

The Effect of Arrogance and Collusion on Fraudulent Financial Statements (in the automotive and components sub-sector on the IDX 2017-2021)

CITRA KURNIA BUMI¹, SUPRIATININGSIH²

^{1,2} Universitas Teknologi Muhammadiyah Jakarta

Abstract - Fraud in financial statements is a paradigm that often occurs in Indonesia and causes many losses. Therefore, the purpose of this study is to detect potential fraudulent financial statements by using hexagon fraud which is focused on arrogance and collusion. In the fraud hexagon there are six dominant factors that can trigger the emergence of fraud against financial statements, namely pressure, opportunity, rationalization, ability, arrogance and collusion. In this study will focus on arrogance and collusion. Arrogance is proxied by CEO duality and collusion is proxied by political connections. In this study, the dependent variable was measured using the F-Score Model in order to find out how big the potential for fraud to appear in financial statements. The purposive sampling technique was used in this study to obtain a population sample with the criteria of BUMN companies listed on the Indonesia Stock Exchange, for the last 5 years, namely, 2017 – 2021 which have always reported their financial statements in rupiah. The results of this study indicate that the personal financial need, CEO duality and political connection variables have an influence on the potential for fraud to arise in financial reports.

Indexed Terms - financial statement fraud, arrogancy, Collusion hexagon theory, fraud.

I. INTRODUCTION

Financial reports are the most appropriate means for communicating information related to a company's financial performance. The financial reports describe efficiency in management and accountability in managing financial expenditures and existing resources. [1]. Financial reports can be useful for users if the financial statements are easy to understand, and the information contained in the

financial statements is relevant and the information is free from misleading notions, material errors, and the financial statements must be presented completely and honestly. According as Statement of Financial Accounting Standards, 2017. However, in practice, much of the access to internal corporate information is only known by management, which can encourage fraudulent practices. Fraud is an act that violates the law with an intentional element with a specific purpose to gain personal or group benefits [2].

Based on a survey that has been conducted [3] fraud is divided into three categories, namely misuse of assets, corruption, and fraud on financial statements. Fraudulent financial reporting causes unreliable and irrelevant financial reports and can mislead users. Based on the results of the ACFE survey in 2016, it stated that financial statement fraud was 2%. Meanwhile, the results of the ACFE survey in 2019 showed that financial statement fraud was 6.7% which caused a loss of IDR 242,260,000,000 or 9.2%. This shows that financial report fraud is increasing every year. [3]. Fraudulent acts committed by management occur due to several factors, such as arrogance and collusion that can occur in a company. Arrogance according to [4], is arrogant in a person or an attitude of superiority that believes that the company's internal controls cannot be applied personally. Meanwhile, collusion has the meaning of an agreement between two or more people for unfavorable purposes, such as deceiving third parties of their rights according to [1].

From these fraudulent acts, the management or internal companies often do things that are not in accordance with the actual situation which is done by manipulating data from the actual financial reports into modified financial reports according to the wishes of management. For example, the net profit of

the company's financial statements, which was previously Rp. 2,700,000,000, decreased to Rp. 1,500,000,000. Why did the management ask to reduce the profit? So that the payment of corporate income tax distributed to the State is not too large. This study aims to find empirical evidence on matters to determine the effect of arrogance on fraudulent financial statements and to determine the effect of collusion on fraudulent financial statements.

II. LITERATURE REVIEW

Agency theory explains that the agency relationship is an agreement between two parties, namely the shareholder as the principal and the management as the agent [5] in (Andriyani and Mudjiyanti, 2017). Agency relationships can make the principal instruct the agent in terms of performing a service and give the agent authority in terms of making good decisions for the principal. Agents as internal parties of the company are responsible for all company information to the principal so that company goals can be achieved. There is a difference of interest between the principal and the agent in this agency theory, so that the agent cannot always carry out what is ordered by the principal. This difference in interests between principals and agents can lead to conflict because agents usually tend to pursue their personal goals. Vice versa, the agent will support and carry out everything ordered by the principal if the agent and principal have the same goal. The principal gives decision-making authority and responsibility to the agent, the authority and responsibility between the two parties is regulated in the employment contract with the agreement of both parties. In terms of differences in interests, it can lead to an imbalance of information between principals and agents. The manager or agent as an internal company who knows more about company information than the principal can hide information that is not known to the principal, so managers tend to have the opportunity to commit fraud.

