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Fraud Hexagon Analysis in Detecting Fraudulent Financial Reporting

(Empirical Study on Regency and City Governments throughout Central Java in 2012-2021)

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Abstract: *This study aimed to examine the effect of the elements of the hexagonal fraud theory, each of which is proxied in order to detect fraudulent financial reporting in the district and city governments of Central Java from 2012 to 2021. This study analyzed 350 financial reports from district and city governments in Central Java for 2012–2021. At the same time, the sample utilized purposive sampling for this study. Classic assumption testing and logistic regression are used as analytic procedures. The results of the study indicate that financial targets, financial stability, external pressure, a change in the head of the local government, the number of internal control weakness findings, and LHKPN reporting compliance have a significant impact on the occurrence of fraudulent financial reporting. In the meantime, the number of auditee responses and private-sector partnerships has no significant influence on the prevalence of fraudulent financial reporting.*

Keywords: *Central Java, Fraud, Fraud Hexagon, Fraudulent Financial Reporting, Regency and City*

I. INTRODUCTION

Fraud or cheating is a dishonest act committed with the intention of stealing the property of others. If in auditing financial statements, the fraud at issue is the intentional presentation of financial reporting with presentation errors, it is not always the same as a crime. Fraud that is not also a criminal act is classified as an operational risk, whereas fraud that is a criminal act is classified as an illegal risk. Fraud can be considered a crime if the perpetrator intends to gain illicit profits and violates applicable laws (Fadly et al., 2020). The State Financial Audit Standards regulated in BPK (the Audit Board of Indonesia) Regulation Number 1 of 2017 stated that fraud or cheating is an act that involves intent, benefiting oneself or others, fraud, concealment or embezzlement, and abuse of trust with the goal of getting an illegal advantage. It can be in the form of money, goods or assets, services, or not paying for services, which are done by one or more of the people in charge of running the business, their employees, or third parties(Farizi et al., 2020).

Fraudulent financial reporting (Aksa, 2018)asserted that fraud in the private and public sectors could be stopped, kept to a minimum, and found through fraudulent financial reporting. The hexagon theory of fraud is used to figure out how to spot fraud.(Vousinas, 2019)suggested that this theory comprises stimulus or pressure, ability, chance, rationalization, ego, and collusion. The researcher stated that the hexagon theory of lying extends the previous theory.The previous theory was made by(Cressey, 1953) also one of the founders of ACFE, who made the fraud triangle theory. As the fraud triangle theory has grown, it has been changed into the fraud quadrilateral theory (Wolfe & Hermanson, 2004). (Crowe, 2011) expanded it into a pentagon theory of fraud, but(Vousinas, 2019)added collusion to this pentagon theory of fraud, transforming it into a hexagon theory of fraud. The elements of this deception theory could be directly observed, so proxy variables are required.

The theory of the hexagonal fraud model, which consists of six components, such as stimulus or pressure proxied by financial targets, financial stability, and external pressure, can be used to detect financial statement fraud. The capability element is proxied by a change in local government leadership. The number of internal control weaknesses discovered is

a proxy for the opportunity element. The number of auditee responses serves as a proxy for the rationalization component. Compliance with LHKPN reporting is a proxy for ego or arrogance. Elements of collusion are represented by collaboration with the private sector.

Apart from conducting partial testing(Farizi et al., 2020)concluded that their empirical study in West Kalimantan Province showed that external pressure and opportunity partially affected financial statement fraud, while rationalization and capability did not affect financial statement fraud. The results of simultaneous testing, specifically external pressure, opportunity, rationalization, and capability, influence financial statement fraud by 86.4%, with the remaining 13.6% influenced by other variables not investigated in this study.Another study by(Fadly et al., 2020)concluded that the variable influences fraudulent financial statements simultaneously with a coefficient of determination of 22.8%. This study conducted partial tests that revealed that the pressure variable did not affect fraudulent financial statements, the opportunity variable had an effect on fraudulent financial statements, the rationalization variable had an effect on fraudulent financial statements, and the capability variable had no effect on fraudulent financial statements. (S. P. Sari & Khoiriah, 2021)concluded in a separate study that pressure proxied by financial stability and financial targets, opportunity proxied by ineffective monitoring, competence, and arrogance have an impact on financial statement fraud in local government, whereas pressure proxied by external pressure, rationalization, and collusion have no impact on fraudulent financial reporting in local government.

Furthermore(Elisabeth & Simanjuntak, 2020)concluded that research on fraudulent financial statements in both the private and public sectors continues to use the fraud triangle theory, so it is essential to develop and update it in terms of the fraud theory used. However, this study attempts to expand on the work of(S. P. Sari & Khoiriah, 2021), whose study discussed fraudulent financial statements in districts or cities in East Java Province from 2014 to 2018 using the hexagonal fraud theory. Based on this explanation, this study attempts to develop studies that have been conducted with different and contemporary theories for detecting fraudulent financial reporting, specifically the fraud hexagon.

Aside from the reasons stated above, research on fraudulent financial statements in the public sector has not been widely conducted, encouraging researchers to contribute ideas to this sector. This is similar to how(Y. P. Sari et al., 2019)concluded that more research on fraudulent financial reporting was conducted in the private sector than in the public or government sectors.

This study aims to examine the effects of financial targets, financial stability, external pressure, a change in the head of local government, the number of findings of internal control weaknesses, the number of auditee responses, LKHPN reporting compliance, and partnership with the private sector on fraudulent financial reporting.

II. LITERATURE REVIEW

2.1 Agency Theory

The purpose of this agency theory was to explain the relationship between the principal and the agent. This theory examines contractual agreements between two or more people, groups, or organizations. In terms of the agency, both tend to maximize their respective utilities, so the agent does not always act by the principal's wishes. The principal can limit the disparity between his desires by incurring incentives and monitoring costs. When applied to government agencies, the principal and agent relationship can be described as the people represented by the Regional People's Representative Council (DPRD) acting as the principal and the government acting as the agent.

