# Financial Reporting in the Perception of Heptagon Fraud Theory

Noval Adib
*Universitas Brawijaya; Malang, Indonesia*
E-Mail: noval@ub.ac.id

Meilenia Rahma
*Universitas Brawijaya; Malang, Indonesia*
E-Mail: melinbloomwood@gmail.com

Areta Widya
*Universitas Brawijaya; Malang, Indonesia*
E-Mail: aretawidya@gmail.com

**Submitted:**
**09 JUNE 2024**

**Accepted:**
**10 OCTOBER 2024**

***ABSTRACT***

*This study aims to examine the effect of fraud heptagon consisting of seven elements, namely pressure, rationalization, opportunity, arrogance, ability or competence, culture, and religiosity on financial statement fraud in SMEs employees in Indonesia. This research method is quantitative with a questionnaire. Respondents who were successfully collected were 250 who were SMEs employees in the finance department in Indonesia. Data were collected through questionnaire distribution and then processed using a statistical application, namely SPSS. The results obtained from the processing were pressure, rationalization, opportunity, arrogance, ability or competence, and culture had an effect on financial statement fraud. However, this study found that religiosity had no effect on financial statement fraud. The practical contribution of the study can be the implementation of the fraud heptagon theory in financial statement fraud and a practical contribution to all State-owned enterprises (SMEs) management in Indonesia, namely it can be an evaluation of how important pressure, rationalization, opportunity, arrogance, ability or competence, and culture are in preventing fraud.*

***Keywords**: Fraud, Heptagon Fraud, Financial Report, Management, SMEs.*

***ABSTRAK***

*Penelitian ini bertujuan untuk menguji pengaruh fraud heptagon yang terdiri atas tujuh elemen yaitu tekanan, rasionalisasi, kesempatan, arogansi, kemampuan atau kompetensi, budaya, dan religiusitas terhadap fraud laporan keuangan pada karyawan BUMN di Indonesia. Metode penelitian ini adalah kuantitatif dengan kuesioner. Responden yang berhasil dikumpulkan sebanyak 250 yang merupakan karyawan BUMN bagian keuangan di Indonesia. Data dikumpulkan melalui sebaran kuisioner kemudian diolah menggunakan aplikasi statistik yakni SPSS. Hasil yang didapatkan dari pengolahan tersebut tekanan, rasionalisasi, kesempatan, arogansi, kemampuan atau kompetensi, dan budaya berpengaruh terhadap fraud laporan keuangan. Namun demikian, penelitian ini menemukan bahwa religiusitas tidak berpengaruh terhadap fraud laporan keuangan. Kontribusi praktis dari penelitian dapat menjadi pengimplementasian teori fraud heptagon dalam fraud laporan keuangan dan kontribusi praktis bagi seluruh manajemen BUMN di Indonesia yaitu dapat menjadi evaluasi mengenai seberapa penting tekanan, rasionalisasi, kesempatan, arogansi, kemampuan atau kompetensi, dan budaya dalam mencegah terjadinya fraud.*

***Kata kunci**: Penipuan, Penipuan Heptagon, Laporan Keuangan, Manajemen, UMKM.*

**JIMKES**

Jurnal Ilmiah Manajemen Kesatuan
Vol. 12 No. 6, 2024
pp. 2559-2568
IBI Kesatuan
ISSN 2337 – 7860
E-ISSN 2721 – 169X
DOI: 10.37641/jimkes.v12i6.2984

## INTRODUCTION

Financial statement fraud is a serious problem that has a significant impact on the credibility and stability of the company. This practice not only harms the company itself but also other stakeholders such as investors, creditors, and the government (Meilany & Winario, 2024). Financial statement fraud occurs because individuals face various incentives and financial pressures to meet performance expectations (Montesdeoca et al., 2019). Hidajat (2020) investigated the Five causes and motivations for fraud and found that financial and non-financial factors cause individuals to engage in accounting fraud. The financial factor is the greed to enrich oneself and is often carried out by commissioners and directors through embezzlement of funds, fictitious loans, and the provision of technical financial documents (Argantara & Fitriyah, 2023). On the other hand, most employees commit fraud due to economic factors, especially low salaries. Non-financial factors include dissatisfaction with the company, poor working conditions, weak supervision and less than optimal governance can also increase the chances of fraud.