According to Auditing Engagement Standards (SPA) 240, fraud or fraud can be interpreted as an intentional act carried out by an individual or group within management or those charged with governance, employees and third parties who commit fraudulent acts in order to gain unfair advantage. fair

and unlawful. Fraud is an attempt to deceive and mislead users of financial statements, especially investors and creditors, which is deliberately carried out by companies by issuing financial statements that are materially misstated [1]. According to [3] classifies fraud in 3 levels which is referred to as a fraud tree, namely (1) asset misappropriation, deviation from this asset includes acts of theft and misuse of assets or property of the company or other parties; (2) fraudulent statement, this false statement includes financial engineering in presenting the company's financial statements to cover up the actual financial condition so that the company gets profit; (3) corruption, based on Law no. 20 of 2001, the definition of corruption is an unlawful act that intends to enrich oneself or another person which can result in losses for the country's economy.

Fraud and negligence in presenting financial statements can occur when a company increases the company's assets or income from the actual (overstates) and understates the liabilities and expenses (understates) which can be detrimental to investors and creditors. Fraudulent company financial reports carried out by managers can cause large losses for investors, this fraud is carried out so that company shares remain in demand by investors. According to [6] explained that to help regulators and auditors detect fraud from an early age, several models have been developed.

The hexagon fraud theory is a theory that contains an explanation of why a company or a certain party commits fraud [7]. The hexagon fraud theory is a refinement of the initial theory of fraud, namely the fraud triangle theory which was first introduced by [8] which consists of factors of pressure, opportunity, and rationalization. The fraud triangle theory was later developed by [9] to become the diamond fraud theory by adding a fourth factor that can influence fraud, namely ability. The diamond fraud theory was further developed into the pentagon fraud theory put forward by Crowe Horwath in 2011 by adding a fifth factor, namely arrogance. The pentagon fraud theory was later refined by [10] to become more complex by adding a sixth factor, namely collusion. According to [10] if collusion has occurred between employees or between employees and external parties, it will be difficult to stop fraud from occurring. Therefore,

indirectly, collusion factors can encourage acts of fraud. The most important theories of pentagon fraud include arrogance and collusion.

According to [4], [11] states that arrogance is an attitude of superiority or greed possessed by someone who commits fraud. The fraud perpetrator believes that the regulations contained in the company do not apply to him. Arrogance is measured as a proxy for the frequency of CEO photos appearing in financial statements. The arrogant attitude of a CEO is indirectly reflected in the CEO's photo display which is shown in the company's financial statements [12]. The number of photos of CEOs displayed in financial reports is a form of arrogance and can trigger fraudulent financial statements by taking advantage of the power possessed and a CEO considers that any internal control system cannot inhibit actions and behavior due to the influence of the authority and position he has [13]. Another explanation for arrogance, arrogance here is the attitude of someone who feels that there is no internal control or company wisdom that does not apply to him, and he believes that he is not bound by these things, so he does not believe that he has committed fraud [14].

Collusion refers to a deceptive agreement that occurs between two or more parties, in which they commit a crime in the form of deception against another party by harming the rights of the other party for the purpose of gaining profit [15]. According to [16], one form of collusion is corruption which is difficult to detect, collusion can indirectly develop acts of fraud in a company. According to [1], the potential for fraud to occur in a company will be higher if collusion increases. Collusion is proxied by government-company cooperation projects. Government projects are the result of cooperation between companies and the government. The larger the scale of the cooperation project carried out by the company and the government, the greater the company's financial receipts will be. The amount of financial income from government project cooperation will trigger management to take advantage by manipulating the company's financial reports (Sagala and Siagian, 2021). Government projects are calculated using a dummy variable, if there is government project cooperation with companies during the 2016-2020 period then they are

given a code number 1, but if there is no government project cooperation with companies during the 2016-2020 period then they are given a code number 0. Then according to [10]) argues that many acts of fraud and white-collar crimes occur because they are caused by collusion factors, namely agreements or collaborations that exist between two or more individuals to achieve a crime or fraud. Collusion can be reviewed in several factors, namely:

a. Government Project

The government project referred to here is the acquisition of cooperation between companies and government projects. The greater the scale of government project cooperation that is forged by the company and the government, the greater the company's financial income received, so that it can encourage agents (management) to do this which can encourage agents (management) to take advantage by manipulating the actual financial reports. In line with Sari & Nugroho (2020) which states that collusion calculated with government projects has a significant effect on fraudulent financial reports.

