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Fraudulent Financial Statement Detection: Testing The Fraud Octagon Theory

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Abstract:
Fraud in financial statements can occur through deliberate misrepresentation of financial information through monetary units, falsification of transaction documents, non-compliance with accounting principles, or the omission of certain financial items in the presentation of financial statements. Fraud can occur in a company due to several underlying factors. While research on fraud has been continuously developed, inconsistencies remain between research results. Furthermore, there is a gap in previous literature, with theoretical perspectives used to explain fraud varying widely, ranging from the fraud triangle, fraud diamond, fraud pentagon, to fraud heptagon. According to the Association of Certified Fraud Examiners (ACFE) release entitled Asia-Pacific Occupational Fraud 2022 Indonesia ranked fourth in the country with the highest number of fraud cases in 2022, with losses reaching Rp 242.26 billion, recorded in 23 cases. The biggest frauds in Indonesia are corruption (64 percent), misuse of state and corporate assets (28.9 percent), and financial statement fraud (6.7 percent). Although the percentage of financial statement fraud is small, the losses incurred are quite large, averaging over ten billion rupiah. A survey by the Association of Certified Fraud Examiners & Association of Certified Fraud Examiners (2020) found that the total loss due to fraud cases in Indonesia in 2019 was IDR 873.43 million, with an average of more than IDR 7 million per case and around 38.5% of cases were fraud with losses exceeding IDR 1 million. This is a case of fraudulent financial statements (ACFE Indonesia, 2020). The novelty of this study is the examination of fraud using the Octagon theory approach, whereas previous studies used the fraud triangle, fraud diamond, fraud pentagon, and heptagon theory. This study adds the factors of technology, supervision, and punishment, which are integrated factors of the Octagon theory. The purpose of this study is to detect fraudulent financial statements using various factors, namely pressure, opportunity, rationalization, competence, arrogance, culture, religiosity, and technology. The objects studied were 936 companies from all manufacturing sectors listed on the Indonesia Stock Exchange (IDX) for the 2014-2023 period. The sampling technique used purposive sampling. Data analysis used SPSS.

Keyword: Fraudulent financial statements, fraud octagon theory

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Introduction

According to the Association of Certified Fraud Examiners (ACFE) report titled "Asia-Pacific Occupational Fraud 2022: A Report to the Nations," Indonesia ranks 4th among countries with the highest number of fraud cases in the year, totaling 23 cases. The most prevalent types of fraud in Indonesia are corruption (64 percent), misuse of state and company assets/wealth (28.9 percent), and financial statement fraud (6.7 percent) (ACFE Indonesia, 2019). Although the percentage of financial statement fraud is relatively low, the resulting losses are significant, averaging over ten billion rupiah. Based on the results of a survey conducted by the Association of Certified Fraud Examiners (ACFE) Indonesia in 2019, the total losses due to fraudulent practices in Indonesia reached Rp 873.43 million. The average loss per case was reported to be more than Rp 7 million, and approximately 38.5% of these were fraud cases with losses exceeding Rp 1 million (ACFE Indonesia, 2019). The phenomenon of fraud in financial reporting continues to occur and is a concerning issue. Additionally, various studies on fraud in financial statements have shown mixed results and have not provided consistent conclusions. Previous research has shown diversity in the use of theoretical frameworks to explain fraud phenomena, reflecting a literature gap. This began with testing the fraud triangle (Cressey, 1953) , fraud diamond (Wolfe & Hermanson, 2004) , fraud pentagon (Marks, 2012) fraud hexagon (Vousinas, 2019) and heptagon theory (Azizah & Reskino, 2023).

This research uses the manufacturing sector because it is one of the strategic sectors that makes a significant contribution to Indonesia's Gross Domestic Product (GDP). Based on BPS data (2023), the non-oil and gas processing industry contributes approximately 19.5% to national GDP, making it a crucial sector in driving national economic growth. Additionally, the manufacturing sector has complex operational characteristics and is susceptible to financial statement manipulation practices because it involves extensive estimations of production costs, inventory, and sales. This complexity can create opportunities for fraud, especially in the context of modern fraud theories like the Octagon Theory, which emphasizes the importance of eight drivers of fraud, including pressure, opportunity, rationalization, and competence. Here is a bar chart showing the contribution of economic sectors to Indonesia's GDP based on BPS 2023 estimated data. It is evident that the manufacturing sector is the largest contributor (19.5%), which strengthens the rationale for selecting this sector.

In this context, the Fraud Octagon Theory emerges as the latest conceptual development, offering eight driving elements of fraud, including pressure, opportunity, rationalization, competence, arrogance, culture, religiosity, and technology. This theory is expected to address the limitations of previous approaches, which were considered insufficient to reflect the complexity of motivation and the underlying conditions of fraudulent actions, particularly in financial reporting. The theory used in this research is Agency Theory (Jensen & Meckling, 1976), which explains the conflict of interest between the principal (owner) and the agent (management). Financial statement fraud often arises when agents prioritize their personal interests, such as pursuing incentives, bonuses, or maintaining their reputation, over the interests of the principal. Information asymmetry gives agents the opportunity to manipulate financial statements without the principal's knowledge. Additionally, this research also utilizes stakeholder Theory, which states that companies are responsible not only to shareholders but also to employes, customers, regulators, suppliers, and the community. Financial statement fraud damages stakeholder trust. Pressure from investors, customers, or suppliers can push management to manipulate reports to maintain relationships or reputation. The impact of fraud is widespread, harming not only shareholders but also employees, customers, and regulators. This theory emphasizes the importance of a corporate culture that upholds social responsibility, transparency, ethics, and accountability to prevent fraud.

