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### Analysis of Fraudulent Financial Statements Using the Perspective of Fraud Hexagon Theory

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#### ABSTRACT

*This study aims to analyse the effect of the fraud hexagon theory, which includes financial stability, change in director, nature of industry, auditor changes, frequency of CEO pictures, and related party transactions on fraudulent financial statements. The population in this study are all mining sector companies listed on the Indonesia Stock Exchange (IDX) from 2022 to 2024. The sampling technique used was purposive, yielding a total of 154 units of analysis. This study uses secondary data with documentation techniques. The data were analysed using panel data regression in EViews 13. The results of this study indicate that the nature of the industry, the frequency of CEO photographs, and related-party transactions have a significant positive effect on fraudulent financial statements. Auditor changes have a significant negative effect on fraudulent financial statements. Neither financial stability nor a change in directors affects the issuance of fraudulent financial statements. This study uses the perspective of hexagon theory, with related party transactions and asset composition as proxies, both of which are still rarely researched. A sample of companies in the mining sector was selected because, according to ACFE 2024, the sector has experienced the largest fraud losses worldwide.*

### 1. INTRODUCTION

Financial statements are a crucial aspect for companies, serving as a communication tool to represent the outcomes of a series of accounting processes published by the entity. As a means of communication, every company strives to maintain its existence, which can inadvertently trigger the occurrence of fraud (Sari et al., 2020). Fraud is a persistent problem that continues to grow in the financial world. According to the ACFE (2024), there are three primary fraud schemes: asset misappropriation, corruption, and financial statement fraud. Financial statement fraud is the least frequently occurring fraud category, accounting for the smallest case frequency at only 5%. However, it incurs the most substantial financial losses globally compared to the other fraud schemes, amounting to USD 766,000 per case (ACFE, 2024).

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Financial statement fraud is a crucial and complex issue in emerging markets as it poses significant risks to the users of financial statements. According to the ACFE (2024), financial statement fraud is a scheme executed by employees who intentionally misstate or

omit material information in a company's financial reports. Consequently, financial statement fraud has become an important and challenging issue in emerging markets due to the substantial risks it entails for financial statement users (Sallal et al., 2021).

Survey results conducted by the ACFE (2024) indicate that the global sector experiencing the highest financial loss is the mining sector, with an average loss of \$550,000, while also being the sector with the second-lowest number of fraud cases, recording only 24 cases. Despite the small number of occurrences, the financial losses caused by fraud in the mining sector are extraordinarily massive. Furthermore, a survey conducted by ACFE Indonesia (2025) reveals that the mining sector ranks fourth among industries most affected by occupational fraud, accounting for 8% of the cases.

A case of financial statement fraud in Indonesia was committed by PT Cakra Mineral Tbk (CKRA). PT Cakra Mineral Tbk (CKRA) was reported to the Financial Services Authority (OJK) and the Indonesia Stock Exchange (IDX) in 2016 for alleged embezzlement, manipulation, and false disclosures. CKRA had submitted an acquisition report to the exchange authorities in 2014, claiming a 55% share ownership in PT Takaras Inti Lestari and PT Murui Jaya Perdana. However, PT Cakra Mineral Tbk had not made the payment for the 55% share ownership, which was supposed to be paid with 330 million shares of CKRA (Republik Merdeka, 2016). Another financial statement fraud case was carried out by PT Timah Tbk (TINS). Auditors from the Finance and Development Supervisory Agency (BPKP) revealed significant irregularities in the 2019 financial statements of PT Timah Tbk. In 2019, TINS experienced an increase in mining production and reported high revenues, yet the company paradoxically suffered substantial losses (Ni'am & Ramadhan, 2024). The loss reported by TINS in 2019 amounted to IDR 703.97 billion, which was inversely proportional to the previous period where it generated a massive profit (Melani, 2024).