b. Political Connections

Political connections tend to provide benefits for the company. Companies that have political connections will receive assistance from the government when there is an economic crisis and other problems [17]. With the privilege of companies that have political connections for ease in borrowing funds, it encourages companies to make loans more often, it can also cause financial distress for the company. This factor allows for fraudulent financial reports [18], [19]

III. RESEARCH METHODS

A. Definition and Operational Research Variables

- *Dependent Variable*

The way to calculate the value of the f-score is as follows:

F – Score = Accrual Quality + Financial Performance

$$RSST\ Accrual = \frac{(\Delta WC + \Delta NOC + \Delta FIN)}{Average\ Total\ Assets}$$

Keterangan:
 WC atau Working Capital = *Current Assets – Current Liability*
 NCO atau Non Current Operating Accrual = *(Total Assets – Current Assets – Investment and Advances) – (Total Liabilities – Current Liabilities – Long Term Debt)*
 FIN atau Financial Accrual = *Total Investment – Total Liabilities*
 ATS atau Average Total Assets = *(Beginning Total Assets + End Total Assets) / 2*

Financial Performance =
change in receivable + change in inventory + change in cash sales + change in earnings

Keterangan:

$$Change\ in\ earnings = \frac{\frac{Receivables\ Earnings\ (t)}{Average\ Total\ Assets\ (t)} - \frac{Receivables\ Earnings\ (t-1)}{Average\ Total\ Assets\ (t-1)}}{Average\ Total\ Assets\ (t)}$$

$$Change\ in\ cash\ sales = \frac{\Delta Sales}{Sales\ (t)} - \frac{\Delta Receivables}{Receivables\ (t)}$$

Table 3.3.1 How to calculate the f-score [29]

• *Independent Variable*

Independent variables or independent variables in this study are arrogance and collusion. The independent variables of the study will be explained in the following table:

<i>Fraud Risk Factor</i>	Variabel	Variable Operational Definitions	Source
Arrogance	<i>Frequent Number of Ceo's Picture (CEOPI C)</i>	Number of photos or images of CEOs that appear in the annual report (Annual Report) in 2017-2021	[2]
	Government Project	Dummy variable If the company	[1]

		cooperates with government projects in 2017-2021, it will be given code 1 If the company does not cooperate with government projects in 2017-2021, it will be coded 0	
Collusion	Political Connection (POLCON)	Dummy variable If the president commissioner and/or independent commissioner of the company has political connections during 2017-2021, code 1 If the president commissioner and/or independent commissioner of the company has no political connection during 2017-2021, code 0	[3]
	State-owned Enterprises (SOE)	Dummy variable If the company is	[4]

		<p>owned by the government, it is said to have political connections if the president commissioner and/or independent commissioner holds multiple positions or is a former official of:</p> <p>(a) a politician associated with a political party; (b) politicians associated with political parties; (c) military (2017-2021)</p> <p>Fan year coded 1</p> <p>If company ownership is not owned by the government in 2017-2021 it will be coded 0</p>
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• *Independent Variable*

The population that will be used in this study are automotive and component sub-sector companies that have been listed on the Indonesia Stock Exchange (IDX), namely 2017 – 2021. The purposive sampling method was used in this study to take samples. This

research method uses a purposive sampling method with the following criteria:

- 1) Automotive and component sub-sector companies that go public on the IDX during 2017-2021.
- 2) Companies that publish fully audited financial reports for 2017-2021 on company websites or IDX.
- 3) Complete available data related to research variables and published for the 2017-2021 period.