Globally, there have been several major cases of financial statement fraud. One of the largest financial fraud cases in history, Enron inflated revenues and hid debts through complex corporate entities and improper accounting practices (Reditya, 2021). In addition, WorldCom, a telecommunications company, carried out massive manipulation of revenues by recording expenses as investments to show higher profits than they actually were (Sakdiyah, 2019). These cases demonstrate various forms of financial statement fraud involving inflating revenues, manipulating balance sheets, and unethical accounting practices to mislead investors and stakeholders. In Indonesia, accounting fraud cases are one of the rarest cases, namely 6.7% compared to corruption and asset embezzlement cases. Although the proportion of financial reporting fraud is small, the losses incurred are quite large, averaging more than IDR 10 billion. Based on a study conducted by the ACFE (2020), the total loss due to fraud in Indonesia in 2019 was IDR 873,43 million. Accounting fraud cases rank third in fraud cases with the highest amount of losses, reaching IDR 242,26 billion (ACFE, 2020).

In analyzing the causes of financial report fraud, there are several determinants and underlying factors. This study is intended to test the fraud heptagon theory, as a development of previous fraud theories. The fraud triangle is an initial framework that explains the determinants of individual fraudulent behavior in organizations or companies. However, the fraud triangle is considered insufficient to explain the fraudulent behavior that occurs (Kassem & Higson, 2012). Further empirical research extends the concept of the fraud triangle to the fraud diamond (Singleton et al., 2006). The Fraud Triangle theory is considered unable to explain the attributes for committing fraud, so this theory is still a matter of debate and criticism (Morales et al., 2014; Puspasari, 2016). The Fraud Diamond theory is stated as a new view of the existence of fraud (Mansor & Abdullahi, 2015). Singleton et al. (2006) added one qualitative element that is believed to have a significant influence on fraud, namely capability. The fraud pentagon theory is a refined theory of the fraud triangle theory and the fraud diamond theory (Singleton et al., 2006). The fraud pentagon theory explains the elements that cause fraud through five elements, namely pressure, opportunity, rationalization, ability or competence, and arrogance (Sahla & Ardianto, 2023). Reskino & Puteri (2023) added two more dimensions to the Fraud Heptagon fraud theory to explain the occurrence of fraud, namely cultural and religious factors. This theory explains the occurrence of fraud based on the premise that a person/group commits fraud because of weak faith and the absence of a good culture in a company.

