

## HEXAGON FRAUD PERSPECTIVE ON FINANCIAL STATEMENT FRAUD IN INDONESIA INSURANCE COMPANIES

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### Abstract

Financial statement fraud is something that causes economic losses and results in a loss of investor confidence. Therefore, company management needs to identify what factors influence the company in committing fraud. One approach to detecting fraud is to use the fraud hexagon model. This model consists of stimulus, opportunity, rationalization, capability, ego, and collusion. This research is explanatory research that aims to investigate the possible factors of financial statement fraud using a fraud hexagon perspective. The objects used as research samples are 15 insurance companies registered on the IDX during 2019 - 2022. This research uses the F-Score model to separate companies that have experienced fraud and uses logistic regression as data analysis. The results of his study show that the elements of opportunity, rationalization, and ego influence financial statement fraud. Meanwhile, the elements of stimulus, capability, and collusion do not affect financial statement fraud.

**Keywords:** F-Score, Fraud, Financial Reports, Fraud Hexagon

### INTRODUCTION

The company aims to maximize its profits in running its business. Companies in optimizing profits can do inappropriate things that lead to fraudulent acts (Alfarago et al., 2023). The results of a survey by the Association of Certified Fraud Examiners (ACFE) in Report to The Nation 2022 stated that fraud in the form of misuse of assets is the most common thing that occurs with a percentage of 86%. However, this fraud is the lowest loss, namely \$100,000 per case, while the 50% corruption fraud causes an average loss of \$150,000. Meanwhile, financial statement fraud is the rarest case (9%) but has the greatest impact because it causes an average loss of up to \$593,000 (ACFE, 2022). ACFE (2022) reveals that financial statement fraud is related to the behavior of employees who deliberately make false reports or omit important information in financial reports. Companies underreport expenses, record fictitious revenues, or overstate reported assets.

The National Consumer Protection Agency (BPKN) stated that there was an increase in fraudulent financial reports in the insurance services sector with 2,152 complaints (Finansial Bisnis.com, 2021). One case in the insurance sector is PT. Jiwasraya Insurance 2018 announced a failure to pay with a loss of IDR 16.81 trillion. PT. Jiwasraya Insurance manipulated financial reports (*window dressing*) and allegedly colluded with share sellers, which resulted in high share prices.

Several studies related to the factors that cause fraudulent financial statements are explained by stimulus (Alfarago et al., 2023), opportunity (Ramdany et al., 2021), capability (Aviantara, 2021), (Sari et al., 2020), ego (Sagala & Siagian, 2021), and collusion (Oktaviany & Reskino, 2023). This research refers

to Alfarago et al. (2023) using the Dechow F-Score proxy. Dechow F-Score uses a higher predictive value related to the probability of manipulation (Zhou et al., 2022).

Alfarago et al. (2023) stated that stimulus is a condition that often encourages someone to commit fraudulent acts. High pressure on companies often leads to an increased risk of fraud and management (*agents*) making false reports to look good in the eyes of shareholders (*principals*). The stimulus element is proxied by financial stability and investors have more confidence in companies with stable financial health. Therefore, companies must have good financial stability to gain investors' trust (Achmad et al., 2022), even though the company's condition is not always stable. Financial stability can be threatened by the economic, industrial, or operational conditions of the entity (Lionardi & Suhartono, 2022). This condition will put management under pressure so that management can commit fraud so that the financial condition continues to look good in the eyes of shareholders. This is supported by research by Alfarago et al., (2023) which states that the element of stimulus which is proxied by financial stability has a positive effect on financial statement fraud. Ximenes & Zubaidi (2021) state that the element of stimulus which is proxied by financial stability hurts fraudulent financial statements.

The second factor related to fraudulent financial statements is opportunity. This occurs due to weak internal control which is influenced by factors dominated by management, both individually and in groups (Pratiwi et al., 2022). The element of opportunity is proxied by ineffective supervision. Ineffective supervision means the company cannot monitor internal performance. This could be an opportunity for company management and employees to commit fraud (Oktaviany & Reskino, 2023). This statement is supported by Mukaromah & Budiwitjaksono (2021) that the element of opportunity, which is proxied by ineffective supervision, has a positive effect on financial statement fraud. However, Ramdany et al., (2021) stated that the element of opportunity hurts financial statement fraud.