B. Hypothesis testing

1. Simultaneous Test

Simultaneous testing is a test that shows whether all the independent variables included in the model have a joint effect on the dependent variable according to Ghozali's book in [22]. The decision making criteria in the simultaneous test are:

- a. If the significance value of $F < 0.05$, then simultaneously all independent variables have an influence on the dependent variable.
- b. If the significance value of $F > 0.05$, then simultaneously all independent variables have no effect on the dependent variable.

2. Partial Test

Partial testing is used to test how each independent variable affects the dependent variable[5]. In this study, partial testing was carried out using a significance level ($\alpha=5\%$). The decision making criteria in the partial test are:

If the significance value is < 0.05 , then the independent variable has a partial influence on the dependent variable. If the significance value is > 0.05 , then the independent variable has no partial effect on the dependent variable.

IV. RESULTS AND DISCUSSION

Data analysis in this study was carried out through 3 stages, namely descriptive statistical analysis, panel data regression analysis, and hypothesis testing.

Descriptive Statistical Analysis aims to provide an overview regarding the data of the dependent and independent variables, the dependent variable in this study is a fraudulent financial statement, while the independent variables in this study are arrogance

(CEO's picture), and collusion (government project). The results of the descriptive statistical analysis in this study are presented in the following table:

Table 4.2.1 Results of Descriptive Statistical Analysis

Variabel	N	Minimum	Maximum	Mean	Std. Deviation
F-SCORE	36	-1.10	1.62	0.10	0.34
NUMBER OF CEO'S PICTURES	36	0.00	22.00	4.03	3.42

Variabel	N	Variabel Dummy	
		1	0
GOVPROJECT	36	63%	37%

Data is processed with Eviews 8.0

The results of the descriptive statistical analysis show that there are 36 data on each research variable that is used as a sample. The indicators in this study for each variable will be explained as follows:

1. The dependent variable for the potential for fraudulent financial statements in this study has a mean value of 0.10 which is measured using the F-SCORE. These results show the F-SCORE < 1, so it can be concluded that the sample companies have low potential to commit fraud [6]. The results of the descriptive statistical test show a minimum value of -1.10 in 2018. While the maximum value is 1.62 in 2018. The standard deviation value for this variable is 0.34. This shows that the standard deviation value is greater than the mean, which means that the data is not spread evenly or is heterogeneous.
2. The arrogance variable is measured using CEO's Pictures, the results of the descriptive statistics show a mean value of 4.03. This shows that a lot of CEO photos appear in the annual report, meaning that the high level of CEO arrogance in a company is low. The standard deviation value for this variable is 3.42. This shows that the standard

deviation value is smaller than the mean, which means that the data is spread evenly or homogeneously.

3. The collusion variable uses government projects and is calculated using a dummy variable. Code 1 for companies undertaking projects with the government during the 2017-2021 period shows a figure of 63%. Meanwhile, code 0 for companies with no projects with the government during the 2017-2021 period shows a figure of 37%. This suggests that the sample companies are often involved in projects with the government, leading to collusion and potential for fraud.

1) Panel Data Regression Analysis

This study uses panel data regression analysis. This analysis is used in research to determine the most appropriate research data model between the common effects model, fixed effects model, or random effects model to explain the problems in this study. In explaining arrogance (AR), and collusion (COL) on the potential for fraudulent financial statements, panel data regression methods are used. The model is described as follows:

Information :

FR = Financial Report Fraud Variable

$$FR_{it} = \beta_0 + \beta_1 FS_{it} + \beta_2 EP_{it} + \beta_3 OP_{it} + \beta_4 RA_{it} + \beta_5 CP_{it} + \beta_6 AR_{it} + \beta_7 COL_{it} + \epsilon_{it}$$

AR = Variable Arrogance

CO = Variable Collusion

β_0 = Constant

$\beta_1 - \beta_5$ = Regression Coefficient

ϵ_{it} = Nuisance variable

I = Number of Cross Sections

T = Time Period

Following are the results of panel data regression through three approaches, namely the common effects model method, fixed effects model, and random effects model:

a. Common Effect Model Estimation

The Common Effect Model method is used to see the effect of the independent variables on the dependent variable. In this study the tests were carried out using Eviews 8.0 with the results of the common effect model panel data regression presented in the following table:

