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Article

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ACCOUNTING, CORPORATE GOVERNANCE & BUSINESS ETHICS | RESEARCH ARTICLE

The audit committee as moderating the effect of hexagon's fraud on fraudulent financial statements in mining companies listed on the Indonesia stock exchange

Maylia Pramono Sari^{1*}, Era Mahardika¹, Dhini Suryandari¹ and Surya Raharja²

Abstract: The six components of the hexagonal fraud theory are represented in this study by external pressure variables, change in auditors, the nature of the industry, the CEO's dual role, change in directors, and political connections. Additionally, a statistical analysis is done to determine whether the audit committee can moderate the impact of independent variables on dependent variables. The study's population consisted of 73 mining-related firms that were listed on the Indonesia Stock Exchange between 2018 and 2020. Purposive sampling is used in the sample selection method to get 173 units of analysis. Utilizing documentation procedures, data is gathered. Panel data regression is used in this study analysis tool. The findings demonstrated that the change in directors' factors has a negative and substantial impact on the detection of fraudulent financial statements, whereas the nature of industry variables has a positive and significant impact. However, there is no discernible difference between the variables of external pressure, change in auditors, CEO dualism, and political connection when it comes to identifying fraudulent financial statements. The findings of this study also demonstrate that the audit committee can reduce the impact of the industry's cyclical structure and shift of directors on the detection of fraudulent financial statements. The audit committee was unable to control the impact of outside pressure, change in auditors, the CEO's dual role, and political ties on fraudulent financial statements, though. This research provides theoretical and practical implications for internal and external companies, especially investors and the government in detecting fraudulent financial statements.

Subjects: Auditing; Financial Accounting; Financial Statement Analysis

Keywords: Fraudulent financial statement; fraud hexagon theory; audit committee

1. Introduction

Financial statements are one of the outcomes of the accounting process that give information about the company's performance and financial condition that is helpful to stakeholders in making decisions about the economy. Financial statements are published by the company as a means of internal and external communication and management responsibility.

Differences in the interests of each partner, including the management as an agent and the management as the principal of Jensen & Meckling (1976) in the agency theory, can lead to financial statement fraud. This makes it possible for management to conceal facts that the principal is unaware of, which is what leads to fraud.

Fraud is defined by the Association of Certified Fraud Examiners (ACFE) as an action taken with the intent to defraud or violate the law (Association of Certified Fraud Examiners Indonesia, 2019). Fraud is an illegal act that is motivated by the aim of obtaining personal benefits. Without realizing it, fraud can reduce the good name or reputation of a company in maintaining its business continuity (S. P. Sari & Nugroho, 2021).

With an average loss value of US\$ 954,000, fake financial statements have the lowest frequency but the largest loss impact, according to the ACFE survey in the 2020 Report to the Nation (RTTN). The two industries with the biggest average losses from fraud are the mining and energy industries (Association of Certified Fraud Examiners Indonesia, 2019).

A renowned instance of international fraud in the mining industry is the Enron scandal (Association of Certified Fraud Examiners Indonesia, 2019). According to estimates, the accounting scandal cost US\$50 billion in losses, US\$32 billion in investor losses, and US \$1 billion in pension fund losses for thousands of workers. Enron is recognized as the twelfth-largest donor to President George W. Bush's political campaign. In the meantime, PT Timah Tbk (TINS) committed financial statement fraud in Indonesia, which the public became aware of in 2015, allegedly reporting fictitious finances for the 1st semester of 2015, PT. Bumi Resources Tbk, one of Bakrie's subsidiaries, committed irregularities in the company's financial statements by misappropriating BUMI Pls funds and assets of PT Berau Coal EnergyTbk (BRAU), all of which were written off to zero, Due to cases of embezzlement, accounting manipulation, and the problem of fraudulent disclosure, PT Cakra Mineral Tbk (CKRA) directors were reported to the Financial Services Authority (OJK) and the Indonesian Stock Exchange (IDX) in 2016.

The increase in financial statement fraud instances motivates scholars to keep creating fraud hypotheses. The fraud hexagon hypothesis is a brand-new fraud detection concept created by Vousinas (2019). Six variables were employed in this study to describe the elements of the fraud hexagon. External pressure serves as a proxy for pressure (stimulus), while a change in auditors serves as a proxy for rationalization, the opportunity is a proxy for the nature of the industry, ego (arrogance) is a proxy for capability, which is a proxy for a change in directors, and collusion is a proxy for political connection (political connection) and audit committee as moderating variables that can weaken or strengthen the influence between the six factors and financial statistics.

Previously conducted research by Sihombing and Rahardjo (2014) shows that external pressure has a positive effect on fraudulent financial statements. Meanwhile, previous research with different results was carried out by Septriani and Handayani Dan (2018), Yulianti et al. (2019), and Yusrianti et al. (2020) external pressure does not affect fraudulent financial statements. Research using change in auditors conducted by Ardiyani and Sri Utaminingsih (2015), Lastanti (2020), and Noble (2019) resulted in a change in auditors positively affecting fraudulent financial statements, on the contrary, research conducted by Septriani and Handayani Dan (2018), Sihombing and Rahardjo (2014), and Yulianti et al. (2019) resulted in a change in auditors that had no impact on the fraudulent financial statements. Research conducted by Sihombing and Rahardjo (2014); Syahria (2019) produced that the nature of the industry has a positive effect on fraudulent financial statements, while the research carried out by Akbar (2017), Ardiyani and Sri Utaminingsih (2015), Octani et al. (2021), and Sari et al. (2020), and Yusrianti et al. (2020) as a result, the nature of the industry is unaffected. Research conducted by Deviesa and Lemmuella (2017) shown that CEO duality

has a favorable impact on financial statements that are dishonest, while research conducted by (Akbar, 2017; Dewi & Anisykurillah, 2021; M. P. Sari et al., 2020) resulted in that financial statements that are fraudulent are unaffected by CEO duality. Research conducted by Rosida and Setyawan (2021), Sihombing and Rahardjo (2014), and Syahria (2019) resulted in that The outcome of fake financial accounts was improved by the change of directors, while the research carried out by Noble (2019), Octani et al. (2021), and Sagala and Siagian (2021) a change of directors had no impact on the fraudulent financial statements. Research conducted by Kusumosari and Solikhah (2021); Rosida and Setyawan (2021); S. P. Sari and Nugroho (2021) resulted in that political connection has a positive effect on fraudulent financial statements. These findings are not in line with the research conducted by Octani et al. (2021), Riyanti (2021), and Sagala and Siagian (2021) prove that a person's political affiliation has no bearing on fraudulent financial statements.