Fraudulent financial statements can occur due to a divergence of interests between shareholders (principals) and management (agents), as elucidated in Agency Theory. Furthermore, the proliferation of fraud cases has prompted researchers to continuously develop theories for fraud detection. The latest theoretical advancement was introduced by Vousinas (2019), namely the Fraud Hexagon Theory, which highlights six primary elements that trigger fraud: stimulus, capability, opportunity, rationalization, ego, and the inclusion of a new element, collusion. The first element of the Fraud Hexagon Theory is stimulus, representing the financial or non financial pressure that drives fraud (Vousinas, 2019), which in this study is proxied by financial stability. The second element, capability, emphasizes that fraud requires individual ability, typically supported by a high positional rank (Vousinas, 2019); this variable is proxied through change in director. The third element is opportunity, defined as a gap that allows individuals to commit fraud without detection, which is proxied by nature of industry. The fourth element, rationalization, relates to the perpetrator's efforts to justify their actions (Vousinas, 2019) and is proxied using auditor changes. The fifth element is ego, describing an attitude of superiority or arrogance that drives individuals to feel entitled to violate rules, proxied through frequent number of CEO pictures. Finally, collusion is a deceptive agreement between parties to defraud a third party (Vousinas, 2019), which in this study is proxied by related party transactions. The variables in this study were selected due to persistent inconsistencies in the results of previous research. Yadiati et al. (2023) found that financial stability, change in director, and nature of industry have a positive effect on fraudulent financial statements, whereas auditor changes and frequent number of CEO pictures showed no influence. In contrast, research by Bader et al. (2024) indicated that financial stability, change in director, nature of industry, auditor changes, and frequent number of CEO pictures do not affect fraudulent financial statements, while related party transactions were found to have a significant positive effect.

This research aims to analyze the occurrence of fraudulent financial statements using the perspective of the Fraud Hexagon Theory, which encompasses financial stability as a proxy for stimulus, change in director as a proxy for capability, nature of industry as a proxy for opportunity, auditor changes as a proxy for rationalization, frequent number of CEO pictures as a proxy for ego, and related party transactions as a proxy for collusion. The originality of this study lies in the application of the asset composition ratio to measure the

financial stability variable, as well as the inclusion of related party transactions as an independent variable, which is rarely utilized in examining fraudulent financial statements. The findings of this study are expected to contribute to the advancement of knowledge, serve as a valuable literature source specifically in the field of accounting, and encourage future research concerning fraudulent financial statements.

## 2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

### Agency Theory

Agency theory was first introduced by Jensen & Meckling (1976), who defined the agency relationship as a contract under which one or more parties (the principal) engage another party (the agent) to perform some service on their behalf, involving the delegation of decision-making authority to the agent to maximize the principal's welfare. The separation of ownership and control between the principal and the agent gives rise to conflicts of interest and information asymmetry, which constitute the root of agency problems. The principal has an interest in obtaining a high return on investment, whereas the agent is more oriented toward achieving maximum incentives or bonuses as compensation for managing the company (Nindito et al., 2024).

### The Fraud Hexagon Theory

The fraud hexagon theory was developed by Vousinas (2019) in his research entitled "Advancing theory of fraud: The S.C.O.R.E. Model". This theory is an extension of previous fraud theories, namely the fraud triangle theory by Cressey (1953), the fraud diamond theory by Wolfe & Hermanson (2004), and the fraud pentagon theory by Horwath (2011). The theory is also known as the S.C.C.O.R.E. model, which is an expansion of the S.C.O.R.E. model consisting of Stimulus, Capability, Opportunity, Rationalization, and Ego, with the addition of the Collusion component. Vousinas (2019) added the collusion factor because collusion is a central element in various fraudulent acts and financial crimes.

### The Effect of Financial Stability on Fraudulent Financial Statements

Financial stability reflects a company's financial condition and stability (Achmad et al., 2023). Agency theory explains that different interests can create pressure on the agent to continuously maintain the company's financial stability to meet the principal's expectations and the agent's personal interests. The pressure to maintain financial stability represents the stimulus element in the fraud hexagon theory, which happens when the agent faces high performance demands from the principal. This pressure can push management to commit fraud in the financial statements. The goal is to show a more stable company condition to maintain the trust of financial statement users (Naldo & Widuri, 2023). This is in line with the findings of previous studies by Yadiati et al. (2023) and Sari et al. (2024), which show that financial stability has a positive effect on fraudulent financial statements.

**H1:** *Financial stability has a positive effect on fraudulent financial statements.*

### The Effect of Change in Director on Fraudulent Financial Statements

Change in director is the delegation of authority from the old directors to the new directors with a specific purpose (Sari et al., 2020). Agency theory explains that conflicts of interest can lead to change in director, replacing them with more competent directors to achieve expected performance targets (Abbas & Laksito, 2022). Change in director can allow fraud to occur because individuals with position, authority, and deep knowledge of the company have the ability to commit and conceal fraudulent acts. When new directors face demands from the principal to improve company performance, they will utilize their knowledge and authority to manipulate financial statements. This is in line with research by Larum et al. (2021) and Indriaty & Thomas (2023), which shows that change in director has a positive effect on fraudulent financial statements.