Table 4.2.2 A Common Effect Model Regression Estimation

Variabel	Coefficient	Prob.
FS	0.393692	0.0000
AR	0.005791	0.3638
COL	-0.002749	0.9490
<i>Adjusted R-Squared</i>		0.1155

Data is processed with Eviews 8.0

Based on table 4.2.2.A, the output of the common effect regression model produces a coefficient of determination (adjusted R-square²) of 0.1155. Based on these results it can be interpreted that the estimation of the common effect model, the independent variable is able to explain 11.55% of the dependent variable, while the rest is explained by other variables outside the model.

b. Fixed Effect Model Estimation

The Fixed Effect Model method for panel data regression uses a dummy variable. In this study, the test was carried out using Eviews 8 with the results of the panel data regression of the fixed effect model presented in the following table:

Table 4.2.2 B Fixed Effect Model Regression Estimation

Variabel	Coefficient	Prob.
FS	0.406923	0.0000
AR	0.003129	0.7519
COL	-0.013462	0.8160
<i>Adjusted R-Squared</i>		0.1142

Data is processed with Eviews 8.0

Based on table 4.2.2.B, the regression output of the fixed effect model produces a coefficient of determination (adjusted R-square²) of 0.1142. Based on these results it can be interpreted that the estimation of the fixed effect model, the independent variable is able to explain 11.42% of the dependent variable, while the rest is explained by other variables outside the model.

c. Random Effects Model Estimation

The Random Effect Model method uses the Generalized Least Square (GLS) approach, in this method between individuals and time are accommodated through random errors. In this study

the tests were carried out using Eviews 8.0 with the results of the random effect panel data regression model presented in the following table:

Table 4.2.2 C Estimation of Random Effect Model Regression Results

Variabel	Coefficient	Prob.
FS	0.393692	0.0000
AR	0.005791	0.3849
COL	-0.002749	0.9512
<i>Adjusted R-Squared</i>		0.1160

Data is processed with Eviews 8.0

Based on table 4.2.2.C the output of the random effect regression model produces a coefficient of determination (adjusted R-square²) of 0.1160. Based on these results it can be interpreted that the estimation of the fixed effect model, the independent variable is able to explain 11.60% of the dependent variable, while the rest is explained by other variables outside the model.

2) Model Selection

Model selection for this study was carried out through three tests, including the chow test, Hausman test, and multiplayer lagrange test to determine the most appropriate method.

1. Chow Test

The chow test was conducted to determine the most appropriate model between the common effects model and the fixed effects model. In this study the hypothesis used is as follows:

- a. If the probability value is <0.05 then H0 is not supported, so the model chosen in this study is the fixed effects model.
- b. If the probability value is > 0.05 then H0 is supported, so the model chosen to be used in this study is the common effects model.

The results of the chow test in this study are presented in the following table:

Table 4.2.3.1 Chow Test Results

Effects Test	Statistic	d.f	Prob.
Cross-section	0,495702	(34,168)	0.9911

<i>Cross-section Chi-square</i>	20,076359	34	0.9721
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Data is processed with Eviews 8.0

Based on the results of the chow test in table 4.2.3.1 it shows the probability number of Chi-square Cross-section of 0.9721 which means that the probability value is greater than 0.05, then H0 is supported and the selected model is the common effects model.

2. Hausman Test

Hausman test was conducted to determine the most appropriate model between fixed effects models and random effects models. In this research hypothesis which is used as follows:

- a. If the probability value is <0.05 then H0 is not supported, so the model chosen in this study is the fixed effects model.
- b. If the probability value is > 0.05 then H0 is supported, so the model chosen to be used in this study is the random effects model.

The results of the Hausman test in this study are presented in the following table:

Table 4.2.3.2 Hausman Test Results

<i>Test Summary</i>	Chi-Sq-Statistic	Chi-Sq. d.f	Prob.
<i>Cross-section random</i>	4.693971	7	0.6973

Source: data if researchers

Based on the results of the hausman test in table 4.7. shows a random cross-section probability number of 0.6973 which means that the probability value is greater than 0.05 then H0 is supported and the best model to use is the random effects model. Based on the results of the two tests, the Chow test and the Hausman test, there is no superior model between the two, so the model selection must be continued using the multiplayer lagrange test.