The government, which in this case pertains to the regions, is led by a regional head with authority over the preparation of regional financial reports. If the inspectorate conducts an inspection to examine financial reports and prevent fraudulent financial statements and it turns out that the regional head can easily intervene if the inspectorate discovers fraudulent findings in the financial reports it examines, the resulting information could mislead users of financial statements, causing conflict between principals, namely the community represented by the DPRD and the agency (Farizi et al., 2020).

2.2 Contigency Theory

Contingency theory is a management accounting theory that emerged in the mid-1960s and spread quickly. Because of differences in the many studies conducted to test this theory in the accounting environment, this theory appears as a very fundamental component. This is a flow theory from the management domain that focuses on specific

situations and conditions. According to this theory, only a few organizations have a good and appropriate internal control system in place.

This contingency theory demonstrates the level of compatibility between contextual factors and management accounting systems, such as budgeting systems, accounting controls, and reporting systems, allowing managers to improve organizational performance. If this theory applies to government, the compatibility of contextual factors, such as performance accountability and management accounting systems, which relate to the budgeting system, accounting system, and reporting system, will allow for an increase in performance accountability (Mulya & Fauzihardani, 2022).

2.3 *Fraudulent Financial Reporting*

Fraudulent financial reporting is the intentional misrepresentation of material financial reporting information. Financial statements are fabricated to deceive investors and creditors, increase the value of company shares, meet cash flow needs, and conceal company losses (Sofia & Amola, 2017). According to(Mulyani et al., 2019)fraudulent financial reporting is the act of manipulating financial statements made by company management in order to improve the company's financial condition. Meanwhile, according to other research, managers engage in fraudulent acts on financial reports, such as manipulating financial statements to gain personal, group, or profit benefits from other parties (Fathmaningrum & Anggarani, 2021).(Yulistyawati et al., 2019)stated that fraudulent financial reporting is a misstatement or omission of amounts or intentional disclosures in a financial report with the intent of deceiving financial statement users.

2.4 *Fraud Hexagon*

(Vousinas, 2019)proposed the hexagon fraud theory, which consists of six elements: stimulus or pressure, capability, opportunity, rationalization, arrogance, and collusion. When applied to financial reports in district and city regional governments in Central Java, each of the six elements can be interpreted and proxied accordingly.((Larum et al., 2021);(Mukaromah & Budiwitjaksono, 2021);(Octani et al., 2022);(Sagala & Siagian, 2021); (S. P. Sari & Khoiriah, 2021)):

A. Stimulus or*Pressure*

Stimulus, commonly referred to as pressure, is a pressure that criminals experience. The referred-to pressure can originate from anywhere, including financial targets that must be met, the financial stability that should be balanced and not experience a deficit or loss, and pressure that originates outside the individual criminals. The following stimuli or pressures, such as (1) financial targets that must be met, are conditions under which each party involved in collaboration has hope. In the explanation of this definition, the principal party, in this case, the community represented by the Regional People's Legislative Council or DPRD, wants an increase in the financial performance of the district and city government agencies. In contrast, the agent, or in this case, the local government, has a view and a personal desire to receive greater compensation for the performance results that have already been accomplished. (2) Financial stability that should be balanced implies that in a financial journey, a government agency will certainly experience ups and downs that, if not handled properly and correctly, have the potential to destroy the economic, industrial, and situational conditions of the government agency when it is operating. When faced with pressure, this encourages a person with authority over the preparation of financial reports to take any action, one of which is truncating financial reports. (3) External pressure, or pressure from the outside, is a situation where government agencies generally require external funding sources to support their activities.

B. *Capability*

Capability measures a party's capacity and power to commit fraud within government agencies. This capability is the ability of fraud perpetrators to carry out these actions without being detected by those with control over a government agency. It is impossible for a party who lacks the capacity to commit this fraudulent act to commit it. This type of capability is a change in the head of the local government or the regional government; even so, this change does not always motivate a government agency to perform well. Moreover, changing the regional head will result in a period of stress that will increase and encourage fraudulent activity. Therefore, the purpose of changing the regional head is to obliterate evidence by replacing the previous regional head, who is believed to be aware of the movement of fraud or fraud that has occurred in the financial reports of district and city regional governments in Central Java.

C. ***Opportunity***

Opportunity is an action taken due to a gap or opening that becomes a weakness in government agencies' internal control. With such lax oversight, someone will be encouraged to commit fraud. This opportunity is defined more succinctly as the opportunity someone has to commit fraud or fraudulent acts. This act of fraud will encourage others to commit fraud if there are no effective controls in place, thereby creating opportunities for fraud. This type of opportunity or chance is the number of internal control weakness findings or the number of internal control weakness findings. Due to the ineffectiveness of a government agency's internal control system, the number of internal control weakness findings is high. The ineffectiveness of this internal control system is demonstrated by the fact that the presented financial statements contain material presentation errors.

D. ***Rationalization***

A rationalization is a fraudulent act committed by individuals who seek justification for fraudulent or fraudulent activities. This action was taken because the fraud perpetrators demanded that their steps yield a greater profit. The point is that the perpetrator of the fraud will rationalize or believe that their actions are justified. As a result of their perception that they have contributed more to the government agencies where they work, they feel compelled to take advantage based on the belief that their actions are acceptable as long as they are effective. The number of auditee responses comprises this type of rationalization. The number of auditee responses demonstrates that the State Financial Audit Standards (SPKN) Number 1 of 2007 requires an auditor to request written responses from officials who are experts in the field of findings, conclusions, and recommendations and report them in the Inspection Result Report (LHP) so that rationalization can be observed directly through the response from the party being audited and then the reaction from the party conducting the audit.