Based on the phenomenon of gaps and research gaps, this research is interesting and still worth retesting. The originality of this study is the use of the mining sector as a research sample and the use of variable moderating, namely the audit committee. The purpose of this study is to respond to the survey by testing What are the six elements of the hexagon fraud theory that are proxied by external variable pressure, auditor turnover, industry nature, CEO duality, director turnover, and political connections influence financial statement fraud in mining companies, as well as statistically analyzing whether the audit the committee was able to moderate the influence between the independent variables on dependent variable in this study

2. Literature review and hypothesis development

2.1. Agency theory

The agency theory developed by Jensen and Meckling (1976), which describes the connection between management as an agent and shareholders as principals, is the foundation of this research, where the relationship between the two creates differences of interest that lead to conflicts or known as conflicts of interest. This conflict will create pressure on the company's management to improve the company's performance.

The management of a company that is under pressure from the principal to meet the expectations of the principal is possible to commit fraud easily by taking advantage of the opportunities and abilities he has. Fraud will be able to occur if Management has the opportunity to engage in fraudulent behavior as well as the capacity, access, and strategic position to do so (Pamungkas et al., 2018; Rahmadani, 2020).

2.2. Fraud

Fraud is defined as the abuse of office aimed at obtaining personal gain through the misuse of assets or resources owned by an organization (Association of Certified Fraud Examiners Indonesia, 2019). Fraud is defined as an intentional act that results in serious misstatements in financial statements that are the subject of an audit in Statement of Auditing (SAS) No. 99 concerning Consideration of Fraud in Auditing Financial Statements.

2.3. Fraudulent Financial Statement

Association of Certified Fraud Examiners Indonesia (2019) explained that fraudulent financial statements are acts of presenting financial statements that are intentional and fraudulent and are sourced from errors or negligence from management that are intended to mislead those who to use financial statement. Priantara (2013) in his book entitled "Fraud Auditing and Investigation" defines financial statement fraud as a deliberate act that aims to manipulate data in financial statements intentionally with another purpose to mislead users of financial statements. The information contained in the manipulated report cannot be used for decision-making because it is considered invalid (Rahmadani, 2020).

2.4. Hexagon fraud theory

Vousinas (2019) created a hexagon fraud theory that aims to perfect the previous fraud theory by adding one-factor collusion. Collusion is a condition that describes a deceptive agreement between two or more individuals to deceive the other party. argues that the close relationship between the company and the government is known by Vousinas (2019) as a political connection. This condition can be seen, one of which is whether the corporation has any political connections or having a close relationship with public officials and political elites. This close relationship triggers the emergence of political connections in the form of companies that obtain conveniences and special things in the agreements that have been formed. This advantage can be used by company leaders to deceive the principal by manipulating reports.

2.5. Audit committee

The following definition of the audit committee was published by the Indonesian government in Financial Services Authority (OJK) Regulation No. 55/POJK.04/2015: "The Audit Committee is a committee formed and accountable to the Board of Commissioners which is tasked with assisting in carrying out the functions and duties of the Board of Commissioners. Rahmadani (2020) state that the audit committee's role is to offer opinions on matters pertaining.

"The Audit Committee consists of at least 3 (three) members from Independent Commissioners and Parties from outside the Issuer or Public Company," the government regulation's article 4 states. "It can be concluded that in a company there are at least 3 audit committees and the more audit committees in terms of supervision, monitoring the operations of the company will run better and the implementation of corporate governance will improve.

2.6. Hypothesis development

The pressure experienced by the company is in the form of a desire to obtain additional sources of funds and financing in the form of debt to remain competitive. The source of funds and financing in the form of debt from outside parties is used to finance research and expenses related to the company's operations, which causes management to strive to display the best financial statements to maintain the trust of outsiders. The agency theory initiated correlates with external pressures, namely the difference in interests between management as agents and shareholders Skousen et al. (2009) principals. Leverage, total liabilities to total assets, or other metrics used to gauge a company's capacity to repay debt loans. If the company has high leverage, then the credit risk it has is also high. Previous research that had appropriate results conducted by Sihombing and Rahardjo (2014) indicated that the likelihood of fraudulent financial statements increased with the company's leverage ratio.

H1: External pressure significantly improves the likelihood of fraudulent financial statements.

When someone commits fraud, they rationalize their behavior by seeking justification for fraudulent behavior (Sagala & Siagian, 2021). Tiffani (2009) argues that in companies that change auditors more of the company has committed fraud actions, This occurs as a result of business management's propensity to work to lessen the likelihood that financial statement fraud will be discovered by auditors or veteran public accountants. A Public Accounting Firm is a legal business entity that was created in accordance with legislative requirements and was granted a business license under Law No. 5 of 2011 regarding Public Accountants. According to De Angelo (1981), the size of the public accounting firm conducting the audit can give insight into the audit's quality. Public Accounting Firm Apriliana—Agustina's (2017) big four has advantages if professionals tend to provide effective audit services (Dang et al., 2018).

The Teori agency initiated by Jensen & Meckling (1976) is the difference in interests between management as an agent and shareholders as a principal. The continuous change of auditors can cause conflicts of interest between management as agents and shareholders principal research conducted by those shows that Ardiyani and Sri Utaminingsih (2015), Lastanti (2020), and Noble (2019) change in auditors affects fraudulent financial statements

H2: A strong beneficial impact on falsified financial statements is caused by changing auditors

For businesses in the industry, the nature of the sector (Tiffani, 2009). The company's financial reporting must include a number of accounts whose balance amounts are decided by the company based on estimates or estimates, for instance, the inventory of debt and uncollectible receivables (Septriani & Handayani Dan, 2018). Assessment of estimates or estimates such as uncollectible receivables and obsolete inventory can create loopholes or opportunities for management to manipulate, for example, manipulating the economic life of a company's assets (Dewi & Anisykurlillah, 2021). Penelitian supported by Sihombing and Rahardjo (2014) demonstrates how the nature of the industry has an impact on fraudulent financial statements.

H3: Fraudulent financial statements are significantly made more likely by the nature of the industry.