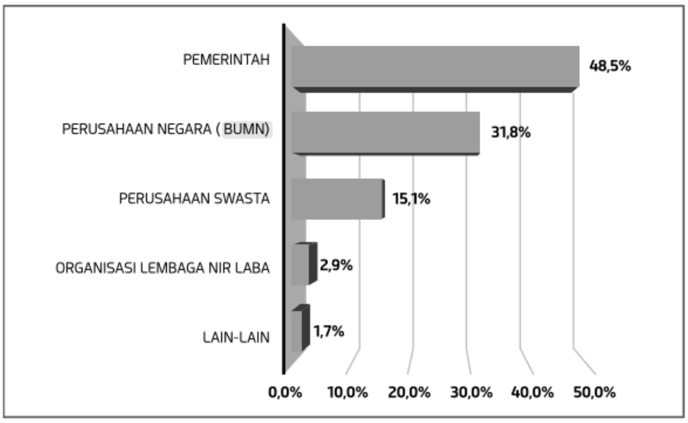


**Figure 1**. Graph of Companies Most Harmed by Fraud
*Source: ACFE 2019*

The phenomena that have been explained, this study aims to examine the effect of Fraud Heptagon developed by Reskino & Puteri (2023) on financial statement fraud. Fraud Heptagon is a new theory and is a refinement of previous theories so that it is new in this study. In addition, there is inconsistency in research results in previous research so that research on financial statement fraud is needed to test the research results. State-owned enterprises (SMEs) companies were chosen as research samples because they are one of the organizations that are most harmed by fraud. Based on the ACFE survey, as many as 48.5% of respondents stated that the institution that was most harmed by fraud was the government followed by State-owned enterprises SMEs fraud at 31.8%. This is possible because most of the fraud cases revealed by the media in Indonesia are cases of fraud in the government and SMEs. In addition, 2024 is a political year so that sentiment regarding corruption carried out by the state and government is the main focus of the public. Thus, this study will discuss the effect of Fraud Heptagon on financial statement fraud in SMEs companies.

## LITERATURE REVIEW

Financial reports are an important basis for decision making. Financial reports contain all the information needed by users or stakeholders and ensure that financial reports are prepared as well as possible, based on accurate data and in accordance with applicable accounting standards (Beest & Boelens, 2009). However, in reality there are many cases of fraud and cheating in financial reports. Financial Report Fraud refers to misuse of assets and fraud in financial reporting (Beasley et al., 2000). Financial Report Fraud carried out by management is usually carried out in the form of financial reporting fraud, while misuse of assets against a company is most often carried out by employees (Safitri et al., 2023; Mursyida & Maulina, 2023; Putri & Sulhani, 2024). Fraud in financial reports can occur including manipulation or alteration of financial records or supporting documents, errors or omissions of accounting events, and deliberate misapplication of accounting principles (Haryani et al., 2023). Asset misappropriation typically occurs when employees gain access to cash and manipulate accounts to cover up cash theft, manipulate cash payments or disbursements using fake companies, steal inventory or other assets, and manipulate financial records to cover up fraud (Safitri et al., 2023).

The heptagon fraud theory explains the elements that cause fraud through seven elements, namely pressure, rationalization, opportunity, arrogance, ability or competence, culture, and religiosity (Reskino & Puteri, 2023). This theory adds novelty by adding culture and religion because for a multicultural country like Indonesia, fraud can be caused by weak religiosity and the absence of a good culture in a company (Azizah & Reskino, 2023).

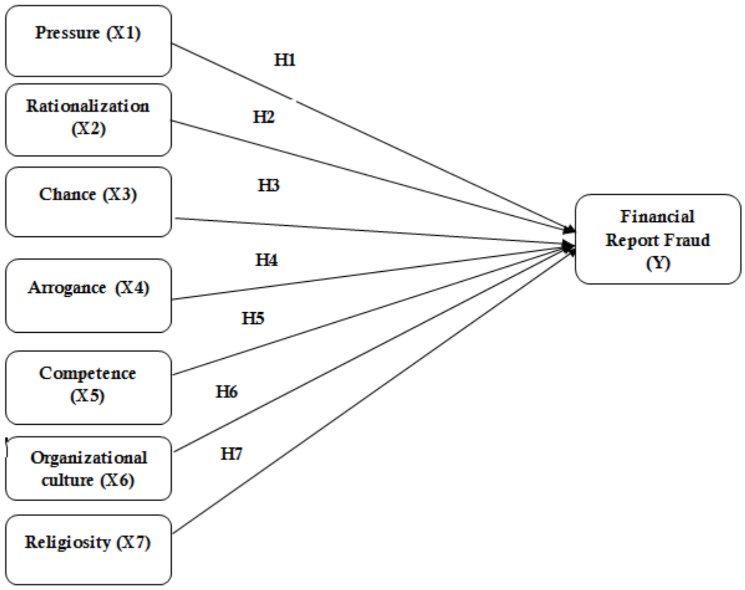


**Figure 2**. Theoretical Framework

Pressure is the main factor that can drive someone to commit fraud. Pressure can come from various sources, such as high financial targets, the threat of losing a job, or demands from upper management to achieve certain results. When pressure cannot be managed properly, individuals can choose shortcuts by manipulating financial reports. Several previous studies have found that pressure has a positive effect on financial report fraud (Sihombing & Rahardjo, 2014; Tessa, 2016; Safitri et al., 2023). Thus, the hypothesis in this study is formulated as follows.
**H1:** Pressure has a positive effect on financial reporting fraud