Therefore, this study adopts the Fraud Octagon Theory as the main theoretical framework to explain the driving factors behind fraudulent financial statements, as this theory is considered capable of providing a more holistic and contextual perspective, particularly in the manufacturing sector, which has complex characteristics and a high risk of financial statement fraud. The Fraud Octagon Theory is an evolution of existing fraud theories; we have added another dimension to the existing fraud theories to explain the occurrence of fraud based on the Technology factor. This theory explains that fraud occurs based on the premise that when a company implements good technology for its website, where the company implements the user support component, which refers to the features and facilities offered on the website to make it easier for users and investors to find information on the company's website. Companies that provide websites with complete features demonstrate a high commitment to transparency and accountability. By providing clear information access, easily accessible functions, and integrated processes, the company creates an environment that fosters public trust. This also indicates that the company has good oversight mechanisms, thus minimizing the likelihood of fraudulent activities. The presence of these features reflects the company's dedication to integrity. In the fraud octagon theory, there are several factors, namely:

Pressure with Fraudulent Financial Statement

Pressure with Fraudulent Financial Statements Pressure in the context of financial statements refers to the pressure exerted by management or external stakeholders, such as investors, creditors, or regulators, to achieve desired financial results. This pressure often arises because companies feel the need to maintain a good image in the market or meet the high expectations of shareholders. This could include expectations regarding profit growth, financial stability, or overall good performance. Significant asset changes can be an indicator of internal or external pressure faced by a company. In this case, substantial asset changes, especially those involving an unreasonable increase in assets or reduction in liabilities, could be an attempt to create a more positive financial picture than the existing reality.

Companies might make such changes to meet market expectations or maintain a good image in the eyes of outsiders, even though these changes could increase long-term risks if not managed properly. Previous research, such as (Kurniawati et al., 2024), (Wulandari & Trisnawati, 2022),(Christian et al., 2019); (Dwi Maryadi et al., 2020); (Himawan & Wijanarti, 2020),(Setiawan Nurardi & Wijayanti, 2021) , states that pressure affects the detection of financial statements. A person will do what their superior orders, even if it goes against their principles. Meanwhile, other research (Agus Susanto et al., 2024) , (Alfina & Amrizal, 2020; Ulhaq & Trisnawati, 2023) states that pressure does not affect fraudulent financial statements. The presence of pressure (financial targets or external pressure) is not strong enough to drive fraud unless accompanied by moral weakness, opportunity, or rationalization. Therefore, the first hypothesis in this study is: H1: Pressure affects fraudulent financial statements.

H1: Pressure influences Fraudulent financial statement

Opportunity with Fraudulent Financial Statement

Opportunity for fraud often arises when oversight of a company's financial or operational activities is not sufficiently strict. Without adequate internal controls, individuals within a company may feel they have the freedom to abuse the power or access they possess. Strict oversight, such as the presence of independent directors, can significantly reduce opportunities for fraud. This is because the more parties involved in oversight, the higher the level of transparency and accountability in decision-making. When management knows that their decisions will be overseen by an independent party, they are more likely to act carefully and avoid actions that could harm the company or involve unethical practices.

Therefore, by increasing intensive monitoring, companies can reduce the space for individuals to exploit fraud opportunities, as there are more controls that suppress potential abuse of power.

Research findings (Kurniawati et al., 2024), (Ulhaq & Trisnawati, 2023) , (Maulidiana & Triandi, 2020) indicate that opportunity significantly influences fraudulent financial statements.

Fraud can occur if there is an opportunity to do so. Fraud often happens when there is sufficient opportunity for individuals to commit fraudulent acts. However, research by (Dwi Maryadi et al., 2020); (Himawan & Wijanarti, 2020) found that opportunity did not significantly affect financial statement fraud. This is believed to be because the company already has a good internal control system, making the opportunity for fraud smaller. Therefore, the second hypothesis of this study is:

H2: Opportunity influences fraudulent financial statements.