E. ***Arrogance***

Arrogance or ego is a superiority complex that leads to greed in those who believe internal control does not apply to them. This results from someone believing their position is superior to that of the other party. If it is defined differently, then it is the attitude of a person who believes that he is not bound by internal controls or the wisdom of government agencies and therefore does not believe that he has committed fraud.This type of arrogance or ego conforms to LHKPN reporting standards. A quality of a good leader is compliance with the periodic submission of the State Administration Wealth Report (LKHPN) to the Corruption Eradication Commission (KPK). If the regional head in question does not fulfill this responsibility, it can be said that they are arrogant and not a good leader. As a result of the regional head's failure to report LKHPN to the KPK, it will be possible to exploit the loopholes in fraudulent financial reports.

F. ***Collusion***

Collusion is an agreement with the intent to deceive a party in which two or more people are deceived by one party who intends to take other actions for an unfavorable purpose, such as depriving a third party of his legal rights. Acts of fraud and white-collar crime result from collusion, i.e., agreements or collaborations between two or more individuals to commit a crime or fraud. This collusion involves a partnership with or association with the private sector. This cooperation with the private sector affords opportunities for deceitful practices, which may provide Regional Heads with personal benefits through such methods.

2.5 Hypothesis

The hypothesis is a temporary statement contained in the formulation of the problem, so it is necessary to test the truth of the research problem. The following are the hypotheses in this study, namely:

1. Elements of stimulus or pressure proxied by financial targets have an influence on fraudulent financial reporting.
2. Elements of stimulus or pressure that are proxied by financial stability have an influence on fraudulent financial reporting.
3. Elements of stimulus or pressure proxied by external pressure have an influence on fraudulent financial reporting.
4. Elements of capability or capability that are proxied by change in the head of the local government have an influence on fraudulent financial reporting.

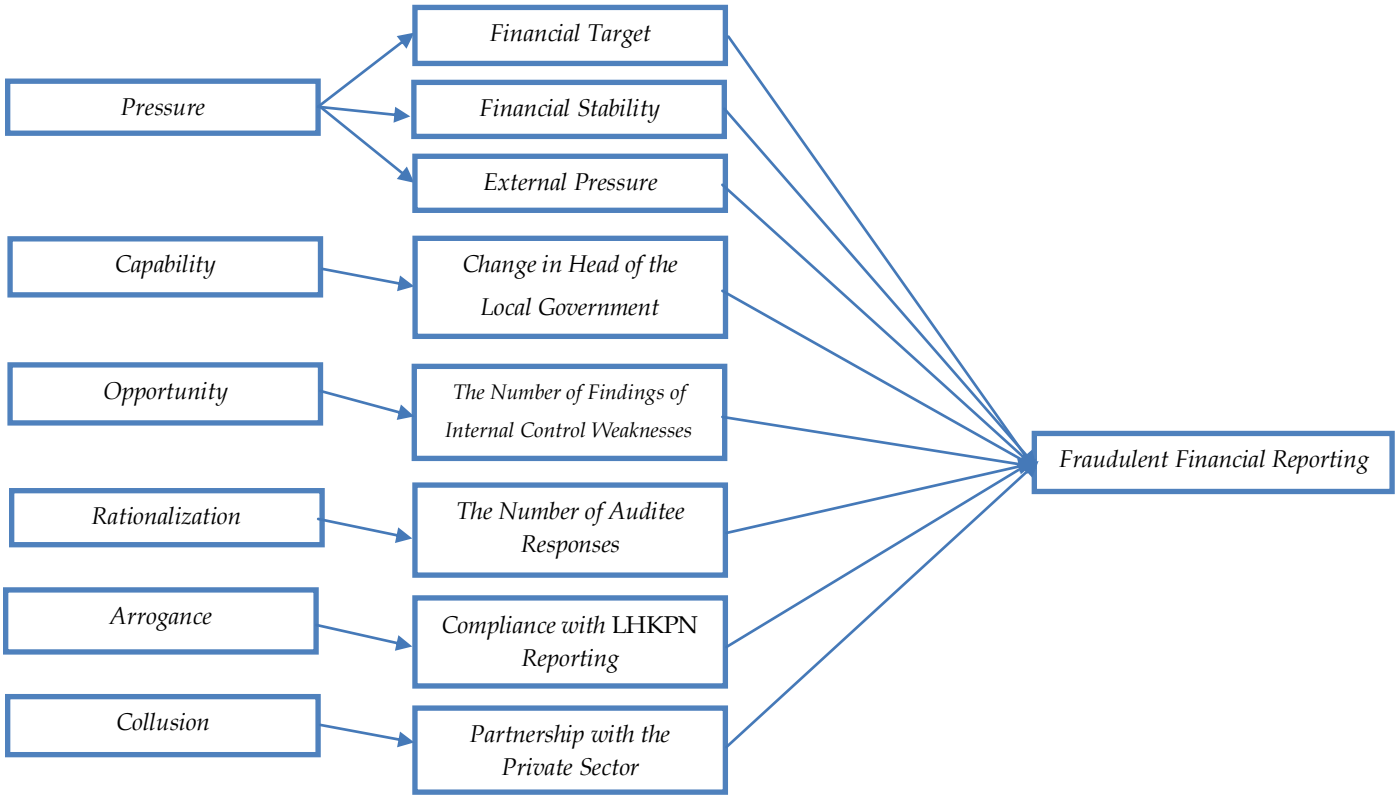
5. Elements of opportunity or opportunities proxied by the number of findings of internal control weaknesses have an influence on fraudulent financial reporting.
6. Elements of rationalization or rationalization proxied by the number of auditee responses have an influence on fraudulent financial reporting.
7. Elements of arrogance or ego proxied by compliance with LHKPN reporting have an influence on fraudulent financial reporting.
8. Elements of collusion or collusion proxied by partnerships with the private sector have an influence on fraudulent financial reporting.