**H2:** *Change in director has a positive effect on fraudulent financial statements.*

### **The Effect of Nature of Industry on Fraudulent Financial Statements**

Nature of industry represents the ideal condition of a company associated with the emergence of risks for companies operating in industries that involve much greater estimates and judgments (Khamainy et al., 2022). Agency theory states that different interests and information asymmetry can push the agent to manipulate liquid accounts, such as accounts receivable in current assets. This can occur when the effectiveness of the company's control system is weak and there are account items in the financial statements that use estimated and subjective valuations based on management's assessment, such as accounts receivable (Abbas & Laksito, 2022). This is in line with research by Khamainy et al. (2022) and Sari et al. (2022), which shows that nature of industry has a positive effect on fraudulent financial statements.

*H3: Nature of industry has a positive effect on fraudulent financial statements.*

### **The Effect of Auditor Changes on Fraudulent Financial Statements**

Auditor changes refer to the replacement of the external auditor or Public Accounting Firm (KAP) responsible for auditing the company (Sari et al., 2024). Agency theory states that different interests and information asymmetry can push the agent to commit financial statement fraud and rationalize their actions through auditor changes to achieve personal interests and meet the principal's expectations regarding company performance. A high frequency of auditor changes can indicate that the agent is making justifications to cover up the financial statement fraud they have committed through the replacement of auditors. This is in line with research by Putra & Dinarjito (2021) and Septiningrum & Mutmainah (2022), which shows that auditor changes have a positive effect on fraudulent financial statements.

*H4: Auditor changes have a significant positive effect on fraudulent financial statements.*

### **The Effect of Frequent Number of CEO Pictures on Fraudulent Financial Statements**

Frequent number of CEO pictures in the company's annual report can reflect the level of arrogance possessed by the CEO and indicate that the CEO wants to be known by the wider public (Putra & Dinarjito, 2021). Agency theory explains that information asymmetry can cause the CEO to override the company's internal control system and utilize their position to show power and build a self-image, one of which is through the excessive appearance of pictures in the company's annual report. High ego can make the CEO feel entitled to ignore company rules and believe that their actions in committing fraud will not be detected by the principal. This is in line with research conducted by Achmad et al. (2023) and Indriaty & Thomas (2023), which shows that frequent number of CEO pictures has a positive effect on fraudulent financial statements.

*H5: Frequent number of CEO pictures has a positive effect on fraudulent financial statements.*

### **The Effect of Related Party Transactions on Fraudulent Financial Statements**

Related party transactions are a form of contract or business agreement conducted between parties with a special relationship for a specific purpose, potentially posing a greater risk of material misstatement in the financial statements compared to transactions conducted with independent parties (Achmad et al., 2024). Agency theory explains that information asymmetry can be exploited by the agent to commit fraud, such as by utilizing fictitious agreements or irregular transactions with related parties. This is in line with research conducted by Bader et al. (2024) and Nindito et al. (2024), which shows that related party transactions have a positive effect on fraudulent financial statements.

*H6: Related party transactions have a positive effect on fraudulent financial statements.*

## **3. RESEARCH METHOD**

This study employs a quantitative deductive approach. The data utilized are quantitative secondary data obtained from the financial statements and annual reports of mining sector