Rationalization with Fraudulent Financial Statement

Rationalization is the justification behind manipulative decisions in financial statements. When companies use accruals to adjust their financial statements, they can create a better financial picture than what actually happened. This can be done by estimating revenue or delaying the recognition of expenses, which gives the impression that the company is performing better than it actually is. This TACC ratio is often used to detect potential fraud or cheating, as management or stakeholders may feel justified in manipulating financial data. Typically, they do this with the aim of achieving short-term goals, such as increasing stock prices or meeting stakeholder expectations. However, while this may seem beneficial in the short term, such actions could potentially harm the company in the long run by damaging its credibility and market trust. Research conducted by (Wahyuni et al., 2015); (Citra Mulyandani & Rahayu, 2021); (Yessi Puspitha & Wirawan Yasa, 2018); proves that rationalization has a significant and positive effect on the detection of fraudulent financial statements. Rationalization causes fraudsters to seek justification for their actions. However, research (Himawan & Wijanarti, 2020;dan (Setiawan Nurardi & Wijayanti, 2021) found that rationalization is a psychological factor that is difficult to measure quantitatively and is often not reflected in financial data or formal company reports. Therefore, the third hypothesis of this study is:

H3 : Rationalization influences Fraudulent Financial Statement

Competence with Fraudulent Financial Statement

Competence and Fraudulent Financial Statements Competence is a factor related to professional ability and expertise in carrying out their duties and responsibilities, whether in company management or in the audit process. Competence is also a determining factor in financial statement fraud. The research conducted by , (Kurniawati et al., 2024) , (Yessi Puspitha & Wirawan Yasa, 2018) proves that competence has a significant and positive influence on financial reporting fraud. Additionally, the study conducted by (Citra Mulyandani & Rahayu, 2021) proves that competence has a significant and positive influence on financial reporting fraud. Research findings (Sihombing & Rahardjo, 2014) state that competence influences fraudulent financial statements, but different results were found in the studies by (Dwi Maryadi et al., 2020) and (Himawan & Wijanarti, 2020), , where competence did not affect the tendency for fraud, because not all individuals with high competence automatically misuse their abilities. In some cases, it is precisely competent individuals who are more bound by the professional code of ethics. Therefore, the fourth hypothesis in this study is: H4: Competence influences fraudulent financial statements.

H4 : Competence influences Fraudulent financial statement

Arrogance with Fraudulent Financial Statement

Arrogance with Fraudulent Financial Statements In the context of a company, if the CEO presents themselves too frequently in the annual report, for example through many photos or other self-promotion, this could reflect an attitude of arrogance. A CEO who is overly self-promoting might try to portray themself as a more important figure than the company itself, indicating a tendency to prioritize personal interests or ego over the company's interests. Thus, arrogance at the managerial level can open the door to manipulative practices in financial reporting, as this attitude often leads to decision-making that is less based on objective or ethical considerations. Often, actions taken with a sense of superiority have the potential to obscure facts or deviate from existing policies to achieve personal or short-term gains. Research conducted by (Noorjamil, 2019) also states that arrogance, which is the image of a CEO, influences financial statement fraud. Research conducted by (Rukmana, 2018) indicates that as arrogance increases, so does cheating. On the other hand, research by (Himawan & Wijanarti, 2020) shows that arrogance has no significant influence on fraudulent financial reporting in manufacturing companies on the IDX. Research by (Dwi Maryadi et al., 2020) also indicates that arrogance does not significantly affect fraudulent financial reporting because this factor is difficult to measure quantitatively, and not all concentrations of power (associated with arrogance) lead to fraudulent actions. Therefore, the fifth hypothesis of this study is:

H5 : Arrogance influences fraudulent financial statement

Culture with Fraudulent Financial Statement

Culture is the values, norms, and behaviors that are accepted and upheld within an organization. In the context of a company, a strong and healthy culture can play a crucial role in preventing fraud, especially when it comes to financial statements. One of the factors that shapes corporate culture is the implementation of good Corporate Governance (CG). Strong Corporate Governance, reflected through the application of OECD (Organization for Economic Co-operation and Development) principles, can create a corporate culture that supports transparency, accountability, and ethics in company management. The application of these principles, such as strict oversight by the board of directors, protection of stakeholder rights, and transparent management, can reduce the likelihood of fraud or cheating in financial reporting. By creating an environment that encourages openness and accountability, companies will be more likely to maintain the integrity of their financial reports. Good corporate governance helps ensure that management decisions are made in the interests of all stakeholders, not just for the benefit of individuals or specific groups who could potentially engage in misconduct. According to research by (Tricker 2019) in his book Corporate Governance: Principles, Policies, and Practices, the proper application of CG principles not only reduces the likelihood of fraud but also improves overall company performance. Additionally, a study conducted by ((Porta et al., 2002) in the Journal of Financial Economics also showed that companies with good corporate governance practices tend to be more transparent in financial reporting and less likely to engage in fraud or manipulation of financial data. Research (Dinata et al., 2018), found that a permissive and unethical organizational culture directly contributes to the prevalence of fraudulent practices. Research (Septiani et al., 2023) also found that organizational culture significantly influences the effectiveness of fraud prevention. In other words, a company culture driven by strong corporate governance can be one of the main barriers to financial fraud and contribute to the company's long-term sustainability. Therefore, the 6th hypothesis of this study is: H6: Culture influences fraudulent financial statements.