CEO duality is when a person holds the positions of both the CEO and the chairman of the board or board of commissioners in the same corporation. The CEO is responsible for managing the organization's resources under the authority of the board of commissioners, and the board of commissioners is responsible for acting as the supervisory CEO. According to OJK Regulation Number 55/POJK.03/2016, the CEO or the board of directors are not permitted to respond to questions more than once in their capacity as chairman of the board or board of commissioners. Akbar (2017) explained that CEO duality is one of the factors used to find out the existence of dual leadership in one company, CEO Duality has a bad impact judging from the perception of Agency Theory because it may make it more difficult for the board of commissioners to oversee and evaluate the board of directors' performance as well as for the board of directors to supervise management. Research conducted by (Deviesa & Lemmuela, 2017) results that CEO duality affects fraudulent financial statements. Based on the justification provided, it is hypothesized that people who hold dual office in a corporation, such as the CEO, board of directors, or board of commissioners, may have an effect on the low supervision function within the organization, leading to misleading financial statements.

H4: CEO duality significantly improves the likelihood of fraudulent financial statements.

According to Indarto and Ghazali (2016), capability refers to a person's capacity to engage in deception in order to accomplish a particular objective. It is necessary for the company's change of directors to have a purpose, namely to improve the achievement of the company's aims, but it is not possible to determine whether this goal is improved as a result of the change in directors. There are two possibilities for the change of directors, namely the new directors who replace the old directors have better competence to increase the company's targets, while the other possibility is that there are indications of fraud, the company gets rid of the old directors who know about fraud in the company and the change of directors causes stress periods that it can confuse Wolfe and Hermanson (2004). The agency theory initiated by Jensen & Meckling (1976) the change of directors in the company can increase

moral hazard problems caused by the lack of supervision by shareholders as principals of the actions taken by management to create the circumstances that allow management to commit fraud. Research by Rosida and Setyawan (2021), Sihombing and Rahardjo (2014), and Syahria (2019) resulted in a change of directors affecting fraudulent financial statements

H5: A director's change has a large favorable impact on fraudulent financial statements.

A collusion is an act committed by two or more persons who make an agreement and deviate for the benefit of the collusion. Osazuwa (2016) argues that political connections can be found in companies where there are directors who have positions as political officials or former government officials, military or ex-military. Companies with political ties will seize the chance for personal gain without considering. The theory of the agency in this hypothesis utilizes the profits obtained for personal interests, thus opening up opportunities for management as an agent to commit fraud. Convenience and privileges received by the company without the knowledge of shareholders as the principal party. This will increase conflicts between the agent and the principal. Research with a similar measurement scale is (Octani et al., 2021; Osazuwa, 2016; Sagala & Siagian, 2021) resulting in political connections affecting fraudulent financial statements.

H6: Financial statements that are fake are significantly influenced favorably by political connections.

To meet the expectations of other parties, management must deal with excessive pressure from outside the organization (shareholders). The company must exhibit strong financial success in order to draw investors without the need for additional external loans or other sources of funding. The company strongly plans to finance capital expenditures in addition to new debt and equity financing in order to sustain its competitive edge. The audit committee oversees the implementation of follow-up actions taken by the board of directors in response to the findings of the company's internal auditors. The audit committee also has the duty and responsibility to review the activities of risk management implementation carried out by the board of directors.

H7: The audit committee weakens Pressure's external relationship to fraudulent financial statements.

Companies that switch auditors may be suspected of having committed fraud and eradicating its traces, according to SAS No. 99. A business may file for bankruptcy if it encounters persistent financial troubles; in such cases, the corporation will be forced to replace the auditor. The aim of switching auditors in this study is to switch from the Big Four Change of large four public accounting firms to non-big four public accounting firms Public Accounting Firms, Non-Big Four Change of auditor from large four public accounting companies to big four public accounting firms: Public Accounting to big four public accounting firms. The audit committee's size can make it easier to undertake operational oversight of management performance so that it can perform its varied roles and obligations more effectively.

H8: The audit committee decreases the relationship between auditors and falsified financial statements

Sihombing and Rahardjo (2014) argue that accounts of inventories and receivables require subjective estimates or judgments in estimating the non-collection of obsolete inventory and collectible receivables. They asserted that management may manipulate financial statements using these accounts as a tool if the value of these accounts was determined subjectively. A firm internal group called the audit committee is tasked with helping the board of commissioners oversee financial reporting.

H9: The audit committee made it harder to draw a connection between the industry's characteristics and the fraudulent financial statement

The term "CEO (chief executive officer) duality" refers to a person who holds the positions of CEO (chief executive officer), board chairman, and board of commissioners in the same organization. The CEO is responsible for managing the organization's resources under the authority of the board of commissioners, while the commissioners' role is that of the supervisory CEO. With an audit committee involved in monitoring and monitoring the performance of management in the organization, the CEO's dual role in spotting fake financial statements will be weakened. The likelihood of fake financial statements occurring in the company will increase due to its dual position, and with an audit committee in place that is actively involved in monitoring managerial performance.

H10: The CEO duality's connections to misleading financial statements were diminished by the audit committee.