The third factor related to financial statement fraud is rationalization. Rationalization is a form of defense against fraudulent acts and assumes that the actions carried out are correct and reasonable (Mukaromah & Budiwitjaksono, 2021). The rationalization element is proxied by the change of auditor. Management that manipulates financial reports changes the auditor's opinion to minimize disclosure of the manipulation of the fraud (Ramdany et al., 2021). Based on Financial Services Authority Regulation (POJK) Number 13 of 2017, it is explained that the use of Public Accounting Services in companies only permitted to use the same audit services no later than 3 years after closing the financial reporting books. This allows management to commit fraud without the new auditor knowing. This statement is supported by Ayuningrum et al., (2021) that the element of rationalization which is proxied by changing audits affects financial statement fraud, while Syaifudin & Sumunar (2022) state that the element of rationalization which is proxied by changing audits does not affect financial statement fraud. Apart from the rationalization element, there is the capability element.

The fourth factor related to financial statement fraud is capability. The capability that causes someone to cheat is the position they hold in the company, the intelligence they have, the trust they have, and the skills they have (Achmad et al., 2022). Capability is proxied by changes in directors. There is a change of directors in a company which is held as an effort to improve the performance of the previous directors (Nurchoiranisa et al., 2020). However, the change of directors will lead to adaptation time for the new directors which will result in the company's performance not running well, which can open up opportunities for fraud (Oktaviany & Reskino, 2023). This is supported by researchers Aviantara (2021) who stated that the capability element, which is proxied by director changes, has a positive effect on financial report fraud. Meanwhile, research conducted by researchers Sari et al., (2020) states that the capability element, which is proxied by director turnover, hurts financial report fraud. Apart from the

element of ability, there is the element of ego.

Ego makes a person feel 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 (Sagala & Siagian, 2021). The element of ego is proxied by the frequency of appearance of the CEO's photo. CEO's photo tend to show their status and position in the company to everyone because they don't want to lose it or feel they are not considered. A high level of ego can trigger fraud because a CEO's ego and sense of superiority can make the CEO feel that all regulations and internal controls do not apply to him because of his status and position (Putra & Suprasto, 2021). This is supported by researcher Maryadi (2020) who states that the element of ego which is proxied by the frequency of CEO photos has a positive effect on financial report fraud. Meanwhile, research conducted by researchers Sagala & Siagian (2021) states that the element of ego which is proxied by the frequency of CEO photos hurts financial report fraud. Apart from ego, there is an element of collusion.

Collusion is an agreement between two or more people for a bad purpose, for example defrauding the rights of a third party (Vousinas, 2019). The element of collusion is proxied by government project cooperation. Sagala and Siagian (2021) explain the purpose of collaborative projects between the government and companies. The greater the cooperation of a company with the government in government projects, the greater the financial income the company receives, thereby providing incentives to management (agents) to gain profits by manipulating actual financial reports. This is in line with researchers Oktaviany & Reskino (2023) who state that the element of collusion, which is proxied by government project cooperation, influences fraudulent financial statements. Meanwhile, research conducted by researchers Sagala & Siagian (2021) states that the element of collusion, which is proxied by government project cooperation, does not influence fraudulent financial statements.

## LITERATURE REVIEW

### Agency theory

Agency theory describes the separation of management and ownership functions between company management (agent) and shareholders (principal) with different goals (Putra & Suprasto, 2021). The goal of shareholders is to get a profit on the investment made, while company management has the goal of achieving maximum results on its performance. This difference in interests causes a conflict of interest (Sagala & Siagian, 2021).

Conflict of interest or differences in interests between the principal and the agent can give rise to agency problems. Principals can limit agency problems by incurring agency costs (Agent costs). The problem of asymmetric information can increase the risk of fraud. Management has more information about the company compared to principals and often tries to manipulate the company's reported performance (Jensen & Meckling, 1976), (Aviantara, 2021).

### Hexagon Fraud Theory

Fraud is an action that uses lies intentionally to enrich individuals/groups, which has the potential to harm other parties (Sagala & Siagian, 2021). Fraud is often carried out to cover up the true financial status of the company so that it looks good to the principal. Therefore, to reduce the risk, it is necessary to take action to detect fraud.