Rationalization is a psychological mechanism by which individuals try to justify their fraudulent actions. In the context of financial reporting, fraudsters often convince themselves that their actions are for the good of the company or that the fraud is only a temporary measure that will not harm anyone in the long run. Several previous studies have found that rationalization has a positive effect on financial reporting fraud (Sihombing & Rahardjo, 2014; Suhartono, 2020; Safitri et al., 2023). Thus, the hypothesis in this study is formulated as follows.
**H2:** Rationalization has a positive effect on financial reporting fraud

Opportunities to commit fraud often arise due to weak internal control systems. When monitoring and control procedures are ineffective, individuals have more opportunities to manipulate financial data without being detected. In addition, a non-transparent corporate culture and lack of business ethics can also increase the opportunity for fraud. Several previous studies have found that opportunity has a positive effect on financial statement fraud (Hidajat, 2020; Safitri et al., 2023; Satata et al., 2024). Thus, the hypothesis in this study is formulated as follows.
**H3:** Opportunity has a positive effect on financial reporting fraud

Arrogance is a superior attitude held by individuals or groups who feel they are above the law or regulations. Individuals with high levels of arrogance may feel that they will not be caught or that they have the right to do whatever is necessary to achieve their goals, including falsifying financial statements. Several previous studies have found that arrogance has a positive effect on financial statement fraud (Tessa, 2016; Azizah & Reskino, 2023; Meilany & Winario, 2024). Thus, the hypothesis in this study is formulated as follows.
**H4:** Arrogance has a positive effect on financial report fraud

Competence refers to an individual's ability to understand and perform their tasks correctly. Lack of competence, either at the management or staff level, can increase the risk of errors or fraud in financial reporting. Conversely, individuals who are highly competent in their field may be more knowledgeable about how to manipulate financial data in ways that are difficult to detect. Several previous studies have found that competence has a positive effect on financial reporting fraud (Suhartono, 2020; Hidajat, 2020; Safitri et al., 2023; Satata et al., 2024). Thus, the hypothesis in this study is formulated as follows.
**H5:** Competence has a positive effect on financial report fraud

Organizational culture plays an important role in encouraging or inhibiting financial statement fraud. A culture that emphasizes integrity, transparency, and strong business ethics tends to reduce the risk of fraud. Conversely, a culture that tolerates unethical behavior or emphasizes achieving results without considering how to achieve them can increase the risk of fraud. Several previous studies have found that organizational culture has a negative effect on financial statement fraud (Yulianto et al., 2021; Azizah & Reskino, 2023; Monica et al., 2023). Thus, the hypothesis in this study is formulated as follows.
**H6:** Organizational culture has a negative effect on financial reporting fraud

Religiosity is the level of an individual's religious beliefs and practices that can influence their ethical behavior. Individuals with high levels of religiosity tend to have strong moral standards that can act as a deterrent against fraudulent acts. Religiosity can serve as an internal guideline that helps individuals consider the ethical consequences of their actions. Several previous studies have found that religiosity has a negative effect on financial statement fraud (Cahyadi & Sujana, 2020; Ruddin, 2021; Azizah & Reskino, 2023). Thus, the hypothesis in this study is formulated as follows.
**H7:** Religiosity has a negative effect on financial report fraud