H6: Culture influences Fraudulent financial statement

Religiosity with Fraudulent Financial Statement

Religiosity and Fraudulent Financial Statements Religiosity is the level of awareness and application of religious values in life, including in the business world. Companies listed as sharia securities based on the decision of the OJK Board of Commissioners are companies that fall into the sharia securities category. They manage their business activities based on sharia principles in the capital market. These principles prohibit activities that contradict Islamic law, such as usury, gharar (uncertainty), and other activities that are not in accordance with Islamic teachings. This application of religiosity can be reflected in company policies that maintain transparency, integrity, and ethics in all its operations. Thus, Islamic companies have a smaller chance of deviating or committing fraud in their financial statements because management is based on religious values. The presence of religiosity as an operational guideline not only enhances the company's reputation in the eyes of the public but also strengthens corporate governance in supporting sustainability and business ethics. The principle of simplicity taught by religiosity prevents individuals from resorting to any means necessary, thus helping them maintain their independence. (Urumsah et al., 2018) found that religion is very important for reducing cheating. Subsequently, research also conducted (Cahyadi Made Feri & Sujana Edy, 2020) found that religion is very important for reducing cheating. Therefore, the seventh hypothesis of this study is:

H7: Religiosity influences fraudulent financial statements.

Technology dengan Fraudulent Financial Statement

Technology is the ability and application of modern devices or systems to support operational efficiency in companies, including data management and decision-making. In the context of this research, technology can be an important tool for preventing, detecting, or even enabling the manipulation of financial statements. The User Support component refers to various features and facilities designed to make it easier for users, including investors, to access and understand information on the company's website. These features aim to enhance the user experience by providing intuitive, responsive, and informative navigation, allowing users to find the information they need quickly and efficiently. Research conducted by (Widianingsih et al., 2018), and (Nawawi & Fazri, 2022) proves that technology-based accounting information systems not only improve efficiency but also serve as an effective monitoring tool, reducing the scope for data manipulation and misleading information presentation. Therefore, the 8th hypothesis of this study is

H8 : Technology influences Fraudulent Financial statement

Based on the theoretical foundation that has been described, as a guide in formulating the hypothesis, the researcher presents the research framework diagram that will be used as a reference in this study, as follows :

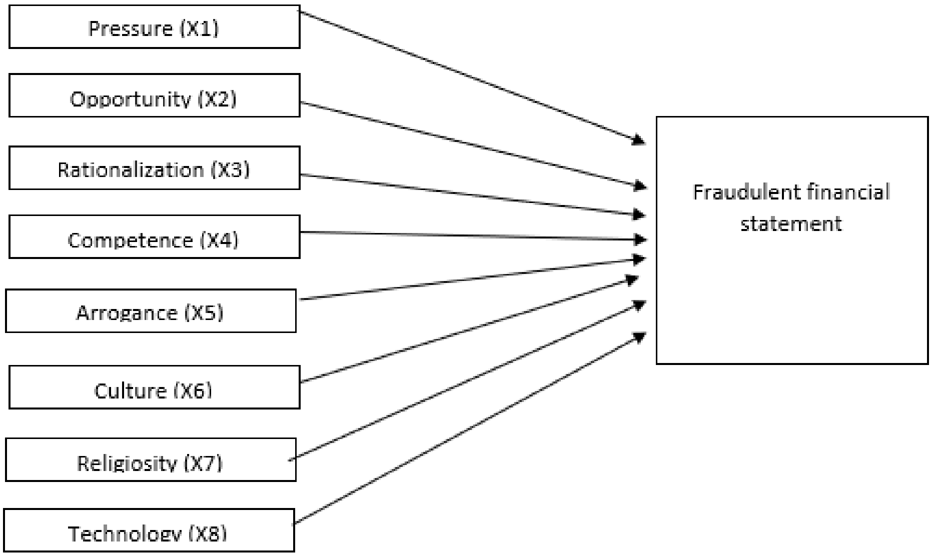

Figure 1. Conceptual Framework

Method

The type of research used in this study is quantitative research. The research data utilizes audited financial statements of manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2015 to 2023. The data is sourced from the official website of the Indonesia Stock Exchange, www.idx.co.id. The research sample was selected using purposive sampling, with the following criteria: (1) Manufacturing sector companies listed on the Indonesia Stock Exchange (IDX) non-consecutively from 2015 to 2023, (2) Companies providing complete annual financial statements from 2015 to 2023, accessible through the official IDX website or the company's website, (3) Companies with negative financial performance, consistently earning net profit each year from 2015 to 2023, (4) Companies not using the Indonesian Rupiah (IDR) in presenting their financial statements from 2015 to 2023. In this study, fraudulent financial statements are used as the dependent variable, proxied by the F-score. Meanwhile, the independent variables used are pressure, opportunity, rationalization, competence, arrogance, culture, technology, and religiosity. Pressure refers to the pressure exerted by management or external stakeholders. Pressure is measured by financial stability. Opportunity is the existence of opportunities that allow individuals to commit fraud. In this study, opportunity is measured by monitoring, which is the comparison between independent board members and the total number of board members. Rationalization is the justification behind manipulative decisions in financial statements, and it is measured by the TACC ratio. Competence is related to professional ability and expertise in carrying out their tasks and responsibilities. In this study, competence is measured using a dummy variable: 1 if there is a change in directors, and 0 if not. Arrogance is an attitude that reflects excessive self-confidence and is often accompanied by a sense of superiority. In this study, arrogance was measured by the number of CEO photos. Culture is the values, norms, and behaviors that are accepted and upheld within an organization. Culture in this study was measured by applying OECD (Organization for Economic Co-operation and Development) principles. These indicators are as follows: 1 if they do not meet the best practice disclosure standards, 2 if they meet the best practice disclosure standards, and 3 if they exceed the best practice disclosure standards (voluntary disclosure). Religiosity is the level of awareness and application of religious values in life, including in the business world. In this study, religiosity is measured using a dummy variable: 1 if the company is listed on the Sharia Stock Exchange and 0 if not. Technology is the ability and application of modern devices or systems to support operational efficiency in companies, including in data management and decision-making. In this study, technology is measured by 10 components of User Support.

