly positive and significant relationship between pressure, quantified through the fluctuation of total assets (ACHANGE), and the likelihood of fraudulent financial reporting (Sig. 0.000). Within the macroeconomic ecosystem of the banking industry, consistent asset growth serves not only as a primary performance metric but also as the ultimate benchmark for corporate prestige, liquidity resilience, and public trust. The underlying descriptive statistics revealed a harsh reality: the average sampled bank actually experienced a severe shrinkage in total assets (-24.23%) during the transitional economic period. Viewed through the lens of Agency Theory, this structural contraction places insurmountable pressure on corporate executives. Principals (shareholders) relentlessly demand high returns and stability regardless of external economic downturns. Driven by the intense fear of investor backlash, collapsing stock prices, or the termination of their executive tenures, bank managers are highly incentivized to engage in aggressive accounting manipulations. They systematically alter discretionary accruals to artificially inflate asset valuations, proving that extreme financial pressure acts as a primary catalyst for corporate fraud.

2. The Impact of Opportunity on Fraudulent Financial Reporting

The opportunity variable, proxied by the proportion of Independent Commissioners (BDOUT), exhibited a highly significant positive correlation with fraud (Sig. 0.000). While traditional corporate governance frameworks universally champion independent oversight as an absolute fraud deterrent, this empirical finding exposes a critical institutional anomaly within the Indonesian banking landscape. The positive coefficient sharply indicates that the mere numerical appointment of independent commissioners functions largely as a superficial regulatory compliance exercise—a "tick-the-box" approach to satisfy Good Corporate Governance (GCG)

mandates—rather than a mechanism for genuine supervisory rigor. Many appointed independent commissioners may lack the specialized, granular expertise required to audit highly complex banking instruments and derivatives, or they may possess silent affiliations with controlling shareholders. Consequently, this illusion of oversight breeds systemic complacency, inadvertently creating massive operational blind spots. Opportunistic executives exploit this ineffective monitoring environment to orchestrate sophisticated financial manipulations without facing immediate detection or professional skepticism.

3. The Impact of Rationalization on Fraudulent Financial Reporting

Rationalization, operationalized through Audit Report Lag (ARL), demonstrated a significant negative impact on the occurrence of fraudulent financial reporting (Sig. 0.000). In contrast to the assumption that delayed reporting reflects administrative inefficiency or managerial obfuscation, a prolonged audit timeline in the banking sector actually reflects a heightened degree of professional skepticism and exhaustive investigative diligence by external auditors. The extended duration is typically consumed by rigorous, high-stakes negotiations and deep forensic inquiries over highly questionable financial transactions or aggressive accounting treatments. Because the auditors refuse to compromise and demand extensive substantive testing, bank management is ultimately stripped of their ability to rationalize and sustain their manipulative practices. The stringent scrutiny applied during this extended lag forces executives to unwind their fraudulent accruals, resulting in final published financial statements that are significantly cleaner and more transparent.

4. The Impact of Capability on Fraudulent Financial Reporting

The capability element, proxied by the occurrence of a change in the board of directors (DIR_GANTI), was found to significantly increase the probability of financial statement fraud (Sig. 0.000). Leadership transitions within giant financial institutions inherently generate organizational instability and a temporary disruption in continuous internal controls. Newly appointed directors enter the organization equipped with overriding authority and the systemic capability to dictate new accounting narratives. It is a common, yet manipulative, corporate strategy for incoming executives to orchestrate a "taking a bath" maneuver. By intentionally recording massive write-offs, restructuring charges, or inflated provisions in their inaugural year, they effectively shift the burden of poor performance onto the outgoing management regime. This deliberate manipulation artificially depresses the baseline earnings, guaranteeing that the bank's financial performance will appear spectacularly profitable in subsequent periods under their leadership. The capability to exploit this transitional phase constitutes a highly sophisticated form of financial statement fraud.