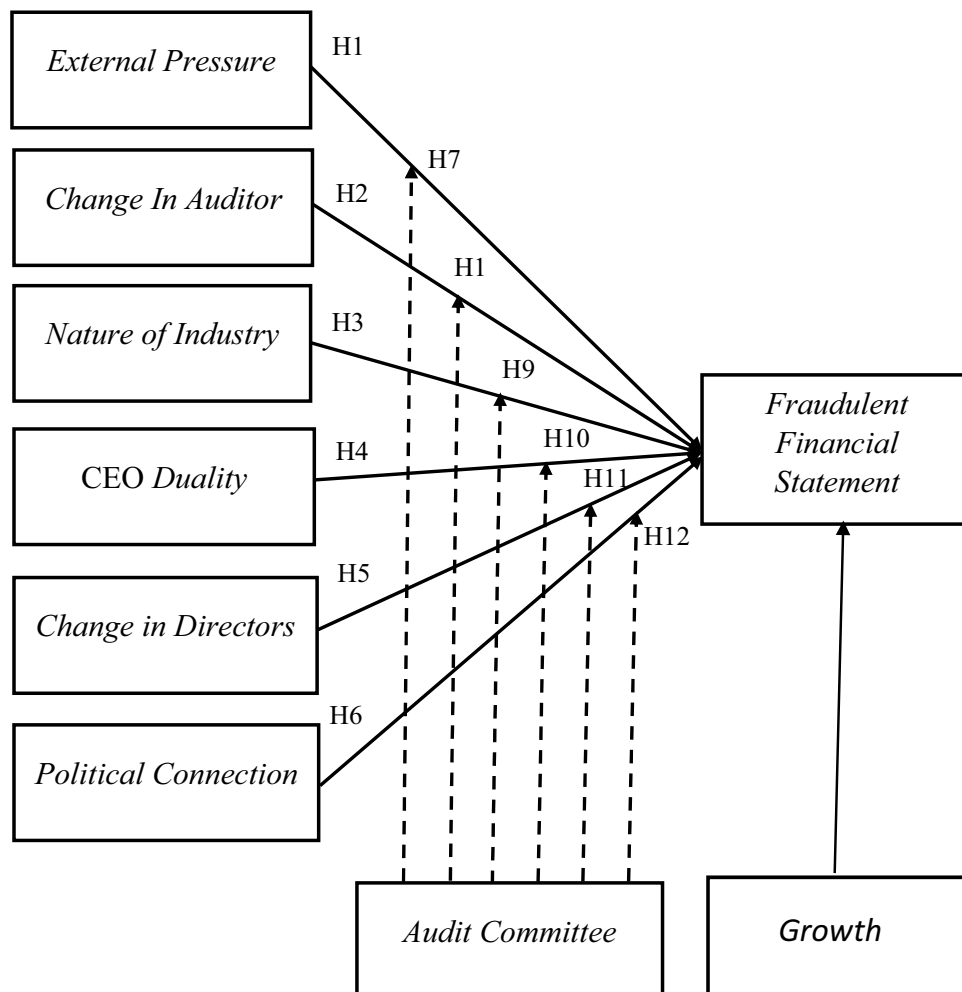
Capability refers to people's potential to conduct fraud, namely through switching the company's directors. There are two reasons for a change in directors: either there are signs of fraud and the company removes the old directors who are aware of fraud in the company, or the change in directors creates a stressful period so that it can confuse investors. The new directors who replace the old directors may be more qualified to achieve the company's goals (Wolfe & Hermanson, 2004). The board of directors' risk management implementation actions are to be reviewed by the audit committee, which is also in charge of overseeing the company's operational management performance oversight.

H11: The relationship between the change in directors and fraudulent financial statements was diminished by the audit committee.

A collusion is an act committed by two or more persons who make an agreement and deviate for the benefit of the perpetrator of the collusion. Osazuwa (2016) argues that political connections can be found in companies where there are directors who have positions as political officials or former government officials, military or ex-military. Politically connected businesses will seize the chance for personal gain without considering how to improve the company's performance. The board of directors' risk management implementation actions are to be reviewed by the audit committee, which is also in charge of overseeing the company's operational management performance oversight.

H12: The audit committee weakened the political connection to fraudulent financial statements.

2.7. Research framework



3. Research design

3.1. Sample and data description

The type of data used in this study is secondary data which is data that is sourced not from direct data, but through intermediaries or media. Secondary data in this study is in the form of reports annual mining company published on the official website of the Stock Exchange Indonesian Securities (IDX) in 2018–2020. References used in this research such as journal articles, books, official reports, trusted websites and other secondary data used in this study as reinforcement in understanding of the framework and problems of this research. Techniques used in this study is purposive sampling in determining the research sample, while the data processing applies panel data regression analysis techniques with Eviews 12 program. This research sample must adhere to the following three requirements:

- (1) Mining businesses sequentially listed on the Indonesia Stock Exchange (IDX) between 2018 and 2020
- (2) For the 2018–2020 term, mining sector businesses who post their audited annual financial statements on the Indonesia Stock Exchange (IDX) website or their own websites

- (3) Mining sector companies with certified annual financial statements posted on the Indonesia Stock Exchange (IDX) for the 2018–2020 timeframe and data relevant to comprehensive research variables.

Guided by the three criteria above, the following are the steps for selecting samples in this study which are described in Table 1

It can be said that purposive sampling procedures were used to determine the number of study samples to be taken from the community. Thus, a total of 173 units of analysis made up the study's sample.

3.2. Regression models

The purpose of Formula 1 is to study the relationship between one dependent bound variable

$$FFS = \alpha + \beta_1EP + \beta_2AC + \beta_3NI + \beta_4CD + \beta_5DC + \beta_6PC + \beta_7GR + e$$

Information:

FFS: Fraudulent Financial Statement

α : Constants

β_1 - β_6 : Regression Coefficient

EP: External pressure

AC: Change In Auditor

NI: Nature of Industry

CD: CEO duality

DC: Change Of Directors

Table 1. Determination of the number of research samples

No.	Criterion	Excluding Criteria	Total
1.	Companies in the mining industry that are listed on IDX		219
2.	Companies in the mining sector that are not listed on the IDX continuously from 2018 to 2020	(25)	194
3.	Companies in the mining sector that don't release full annual financial statements between 2018 and 2020	(5)	189
4.	The annual financial statements released between 2018 and 2020 lack complete data on research variables.	(16)	173
Number of units of analysis that qualify as research samples			173

Source: Processed Secondary Data (2022)

PC: Political Connection

GR: Growth

e: Error

To determine if the relationship between the independent and dependent variables can be strengthened or weakened, Formula 2 of the moderation regression analysis is used.

$$\begin{aligned} \text{FFS} = & \alpha + \beta_1 \text{EP} + \beta_2 \text{AC} + \beta_3 \text{NI} + \beta_4 \text{CD} + \beta_5 \text{DC} + \beta_6 \text{PC} + \beta_7 | \text{EP} * \text{CA} | \\ & + \beta_8 | \text{AC} * \text{CA} | + \beta_9 | \text{NI} * \text{CA} | + \beta_{10} | \text{CD} * \text{CA} | + \beta_{11} | \text{DC} * \text{CA} | + \beta_{12} | \text{PI} * \text{CA} | \\ & + \beta_{13} \text{GR} + e \end{aligned}$$