3. Multiplayer Lagrange Test

Multiplayer lagrange test is used to determine the most appropriate model between the common effects model and the random effects model. In this study the hypothesis used is as follows:

- a. If the probability value is <0.05 then H0 is not supported, so the model chosen in this study is the random effects model.
- b. If the probability value is <0.05 then H0 is not supported, so the model chosen in this study is the random effects model.

The results of the multiplayer lagrange test in this study are presented in the following table:

Table 4.2.3.3 Lagrange Multiplayer Results

Null (no rand. effect) Alternati ve	Cross-section One-sided	Period One-sided	Both
Breusch-Pagan	5.7303 23 (0.0167)	30.827 75 (0.0000)	36.558 07 (0.0000)

Source: data if researchers

Based on the results of the multiplayer lagrange test in table 4.2.3.3 it shows the Breusch-Pagan probability number of 0.0000 which means that the probability value is less than 0.05 then H0 is not supported and it can be interpreted that the best model to use is the random effects model.

3) Significance Test

1. Test the Coefficient of Determination

The coefficient of determination test is indicated by the adjusted R-Square value. The adjusted R-Square value is basically intended to measure how far the dependent variable can be explained by the independent variable according as Ghozali, 2018 in [7]. In this R2 test, if the adjusted R2 value is close to 1 then the independent variable can provide the required information on the dependent variable. Meanwhile, if the value of adjusted R2 is close to 0, the results of the independent variable are limited to providing the information needed by the dependent

variable. The following table shows the results of the coefficient of determination test in this study:

Table 4.2.4.1 Test Results for the Coefficient of Determination

<i>R-Squared</i>	0.337523
<i>Adjusted R-Squared</i>	0.314566

Data is processed with Eviews 8.0

Based on table 4.2.4.1 the test results for the coefficient of determination show that the value of the adjusted R-Square is 0.3146 or 31.46%. These results can be interpreted that 31.46% of the variable potential for financial statement fraud can be explained by the variables of financial stability, external pressure, opportunity, rationalization, capability, arrogance, and collusion in this study. While the remaining 68.54% is explained by other variables outside of this study.

2. Independent Variable Significance Test (T Test)

The t test was carried out to determine whether the independent variables from the regression model have a partial effect on the dependent variable (Ghozali, 2018). The t test also has a significance level (α) which is used at 0.05 or 5% with this research hypothesis. Testing is done by testing the probability value and comparing it with the significance level of each independent variable to the dependent variable. The basis for making a decision on the t test is as follows:

- a. If the sig. > 0.05 then H0 has no effect
- b. If the sig. < 0.05 then H0 has an effect

The following table shows the results of the statistical t test in this study:

Table 4.2.4.2 T-Test Results and Hypothesis Decisions

Hypothesis	Description	Coefficient	Prob.	Info
H ₁	Financial Stability berpengaruh positif	0.39	0.00	Supported

	terhadap potensi kecurangan laporan keuangan.			
H ₂	Arrogancy berpengaruh positif terhadap potensi kecurangan laporan keuangan.	0.01	0.38	Not supported
H ₃	Collusion berpengaruh positif terhadap potensi kecurangan laporan keuangan.	-0.00	0.95	Not supported

Data is processed with Eviews 8.0

4) Dynamic Panel Data Regression Analysis

In this study, a static panel data regression test was carried out and the results of selecting the best regression model for this study obtained a random effect model. Thus, from the results of the random effect model, an analysis of the dynamic panel data regression model will be carried out. To estimate the parameters in the dynamic panel data regression equation, you can use the GMM (Generalized Method of Moment) Arellano and Bond which produce unbiased, consistent, and efficient estimators (Shina 2018). Dynamic data regression testing using

the GMM approach uses a significance (α) of 0.05 or 5%. The following criteria are used in this study:

- a. If the sig. > 0.05 then H0 has no effect.
- b. If the sig. < 0.05 then H0 has an effect.