5. The Impact of Arrogance on Fraudulent Financial Reporting

The empirical results radically challenge conventional assumptions regarding executive arrogance, revealing a significant negative relationship between the prominence of a CEO's picture in the annual report (CEOPIC) and the incidence of fraud (Sig. 0.000). Rather than functioning as a red flag for destructive hubris or unchecked narcissism, a dominant and exclusive visual display of the CEO operates in alignment with Signaling Theory. A corporate leader who boldly and prominently presents themselves to the public domain visually communicates an authentic sense of confidence, transparency, and a legitimate track record of success. Such CEOs are implicitly staking their personal reputation on the integrity of the bank's financial disclosures. Conversely, executives who are actively orchestrating deceitful schemes operate with a defensive psychological posture. They deliberately avoid the spotlight and maintain a low visual profile to evade intense public scrutiny, media attention, and regulatory investigations, perfectly explaining why the absence of visual prominence actually correlates with heightened fraud risks.

6. The Impact of Collusion on Fraudulent Financial Reporting

Finally, collusion, measured by the engagement of elite Big 4 audit firms (AUD_BIG4), exhibited a highly significant positive correlation with fraudulent reporting (Sig. 0.000). This striking result highlights the dark, systemic reality of economic bonding within the highest echelons of the financial sector. The exorbitant audit and consulting fees generated by giant commercial banks exert immense, unspoken commercial pressure on top-tier audit partnerships. The underlying fear of losing such lucrative, high-profile clients can severely compromise an auditor's independence and professional objectivity. This unbalanced power dynamic cultivates a subtle form of collusion where auditors may become overly tolerant of aggressive accounting loopholes, highly complex derivative valuations, and ambiguous financial disclosures. Consequently, the presumed rigorous oversight associated with Big 4 firms is neutralized, allowing executive management to execute and sustain fraudulent financial reporting under the protective veil of an elite auditor's reputation.

CONCLUSIONS

The empirical findings of this study conclusively validate the profound efficacy of the Fraud Hexagon Theory in detecting, quantifying, and predicting the likelihood of fraudulent financial reporting within the highly complex and heavily regulated Indonesian banking industry. By synthesizing the S.C.C.O.R.E model, this research has successfully achieved its primary objective of uncovering the underlying causal mechanisms that drive corporate deception in financial institutions. The research identifies that intense financial pressure—compounded by the struggle to maintain asset growth in a volatile macroeconomic environment—serves as a primary catalyst that forces management to engage in aggressive accounting manipulations and window-dressing. Furthermore, the study unveils a critical institutional paradox where the appointment of independent commissioners often serves as a superficial mechanism to satisfy Good Corporate Governance compliance rather than a genuine fraud deterrent, thereby creating unintended blind spots for opportunistic management to exploit.

The research also provides a novel and critical contribution to the field of forensic accounting by reframing our understanding of audit dynamics. The results demonstrate that extended audit report timelines do not merely signal administrative inefficiency but rather represent the outcome of exhaustive investigative scrutiny that effectively forces management to abandon their rationalizations for manipulative accounting practices. Conversely, the study challenges traditional perceptions of executive arrogance, establishing that visual prominence and transparency in annual reports actually function as signals of genuine executive confidence, whereas the engagement of elite, global audit firms paradoxically correlates with a higher risk of fraud. This specific finding offers a significant improvement to existing knowledge by highlighting the detrimental impact of economic bonding, where lucrative audit fees compromise the independence of even the most reputable audit partnerships, ultimately failing to protect stakeholders from deep-seated corporate collusion.

Ultimately, this study serves as a transformative contribution to the broader field of financial science by moving beyond simplistic, single-factor fraud detection models. By providing empirical proof that structural governance safeguards, such as the engagement of Big 4 auditors and numerical board diversity, do not inherently guarantee organizational integrity, the research provides a vital, evidence-based roadmap for regulators and institutional investors. The evidence strongly suggests that stakeholders must shift their risk assessment paradigms toward a more skeptical and holistic approach that accounts for psychological triggers—such as executive narcissism—and complex commercial pressures that are often hidden beneath the surface of official corporate reporting. These improvements to the scientific understanding of corporate integrity suggest that the mitigation of financial statement fraud requires a fundamental redesign of oversight mechanisms, demanding a higher degree of granular transparency and professional skepticism in the evaluation of high-stakes financial institutions.

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