Information

FFS: Fraudulent Financial Statement

α : Constants

β_1 - β_6 : Regression Coefficient

β_7 - β_{12} : Moderation Interaction

CA: Audit Committee

EP: External pressure

AC: Change In Auditor

NI: Nature of Industry

CD: CEO duality

DC: Change Of Directors

PC: Political Connection

GR: Growth

e: Error

3.3. Measurement of variables

3.3.1. Dependent variables

A fraudulent financial statement, which is an act purposely or essentially falsifying financial information to mislead readers of financial statements, is the dependent variable in this study. The FFR served as a metaphor for the study's variables. The F-Score measurement model, which is a development of the earlier measurement, the Beneish M-Score, is used in this work as the fraudulent financial statement measurement model. The Dechow et al. (1996) model has two components: accrual quality, which is proxied by RSST Accrual, and financial performance (Skousen et al., 2009). The formula for applying the F-Score model is as follows:

$$\text{F-Score} = \text{Accrual Quality} + \text{Financial Performance}$$

Table 2. Operational definition of variables

Variable Name	Variable Definition	Measurement	Scale
Fraudulent financial statement (FFS)	An act intentionally or basically to commit falsification of financial information to deceive users from financial statements.	F-Score = Accrual Quality + Financial Performance (Skousen et al., 2009)	Ratio
External Pressure (EP)	The pressure felt by the company (management) to obtain sources of funds from outside parties in the form of debt and capital.	LEV = $\frac{\text{Total Liabilitas}}{\text{Total Aset}}$ (Skousen et al., 2009)	Ratio
Change in Auditor (AC)	Auditor changes are changes that are assessed through changes in levels, not changes between one Public Accounting Firm to another.	Variables are given code 0 when changing from Bigfour to Non-bigfour, code 1 when changing from Non-big-four to Nonbig-four, code 2 when changing from Non-big four to Big four, as well as, code 3 when changing from Bigfour to Big four (Hapsari & Prasetyo, 2020)	Nominal
Nature of industry (NI)	An ideal condition experienced by the company and utilized by management to commit fraudulent acts	Receivable = $\frac{\text{Receivable (t)}}{\text{Sales (t)}} - \frac{\text{Receivable (t-1)}}{\text{Sales (t-1)}}$ (Skousen et al., 2009)	Ratio
CEO duality (CD)	Multiple positions that the CEO has in the company	Dummy variables, namely given code 1 if there is a duplicate position or affiliation relationship, and given a code of 0 if there is no duplicate position or affiliation relationship. (Abubakar et al., 2020)	Nominal
Change of Directors (DC)	The ability of individuals to commit fraud, namely through the change of the company's board of directors	Dummy variable, namely code 1 for companies that make changes to directors during the 2018–2020 research period, and are given code 0 if they do not make changes to the board of directors during the 2018–2020 research period. (Sihombing & Rahardjo, 2014)	Nominal
Political Connection (PC)	The company's relationship with political circles for profit.	Dummy variables, if the company has a political connection are coded 1, and if the company does not have a political connection are given a code of 0. (Fan et al., 2016)	Nominal
Audit Committee (AC)	Committees are established by and responsible to the Board of Commissioners in assisting in carrying out their duties and functions.	Number of Audit Committees (M. P. Sari et al., 2020)	Nominal
Growth (Gr)	Sales growth rate	GROWTH = $\frac{\text{Total penjualan tahun sekarang} - \text{total penjualan tahun sebelumnya}}{\text{total penjualan tahun sebelumnya}}$ (M. P. Sari et al., 2020)	Ratio

$$RSST = \frac{\Delta WC + \Delta NCO + \Delta FIN}{Average\ Total\ Asset}$$

Information:

WC (Working Capital) = Current Assets—Current Liability

NCO (Non Current Operating Accrual) = (Total Assets—Current Assets—Long Term Investment)—(Total liabilities—Current Liabilities—Long Term Debt)

FIN (Financial Accrual) = Total Investment—Total Liabilities

$$ATS\ (Average\ Total\ Assets) = \frac{Beginning\ Total\ Asset + End\ Total\ Assets}{2}$$

Financial Performance = Change in Receivable + Change in Inventories + Change in Cash Sales + Change in Earnings

Information:

$$Change\ in\ receivable = \frac{\Delta\ Receivable}{Average\ Total\ Asset}$$

$$Change\ in\ inventory = \frac{\Delta\ Inventory}{Average\ Total\ Asset}$$

$$Change\ in\ Cash\ Sales = \frac{\Delta\ Sales\ \Delta\ Receivable}{Sales(t)\ Receivable(t)}$$

$$Change\ in\ earnings = \frac{Earning(t)}{Average\ Total\ Asset(t)} - \frac{\Delta\ Earning(t - 1)}{Average\ Total\ Asset(t - 1)}$$

This model predicts that businesses will make fraudulent financial statements if the f-score value is greater than 1, and the opposite is also true: businesses with an f-score value less than 1 cannot be predicted to make fraudulent financial statements.

3.3.2. Independent variables

The fraud hexagon theory, which has six parts, including pressure (stimulus), rationalization, opportunity, ego (arrogance), capability, and collusion, is the basis for the independent variables employed in this study. The six elements of the fraud hexagon theory are measured using the following proxy variables:

3.3.2.1. *External pressure.* The pressure that the business (management) is under to secure money and debt financing from outside sources is known as external pressure. According to Skousen et al. (2009) 's study, external pressure is calculated by dividing the entire debt of the company by its total assets. As demonstrated by the formula below:

$$LEV = \frac{Total\ Liabilitas}{Total\ Aset}$$

3.3.2.2. *Auditors in change.* When fraud has happened, management will rationalize the situation as a kind of justification. According to research Hapsari and Prasetyo (2020), auditors are evaluated based on changes to levels rather than shifts between public accounting firms. When switching between the Big four and the Non-big four, the variables are assigned the code 0, the Non-big four the code 1, the Big four the code 2, and the Big four the code 3 respectively.

3.3.2.3. *Nature of industry.* The nature of the industry is an ideal condition experienced by the company and is utilized by management to commit fraudulent acts. Assessment of estimates or estimates such as uncollectible receivables and obsolete inventory can create loopholes or opportunities for management to manipulate, for example, manipulating the economic life of a company's assets. Referring to research Skousen et al. (2009) the nature of the industry is measured using scale measuring changes in receivables. As seen in the following formula:

$$\text{Receivable} = \frac{\text{Receivable (t)}}{\text{Sales (t)}} - \frac{\text{Receivable (t-1)}}{\text{Sales (t-1)}}$$

3.3.2.4. *CEO duality.* According to Law No. 40 of 2007 concerning Limited Liability Companies (hereinafter referred to as UUPT), the two-tier management system is distinct from the one-tier system. CEO duality is the term used to describe a person who serves in two roles, namely the CEO or board of directors and the chairman of the board or board of commissioners in one company. Indonesia follows a one-tier management structure, which implies that management operations are carried out by a board of directors institution, and management operations are overseen by a board of commissioners.

The positioning of positions between the board of commissioners and the board of directors might therefore be seen as adopting a kinship system in Indonesia, according to the interpretation of CEO duality. So the affiliation between the two boards is included in the CEO duality. Referring to measurements Abubakar et al. (2020) it is assessed using dummy variables, namely given a code of 1 if there is a duplicate position or affiliation relationship, and given a code of 0 if there is no duplicate position or affiliation relationship.