Research Model

In this study, the data analysis technique used is multiple linear regression. Multiple linear regression is a statistical method used to analyze the relationship between one dependent variable and two or more independent variables. This technique allows researchers to test the extent to which each independent variable influences the dependent variable, as well as to determine whether the existing relationships are significant or not. The data analysis tool used SPSS software version 29. SPSS is used to process quantitative data and perform multiple linear regression analysis to identify the influence of independent variables on the dependent variable.

The multiple linear regression equation in this study is:

$Y = \beta 0+\beta 1Pre+\beta 2Opp+\beta 3Rat+\beta 4Com+\beta 5Arr+\beta 6Cul+\beta 7Rel+\beta 8Tec+ \epsilon$

Explanation :

Y = Fraudulent Financial Statement
Pre = Pressure
Opp = Opportunity
Rat = Rationalization
Com = Competence
Arr = Arrogance
Cul = Culture
Rel = Religiosity
Tec = Technology
$\beta 0$ = Intercept
ϵ\epsilonϵ = Error term

Results and discussions

Classical assumption tests are an absolute and mandatory requirement for statistics that must be met when using linear regression analysis. Classical assumption tests need to be conducted to reduce bias in multiple linear regression tests. This research uses 4 classical assumption tests, namely the normality test, the autocorrelation test, the multicollinearity test, and the heteroscedasticity test. The following are the classical assumption tests from the SPSS 27 output presented in Table 1. Based on these results, the data is free from the classical assumption criteria, and hypothesis testing can be performed.

Table 1. Classical Assumption Test

Type of Test	Test Result			Description
Normality	Asymp. Sig (2-tailed)= 0,200 > 0,05.			Normally distributed
Autocorrelation	Asymp. Sig (2-tailed)= 0,184 > 0,05.			There is no autocorrelation.
Multicollinerity	Variable	Tolerance	VIF	
	Pressure	0,718	1,392	There is no multicollinearity.
	Opportunity	0,905	1,105	There is no multicollinearity.
	Rationalization	0,771	1,297	There is no multicollinearity.
	Competence	0,878	1,139	There is no multicollinearity.
	Arrogance	0,943	1,071	There is no multicollinearity.
	Culture	0,935	1,069	There is no multicollinearity.
	Religiosity	0,895	1,117	There is no multicollinearity.
	Technology	0,920	1,087	Tidak ada multikolinearitas
Heteroscedasticity	Variable	Sig		
	Pressure	0,704		There is no heteroskedasticity.
	Opportunity	0,424		There is no heteroskedasticity.
	Rationalization	0,112		There is no heteroskedasticity.
	Competence	0,831		There is no heteroskedasticity.
	Arrogance	0,659		There is no heteroskedasticity.
	Culture	0,388		There is no heteroskedasticity.
	Religiosity	0,090		There is no heteroskedasticity.
	Technology	0,810		There is no heteroskedasticity.

Table 2. Hypothesis Testing

Type of Test	Test Result	Description

		T	B	Sig	
Partial test (t- test)					
	Pressure	10,961	0,379	0,000	Hypothesis accepted
	Opportunity	4,389	0,135	0,000	Hypothesis accepted
	Rationalization	7,108	0,237	0,000	Hypothesis accepted
	Competence	4,443	0,139	0,000	Hypothesis accepted
	Arrogance	4,101	0,124	0,000	Hypothesis accepted
	Culture	1,973	0,060	0,049	Hypothesis accepted
	Religiosity	-5,288	-0,164	0,000	Hypothesis accepted
	Technology	-3,217	-0,098	0,001	Hypothesis accepted
Uji Simultan (Uji F)	F= 87,209 SIG, 0,000				
Adjusted R	Adjusted R Square 0,592				

The hypothesis to be proposed in this study is whether or not there is a significant influence between the independent variables (Pressure, Opportunity, Rationalization, Competence, Arrogance, Culture, Religiosity, and Technology) and the dependent variable (Fraudulent financial statement), both partially and simultaneously. The following are the results of the hypothesis test from the SPSS 25 output presented in Table 2. Based on these results, pressure (sig= 0.000), opportunity (sig = 0.000), rationalization (sig= 0.000), competence (sig=0.000), arrogance (sig = 0.000), culture (sig = 0.049), religiosity (sig = 0.000), and technology (sig= 0.001) show significant results. Therefore, it can be concluded that H1, H2, H3, H4, H5, H6, H7, and H8 are accepted.