III. IDENTIFICATION AND EQUATION

3.1 Study Design

This study employs a quantitative methodology. (Patel & Patel, 2019)described a quantitative approach as research concerned with quantifying phenomena. In quantitative research, population, social, and economic statistics are collected from a specific region. According to additional research, quantitative research is the predominant research methodology in the social sciences. This refers to strategies, techniques, and assumptions utilized in studying psychological, social, and economic processes by examining numerical patterns (Ahmad et al., 2019). This research is quantitative because it uses district and city government financial reports as a step in detecting fraud in these financial reports, necessitating precise measurement to avoid an error. In addition, population statistics for 2012–2021 were collected from all district and city governments in Central Java.

3.2 Conceptual



3.3 Population and Sample

In this study, what mean by population and sample are:

A. Population

In this study, the population is all the financial reports of district and city regional governments in Central Java for 2012-2021.

B. Sample

In this study, the financial reports of district and city governments in Central Java that met the criteria

for 2012–2021 were used as samples. The questioned criterion is the use of a purposive sampling method, which requires multiple criteria to determine whether or not the financial statements used as samples in this study are suitable.

3.4 Data

This research utilizes secondary data. In this study, data in the form of financial reports audited by the Supreme Audit Agency (BPK) for the Central Java Regional Representative Office are accessible via the official websites of each government in Central Java, districts, and cities for the period 2012–2021. If these financial reports are not available on the websites of Central Java's districts and cities, the official website of the Central Java Representative Audit Agency is an alternative. If none of these options is viable, the only remaining option is to contact the BPK Representative Office for Central Java in Semarang, Central Java, Indonesia, via email or by visiting the office in person. Supporting the use of the official website is the fact that it is easily accessible, well-known, and transparent.

3.5 Data Analysis

This study applied a method of data analysis known as logistic regression analysis. This analysis is performed on the dummy variable that serves as the dependent variable. This analysis is also a statistical technique that models categorical response variables based on the category of one or more predictor variable changes, which may be categorical or continuous (Fransiska & Sinaga, 2022). The results of this study's logistic regression analysis are as follows:

$$FFR = \alpha + \beta1.FT + \beta2.FS + \beta3.EP + \beta4.CHLG + \beta5.NFICW + \beta6.NAR + \beta7.CLHKPNR + \beta8.PPS + e$$

Keterangan:

FFR	= *Fraudulent Financial Reporting*
α	= Konstanta
FT	= *Financial Target*
FS	= *Financial Stability*
EP	= *External Pressure*
CHLG	= *Change in Head of The Local Government*
NFICW	= *The Number of Findings of Internal Control Weaknesses*
NAR	= *The Number of Auditee Responses*
CLHKPNR	= *Compliance with* LHKPN *Reporting*
PPS	= *Partnership with The Private Sector*
e	= Error

This study employs the logistic regression analysis method and the classic assumption tests, including the normality, multicollinearity, and heteroscedasticity tests. The normality test is normal if the Kolmogorov-Smirnov significance value is > 0.05. The multicollinearity test is free of issues if the tolerance value is greater than >0.1 and the VIF value < 10. The following is the heteroscedasticity test; data are free of heteroscedasticity issues if the significance value is >0.05. The preceding statement was taken from research conducted(Sanjaya, 2017).

3.6 Measurement Variable

In this study, the dependent variable for 2012–2021 is fraudulent financial reporting by district and city governments in Central Java:

No	Variable	Definition	Measurement
1.	*Fraudulent Financial Reporting*	Deliberate misrepresentation or omission of amounts or disclosures in a financial report with the intent to deceive and mislead users of financial statements.	The BPK opinion proxy through the dummy variable. This variable is represented by a score where "1 is for local governments that are indicated to have committed financial statement fraud with an opinion other than 'unqualified' and a score of 0 for local governments that are not indicated to have committed financial statement fraud with a 'Unqualified' opinion for the year in question"

2.	*Financial Target*	*Financial target*must be met with conditions under which two or more parties can collaborate with the expectation that each party will benefit.	$\text{Budget absorption ratio} = \frac{\text{Shopping realization}}{\text{Budget}}$
3.	*Financial Stability*	*Financial stability*that should be balanced implies that in a financial journey, government agencies will experience ups and downs, which, if not handled properly and correctly, have the potential to destroy the economic, industrial, and situational conditions of the government agency when it is operating. Therefore, when someone with authority over the preparation of financial reports is under pressure, it is likely that they will take any action, one of which is to ignore the pressure.	$\text{The ratio of regional independence} = \frac{\text{Local ownership} - \text{Source of revenue}}{\text{Central government transfers} + \text{Provincial government transfers} + \text{Loans}}$
4.	*External Pressure*	*External pressure*is a circumstance in which government agencies generally require external funding sources to support their operations.	$\text{Leverage ratio} = \frac{\text{Total assets}}{\text{Total load}}$
5.	*Change in Head of the Local Government*	*Change in head of the local government*, Changing the head of a local or regional government does not always motivate government agencies to perform well. However, changing the regional head will result in a period of stress that will increase and encourage fraudulent activity. Therefore, the purpose of changing the regional head is to obliterate evidence by replacing the previous regional head, who is believed to be aware of the movement of fraud or fraud that has occurred in the financial reports of district and city governments in Central Java.	A dummy variable: "score 1 if there is a change in regional government heads in the 2012-2021 range and score 0 if there is no change in regional government heads in the 2012-2021 range."
6.	*The Number of Findings of Internal Control Weaknesses*	*The number of findings of internal control weaknesses*due to the ineffectiveness of a government agency's internal control system, the number of findings of weaknesses in internal control is high. The ineffectiveness of this internal control system is demonstrated by the fact that the presented financial statements contain material presentation errors	The number of findings of internal control weaknesses that contain material misstatements.
7.	*The Number*	*The number of auditee*	The number of auditee responses that try to justify BPK-