3.3.2.5. *Change of directors.* Capability refers to people's potential to conduct fraud, namely through switching the company's directors. A proxy was utilized in this study to elect new directors. According to study Sihombing and Rahardjo (2014), changing directors can be measured using dummy variables. Companies are given a code of 1 if they change their board of directors during the 2018–2020 research period, and a value of 0 if they don't.

3.3.2.6. *Political connection.* This study uses political connection proxies in measuring the components of collusion. Referring to the research of Fan et al. (2016) the measurement scale used is a dummy variable. If the company has a political connection it is coded 1, and if the company does not have a political connection it is coded 0.

According to Matangkin et al., (2018), there are criteria for political connection, namely as follows:

- a. President commissioners and/or independent commissioners who have positions as politicians as well as those affiliated with political parties.
- b. President commissioner and/or independent commissioner who has a position as a military officer at the same time.
- c. President commissioner and/or independent commissioner who has a position as a government official at the same time.
- d. President commissioner and/or independent commissioner is a former government official or former military official in his career history.

3.3.3. *Moderating variables*

The audit committee variable was the moderating variable in this study. According to Rahmadani (2020) the number of audit committees in a firm correlates with the degree of financial statement fraud. The more audit committees a company has, the more likely it is to influence fraud in the presentation of financial statements. The size of the audit committee can be determined by the number of audit committees in the organization, according to research by (M. P. Sari et al., 2020).

3.3.4. Control variables

Growth, specifically a company’s sales growth to receive rate, is the control variable in this study. According to study by M. P. Sari et al. (2020), the ratio of sales from the current year divided by those from the previous year is used to calculate growth.

Table 2 show about operational definition of variables which are fraudulent financial statement, external pressure, change auditor, nature industry, CEO duality, change directors, political connection, audit committee, growth.

4. Empirical results and discussions

4.1. Result

4.1.1. Descriptive statistics

The goal of the descriptive statistical analysis is to thoroughly describe all of the variables employed in this study’s average value (mean), lowest value, maximum value, and standard deviation. Fraudulent financial statements are the dependent variable in this study. There are six independent variables—external pressure, change in auditors, industry, CEO duality, change of directors, and political connection—plus one moderating variable, the audit committee. The descriptive statistics result show in Table 3.

Table 3. The descriptive statistics result				
Variable	Descriptive Statistics			
N = 173	Mean	Minimum	Maximum	Std. Deviation
Dependent Variables				
Fraudulent Financial Statement	-0.154534	-2.670211	2.678084	0.769743
Independent Variables				
External Pressure	-0.322124	-2.752633	0.308734	0.391334
Change In Auditor	-	0	3	0.953024
Nature Of Industry	-1.221987	-4.045175	1.679921	0.820652
CEO Duality	-	0	1	0.501242
Change Of Directors	-	0	1	0.499024
Political Connection	-	2	1	0.488543
Audit Committee	-	5	2	0.478184
Growth	-0.222124	-1.768,933	0.895279	0.2287494

4.1.2. Data panel regression model result

There are numerous methods for estimating the panel data regression model, including the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). The Random Effect Model is the most accurate regression model estimate to be used in this study (REM).

4.1.3. Classical assumption test

The results of the classical assumption test in this study that the data were free from problems of multicollinearity, normality, and heteroskedasticity.

4.1.4. Regression analysis results

4.1.4.1. *Additional analysis.* The analysis regression moderating results is in Table 4 and 5. The frequency attribution of fraudulent financial statements informs that the average fraudulent financial statement to mining companies in Indonesia in 2018–2020 was -0.154534 and was in the moderate category with 148 units of analysis (86%). This indicates that the value of financial statement fraud that often appears in mining companies in Indonesia is in the moderate category when viewed in the table above. Another 13% of financial statement fraud data was contributed by data with a low category of 23 analytical units, as well as 2 (1%) high-category analysis units.

Table 4. Analysis regression moderating results

Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	0.192771	0.467172	0.412633	0.6804
Ep	-0.236316	0.207879	-1.136797	0.2573
Air conditioning	-0.062531	0.090697	-0.689455	0.4915
Ni	0.312619	0.071521	4.371032	0.0000
Cd	0.002432	0.160814	0.015122	0.9880
Dc	-0.180407	0.097151	-1.856974	0.0651
Pc	-0.031894	0.170358	-0.187217	0.8517
Ca	0.049382	0.149874	0.329493	0.7422
EP*CA	-0.177607	0.578435	-0.307047	0.7592
AC*CA	0.200981	0.156420	1.284883	0.2006
NI*CA	-0.330843	0.122960	-2.690660	0.0078
CD*CA	-0.363034	0.309714	-1.172156	0.2428
DC*CA	0.665975	0.222856	2.988357	0.0032
PI*CA	0.412971	0.302315	1.366030	0.1737
Gr	0.237485	0.394859	2.837484	0.0328

The external pressure frequency attribution informs that the average external pressure on mining companies in Indonesia in 2018–2020 was -0.322124 and was in the moderate category with 33 units of analysis (19%). This illustrates the average level of ability of mining companies in Indonesia to repay debts. The value of leverage in mining companies in Indonesia in 2018–2020 has a positive value which indicates that the sample company has a smaller debt value than the total assets owned. Another 2% of external pressure data was contributed by data with a low category of 3 units of analysis, as well as 137 (79%) units of analysis of high categories.

The study's findings for companies with auditor levels ranging from big-four public accounting firms to non-big four public accounting firms of 1% with a frequency of 1 analysis unit, namely Indo Straits Tbk, are represented by 173 units of analysis. The company that has an auditor level from a non-big-four public accounting firm to a big-four public accounting firm is Apexindo Pratama Duta Tbk (APEX) in 2018 which changed from Public Accounting Firm Mirawati Sensi Idris (MSI) to Public Accounting Firm Imelda & Rek followed by the same frequency value and percentage amount. (PTIS) in 2018 which changed from Public Accounting Firm Purwantono, Sungkoro (Deloitte). In the meantime, 58 enterprises with a percentage of 33% have auditor levels ranging from big-four public accounting firms to big-four public accounting firms. This demonstrates that more mining sector companies in Indonesia in the years 2018–2020 did not make changes in auditors or Public Accounting Firm. Companies that have an auditor level from companies that change their Public Accounting Firm from non-big-four to non-big-four public accountants by 65% as many as 113 units of analysis.