companies listed on the Indonesia Stock Exchange (IDX) from 2022 to 2024. The sample for this study was selected from the population using a purposive sampling technique. The sampling criteria applied in this study are as follows: (a). Mining sector companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period. (b). Mining sector companies that published audited annual reports on the Indonesia Stock Exchange or their official company websites during the 2022–2024 period. (c). Mining sector companies that provide complete data pertaining to the research variables in their annual reports during the 2022–2024 period. This study employs unbalanced panel data, meaning that each cross-sectional unit may have a varying number of time-series observations. The total population of mining sector companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period comprised 77 companies. Based on this data, 189 observations met the established criteria. After removing outliers, the final research sample consisted of 154 observations. The data analysis method employed is panel data regression, processed using EViews 13 statistical software. The operational definitions and indicators for each variable are as follows: (a). Fraudulent Financial Statements refers to a form of fraud intentionally committed through the presentation of false information or the omission of material data in financial statements (ACFE, 2024). The measurement used to assess the dependent variable, fraudulent financial statements, is the Beneish M-Score model (Beneish, 1999). (b). Financial Stability is a proxy for stimulus that describes the stability within the economic environment and the company's financial condition (Handoko & Natasya, 2019). The measurement used is asset composition, calculated by comparing current assets to total assets (Milasari & Ratmono, 2019). (c) Change in Director is a proxy for capability, representing the delegation of authority from previous directors to new directors for specific purposes (Sari et al., 2020). This variable is measured using a dummy variable, assigned a value of 1 when there is a change in the board of directors and 0 when no such change occurs (Sari et al., 2022). (d) Nature of Industry is a proxy for opportunity that describes the ideal conditions possessed by a company within a specific industrial sector (Khamainy et al., 2022). The measurement used is the receivables ratio =  $\text{receivable}(t) / \text{sales}(t) - \text{receivable}(t-1) / \text{sales}(t-1)$  (Arum et al., 2024). (e) Auditor Changes is a proxy for rationalization, representing the change of external auditors responsible for auditing the company (Sari et al., 2024). This variable is measured using a dummy variable, assigned a value of 1 if there is a change in the Public Accounting Firm (KAP) and 0 if no such change occurs (Arum et al., 2024). (f) Frequent Number of CEO Pictures is a proxy for ego, reflecting the level of arrogance possessed by the CEO (Putra & Dinarjito, 2021). The measurement is conducted by counting the total number of CEO photographs in the annual report and classifying them as follows: a value of 1 for no CEO photos, 2 for 1–3 photos, 3 for 4–7 photos, 4 for 8–10 photos, and 5 for 11 or more photos (Yadiati et al., 2023). (g) Related Party Transactions is a proxy for collusion, representing business contracts or agreements conducted between parties with special relationships for specific purposes (Achmad et al., 2024). The measurement used is the RPT receivables ratio, calculated by dividing the total receivables from related parties by the company's total receivables (Rachmawati & Marsono, 2014).

#### 4. RESULTS

Based on the descriptive statistical analysis, the standard deviation for the variables financial stability and frequent number of CEO pictures is lower than their respective mean values. This indicates that the data are homogeneous, with relatively low variance, suggesting that the variables are fairly consistent as the samples are clustered around the mean. Conversely, the variables fraudulent financial statements, change in director, nature of industry, auditor changes, and related party transactions exhibit standard deviation values higher than their means. This implies that the data are heterogeneous, indicating high variance and a less favorable distribution of the data for these variables

**Table 1 Descriptive Statistics**

FFS	FS	CID	NOI	AC	CEOPIC	RPT
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Mean	-2.4100	0.4566	0.4870	-0.0026	0.1233	2.5000	0.1737
Median	-2.5313	0.4293	0.0000	-0.0018	0.0000	2.0000	0.0251
Maximum	0.1561	0.9828	1.0000	0.1638	1.0000	5.0000	1.0000
Minimum	-5.0070	0.0540	0.0000	-0.1773	0.0000	1.0000	0.0000
Std. Dev.	0.8882	0.2135	0.5014	0.0538	0.3299	0.7775	0.2926

Source: Eviews 13 Output (2026)

**Table 2 Multicollinearity Test Results**

	FS	CID	NOI	AC	CEOPIC	RPT
FS	1.0000	-0.0141	0.0484	-0.0098	-0.0420	-0.1073
CID	-0.0141	1.0000	0.0776	0.0690	0.0946	0.1030
NOI	0.0484	0.0776	1.0000	-0.0266	0.1426	0.0380
AC	-0.0098	0.0690	-0.0266	1.0000	-0.1188	0.0052
CEOPIC	0.0612	0.0921	0.0724	0.1401	1.0000	0.0068
RPT	-0.1073	0.1030	0.0380	0.0052	-0.0151	1.0000

Source: Eviews 13 Output (2026)

The multicollinearity test results presented in Table 2 show that the correlation values between the independent variables are below the 0.85 threshold. This indicates that no symptoms of multicollinearity were found in this study.