	of Auditee Responses	*responses*demonstrates that the State Financial Audit Standards (SPKN) Number 1 of 2007 stated that in carrying out the audit process, an auditor is required to request written responses from officials who are experts in the field of findings, conclusions, and recommendations, as well as reporting it in the Audit Result Report (LHP) so that rationalization can be observed directly through the response from the audited party, then the response from the auditor.	RI findings and are reported in writing by the auditor at LHP regarding compliance with Internal and Legal Control Standards.
8.	*Complience with* LHKPN *Reporting*	*Complience with* LHKPN *reporting* where the trait of a good leader is obedience in submitting a State Administration Wealth Report or LKHPN, which must be submitted periodically and reported to the Corruption Eradication Commission or KPK. If the regional head in question does not fulfill this responsibility, it can be said that he or she is arrogant and not a good leader. As a result of the regional head's failure to report the LKHPN to the KPK, it will be possible to exploit the loopholes in fraudulent financial reports.	A dummy variable with "score 1 if the regional head does not report LHKPN on the kpk.go.id site and code 0 otherwise.".
9.	*Partnership with the Private Sector*	*Partnership with the private sector*offers opportunities for collusive practices, which may provide regional leaders with personal benefits.	A dummy variable: "a score of 1 is if the regional government partners with a private company and a score of 0 if the local government does not partner with a private company".

IV. DATA ANALYSIS AND DISCUSSION

4.1 Description and Analysis of Research Data

4.1.1 Description of Research Data

Minimum, maximum, mean, and standard deviation values are used to illustrate the fraud hexagon as it pertains to the detection of fraudulent financial reporting in district/city governments in Central Java between 2012 and 2021. Table 4.1 displays the descriptive statistics of the research data.

Table 4.1
Descriptive Statistics of Research Data

	N	Minimum	Maximum	Mean	Std. Deviation
X1	350	.69	.96	.8693	.05419
X2	350	.05	31.86	4.7613	4.07882
X3	350	10.24	733.64	214.3508	151.33840
X4	350	.00	1.00	.1771	.38234
X5	350	2.00	16.00	4.7914	2.64509
X6	350	2.00	16.00	4.7686	2.64751

Table 4.1 shows that criminals experience stimulus or pressure, which in this study is proxied by financial targets. The results of descriptive statistical calculations demonstrate that the average value (mean) for the financial target is 0.86; this indicates that the average ability of regency and city governments in Central Java to realize the budget during 2012–2021 is 86.93%.

Stimulus and pressure on district/city governments in Central Java are also measured based on financial stability or financial balance. The results of descriptive statistical calculations imply that the average (mean) value for financial stability is 4.76; this indicates that the average independence of district/city governments in Central Java during 2012–2021 is 4.76 times that of central government transfers, provincial government transfers, and loans.

As evidenced by funding, Regency/City Governments in Central Java cannot operate independently of external pressure. According to descriptive statistical calculations, the average (mean) value for external pressure is 214.35; this indicates that the average ability of district/city governments in Central Java during 2012–2021 to guarantee all funding or loans is 214.35 times the institution's total burden.

As measured by a change in the head of the local government, the capability is the perpetrator's ability to commit fraud without the knowledge of those who have the authority to control a government agency. The results of descriptive statistical calculations indicate that the mean value for change in local government head is 0.17, indicating that the average district/city government in Central Java has a 17% chance of experiencing a change in regional leadership between 2012 and 2021.

Upon discovering internal control flaws, the replacement of regional heads was found to be quite susceptible. Due to the ineffectiveness of a government agency's internal control system, the number of findings of weaknesses in internal control is high. The results of descriptive statistical calculations indicate that the average (mean) value for the number of findings of internal control weaknesses is 4.79, suggesting that, on average, district/city governments in Central Java discovered four internal control weaknesses between 2012 and 2021.

The discovery of internal control deficiencies affects the number of auditee responses. The State Financial Audit Standards (SPKN) inform the number of auditee responses. The descriptive statistical calculations reveal a mean value of 4.76 for the number of auditee responses, indicating that, on average, district/city governments in Central Java received four responses from auditees between 2012 and 2021.

A good leader is obedient in submitting the State Administration Asset Report, or LKHPN, which must be submitted on a periodic basis and reported to the Corruption Eradication Commission, or KPK. As per descriptive statistical calculations, the mean value for compliance with LHKPN reporting is 0.045, denoting that only 4.5% of Regency/City governments in Central Java are non-compliant in terms of submitting State Officials Wealth Reports or LKHPN between 2012 and 2021.

Government administration cannot be separated from cooperation with the private sector, despite the fact that this creates opportunities for collusive practices that can provide regional heads with personal benefits. The results of descriptive statistical calculations clearly show that the mean value for partnership with the private sector is 0.96; this suggests that, on average, during 2012-2021, 96% of district/city governments in Central Java collaborated with the private sector to administer the government.

Financial statement fraud is the deliberate misrepresentation or omission of amounts or disclosures in a financial report with the intent to deceive and mislead users of financial statements. The results of the calculation of descriptive statistics indicate that the average value (mean) for fraudulent financial reporting is 0.27; this signifies that, on average, 27% of Regency/City governments in Central Java committed fraudulent financial reporting by obtaining opinions other than Unqualified during the period 2012–2021.

4.1.2 Research Data Analysis

A. Data Quality Test

Separate assessments of the practicability of the model and the significance of the coefficients were conducted in order to test the data quality in this study.