Fraud theory begins with the fraud triangle which was first introduced by Cressey (1953) with the elements of stimulus, opportunity, and rationalization. This was done by interviewing 113 people who

had embezzled within the company or were called " trust violators " (Aviantara, 2021).

The KPMG fraud survey documented a significant increase in overall fraud rates since the 1998 survey, making it necessary to expand fraud analysis. Wolfe & Hermanson (2004) introduced the fraud diamond theory, by adding the element of capability. Then, the fraud theory developed into the Crowe Fraud Pentagon with the additional element of ego (Horwath, 2011). According to Vousinas (2019), fraud theory needs to be updated to overcome the increasing incidence of fraud. By identifying ego elements that play an important role in encouraging people to commit fraud, SCORE (Stimulus, Capability, Opportunity, Rationalization, Ego ) is formed. Vousinas (2019) added collusion to be more appropriately applied in cases of crimes committed by white collars.

### **Financial Statement Fraud**

Financial statement fraud is a form of fraud that rarely occurs but has the greatest impact on losses. According to Skousen & Twedt (2009), a type of accounting manipulation, in which company executives distort or change financial reporting information to provide a false positive image of a company has proven to be very damaging to the capital market system. Most fraud goes undetected because it often hides fraudulent acts from the public and auditors' view. The high losses due to fraudulent acts reported by organizations also indicate a failure in detection. Therefore, an effective tool is needed to identify fraud signals (Aviantara, 2021).

### **Stimulus**

The element of Stimulus is a condition that often encourages someone to commit fraudulent acts. High pressure on companies often leads to an increased risk of fraud (Alfarago et al., 2023). The stimulus element which is proxied by the financial stability variable is a picture of economic stability in a company. The principals will have more confidence in companies with stable financial charts. Therefore, the company must have excellent financial stability to gain this trust. Companies that are in a growth phase below the industry average will encourage company management to report company performance (Achmad et al., 2022). This is supported by the findings of Alfarago et al. (2023) who say that financial stability influences financial statement fraud, where greater asset growth can cause financial statement fraud. The first hypothesis of this research is;

H<sub>1</sub>: Stimulus influences the possibility of fraudulent financial statements.

### **Opportunity**

Opportunity is a situation that provides an opportunity for someone to commit fraud (Vousinas, 2019). Opportunities can occur due to weak internal control which is influenced by factors dominated by management control, both individually and in groups within the company (Pratiwi et al., 2022). This is supported by the findings of Mukaromah & Budiwitjaksono (2021) that ineffective supervision influences financial report fraud. The second hypothesis of this research is;

H<sub>2</sub>: Opportunity influences the possibility of financial statement fraud

### **Rationalization**

Rationalization is a form of defense against acts of fraud and assumes that the actions taken are correct and reasonable (Mukaromah & Budiwitjaksono, 2021). The rationalization element is proxied by a change in auditor. Management that manipulates financial reports changes the auditor's opinion to minimize disclosure of manipulating the fraud (Ramdany et al., 2021). Based on the Financial Services Authority (POJK) regulation Number 13 of 2017, it is explained that the use of Public Accounting

Services in companies is only permitted to use the same audit services no later than 3 years after closing the financial reporting books. This is in line with the statement by Wijaya & Wijaksono (2023) which states that changing auditors influences the possibility of financial statement fraud. The third hypothesis of this research is;

H<sub>3</sub>: Rationalization influences the possibility of fraudulent financial statements

### **Capability**

The capability that cause someone to cheat are the position they hold in the company, the intelligence they have, the trust they have, and the skills they have. A person can also commit fraudulent acts due to persuasion, stimulus, and rationalization. Fraudsters must also recognize which doors are open as opportunities and take advantage of them by opening them not just once but many times. Director turnover can identify whether certain interest groups have channels that were previously offline or could be detected committing corporate fraud (Achmad et al., 2022). Aviantara (2021) states that the element of ability as proxied by director change affects financial statement fraud. The fourth hypothesis of this research is;

H<sub>4</sub>: Capability influences the possibility of financial statement fraud