**Table 3 Heteroscedastisity Test Results**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.452933	0.265787	1.704121	0.0920
FS	-0.003196	0.487059	-0.006561	0.9948
CID	0.029102	0.067930	0.428417	0.6694
NOI	-0.553725	0.530018	-1.044728	0.2991
AC	-0.030322	0.091507	-0.331369	0.7412
CEOPIC	-0.029561	0.060859	-0.485731	0.6284
RPT	-0.257303	0.241477	-1.065539	0.2896

Source: Eviews 13 Output (2026)

The heteroscedasticity test results presented in Table 3 show that financial stability, change in director, nature of industry, auditor changes, frequent number of CEO pictures, and related party transactions have probability values above 0.05. This indicates that the data in this study do not exhibit symptoms of heteroscedasticity.

## Hypothesis Test Results

**Table 4 Hypothesis Test Results**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-3.526545	0.639409	-5.515324	0.0000
FS	0.028026	1.171726	0.023919	0.9810
CID	0.199569	0.163421	1.221195	0.2254
NOI	7.128715	1.275075	5.590822	0.0000
AC	-0.621616	0.220139	-2.823735	0.0059
CEOPIC	0.347449	0.146410	2.373116	0.0199
RPT	1.343656	0.580925	2.312958	0.0231

### Effects Specification

#### Cross-section fixed (dummy variables)

R-squared	0.717382	Mean dependent var	2.410080
Adjusted R-squared	0.491288	S.D. dependent var	0.888252
S.E. of regression	0.633538	Akaike info criterion	2.226807
Sum squared resid	34.11643	Schwarz criterion	3.587520
Log likelihood	-102.4642	Hannan-Quinn criter.	2.779525

F-statistic	3.172936	Durbin-Watson stat	3.071688
Prob(F-statistic)	0.000000		

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Source: Eviews 13 Output (2026)

The test results in this study show an Adjusted R-squared value of 0.4912, meaning that collectively, the independent variables in this research can explain 49.12% of the dependent variable. The remaining 50.88% is explained by other variables outside the scope of the independent variables studied. Meanwhile, the Prob (F-statistic) value is 0.00, which is below the significance threshold of 0.05, indicating that the independent variables simultaneously influence the dependent variable. Furthermore, the test results indicate that the variables nature of industry, auditor changes, frequent number of CEO pictures, and related party transactions show probability values (p-values) below 0.05, which means these variables have a significant effect on fraudulent financial statements.

**Table 5 Summary of Hypothesis Test Results**

Hypothesis	Coefficient	Sig.	Results
H1: Financial stability has a positive effect on fraudulent financial statements	0,028026	0,9810	Rejected
H2: Change in director has a positive effect on fraudulent financial statement	0,199569	0,2254	Rejected
H3: Nature of industry has a positive effect on fraudulent financial statement	7,128715	0,0000	Accepted
H4: Auditor changes have a positive effect on fraudulent financial statement	-0,621616	0,0059	Rejected
H5: Frequent number of CEO pictures has a positive effect on fraudulent financial statement	0,347449	0,0199	Accepted
H6: Related party transactions have a positive effect on fraudulent financial statement	1,343656	0,0231	Accepted

Source: Secondary data processed (2026)

### The Effect of Financial Stability on Fraudulent Financial Statements

The statistical test results in Table 4 show that financial stability has a positive but non-significant effect on fraudulent financial statements with a p-value of 0.9810 therefore the first hypothesis is rejected. This finding provides an understanding that fluctuations in a company's financial stability whether increasing or decreasing do not impose significant pressure on management to engage in fraudulent financial statements. This suggests that financial instability does not necessarily drive management to commit fraud to enhance external attractiveness as such actions potentially worsen the company's condition and fail to provide long term benefits (Achmad et al., 2023). These findings are consistent with studies by Bader et al. (2024), Achmad et al. (2023), and Naldo & Widuri (2023) which found that financial stability does not significantly affect fraudulent financial statements. However the results are inconsistent with research by Sari et al. (2024) and Yadiati et al. (2023) who found that financial stability has a significant positive effect on fraudulent financial statements while research by Sagala & Siagian (2021) also found contrasting results indicating that financial stability negatively affects fraudulent financial statements. This result is not aligned with the Fraud Hexagon Theory where the pressure perceived by management to maintain financial stability is not a primary factor causing fraud. Furthermore, these findings contradict Agency Theory which states that differing interests can drive agents to fulfill the goals of both parties to maintain stable financial conditions yet the fulfillment of these goals is not always achieved through fraudulent financial statements.