1. Assessing the Feasibility of Data and Regression Models

The first step of logistic regression model analysis is to assess the feasibility of the data and regression models. The data's feasibility was evaluated using the Omnimus Test of Models; if the sig value is <0.05 (alpha), the data can be considered feasible. Table 4.2 displays the results of the Omnimus Test of Models test.

Table 4.2
Assessing Omibus Tests of Models

		Chi-square	df	Sig.
Step 1	Step	122.734	8	.000
	Block	122.734	8	.000
	Model	122.734	8	.000

It can be seen from Table 4.2 that the significance value for the Omnibus Test of Model is 0.000 alpha (0.05), indicating that the study's data is usable and can be continued.

Using the output of Hosmer and Lemeshow's goodness-of-fit test, it is possible to evaluate the viability of the regression model. If the statistical value of Hosmer and Lemeshow's goodness of fit test is equal to or less than 0.05, then H1 is rejected, implying that there is a significant difference between the model and the observed value, such that the model's feasibility is poor because it cannot support the observed value, and vice versa. Table 4.3 displays the outcomes of Hosmer and Lemeshow's goodness-of-fit test.

Table 4.3
Testing the Feasibility of the Model

Step	Chi-square	df	Sig.
1	8.894	8	.351

Table 4.3 displays the results of the Hosmer and Lameshow Test to determine the usability of the model. The Chi-square value is 8.894, and the sig. value is 0.351. Since the sig. value is greater than alpha (0.05), it can be concluded that the regression model is usable and can be used for further analysis.

2. *Overall Model Fit*

The test is conducted by comparing the value between -2logL at the beginning (Block Number = 0) and -2LogL at the end (Block Number = 1) of the block. If there is a reduction, this test will be improved. The test outcomes are displayed in table 4.4.

Table 4.4
Testing*Overall Model Fit*

-2Log Likelihood	**Nilai**
Awal (Block Number = 0)	411.579
Akhir (Block Number = 1)	288.498

The initial value of -2logL (Block Number = 0) in Table 4.4 is 411,579, while the final value of -2logL (Block Number = 1) is 288 498. This test demonstrates that the Overall Model Fit at -2logL (Block Number = 0) is 123.081 points lower at -2logL (Block Number = 1). This decrease in likelihood indicates that the overall logistic regression model employed is well-suited to the data.

3. Determination Coefficient Tests

The coefficient of determination is used to determine the extent to which the independent variable

can explain the dependent variable. In the model summary table, Nagelkerke's R Square test reveals the magnitude of the relationship between these combinations. This test has the same meaning as the R Square statistic in multiple linear regression. The test outcomes are presented in Table 4.5.

Table 4.5
Determination Coefficient Test

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	288.498[a]	.296	.428

a. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

Based on the test results in Table 4.5, the Nagelkerke R Square value is 0.428, inferring that the fraud hexagon explains 42.8% of the variance in the fraudulent financial reporting variable. In comparison, variables explain the remaining 51.2% outside the research model.

4. Testing Classification Ability Levels

A classification table that displays the accuracy of the regression model's predictions from the dependent variable, in this case, fraudulent financial reporting, can be used to assess the level of classification ability in logistic regression. As shown in Table 4.6, the level of this classification skill is measured in percentages (%).

Table 4.6
Classification Table

		Observed	Predicted		
			Y		Percentage Correct
			.00	1.00	
Step 1	Y	.00	237	17	93.3
		1.00	41	55	57.3
	Overall Percentage				83.4

a. The cut value is .500

Following the results of the classification ability level test shown in table 4.6, 237 regions or cities received opinions other than without exception, 254 regions or cities received unqualified opinions, and 17 districts/cities are not expected to experience these conditions. However, they are predicted to receive opinions other than unqualified opinions, and the remaining districts/cities are not likely to experience these conditions. Nevertheless, they are expected to receive opinions other than unqualified opinions. Fifty-five districts/cities do not receive unqualified opinions, whereas 41 districts/cities should receive opinions other than unqualified opinions. These results yield an overall percentage value of 83.4%, implying that this research model's predictive accuracy is 83.4%.

B. Hypothesis Testing (Wald Test) dan Discussion

The Wald test is a parametric statistical test developed by Abraham Wald with multiple applications. The Wald test can be used whenever the relationship between data items can be expressed as a statistical model with parameters estimated from a sample. The purpose of the Wald test in logistic regression analysis is to determine the significance level between each independent variable and the dependent variable. This study used the SPSS 23.00 program for Windows for data processing. Table 4.7 displays the results of the tests.

Table 4.7
Hypothesis Test Results (Wald Test)

		B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I.for EXP(B)	
								Lower	Upper
Step 1[a]	X1	-6.199	2.626	5.573	1	.018	.002	.000	.349
	X2	-.103	.048	4.582	1	.032	.902	.821	.991
	X3	-.002	.001	4.111	1	.043	.998	.996	1.000
	X4	.778	.380	4.184	1	.041	2.176	1.033	4.585
	X5	.367	.163	5.094	1	.024	1.443	1.049	1.985
	X6	.168	.159	1.120	1	.290	1.183	.866	1.617
	X7	2.130	.720	8.765	1	.003	8.418	2.054	34.490
	X8	1.047	.946	1.226	1	.268	2.849	.447	18.184
	Constant	1.180	2.439	.234	1	.629	3.255		

a. Variable (s) entered on step 1: X1, X2, X3, X4, X5, X6, X7, X8.