### **Ego**

Ego is the attitude or action of a person who feels that company wisdom does not apply to him or internal control, and his beliefs are not bound by these things, so he does not believe that he has committed fraud (Bawekes et al., 2018), (Sagala & Siagian, 2021). The element of vanity is measured by the frequency of appearance of the CEO's photo. CEOs tend to show their status and position in the company to everyone because they don't want to lose it or feel they are not considered. A high level of ego can trigger fraud because a CEO's ego and sense of superiority can make the CEO feel that all regulations and internal controls do not apply to him because of his status and position (Putra & Suprasto, 2021). This is in line with the findings of Syaifudin and Sumunar (2022) who stated that the frequency of the appearance of the CEO's photo influences the possibility of financial statement fraud. The fifth hypothesis of this research is;

H<sub>5</sub>: Ego influences the possibility of financial statement fraud

### **Collusion**

Collusion is an agreement between two or more people for bad purposes, for example defrauding the rights of a third party (Vousinas, 2019). Parties who may be involved in collusion are employees who have ties to the government. Collaboration between the business world and the government will bring benefits to the business world (Mukaromah & Budiwitjaksono, 2021). The element of collusion is proxied by the government cooperation variable. The greater the company's cooperation with the government, the greater the income the company receives, thus providing an incentive for management to gain profits by manipulating actual financial reports. This is in line with the findings of Oktaviany & Reskino (2023) which states that collusion proxied by government cooperation influences the possibility of fraudulent financial statements. The sixth hypothesis of this research is;

H<sub>6</sub>: Collusion influences the possibility of fraudulent financial statements

## METHOD

This research is quantitative research with an archival approach that aims to analyze the effect of the fraud hexagon on fraudulent financial statements. The data used is panel data with an observation period of 2019-2022 covering 15 insurance companies listed on the Indonesian Stock Exchange. The research data consisted of 60 samples collected through annual reports obtained via the official website [www.idx.co.id](http://www.idx.co.id) using saturated sampling techniques. Data were analyzed using logistic regression analysis with the help of E-Views 16 software. This method predicts fraudulent financial statements using the F-Score proxy (Financial Stability, Ineffective Supervision, Change of Auditor, Change of Director, Frequency of appearance of CEO photo, and Projects with the Government). Prediction of variables that influence financial statement fraud begins with statistical descriptions and classification matrix tests. Next, test the hypothesis with logistic regression analysis. The regression model used to test the hypothesis ( $H_1$  to  $H_6$ ) is;

$$ELK_{it} = \beta_0 + \beta_1 SK_{1it} + \beta_2 PTE_{2it} + \beta_3 PA_{3it} + \beta_4 PD_{4it} + \beta_5 FFC_{5it} + \beta_6 PKP_{6it} + \varepsilon_{it} \quad (1)$$

KLK is Financial Report Fraud, SK is Financial Stability, PTE is Ineffective Supervision, PA is Change of Auditor, PD is Change of Director, FFC is Frequency of appearance of the CEO's photo, and PKP is Project with the government. Financial statement fraud is proxied using the Fraud Score Model developed by Dechow et al. (2011). The F-score model uses the sum of two components, namely Accrual Quality and Financial Performance, formulated with the following equation:

$$F\text{-Score} = \text{Accrual Quality} + \text{Financial Performance} \quad (2)$$

*Accrual Quality* can be proxied by RSST Accrual and financial performance variables

$$RSST \text{ Accrual} = \frac{\Delta WC + \Delta NCO + \Delta FIN}{\text{Average Total Assets}} \quad (3)$$

where,

$$\begin{aligned} \Delta \text{Working Capital (WC)} &= \text{Current Assets} - \text{Current Liability} \\ \Delta \text{Non-Current Operating Accrual (NCO)} &= (\text{Total Assets} - \text{Current Asset} - \text{investment and advances}) - \\ & \quad (\text{Total Liabilities} - \text{Current Liability} - \text{Long Term Debt}) \\ \Delta \text{Financial Accrual (FIN)} &= \text{Total Investment} - \text{Total Liabilities} \\ \text{Average Total Assets (ATS)} &= \frac{\text{Beginning Total Assets} + \text{Ending Total Assets}}{2} \end{aligned}$$