### The Effect of Change in Director on Fraudulent Financial Statements

The statistical test results in Table 4 show that change in director has a positive but non-significant effect on fraudulent financial statements with a p-value of 0.2254 therefore the second hypothesis is rejected. This finding indicates that changes in the board of directors are not associated with management's efforts to conceal financial statement manipulation

practices. According to Sari et al. (2024) replacing directors is often done to substitute former directors with more competent individuals capable of working optimally. Furthermore, management does not utilize changes in directors as a means to commit fraud because in many cases these changes occur for legitimate reasons including resignations the passing of former directors and the necessity to fill vacant positions (Achmad et al., 2023). These research findings are in line with studies by Bader et al. (2024), Arum et al. (2024), and Sari et al. (2024) which found that change in director does not significantly affect fraudulent financial statements. However, these results are inconsistent with research by Indriaty & Thomas (2023) and Yadiati et al. (2023) who found that change in director has a significant positive effect on fraudulent financial statements. Other studies conducted by Naldo & Widuri (2023) and Sari et al. (2022) also reported contrasting results indicating that change in director has a significant negative effect on fraudulent financial statements. These results indicate that a change in director does not always reflect the abuse of capability or positional power to commit fraud thus it is not aligned with the Fraud Hexagon Theory. In addition, the findings contradict Agency Theory which explains that replacing directors can exacerbate agency conflicts due to the stress period during the adaptation process (Sari et al., 2022). Nevertheless, the results of this study demonstrate that corporate governance mechanisms can effectively restrict the directors-room for maneuver in committing fraud.

### **The Effect of Nature of Industry on Fraudulent Financial Statements**

The statistical test results in Table 4 show that nature of industry has a significant positive effect on fraudulent financial statements with a p-value of 0.0000 therefore the third hypothesis is accepted. This result illustrates that an increase in a company's accounts receivable from the previous year can indicate poor cash turnover and limited cash availability which may drive management to commit fraud in receivable accounts (Khamainy et al., 2022). These research findings are in line with studies by Khamainy et al. (2022) and Sari et al. (2022) which found that nature of industry has a significant positive effect on fraudulent financial statements. However, these results contradict the research conducted by Arum et al. (2024) and Putra & Dinarjito (2021) who found that nature of industry has a significant negative effect on fraudulent financial statements. Other studies conducted by Bader et al. (2024) and Yarana (2023) also provided contrasting results indicating that nature of industry has no effect on fraudulent financial statements. These findings are aligned with the Fraud Hexagon Theory which states that opportunity can influence the occurrence of fraudulent financial statements. Opportunity can arise due to weak corporate control systems and the presence of account items in the financial statements whose valuation relies on subjective management estimates including accounts receivable (Abbas & Laksito, 2022). Furthermore, this research is also consistent with Agency Theory where differing interests and information asymmetry between agents and principals can increase the potential for fraudulent financial statements. Such a disparity of interests can drive agents to manipulate accounts classified as current assets.

### **The Effect of Auditor Changes on Fraudulent Financial Statements**

The statistical test results in Table 4 show that auditor changes have a significant negative effect on fraudulent financial statements with a p-value of 0.0059 therefore the fourth hypothesis is rejected. Based on the unit of analysis in this study companies relatively rarely change their auditors as evidenced by the low number of companies undertaking auditor changes which is only 12%. Companies that change auditors tend to switch to big four public accounting firms to enhance audit quality and maintain investor confidence that the financial statements presented are relevant and reliable so the likelihood of fraud occurring becomes increasingly small (Sari et al., 2024). Conversely companies tend to retain the same public accounting firm because they perceive that the handling auditor cannot detect fraudulent practices within the company thus the risk of fraudulent financial statements occurring becomes increasingly high (Agusputri & Sofie, 2019). These research findings are in line with studies by Sari et al. (2024) and Agusputri & Sofie (2019) which found that auditor changes have a significant negative effect on fraudulent financial statements. However, these results contradict the research by Septiningrum & Mutmainah (2022) and Putra & Dinarjito (2021)

who found that auditor changes have a significant positive effect on fraudulent financial statements. In addition, other studies by Bader et al. (2024) and Arum et al. (2024) are also inconsistent with these results stating that auditor changes do not significantly affect fraudulent financial statements. These findings are not aligned with the Fraud Hexagon Theory because in this study auditor changes reflect a company effort to improve the credibility of financial statements rather than serving as a means of rationalization to cover up fraudulent practices. Furthermore, these findings indicate that auditor changes function as an effective control mechanism in suppressing agency conflicts and can reduce the potential for fraudulent financial statements therefore the results of this study contradict Agency Theory.