Table 5. Summary of hypothesis test results

	Variable	Coefficient	Prob α	Result
H1	External pressure significantly improves the likelihood of fraudulent financial statements.	-0.236316	0.2573	Rejected
H2	A strong beneficial impact on falsified financial statements is caused by changing auditors	-0.062531	0.4915	Rejected
H3	Fraudulent financial statements are significantly made more likely by the nature of the industry.	0.312619	0.0000	Accepted
H4	CEO duality significantly improves the likelihood of fraudulent financial statements.	0.002432	0.9880	Rejected
H5	A director's change has a large favorable impact on fraudulent financial statements	-0.180407	0.0651	Rejected
H6	Financial statements that are fake are significantly influenced favorably by political connections.	-0.031894	0.7422	Rejected
H7	The audit committee weakens Pressure's external relationship to fraudulent financial statements.	-0,177,607	0,7592	Rejected
H8	The audit committee decreases the relationship between auditors and falsified financial statements.	0,200,981	0,2006	Rejected
H9	The audit committee made it harder to draw a connection between the industry's characteristics and the fraudulent financial statement	-0,330,843	0,0078	Accepted

(Continued)

	Variable	Coefficient	Prob α	Result
H10	The CEO duality's connections to fraudulent financial statements were diminished by the audit committee.	-0,363,034	0,2428	Rejected
H11	The relationship between the change in directors and fraudulent financial statements was diminished by the audit committee.	0,665,975	0,0032	Accepted
H12	The audit committee weakened the political connection to fraudulent financial statements.	0,412,971	0,1737	Rejected

According to the frequency of industry attribution, the average mining industry in Indonesia between 2018 and 2020 was -1.221987 and fell into the medium group with 120 units of analysis (69%). By lowering the amount of receivables and choosing to raise the company's cash collections, this demonstrates the average degree of a tendency to misleading financial statements. Another 1% of nature of industry data was contributed by data with a very low category totaling 1 unit of analysis, 52 other units of analysis each distributed in the low category as much as 22 (13%), 120 units of analysis (69%) of medium category, and a high category of 31 units (18%).

The attribution of CEO duality frequency shows 173 units of analysis in this study showing as many as 89 units of analysis or 51% do not have CEO duality. Meanwhile, the remaining 84 analysis units (49%) have duality CEOs who have other positions within the company or have affiliations with the board of commissioners. Thus, the conclusion is that the units of analysis in mining companies of 2018–2020 are more numerous that do not have CEO duality.

The frequency attribution of change in directors shows that 173 units of analysis in this study showed as many as 95 units of analysis or 55% of companies that did not change directors for the 2018–2020 period. Meanwhile, the rest of, the 78 analysis units (45%) of companies changed directors for the 2018–2020 period. Thus, the conclusion is that the analysis units at mining companies in 2018–2020 are more likely to not change the board of directors.

The attribution of the frequency of political connection shows that 173 units of analysis in this study showed that as many as 106 units of analysis or 61% of companies did not have political connections for the period 2018–2020. Meanwhile, the rest, or 67 units of analysis (39%) of companies that have political connections for the 2018–2020 period. Thus, the conclusion is that the units of analysis at mining enterprises of 2018–2020 are more numerous that have no political connections.

The attribution of the frequency of audit committees informs that the average audit committee on mining companies in Indonesia in 2018–2020 was 3.098266 and was in the medium category with 161 units of analysis (94%). (Tiapandewi et al., n.d.) highlighted that having an audit committee within a company is one way to combat financial statement fraud, and that the

more audit committees a company has, the less financial statement fraud there is. Six units of low-category data representing 3% more of the audit committee's data were analyzed at various interval levels.

4.2. Discussions

4.2.1. *External pressure significantly improves the likelihood of fraudulent financial statements*

The leverage ratio used in this study as a proxy for the external pressure variable has no impact on fraudulent financial statements. Leverage ratio is not the only factor taken into account when investing in or lending money to the company, there are other considerations such as the company's track record of repayment of previous debts, the good name of the company, as well as the good relationship between creditors and the company. Referring to the previous description, the high and low leverage ratio is not always pressure for the company. This can be seen from Sumber Energi Andalan Tbk (ITMA) in 2020 which has the lowest leverage ratio of -2.752633 and the fraudulent value of financial statements with a discretionary accruals (DA) proxy of 0.24020 . Meanwhile, Eksploitasi Energi Indonesia Tbk (CNKO) in 2020 had the highest leverage ratio of 0.308734 and the fraudulent value of financial statements with discretionary accruals (DA) proxies of -0.03463 . As a result, a high leverage ratio does not necessarily signal that management is under external pressure to make fraudulent financial statements.

4.2.2. *A strong beneficial impact on falsified financial statements is caused by changing auditors*

The rationalization proxied by the change of auditors does not affect fraudulent financial statements. The results of the distribution of the frequency of change in auditors in mining sector companies in Indonesia in 2018–2020 as many as 113 companies did not make changes in auditors (Public Accounting Firm) or were on a nominal scale of 1, namely the change of Public Accounting Firm from non-big-four Public Accounting Firm to non-big four Public Accounting Firm. So this shows that in the mining sector in 2018–2020, more did not make changes to the level of auditors or public accountants.

4.2.3. *Fraudulent financial statements are significantly made more likely by the nature of the industry*

The Nature Of Industry variable has a range of values from -4.045175 to 1.679921 . The minimum value of -4.045175 which is the value of Adaro Energy Tbk (ADRO) in 2020 shows an indication of fraudulent financial statements in Adaro Energy Tbk (ADRO) in 2020 which has the lowest receivables ratio among the companies in this sample, namely by reducing the number of company receivables. Meanwhile, the highest value of 1.679921 from Eterindo Wahanatama Tbk (ETWA) in 2020 shows that there is an indication of fraudulent financial statements on Eterindo Wahanatama Tbk (ETWA) 2020 which has the highest ratio of changes in receivables among sample companies, namely by reducing the amount of receivables.

4.2.4. *CEO duality significantly improves the likelihood of fraudulent financial statements*

Ceo duality does not influence fraudulent financial statements caused by the CEO's selfish behavior because his dual positions are misused for personal gain. Another factor causing fraudulent financial statements is the implementation or implementation of weak corporate governance in the company. This can be seen from the lowest value of -2.670211 which shows that the company with the lowest level of fraud risk was owned by AKR Corporindo Tbk (AKRA) in 2018 there is a duality CEO. Meanwhile, the highest value is 2.678084 which shows that the company with the highest level of fraud risk is owned by Eterindo Wahanatama Tbk (ETWA) in the absence of CEO duality. This shows that the change of directors does not affect fraudulent financial statements.