Based on Table 4.7, the results of the tests carried out, the logistic regression model for this study is as follows:

$$\mathbf{Ln = 1{,}180 - 6{,}199\ X_1 - 0{,}103\ X_2 - 0{,}002\ X_3 + 0{,}778\ X_4 + 0{,}367\ X_5 + 0{,}168\ X_6 + 2{,}130\ X_7 + 1{,}047\ X_8}$$

Further explanation regarding the logistic regression model, as shown in Table 4.7, can be interpreted as follows:

1. The influence of stimulus or pressure elements proxied by financial targets on fraudulent financial reporting.

Based on the results of hypothesis testing (Wald test) for the element of stimulus or pressure represented by the financial target, the Wald value is 5.573 with a significance level of 0.018<0.05. The beta value of the logistic regression coefficient is -6,199, and the odds ratio is 0.002, so **H_1 can be accepted**. This indicates that the element of stimulus or pressure proxied by the financial target has a significant effect on fraudulent financial reporting, such that an increase in the financial target reduces the likelihood of fraudulent financial reporting by 0.002 times.

The results of this study are consistent with those of (Setiawati & Mar, 2018), (Reskino & Anshori, 2016), (Murtanto & Sandra, 2019), (Kusumawati et al., 2021), (Fitriana & Baridwan, 2012), (Sholawati & Bhilawa, 2022), (Rohanisa & Bhilawa, 2022), dan (S. P. Sari & Khoiriah, 2021)whom all found that financial targets affected fraudulent financial reports. The people represented by the Regional People's Representative Council or DPRD as the principal urge an improvement in the financial performance of the district and city government agencies, but the agent, or in this case, the local government, has personal views and desires regarding receiving more significant compensation for past performance results.

2. The influence os stimulus or pressure elements proxied by financial stability on fraudulent financial reporting.

Based on the hypothesis testing (Wald test) results for the element of stimulus or pressure proxying financial stability, the Wald value is 4.582 with a significance level of 0.032< 0.05. The beta value of the logistic regression coefficient is -0.103, and the odds ratio is 0.902, so it can be concluded that **H_2 is accepted**. This indicates that the element of stimulus or pressure proxied by financial stability has a significant effect on fraudulent financial reporting, which means that with an increase in financial stability, the likelihood of fraudulent financial reporting will decrease by a factor of 0.902.

Financial imbalances in the administration of the government encourage a person with authority over the preparation of financial reports, who is under pressure, to commit fraud against the financial

statements he has compiled. This is similar to research conducted by(Murtanto & Sandra, 2019), (Koharudin & Januarti, 2021), (Fitriana & Baridwan, 2012), (Apriliana & Agustina, 2017), (Sholawati & Bhilawa, 2022), (Rohanisa & Bhilawa, 2022) dan (S. P. Sari & Khoiriah, 2021)which concluded that financial stability affects financial statement fraud in the East Java Provincial Government in 2014–2018.

3. The influence of stimulus or pressure elements proxied by external pressure on fraudulent financial reporting

Based on the hypothesis test (Wald test) results for the element of stimulus or pressure represented by external pressure, a Wald value of 4.111 with a significance level of 0.043< 0.05 is obtained. The beta value of the logistic regression coefficient is -0.002, and the odds ratio is 0.998, so it can be concluded that **H_3 is accpted**. This indicates that the element of stimulus or pressure proxied by external pressure has a significant effect on fraudulent financial reporting. An increase in financial stability will reduce the likelihood of fraudulent financial reporting by a factor of 0.998.

External pressure has an effect on financial statement fraud (Kusumawati et al., 2021), (Fitriana & Baridwan, 2012), (Sholawati & Bhilawa, 2022), (Rohanisa & Bhilawa, 2022), (Farizi et al., 2020) dan (Maria & Gudono, 2017)External pressure includes financial targets that must be met, the financial stability that should be balanced or not experience a deficit or loss, and pressure that initially comes from outside the criminals themselves. External pressure is a circumstance in which government agencies generally require external funding sources to support their operations.

4. The influence of capability element proxied by a change in the head of the local government on fraudulent financial reporting.

Based on the results of hypothesis testing (Wald test) for the element of capability or capability proxy represented by a change in local government head, a Wald value of 4.184 with a significance value of 0.041< 0.05 is obtained. The logistic regression coefficient beta value is 0.778, and the odds ratio value is 2.176, so it can be concluded that **H_4 is accepted**. This indicates that the element of capability proxied by the change in the head of the local government has a significant effect on fraudulent financial reporting, such that an increase in the change in the head of the local government will increase the likelihood of fraudulent financial reporting by a factor of 2.176.

The findings of this study are supported by prior research indicating that capability influences financial statement fraud (Kusumawati et al., 2021), (Putra & Rahayu, 2019), (Sholawati & Bhilawa, 2022), (Rohanisa & Bhilawa, 2022), (Kusuma et al., 2017) dan (S. P. Sari & Khoiriah, 2021)Capability is the ability of fraud perpetrators to commit their crimes without being detected by those with control over a government agency. It is impossible for a party who lacks the capacity to commit this fraud to do so. This type of capability is a change in the head of the local or regional government; however, this change only sometimes motivates a government agency to perform well. Nevertheless, changing the regional head will result in a period of stress that will increase and encourage fraudulent activity. Consequently, the purpose of changing the regional head is to erase traces by replacing the previous regional head, who is believed to know the movement of fraud that has occurred in the financial reports of the regional government.

5. The influence of opportunities proxied by the number of findings of internal control weaknesses on fraudulent financial reporting.

On the basis of the results of hypothesis testing (Wald test) for the element of opportunities proxied by the number of findings of internal control weaknesses, a Wald value of 5.094 with a significance value of 0.024< 0.05 is obtained. The logistic regression coefficient beta value is 0.367, and the odds ratio is 1.443, so it can be concluded that **H_5 is accepted**. This indicates that the element of opportunity proxied by the number of findings of internal control weaknesses has a significant effect on fraudulent financial reporting, which means that increasing the number of findings of internal control weaknesses will increase the likelihood of fraudulent financial reporting by 1.443.