*Financial Performance* is calculated using the following formula:

$$\text{Financial performance} = \frac{\text{Change in Receivables} + \text{Change in Inventories} + \text{Change in Cash Sales} + \text{Change in Earning}}{\text{Sales}} \quad (4)$$

where,

$$\begin{aligned} \text{Change in Receivable} &= \frac{\Delta \text{Receivables}}{\text{Average Total Assets}} \\ \text{Change in Inventories} &= \frac{\Delta \text{Inventories}}{\text{Average Total Assets}} \\ \text{Change in Cash Sale} &= \frac{\Delta \text{Sales}}{\text{Sales}_t} - \frac{\Delta \text{Receivables}}{\text{Receivables}_t} \end{aligned}$$

$$\text{Change in Earning} = \frac{\Delta \text{Earning}}{\text{Average Total Assets}_t} - \frac{\text{Earning}_{t-1}}{\text{Average Total Assets}_{t-1}}$$

A company is categorized as committing fraud if it has a Dechow F-Score > 1. If the Dechow F-Score < 1 is obtained, then it is given a value of 0, meaning that the company is not indicated to have committed fraud in the financial statements. On the other hand, if a Dechow F-Score value is obtained > 1, then it is given a value of 1 where the company is proven to have committed fraud in the financial statements (Aviantara, 2021).

Financial stability describes the financial position of a company, if the financial situation is unstable, it causes the company's asset management and funding sources to not be managed well and are under maximum pressure (Mukaromah & Budiwitjaksono, 2021). The financial stability variable is measured by the difference between the current total minus the previous total assets divided by the previous total assets (Skousen et al., 2009), (Alfarago et al., 2023). Financial stability is a proxy for stimulus. Ineffective supervision is measured using a comparison between the number of independent commissioners and the total number of board of commissioners (Skousen et al., 2009), (Sagala & Siagian, 2021). Ineffective monitoring is a proxy for the element of opportunity. The auditor change variable is measured using a nominal scale with dummy variables. Code 1, if the company experiences a change of auditor, and code 0 if the company does not experience a change of auditor (Alfarago et al., 2023). The rationalization element is proxied by the change of auditor. The change of directors variable is measured on a nominal scale with dummy variables. Code 1, if the company changes directors, and code 0 if the company does not change directors (Wolfe & Hermanson, 2004), (Sagala & Siagian, 2021). The ability element is proxied by the change of directors. Change of directors is the replacement of previous directors with new directors to improve the performance of the directors. The variable frequency of CEO photo appearances can be measured by the number of CEO photos displayed in the annual report (Horwath, 2011), (Sagala & Siagian, 2021). The element of ego is proxied by the frequency of the appearance of the CEO's photo. The number of CEO photos in the annual report shows the CEO's ego. The element of collusion is proxied by the political connection variable. Political connections are relationships between company executives and politicians, government or public officials (Sagala & Siagian, 2021). The political connection variable can be interpreted with a nominal scale and dummy variables. Code 1 if the president commissioner or independent commissioner has political connections. Code 0, if the president commissioner or independent commissioner has no political connections (Vousinas, 2019), (Sagala & Siagian, 2021)

Hypothesis testing ( $H_1$  to  $H_6$ ) is carried out with the criterion that if the probability value (p-value) of each variable is > 1.96, then the hypothesis is accepted. This means that there is an influence of the variables of Financial Stability, Ineffective Supervision, Change of Auditor, Change of Director, Frequency of appearance of the CEO's photo, and Projects with the government on financial statement fraud. If not (p-value < 1.96), then the hypothesis is rejected, meaning there is no influence of these variables on financial statement fraud.

## RESULTS AND DISCUSSION

### Statistical Description Analysis

Table 1 describes statistical data on Financial Report Fraud, Financial Stability, Ineffective Supervision, Change of Auditor, Change of Director, Frequency of CEO Photos, and Government Cooperation Projects (PKP).