## METHODS

This research is quantitative research with a survey method, using a questionnaire analyzed by multiple linear regression through SPSS 25. The study population includes State-owned enterprises (SMEs) employees in the finance department in Indonesia in 2024, with a sample size of 250 respondents selected through purposive sampling based on certain criteria (Sekaran & Bougie, 2017). Respondents must understand financial reports and financial report fraud. The research instrument measures the variables of pressure, rationalization, opportunity, arrogance, competence, culture, religiosity, and financial report fraud (Reskino & Puteri, 2023). Data collection took place for four months through Google Forms distributed directly or via instant messaging applications. Validity is measured based on significant correlation (<0.05) and reliability is measured through Cronbach's Alpha (> 0.60) (Ghozali, 2016). Data analysis using multiple linear regression with T and F tests. The T test evaluates the influence of independent variables on the dependent variable, while the F test assesses the feasibility of the model based on significance (<0.05) (Ghozali, 2016; Sekaran & Bougie, 2017). The results of the analysis determine the relationship between variables, on the basis that valid and reliable data support the conclusions of the study.

## RESULTS

The results of the normality test are used to determine whether the collected data is normally distributed before analyzing the relationship between variables. This test is important because the assumption of normality must be met in the regression model so that the analysis results are valid. The normality test evaluates whether the residual values are normally distributed. If the number of samples is more than 30 (n > 30), the data can be assumed to be normally distributed. To assess normality, the significance value is used as a reference. If the significance value is less than 0.05, then the data is considered not normally distributed. Therefore, normality testing is a crucial step to ensure the suitability of the data with the analysis method used.

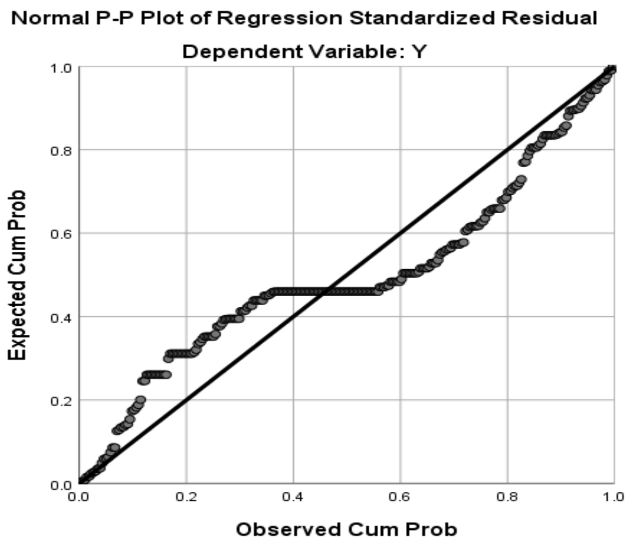


**Figure 3.** Normality Test

The results of the heteroscedasticity test are used to detect whether there is inequality of residual variance in the regression model, namely when the error variance is different in each observation. Heteroscedasticity can interfere with the validity of the regression model because it can cause inefficient coefficient estimates and inappropriate hypothesis testing. Therefore, this test is important to ensure that the assumption of homoscedasticity (equal residual variance) is met, so that the results of the regression analysis are more reliable. If heteroscedasticity is found, improvements need to be made to improve the accuracy and precision of the regression model used

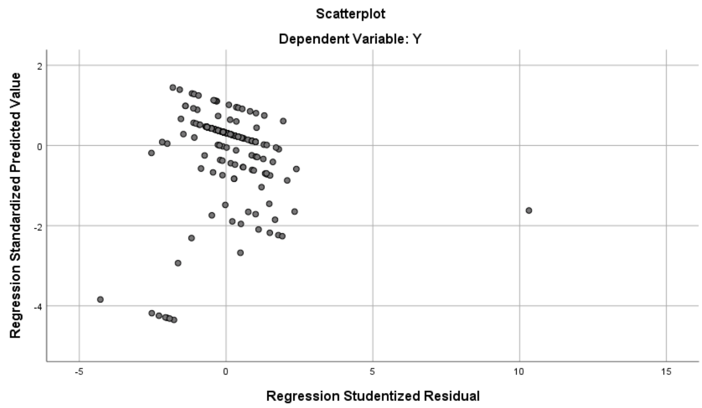


**Figure 4.** Heteroscedasticity Test

The results of the multicollinearity test show the tolerance and VIF values for each variable in the regression model. The tolerance values range from 0.256 to 0.836, while the VIF values are in the range of 1.196 to 3.911. A tolerance value greater than 0.1 and a VIF value less than 10 indicate that there is no significant multicollinearity problem between the independent variables. This indicates that there is no high redundancy between the variables used in the model. Therefore, this regression model can be considered valid for further analysis, because each independent variable makes a different and relevant contribution in predicting the dependent variable.