Discussion

The Influence of Pressure on Fraudulent Financial Statements

The results of this study indicate that pressure, proxied by financial stability, has a positive influence on fraudulent financial statements. This means that when a company's financial condition is unstable, management tends to face high pressure, which can lead to manipulation of financial statements. In this context, financial stability is measured by the change in total assets. Companies with low or negative asset growth rates indicate internal pressure, whether in maintaining operations, meeting short-term obligations, or retaining investor confidence. This result aligns with the basic concept in Agency Theory, proposed by (Jensen & Meckling, 1976). This theory explains that there is a conflict of interest between the company's owners (principals) and management (agents). When management is under pressure to meet the expectations of owners, investors, or other external parties (such as profit targets, debt covenants, or market pressures), they may be tempted to manipulate financial statements to show good performance, even if it doesn't accurately reflect the true financial condition. This finding aligns with research (Novita, 2022) which found that financial stability, measured by the annual change in total assets, has a significant positive effect on fraudulent financial statements. This means that companies with internal pressure (unstable assets) are more likely to commit fraud. However, this study's findings differ from those of previous studies conducted by (Agus Susanto et al., 2024) dan (Fitriana et al., 2024) .Their research on energy sector companies listed on the Indonesia Stock Exchange (2021–2023) found that financial stability (asset changes) did not significantly affect financial statement fraud, either partially or simultaneously.

The influence of opportunity on fraudulent financial statements.

The research results indicate that opportunity, proxied by the proportion of independent commissioners, has a positive influence on fraudulent financial statements. The higher the proportion of independent board members, the greater the likelihood of financial reporting fraud. Some companies only meet the minimum requirements for good corporate governance administratively without ensuring the effectiveness of the oversight function. Independent commissioners may not have adequate competence, industry understanding, or access to internal information. A high number of independent commissioners does not automatically mean that the oversight function is effective, especially if it is not supported by a strong audit committee structure, information transparency, and the organization's ethical culture.

From an Agency Theory perspective, these results indicate that even though governance mechanisms are established (such as adding independent commissioners), conflicts of interest can still occur if the agent (management) is able to influence or control those mechanisms. This means that the monitoring mechanism exists structurally, but is weak functionally. The results of this study are consistent with (Agus Susanto et al., 2024) which found that the proportion of independent commissioners has a significant positive effect on financial statement fraud. This finding indicates that despite the existence of a corporate governance structure, the oversight function is often merely administrative. Independent commissioners are numerous, but they lack the capabilities or access to information, making them ineffective in preventing management's intention to manipulate reports.

The Influence of Rationalization on Fraudulent Financial Statements

Based on the test results, it is known that the rationalization variable, proxied by total accrual to total assets, has a positive and significant influence on fraudulent financial statements. This indicates that the higher the accrual level in a company's financial statements, the greater the likelihood of fraud in financial reporting. In the context of the Fraud Triangle Theory, rationalization is the justification or excuse used by the perpetrator to commit fraudulent acts without feeling morally guilty. The perpetrators usually believe that their actions are "still justifiable" for the sake of the company's interests, maintaining its reputation, or even because they feel they are not being fairly compensated. Management can use accrual-based accounting as a tool to justify manipulating financial statements. A high TACC value indicates a large proportion of revenue and expenses that do not involve actual cash flows, thus creating more flexible room for manipulation through management estimates and judgment. In this case, high accruals could reflect management's efforts to "manage" earnings and create a better financial representation of the true reality. Rationalization can occur when management feels they have "logical" reasons to manipulate financial statements, for example, to maintain business continuity or meet short-term profit targets. This finding aligns with the results of (Alfina & Amrizal, 2020), who reported that TACC, as a proxy for rationalization, was proven to significantly increase the risk of fraud, and also stated that a high level of accruals is positively correlated with the likelihood of fraud because it opens up opportunities and rationalizations for management to manipulate. However, this contradicts the research findings (Sari & Lestari, 2020) where total accruals did not affect fraud.

The Influence of Competence on Fraudulent Financial Statements

Based on the tests conducted, it is known that the competence variable, proxied by director turnover, has a positive and significant influence on fraudulent financial statements. This means that the more frequently there are changes in management, the greater the likelihood of fraud in financial reporting. These results indicate that changes in company leadership can create conditions vulnerable to financial statement manipulation, especially when the leadership transition process is not accompanied by a strong internal control system or is not supported by organizational readiness. In the context of the Fraud Diamond (Wolfe & Hermanson, 2004), competence refers to an individual's ability or capacity to commit fraud. In this case, a change in management can create opportunities for new individuals to exploit system weaknesses, the lack of experience or knowledge of other parties, and the lack of oversight during the transition period. The new board of directors can also bring certain leadership styles, strategies, or internal pressures that could potentially trigger fraudulent practices in order to meet targets or create a positive image at the beginning of their term.

Theoretically, these findings are also relevant to Agency Theory (Jensen & Meckling, 1976), where there is a conflict of interest between management (the agent) and the company's owners (the principal). The new management may have an incentive to show good immediate performance to the board of commissioners or shareholders, which could encourage manipulative actions, especially when performance evaluations emphasize short-term results more. Furthermore, changes in management can create conditions of weak organizational control in the short term, as the adaptation of organizational structure, work culture, and reporting processes is still ongoing. The absence of an effective oversight system during this transition period could be exploited by irresponsible parties to commit fraud.