**Table 1. Description of Statistics**

	KLK	SK	PTE	PA	PD	FFC	PKP
Mean	0.066	0.061	0.578	0.133	0.466	3.900	0.666
Median	0,000	0.037	0.600	0,000	0,000	4	1
Maximum	1	0.850	0.750	1	1	8	1
Minimum	0	-0.257	0.333	0	0	1	0
Std. Dev.	0.251	0.160	0.121	0.342	0.503	1.865	0.475

Table 1 presents Description of Statistics of the test variable. KLK is Financial Report Fraud, SK is Financial Stability, PTE is Ineffective Supervision, PA is Change of Auditor, PD is Change of Director, FFC is CEO Photo Frequency, PKP is Government Cooperation Project

Data on financial statement fraud (0.000), financial stability (0.037), change of auditors (0.000), and change of auditors (0.000) shows low conditions compared to ineffective supervision, frequency of CEO photos, and government cooperation projects in insurance companies. Meanwhile, the results of the classification matrix test from the F-Score Model (constant probability) show that 4 observations commit fraud, while the results of the classification matrix test (estimated equation) show that only 2 observations commit fraud (Table 2)

**Table 2. Classification Matrix Test**

	Estimated Equations			Constant Probability		
	Dep=0	Dep=1	Total	Dep=0	Dep=1	Total
P(Dep=1)≤C	56	2	58	56	4	60
P(Dep=1)>C	0	2	2	0	0	0
Total	56	4	60	56	4	60
Correct	56	2	58	56	0	56
% Correct	100	50	96.67	100.00	0.00	93.33
% Incorrect	0.00	50	3.33	0.00	100	6.67
Total Gain*	0.00	50	3.33			
Percent Gain**	NA	50	50			

Table 2 presents the results logistic of Classification Matrix Test

### Logistic Analysis Test Results

The results of the logistic analysis test for the possibility of financial statement fraud are explained in Table 3.

**Table 3. Logistic Analysis Test**

Variables	Coefficient	Std. Error	z-Statistics	Prob.	Exp (Coefficient)
C	-30.538	11.926	-2.560	0.010	5,462
SK	-6.346	6.852	-0.926	0.354	0.001
PTE	36.085	15.578	2.316	0.020**	46,951
P.A	3.666	1.731	2.117	0.034**	39.102
PD	-2.024	1.685	-1.201	0.229	0.132
FFC	0.921	0.443	2.075	0.037**	2,512
PKP	0.057	1.478	0.038	0.969	1,058

Table 3 presents the results of logistic analysis test, where SK is Financial Stability, PTE is Ineffective Supervision, PA is Change of Auditor, PD is Change



of Director, FFC is CEO Photo Frequency, PKP is Government Cooperation Project.

\* Indicates statistical significance at 0.10 levels.

\*\* Indicates statistical significance at 0.05 levels.

\*\*\* Indicates statistical significance at 0.01 levels

Results of logistic regression testing are produced in the following logistic regression equation model:

$$KLK = - 30.538 - 6.346 SK + 36.085 PTE + 3.666 PA - 2.024 PD + 0.921 FFC + 0.057 PKP + e$$

Opportunities proxied by ineffective supervision (0.020), rationalization by changing auditors (0.030), and Ego by the frequency of CEO photos (0.037) have an effect with a significant level of 5%. Different results with stimulus (a proxy for financial stability), Capability (a proxy for director turnover), and Collusion (a proxy for cooperation with government projects) do not show a significant effect.

The results of this study prove that the second (H<sub>2</sub>), third (H<sub>3</sub>), and fifth (H<sub>5</sub>) hypotheses are supported while the first (H<sub>1</sub>), fourth (H<sub>4</sub>) and sixth (H<sub>6</sub>) hypotheses are not supported. Agency theory explains the differences in interests between the principal and the agent. Shareholders (*principals*) hope to get very large returns on investment. Company management (*agent*) hopes to achieve maximum results for the performance carried out. This problem puts pressure on management to maintain company performance stable at all times so that investors do not reduce the flow of investment funds next year. Management's tendency to show high total assets provides the potential for fraudulent financial reporting Imtikhani & Sukirman (2021). However, financial stability does not affect fraudulent financial statements. Good or bad financial stability does not affect fraudulent financial statements. Maryadi et al. (2020) stated that managers do not necessarily commit fraudulent financial reports to improve the company's prospects when financial conditions are unstable or experiencing a decline because this will hurt future financial conditions. The results of this research are in line with Ximenes & Zubaidi (2021) and Ramdany et al. (2021) which state that financial stability does not affect fraudulent financial statements. This finding is different from Siagian (2021), Handoko & Aurelia (2022), and Alfarago et al. (2023) which state that financial stability influences financial report fraud.