**Table 1.** Multicollinearities Test

| Collinearity Statistics Tolerance | Collinearity Statistics VIF |
|---|---|
| 0.273 | 3.664 |
| 0.445 | 2.247 |
| 0.446 | 2.244 |
| 0.836 | 1.196 |
| 0.655 | 1.528 |
| 0.385 | 2.595 |
| 0.256 | 3.911 |

The results of the t-test analysis show that the independent variables have a significant influence on the dependent variables with the following results. First, pressure shows a significance value of 0.000, which is smaller than the significance level of 0.05, with a coefficient of 0.817. This indicates that pressure has a positive effect on financial statement fraud, so H1 is accepted. Second, rationalization also has a positive effect on financial statement fraud with a significance value of 0.000 and a coefficient of 0.176, which means H2 is accepted. Furthermore, opportunity provides a similar effect with a significance value of 0.000 and a coefficient of 0.072, supporting the acceptance of H3. In addition, arrogance has a positive effect on financial statement fraud with a significance value of 0.000 and a coefficient of 0.091, so H4 is accepted. Competence also has a positive effect on financial statement fraud, indicated by a significance value of 0.000 and a coefficient of 0.499, so H5 is accepted. On the other hand, culture has a negative effect on financial statement fraud with a significance value of 0.041 and a coefficient of -0.026, which supports the acceptance of H6. However, religiosity does not have a significant effect on financial statement fraud, as indicated by the significance value of 0.074, which is greater than 0.05, and the coefficient of -0.035. Therefore, H7 is rejected. This conclusion shows that although most of the independent variables have a significant effect on financial statement fraud, the influence of cultural variables tends to reduce the likelihood of fraud, while religiosity does not have a significant effect on fraudulent behavior.

**Table 2.** Hypothesis Test Results

| Model | Un-std. Coef. B | Un-std. Coef. Std. Error | Std. Coef. Beta | t | Sig |
|---|---|---|---|---|---|
| (Constant) | -8.526 | 0.671 | | -12.708 | 0.000 |
| Pressure | 0.817 | 0.027 | 0.671 | 30.717 | 0.000 |
| Rationalization | 0.176 | 0.019 | 0.194 | 9.206 | 0.000 |
| Chance | 0.072 | 0.016 | 0.092 | 4.562 | 0.000 |
| Arrogance | 0.091 | 0.025 | 0.057 | 3.634 | 0.000 |
| Competence | 0.499 | 0.032 | 0.255 | 15.523 | 0.000 |
| Culture | -0.026 | 0.013 | -0.030 | -2.051 | 0.041 |
| Religiosity | -0.035 | 0.020 | -0.028 | -1.797 | 0.074 |

The results of the study show that high pressure in achieving financial targets, the threat of losing a job, or demands from management significantly increase the likelihood of fraud in financial reporting. Individuals who feel stuck with unrealistic expectations or face severe consequences tend to look for shortcuts by manipulating financial data. Pressure can create an environment where fraudulent practices are considered a solution to overcome the problems faced. The results of the study are consistent with previous studies (Sihombing & Rahardjo, 2014; Tessa, 2016; Safitri et al., 2023).

Rationalization is a strong psychological factor in influencing behavior related to financial statement fraud. The results of the study show that individuals who are able to rationalize their unethical actions are more likely to commit fraud. Employees, especially State-owned enterprises (SMEs) employees, can justify these actions with various reasons, such as for the good of the company or as a response to perceived pressure. Rationalization can make it easier for individuals to overcome moral and ethical obstacles that may arise. The results of the study are consistent with previous studies (Sihombing & Rahardjo, 2014; Suhartono, 2020; Safitri et al., 2023).