### **The Effect of Frequent Number of CEO Pictures on Fraudulent Financial Statements**

The statistical test results in Table 4 show that frequent number of CEO pictures has a significant positive effect on fraudulent financial statements with a p-value of 0.0199 therefore the fifth hypothesis is accepted. This result indicates that the more CEO pictures displayed in the company annual report the greater the arrogance of the CEO which increases their audacity to commit fraud (Uciati & Mukhibad, 2019). Furthermore, the high level of arrogance possessed by the CEO makes them feel that internal controls do not apply to them personally due to their status and position thereby increasing the likelihood of fraudulent financial statements occurring (Achmad et al., 2023). These research findings are in line with studies conducted by Indriaty & Thomas (2023), Achmad et al. (2023), and Maryadi et al. (2020) which found that frequent number of CEO pictures has a significant positive effect on fraudulent financial statements. However, these results contradict the research conducted by Arum et al. (2024) and Septiningrum & Mutmainah (2022) who found that frequent number of CEO pictures has a significant negative effect on fraudulent financial statements. Other studies conducted by Bader et al. (2024) and Achmad et al. (2024) also provided contrasting results indicating that frequent number of CEO pictures has no effect on fraudulent financial statements. These research findings are aligned with the Fraud Hexagon Theory which states that ego can drive the occurrence of fraudulent financial statements. A CEO with a high ego usually attempts to demonstrate their power through various means including displaying their picture in the company annual report to maintain the status and position they have acquired within the corporate management structure (Maryadi et al., 2020). In addition, the results in this study also support Agency Theory where differing interests and information asymmetry between agents and principals can encourage the CEO to override the internal control system and increase the risk of fraudulent financial statements.

### **The Effect of Related Party Transactions on Fraudulent Financial Statements**

The statistical test results in Table 4 show that related party transactions have a significant positive effect on fraudulent financial statements with a p-value of 0.0231 therefore the sixth hypothesis is accepted. This result indicates that the higher the proportion of related party receivables the more it indicates the occurrence of fraudulent financial statements involving related parties. High transactions with related parties can create a risk of material misstatement because they are vulnerable to manipulation by management thus the tendency for fraudulent financial statements increases (Daresta & Suryani, 2022). These research findings are in line with studies conducted by Bader et al. (2024), Nindito et al. (2024), and Daresta & Suryani (2022) which found that related party transactions have a significant positive effect on fraudulent financial statements. However, these results contradict the research conducted by Nurcahyono et al. (2021) who found that related party transactions have a significant negative effect on fraudulent financial statements. Another study conducted by Achmad et al. (2024) also provided contrasting results stating that related party transactions have no effect on fraudulent financial statements. These findings are aligned with the Fraud Hexagon Theory which states that collusion is a deceptive agreement between two or more parties that can influence the occurrence of fraudulent financial statements (Vousinas, 2019). In addition, the results of this study support Agency Theory where agents can act and make decisions oriented towards personal interests due to the delegation of authority conflicts

of interest and moral hazard thereby potentially causing manipulation practices through related party transactions (Nindito et al., 2024).

## 5. CONCLUSION

This study examines the effect of the Fraud Hexagon Theory on fraudulent financial statements, providing empirical evidence that opportunity proxied by nature of industry, ego proxied by frequent number of CEO pictures, and collusion proxied by related party transactions have a significant positive effect on fraudulent financial statements. Rationalization proxied by auditor changes has a significant negative effect on fraudulent financial statements. Meanwhile, stimulus proxied by financial stability and capability proxied by change in director have no effect on fraudulent financial statements.

This research is expected to contribute to the literature in the field of accounting, particularly concerning financial statement fraud. This study is also expected to serve as a reference for investors in assessing companies before making investment decisions. However, this study has several limitations, including its focus solely on mining sector companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period, thus it has not fully captured the dynamics of changes in fraudulent behavior over the long term, especially during the COVID-19 pandemic. Future research is expected to use a longer observation period, namely from 2019 to 2024, to provide a more stable overview before, during, and after the occurrence of COVID-19. Furthermore, this study is limited to the use of six independent variables within the Fraud Hexagon Theory; therefore, future researchers are advised to employ the latest fraud theory, namely the Fraud Heptagon Theory, and utilize more varied variables to provide a more comprehensive explanation of the dependent variable, such as CEO education, auditor opinion, and CEO duality.

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