The results of this study are consistent with previous research, which concluded that opportunity influences financial report fraud(Lastanti et al., 2022), (Fitriana & Baridwan, 2012), (Fadly et al., 2020), (Farizi et al., 2020), (Susandra & Hartina, 2017), (Sholawati & Bhilawa, 2022), (Rohanisa & Bhilawa, 2022),

(Maria & Gudono, 2017), (Dewi et al., 2018), (Kusuma et al., 2017) dan (S. P. Sari & Khoiriah, 2021)Opportunity is defined as a person's capacity to commit fraud. This act of fraud will encourage others to commit fraud if there are no effective controls in place, thereby creating opportunities for fraud. This type of opportunity or chance is the number of internal control weakness findings or the number of internal control weakness findings. A government agency's internal control system is ineffective if many internal control weaknesses are identified. The ineffectiveness of this internal control system is exemplified by the presence of material presentation errors in the financial statements, which is indicative of financial report submission fraud.

6. The influence of rationalization proxied by the number of auditee responses to fraudulent financial reporting.

Based on the hypothesis testing (Wald test) results for the rationalization element represented by the number of auditee responses, a Wald value of 1.120 is obtained with a significance value of 0.290 > 0.05. The logistic regression coefficient beta value is 0.168, and the odds ratio value is 0.866, so it can be concluded that **H_6 is rejected**, revealing that the element of rationalization represented by the number of auditee responses has no effect on fraudulent financial reporting.

The findings of this study are supported by previous research indicating that rationalization does not affect financial report fraud(Murtanto & Sandra, 2019), (Lastanti et al., 2022), (Kusumawati et al., 2021), (Susandra & Hartina, 2017), (Farizi et al., 2020) dan (S. P. Sari & Khoiriah, 2021)As a result of the auditee's response, the fraud perpetrators are obligated to increase their profits due to their actions. The point is that the perpetrator of the fraud will rationalize or believe that his actions are justified. As a result of their perception that they have contributed more to the government agencies where they work, the perpetrators feel compelled to take advantage based on the belief that their actions are acceptable as long as they are effective. This type of justification comprises the number of auditee responses. The number of auditee responses indicates that the State Financial Audit Standards (SPKN) Number 1 of 2007 requires an auditor to request written responses from officials who are experts in the field of findings, conclusions, and recommendations and report them in the Examination Results Report (LHP) so that rationalization can be observed directly through the response from the party being audited and then the response from the party conducting the audit.

7. The influence of arrogance proxied for compliance with LHKPN reporting on fraudulent financial reporting.

According to the results of hypothesis testing (Wald test) for the element of arrogance or ego proxying compliance with LHKPN reporting, a Wald value of 8.765 with a significance value of 0.003< 0.05 is obtained. The logistic regression coefficient beta value is 2.130, and the odds ratio value is 8.418, so it can be concluded that **H_7 is accepted**. This indicates that the element of arrogance or ego proxied by compliance with LHKPN reporting has a significant effect on fraudulent financial reporting, which means that with an increase in compliance with LHKPN reporting, the likelihood of fraudulent financial reporting will increase by 8,765 times.

This is consistent with oleh (S. P. Sari & Khoiriah, 2021)research, which indicates that arrogance influences financial report fraud.Arrogance is the attitude of a person who believes he is not bound by internal controls or the wisdom of government agencies, so he does not believe he has committed fraud or deception. This type of arrogance or ego is LHKPN reporting compliance. A quality of a good leader is obedience, as in submitting the State Administration Wealth Report, or LKHPN, which must be submitted periodically to the Corruption Eradication Commission, or KPK. If the regional head in question fails to fulfill this responsibility, it can be said that they are arrogant and not a good leader. As a result of the regional head's failure to report the LKHPN to the KPK, it will be possible to exploit the loopholes in fraudulent financial reports.

8. The influence of collusion proxied by a partnership with the private sector on fraudulent financial reporting.

Based on the results of hypothesis testing (Wald test), a Wald value of 1.226 is obtained with a significance value of 0.268 > 0.05 for the collusion element proxied by the partnership with the private sector. The logistic regression coefficient has a beta value of 1.047 and an odds ratio of 2.849, indicating that

H_8 is rejected and that the collusion element proxied by a partnership with the private sector has no significant effect on fraudulent financial reporting.

This study's conclusions align with those of(Lastanti et al., 2022)and(S. P. Sari & Khoiriah, 2021)which indicate that collusion has no impact on fraudulent financial statements.Collusion is a fraud and white-collar crime that results from an agreement or collaboration between two or more individuals to commit a crime or fraud. This form of collusion involves collaboration with the private sector. This action allows collusive practices, which may result in personal benefits for the Regional Head due to collusive practices.

V CONCLUSION

Based on the results of research on hexagon fraud analysis in detecting fraudulent financial reporting in Central Java's Regency and City Government from 2012 to 2021, the following conclusions can be made:

1. Elements of stimulus or pressure proxied by financial targets significantly influence fraudulent financial reporting, so **H_1 is accepted·**
2. Elements of stimulus or pressure proxied by financial stability significantly influence fraudulent financial reporting, so **$H_2$is accepted**.
3. Elements of stimulus or pressure proxied by external pressure significantly influence fraudulent financial reporting, so **$H_3$is accepted**.
4. Elements of capability proxied by a change in the head of the local government significantly fraudulent financial reporting, so **$H_4$is accepted**.
5. Elements of opportunity proxied by the findings of internal control weaknesses significantly fraudulent financial reporting, so **$H_5$is accepted**.
6. Elements of rationalization proxied by the number of auditee responses have no effect on fraudulent financial reporting, so **$H_6$is rejected**.
7. Elements of arrogance proxied by complience with LHKPN reporting significantly fraudulent financial reporting, so **$H_7$is accepted.**
8. Elements of collusion proxied by a partnership with the private sector have no effect on fraudulent financial reporting, so**$H_6$is rejected**.

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