4.2.5. *A director's change has a large favorable impact on fraudulent financial statements*

This study's measurement of the change of directors variable using a dummy variable revealed a considerable detrimental impact on fraudulent financial statements. This outcome resulted from

the mining company's board of directors changing in 2018–2020 with the intention of improving the performance of the outgoing directors. After all, they were considered more competent than the old directors. This can be seen from the lowest value of -2.670211 which shows that the company with the lowest level of fraud risk is owned by AKR Corporindo Tbk (AKRA) in 2018 to make changes to the board of directors. The highest value, 2.678084 , demonstrates that Eterindo Wahanatama Tbk (ETWA), which owns the firm with the highest level of fraud risk, did not make any changes to the board of directors. This demonstrates that the removal of directors has a profoundly negative impact on fraudulent financial statements.

4.2.6. Financial statements that are fake are significantly influenced favorably by political connections

The political connection variable has no effect on fraudulent financial statements as many as 173 units of analysis in this study showed that as many as 106 units of analysis or 61% of companies did not have political connections for the 2018–2020 period. Meanwhile, the rest, or 67 units of analysis (39%) of companies that have political connections for the 2018–2020 period. This shows that the majority of the mining sector does not have a political connection, this can be seen from the company that owns Adaro Energy Tbk in 2018 which is a company that has a political connection, but the fraudulent financial statement value is low at -0.08594 . Meanwhile, Sumber Energi Andalan Tbk (ITMA) in 2020 is a company that does not have a political connection, but the value of fraudulent financial statements is higher, namely 1.73859 . Thus, the data of this study indicate that political connection does not have a significant influence on fraudulent financial statements.

4.2.7. The audit committee weakens pressure's external relationship to fraudulent financial statements

The audit committee failed to reduce the impact of outside pressure on fraudulent financial statements. This is due to the audit committee's inability to enhance the weak internal control and checks and balances within the organization. In light of this, it can be said that an audit committee is powerless to counteract the impact of outside pressure on fraudulent financial statements. There is no moderating influence of the audit committee.

4.2.8. The audit committee decreases the relationship between auditors and falsified financial statements

The audit committee was unable to reduce the link between the falsified financial statement and the change of auditors. Auditor supervision of management performance cannot prove that there is a change in auditors as a reason for management to cover up the company's problems and erase traces of fraud rather the change in auditors is likely to aim to improve the quality of auditors who audit the reports.

4.2.9. The audit committee made it harder to draw a connection between the industry's characteristics and the fraudulent financial statement

A firm internal group called the audit committee is tasked with helping the board of commissioners oversee financial reporting. The board of commissioners appoints and removes members of the audit committee, who are then reported at the GMS. The audit committee, which is tasked with regulating management and independent auditor participation in the company's financial reporting process, is one of the elements of Good Corporate Governance (GCG) that plays a significant role in the financial reporting system. In order to achieve good corporate governance, it is crucial that there is an audit committee.

4.2.10. The CEO duality's connections to fraudulent financial statements were diminished by the audit committee

Because the CEO's oversight of management's performance was insufficient to establish the existence of an audit committee, the audit committee was powerless to mitigate the impact of the CEO's dualities on the falsified financial statement. In light of this, it might be said that an

audit committee is powerless to counteract the impact of CEO dualities on fraudulent financial reporting. There is no moderating influence of the audit committee.

4.2.11. The relationship between the change in directors and fraudulent financial statements was diminished by the audit committee

The association between a change in directors and the discovery of fraudulent financial statements has been shown to be weakened by the audit committee. The corporation removes the previous directors who are aware of fraud in the company, there are signs of fraud, and the change in directors results in a stressful period that may be confusing. Therefore, it can be said that the audit committee acts as a moderating factor.

4.2.12. The audit committee weakened the political connection to fraudulent financial statements

The audit committee was unable to weaken the influence of political connections on fraudulent financial statements. Auditors' oversight of management's performance cannot prove that there is a political connection as a loophole for management to make it easier to borrow funds, this can trigger financial distress for companies because they are borrowing more and more often. However, the results of the study have different results.

5. Conclusion and suggestion

5.1. Conclusion

The reason this research chooses the company mining companies listed on the Indonesia Stock Exchange in the range of 2018–2020 as the object of the research population is based on a fraud survey conducted by the ACFE Indonesia Chapter in 2019 which explains that the mining sector is one of the industries that is included in the ranking the three major sectors that were harmed by fraud. In addition, in RTTN 75 ACFE Global in 2020, the mining sector is the sector with the highest average loss was USD 475,000 due to fraud. This is reinforced by the discovery of a number of fraud cases financial information that occurred in mining companies in several years the last ones are PT Timah Tbk (2017), PT Bumi Resource, and PT Berau Coal Energy (2012). Phenomena that occur in the field, based on ACFE data, and based on the ACFE Global RTTN data which shows that mining companies are quite vulnerable to fraudulent reports finance in recent years has become the reason for choosing the corporate sector mining as an object of research

The numerous financial statement fraud cases that have so far been reported have prompted scholars to better comprehend the motivating elements for fraud. The outcomes of earlier investigations, however, produce contradictory findings. This study uses seven criteria to characterize each part of the fraud hexagon in order to reexamine the elements that influence financial statement fraud. External pressure is used as a proxy for pressure, the nature of the industry as a proxy for opportunities, the change in auditors as a proxy for rationalization, the change in directors as a proxy for capability, the CEO's dual personality as a proxy for ego, and the existence of audit committees as a proxy for collusion.

According to the results of the hypothesis test, the nature of the industry has a positive and substantial impact on spotting fraudulent financial statements, whereas the variable change in the board of directors has a negative and significant impact. However, there is no discernible difference between the variables of external pressure, change in auditors, CEO dualism, and political link when it comes to identifying fraudulent financial statements. The findings of this study also demonstrate that the audit committee can reduce the impact of the industry's cyclical structure and shifting of directors on the detection of fraudulent financial statements. The audit committee was unable to control the impact of outside pressure, a new auditor, the CEO's dual role, and political links on illicit financial transactions. This research provides theoretical and practical implications for internal and external companies, especially investors and the government in detecting fraudulent financial statements.

5.2. Suggestion

Since the adjusted value of R2 in this study is still quite low and other variables such as company growth variables, audit opinions, whistleblowing systems, change audit committees, e-procurements, CEO education, CEO military, bles affect, and auditor fees exist, additional research is anticipated to add more independent variables. Additional study is anticipated to make use of moderating factors like tax evasion and other factors.

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