Opportunities proxied by ineffective supervision influence financial statement fraud. Financial statement fraud can occur due to opportunities exploited by agents. One of the opportunities that an agent has is having more information than the shareholder (principal), thus providing an opening for management (agent) to commit financial report fraud (Aviantara, 2021). Agusputri & Sofie (2019) stated that ineffective supervision makes management more free to manipulate financial reports because supervision is not strict. This is in line with Agusputri & Sofie (2019), Mukaromah & Budiwijaksono (2021), Putra & Suprasto (2021). However, this statement is not in line with Sagala & Siagian (2021), Achmad et al. (2022) and Alfarago et al. (2023).

Rationalization influences financial report fraud. Granting shareholder (principal) power to management (agent) in carrying out the principal's interests. Conflicts that occur between the agent and the principal can give rise to information asymmetry problems between the two so that the agent can take advantage of this situation to commit financial report fraud. When management commits fraud, management will try to cover up the fraud by changing the external auditor. Changing external auditors is a normal thing to do based on POJK regulation Number 13 of 2017 concerning the use of accounting services. This finding is in line with research conducted by Ozcelik (2020), Nugroho & Diyanty (2022), and Devi et al. (2021) which states that the change of auditor was carried out to cover up financial

reporting fraud committed by the company. Different results were found in the research results of Fatkhurizqi & Nahar (2021), Achmad et al. (2022), and Alfarago et al. (2023) which state that changing auditors do not affect financial statement fraud.

The ability does not affect fraudulent financial statements. The board of directors as an agent may have a personal interest in enriching themselves. Therefore, the company changes members of the board of directors to minimize the emergence of conflict between the principal and the agent. The results of this research cannot prove that changing directors affects financial statement fraud. Director changes are usually carried out to improve company performance by replacing a new director who is considered more competent than the previous director. Alfarago et al. (2023), and Nugroho & Diyanty (2022), Putra & Suprasto (2021) state that changing directors does not affect financial statement fraud. This is different from Aviantara (2021), Devi et al. (2021) and Handoko et al. (2022) which state that changing directors affects financial statement fraud.

Ego influences fraudulent financial statements. Ego is depicted by the frequency of CEO photos. The increasing number of CEO photos appearing in annual reports triggers ego. The relationship between ego and agent theory lies in the attitude of feeling superior to acting as an agent who only cares about oneself. The results of this research are in line with research conducted by Syaifudin & Sumunar (2022), and Maryadi et al. (2020) which state that ego as proxied by the frequency of CEO photos influences financial statement fraud. However, it is different from the findings of Fathmaningrum & Anggrani (2021) and Alfarago et al. (2023) which state that ego does not affect fraudulent financial statements.

Collusion does not affect fraudulent financial statements. Agency conflict occurs because the goals of the agent and principal are different. The agent wants maximum results from his performance, while the principal wants profits from the investment invested. Agents can collude to get more profits. However, conditions that occur in insurance companies show that collusion does not affect fraudulent financial statements. This finding is in line with research by Alfarago et al. (2023), Sagala & Siagian (2021), and Mukaromah & Budiwitjaksono (2021). However, these findings are different from research conducted by Vousinas (2019) and Oktaviany & Reskino (2023), Sumbari et al. (2023) which states that collusion influences financial statement fraud.

## CONCLUSION

This research explains the influence of stimulus, opportunity, rationalization, ability, ego, and collusion on fraudulent financial reports in insurance companies listed on the IDX in 2019-2022. The results of the study concluded that Opportunity (ineffective supervision), Rationalization (director changes), and Ego (CEO photo frequency) influenced financial statement fraud. Meanwhile, stimulus (financial stability variable), ability (director change), and collusion (government collaboration projects) do not affect financial statement fraud.

It is hoped that future research can use other proxies for financial statement fraud variables, different sectors as research samples, and longer observation periods, thereby providing a more varied perspective on the results.

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