This finding aligns with research (Sihombing & Rahardjo, 2014)) which found that changes in directors have a positive relationship with the likelihood of fraud, due to information asymmetry and weak internal control during the leadership transition period, and research (Agus Susanto et al., 2024). In their study of BEI manufacturing companies (2019–2023), it was found that the proportion of independent commissioners positively influenced fraudulent financial statements, supporting the assumption that an administrative board structure without effective oversight can increase the likelihood of financial statement manipulation. Additionally, , (Skousen et al., 2009)also mentioned that new management tends to engage in earnings management to convey positive signals or conceal past problems. However, the results of this study are not consistent with the findings of (Rahadian Sentosa, 2021), which showed no significant effect of the proportion of independent commissioners on the integrity of financial statements.

The Influence of Arrogance on Fraudulent Financial Statements

Based on the test results, it is known that the arrogance variable, proxied by the number of CEO photo appearances in the annual report, has a positive and significant influence on fraudulent financial statements. This result indicates that the more dominant the CEO's presence in the annual report, the greater the company's tendency to commit financial statement fraud. This result supports the arrogance dimension in the Fraud Pentagon Theory (Crowe Horwath, 2011), which states that the arrogant nature of top management, especially the CEO, can be a major driver of fraud. Arrogant CEOs tend to feel that rules and controls do not apply to them. They feel untouched by oversight and have excessive confidence in their own decisions, which can ultimately lead to manipulation of financial information to maintain personal reputation or the image of success.

In the context of Agency Theory, the arrogant nature of a leader increases the potential for conflicts of interest between managers and owners. An overly dominant CEO can exploit weaknesses in internal oversight, especially if the structure of the board of directors or commissioners is not strong enough to counterbalance executive power. This finding aligns with several studies in Indonesia that also show that leaders' personal characteristics, especially those who are narcissistic or arrogant, are associated with a tendency for fraud. Some supporting research, a study by (Lituhayu et al., 2024) found that the frequency of CEO photo appearances in annual reports is interpreted as an indicator of arrogance, which is significantly positively correlated with the level of fraudulent financial statements, confirming the role of managerial narcissism in increasing the risk of financial statement manipulation. Additionally, from an organizational behavior perspective, leaders who focus on self-image tend to foster an organizational culture based on loyalty to individuals, rather than on the principles of accountability and transparency. This further increases the likelihood of fraud, especially if not balanced by strong oversight functions and an ethical culture. However, this research is not consistent with (Azita et al., 2023), who found that the frequency of CEO photo appearances in annual reports did not significantly affect financial statement fraud. This finding suggests that the abundance of CEO photos is purely administrative and not an indicator of the arrogance that triggers fraud.

The Influence of Culture on Fraudulent Financial Statements

Based on the test results, the culture variable, proxied through the level of compliance and completeness of company reporting according to OECD indicators, has a positive and significant influence on fraudulent financial statements. The research findings indicate a contradictory phenomenon between the high corporate governance scores based on OECD (Organization for Economic Co-operation and Development) indicators and the increased potential for fraud. Theoretically, a high OECD score reflects that the company has implemented good governance principles such as transparency, accountability, and integrity. However, in practice, the results of this study actually show that companies with high OECD scores are not entirely free from the risk of corporate strategy in maintaining a positive image. This phenomenon can be explained through the company's strategic perspective, namely the significant pressure to maintain a positive image in the public eye. Companies with a strong reputation and known for good governance are often under the scrutiny of the market, media, regulators, and shareholders. In situations like this, management will feel compelled to ensure that the performance presented to the public remains consistent with the inherent reputational expectations. This led to the development of a "look adjustment" strategy to reflect stability and success. Therefore, good corporate governance practices that appear formal may not necessarily be fully followed by the internalization of a culture of integrity in daily business activities. The pressure to maintain this corporate image can also be explained through legitimacy theory, where organizations strive to align themselves with social values and external expectations to gain public acceptance. Thus, it can be concluded that a high OECD score does not guaranty low levels of cheating. Conversely, a high governance score can actually create a reputation paradox, where companies are incentivized to manipulate information in order to maintain a positive image in the eyes of stakeholders. In this case, this practice is not merely an opportunistic act, but rather part of a corporate strategy to maintain long-term legitimacy and public trust, even tho it risks violating the principle of integrity that should be upheld in the organizational culture. From the perspective of Agency Theory (Jensen & Meckling, 1976), this result reflects the existence of information asymmetry exploited by management (the agent) to convey seemingly positive information to the principal (shareholders, investors), even tho the company's internal conditions are not as ideal as presented. Agents can leverage high reporting completeness as a form of narrative control to conceal poor performance, manipulative practices, or even fraudulent actions. In this situation, information that should be a means of monitoring and accountability is instead used to obscure reality. This finding aligns with research (Widodo & Syafruddin, 2017) which shows that even though companies present complete reports and adhere to GCG principles, fraudulent practices still occur due to weak internal controls or conflicts of interest within the supervisory board. Similarly, (Ismiyanti & Prastichia, 2015) found that high GCG disclosure does not always reduce fraud risk, as the formal structure of GCG does not automatically translate into its functional effectiveness. Based on the research findings (Lindra et al., 2022),, it can be concluded that formal governance mechanisms are not always effective in preventing earnings management. In some cases, these mechanisms even show no significant impact. This phenomenon supports the findings of this research that high corporate governance scores, including OECD scores, do not necessarily reflect a true culture of integrity. In the context of reputational pressure and public legitimacy, companies tend to use symbolic elements like CSR and audit structures to maintain an external image, rather than as strong internal control tools against fraudulent or manipulative behavior. This result is also consistent with research (Farah Dinah, 2017) which concluded that organizational culture is unable to moderate the influence of internal control on fraud prevention, so culture alone does not guaranty anti-fraud performance. This finding differs from the research by dari (Septiani et al., 2023), which states that a strong organizational culture creates an internal environment that supports oversight and integrity. This means that organizations with a culture of transparency produce complete reporting and minimize opportunities for fraud. Thus, it can be concluded that high disclosure is not always an indicator of a healthy organizational culture, but can be a signal of a strategy to create a positive external perception. This finding reinforces the importance of studying organizational culture not only from a symbolic aspect (reporting) but also from the values internalized within the control system, leadership behavior, and the sustainability of the company's internal governance.