Testing the validity of the data used in this study was carried out with the following criteria:

- a. If the sig. J-statistic > 0.05 then H0 has an effect which means that there is no endogeneity. Thus testing does not need to be done with the GMM model approach.
- b. If the sig. J-statistic < 0.05 means that H0 has no effect which means that there is endogeneity.

The following table shows the dynamic panel data test results in this study:

Variable	Coefficient	Standard Error	t-Statistic	Prob.	Info
FS	0.416	0.021	20.299	0.000	Supported
AR	0.014	0.007	2.042	0.043	Supported
COL	0.037	0.036	1.042	0.300	Not Supported
<i>Effect Specification</i>					
J-Statistic			6.382752		
Prob (J-Statistic)			0.701083	Valid	

Data is processed with Eviews 8.0

V. DISCUSSION

- The Influence of Financial Stability on the Potential of Financial Statement Fraud

The results of testing the research hypothesis are presented in table 4.2.4.2 showing that financial stability is calculated using the ratio of change in total assets (ACHANGE) to have a coefficient of 0.39 and a probability value of 0.00 < 0.05. From these results it can be concluded that financial stability has a significant positive effect on the potential for fraudulent financial reporting. The more stable the company's financial position, the greater

the potential for fraudulent financial statements due to the higher growth in the company's assets. It can be concluded that H1 is supported by previous research [23], [13], [24]. This shows that there is a one-way relationship between the financial stability of a company and the potential for fraudulent financial statements. This encourages management to manage the company to remain stable because if the company is in a stable condition then the value of the company increases so that it becomes an attraction for investors and creditors and users also have more trust in the company so that from this pressure management takes steps to manipulate financial reports. This is inversely proportional to research from [25] which states that financial stability has no effect on fraudulent financial reporting.

- The Effect of Arrogancy on the Potential of Financial Statement Fraud

The results of testing the hypothesis of this study are presented in table 4.2.4.2 showing that arrogance proxied by the CEO's Picture has a coefficient of 0.01 and a probability value of 0.38 > 0.05. From these results it can be concluded that arrogance has no effect on the potential for fraudulent financial statements. This value explains that the number of CEO's Picture that appears in a company's annual report does not affect the potential for fraudulent financial reporting. It can be concluded that H7 is not supported. High arrogance can cause acts of fraud to occur, the nature of arrogance can be identified through the number of CEO photos that exist, but in the results of this study the CEO's Picture does not indicate high CEO arrogance because like Achmad et al's research (2022) the number of CEO photos that appear in the annual report is not is a form of arrogance from the CEO of the company, but only the introduction of the CEO of the company to the public and users of financial reports regarding the company's performance and achievements as a form of appreciation because the company's operations have been running according to its vision and mission. In contrast to the results of research from [12] which states that arrogance has no effect on fraudulent financial statements.

- The Effect of Collusion on Potential Financial Statement Fraud

The results of the research hypothesis testing are presented in table 4.2.4.2 showing that collusion proxied by projects with the government (PROGOV) has a coefficient of -0.00 and a probability value of $0.95 > 0.05$. From these results it can be concluded that collusion has no effect on the potential for fraudulent financial reporting. This value explains that the amount of corporate cooperation on government projects does not affect the potential for fraudulent financial reporting. It can be concluded that H3 is supported by research from [26], [4]. This variable indicates that there is no relationship between government projects and the potential for fraudulent financial reporting. This shows that cooperation with government projects is not a form of collusion for a company to create potential fraudulent financial statements, but companies cooperate through projects with the government because they want to improve performance by increasing their efforts to play a role in growth projects to build business performance. the good one. So, the company can make achievements for the year because it cooperates with the government. The results differ from research from [10], [27] [25], [28] which states that collusion has an effect on fraudulent financial statements.

CONCLUSION

This study aims to determine the effect of the variables financial stability, arrogance and collusion on the variable potential for fraudulent financial statements in automotive and component sub-sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2017 – 2021. Following the results of this study, it can be concluded that: Financial Stability has a significant positive effect on the potential for fraudulent financial reporting. Arrogancy has no effect on the potential for fraudulent financial statements. Collusion has no effect on the potential for fraudulent financial statements.

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