The results of the study indicate that the opportunity to commit fraud has a significant influence on the likelihood of fraud in financial reporting. When a company's internal control system is weak or ineffective, individuals have more opportunities to manipulate financial data without being detected. Weaknesses in internal control and monitoring procedures provide loopholes for individuals to carry out fraudulent acts relatively easily. The results of the study are consistent with previous studies (Hidajat, 2020; Safitri et al., 2023; Satata et al., 2024). The results of the study indicate that high levels of arrogance in individuals can increase their likelihood of committing fraud in financial reporting. Arrogance makes individuals feel that they are above the law or rules, so they tend to feel that they will not be caught or punished for their actions. This provides additional motivation for them to manipulate financial data in order to achieve their goals or targets. The results of the study are consistent with previous studies (Tessa, 2016; Azizah & Reskino, 2023; Meilany & Winario, 2024).

High competence in finance can also contribute to fraud in financial reporting. Individuals who have in-depth knowledge and skills in finance are more likely to be able to trick existing internal control systems. Employees can use their knowledge to develop more complex manipulation strategies that are difficult for authorities to detect. The results of the study are consistent with previous studies (Suhartono, 2020; Safitri et al., 2023; Satata et al., 2024). The results of the study indicate that an organizational culture that does not support integrity, transparency, and business ethics can increase the risk of fraud in financial reporting. A culture that prioritizes achieving targets or results without considering the means used to achieve them tends to create an environment where fraudulent acts are considered acceptable or not given much attention. The results of the study are consistent with previous studies (Yulianto et al., 2021; Azizah & Reskino, 2023; Monica et al., 2023).

The results of the study indicate that religiosity has no effect on the occurrence of fraud in financial reporting. This finding suggests that an individual's level of religious belief and practice does not directly affect their tendency to commit fraud in financial reporting. Several factors that can explain this result are as follows. Although religiosity is generally associated with high moral standards, highly religious individuals may still be able to rationalize their unethical actions in certain contexts. SMEs employees view the action as "better" than other alternatives or feel that the action can be forgiven in urgent situations. Religiosity is often more visible in personal life than in professional contexts. Religious values are not always fully integrated into business or work decisions, especially if individuals feel that there is a separation between personal and professional morality. The results of this study are inconsistent with previous studies (Cahyadi & Sujana, 2020; Ruddin, 2021; Azizah & Reskino, 2023). However, Ainy (2022) found that high religiosity does not affect fraudulent financial reporting behavior.

## CONCLUSION

This study aims to examine the effect of fraud heptagon consisting of seven elements, namely pressure, rationalization, opportunity, arrogance, ability or competence, culture, and religiosity on financial statement fraud in State-owned enterprises (SMEs) employees in Indonesia. SMEs plays an important role in a country's economy and is a major pillar in strategic sectors such as energy, transportation, telecommunications, and finance. Because SMEs manages large public resources, fraud in financial statements can cause very significant economic losses. Examining financial statement fraud in SMEs is an important step to ensure that public resources are managed transparently and efficiently, which in turn supports national economic stability and growth. In the data processing process, 250 respondents were successfully collected who were SMEs employees in the finance department in Indonesia. Data were collected through questionnaires and then processed using a statistical application, namely SPSS. The results obtained from the processing were pressure, rationalization, opportunity, arrogance, ability or competence, and culture had an effect on financial statement fraud. However, this study found that religiosity had no effect on financial statement fraud.

The implications of the study can be the implementation of the fraud heptagon theory in financial statement fraud and a practical contribution for all employees and management of SMEs in Indonesia, namely it can be an evaluation of how important pressure, rationalization, opportunity, arrogance, ability or competence, and culture are in preventing fraud. Although religiosity did not affect fraud in this study, education about religiosity still needs to be implemented. Suggestions for further research, further researchers can consider several things, one of which is adding a moderating variable in the study that can explain further or in more detail about the application of fraud heptagon.



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