The Influence of Religiosity on Fraudulent Financial Statements

Based on the test results, the religiosity variable, proxied by whether the company is listed on the Sharia Stock Exchange (BES) or not, has a negative and significant influence on fraudulent financial statements. This means that companies operating according to Sharia principles, as reflected by their membership in the Sharia stock index, tend to have a lower potential for financial reporting fraud compared to conventional companies. This result supports the "ethical values" dimension within the Fraud Pentagon Theory framework, which states that companies with high moral and ethical values are less likely to commit fraud. Membership in the Sharia Exchange requires companies to adhere to certain criteria, including the prohibition of usury and gharar, the prohibition of business activities that contradict Islamic principles, and the strengthening of honesty, transparency, and social responsibility.

In the context of Ethical Theory, religious values and faith are seen as internal moral guidelines that shape the behavior of both individuals and organizations. When a business entity adopts religious principles in its governance, every action—including financial reporting—is based on ethical considerations and accountability to God (God-centered accountability), not just to regulators or shareholders. This result aligns with previous studies that support the negative correlation between sharia status and financial statement manipulation. For example, research (Alsaadi, 2021)shows that membership in a Sharia index directly affects earnings management practices. Meanwhile, a study (Salem et al., 2023)using a sample of Malaysian companies from 2001–2016 concluded that companies maintaining long-term Sharia certification had lower levels of earnings manipulation compared to those that did not.

The Influence of Technology on Fraudulent Financial Statements

The test results show that the technology variable, proxied by the user support score in the company's information technology system, has a negative and significant effect on fraudulent financial statements. This means that the higher the quality of information technology support, in terms of accessibility, service speed, maintenance, and user training, the lower the likelihood of a company committing fraud in its financial statements. This result is consistent with the view in the Fraud Pentagon Theory, specifically the "capability" factor, which states that fraud can occur when the perpetrator has the ability to exploit weaknesses in the system and internal controls. In this context, a robust IT system and optimal user support will narrow the scope for individuals to commit fraud, as financial recording and reporting processes become more digitized, documented, and easily traceable (auditable).

Several previous studies support the finding that the use of information technology plays a significant role in reducing the occurrence of fraudulent financial statements. Research conducted by (Nawawi & Fazri, 2022), (Widianingsih et al., 2018) proves that technology-based accounting information systems not only improve efficiency but also serve as an effective monitoring tool, reducing the scope for data manipulation and misleading information presentation. Therefore, technology has become one of the crucial factors that are demonstrably negatively correlated with the potential for fraudulent financial reporting. The results of this study differ from the research conducted by (Fitaloka Waqidatun et al., 2021.), who found that IT has a positive moderating effect on the correlation between industry nature and financial statement fraud. This means that IT facilitates management in exploiting weaknesses in the supervision of certain sectors, which in some conditions actually increases the risk of fraud.

Conclusion

This study aims to analyze the influence of pressure, opportunity, rationalization, arrogance, competence, culture, religiosity, and technology on fraudulent financial statements in manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2015–2023. Based on the test results, it can be concluded that all independent variables have a significant effect on Fraudulent Financial Statements. Thus, the proposed research hypotheses are declared accepted, namely: H1 (pressure), H2 (opportunity), H3 (rationalization), H4 (competence), H5 (arrogance), H6 (culture), H7 (religiosity), and H8 (technology). This result confirms that both internal and external factors of a company play a significant role in influencing fraudulent financial reporting practices.

This research has limitations in the scope of its object, which is manufacturing sector companies. Therefore, future researchers are advised to explore companies from other sectors, such as banking, services, or technology, in order to gain a broader understanding of the factors influencing financial statement fraud across various industry characteristics. Additionally, future researchers are also expected to explore and utilize other references or approaches in determining proxies for each variable, in order to make the research findings more diverse and in-depth. Future research could also consider using qualitative or mixed methods approaches to gain more contextual insights.

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