INTERNAL CONTROL MODERATES THE INFLUENCE OF THE FRAUD HEXAGON ON FINANCIAL STATEMENT FRAUD

PENGENDALIAN INTERNAL MEMODERASI PENGARUH *THE FRAUD HEXAGON* TERHADAP *FINANCIAL STATEMENT FRAUD*

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A B S T R A C T

The focus of the research is to investigate internal controls in moderating the influence between elements in The Fraud Hexagon on financial reporting fraud. Samples were selected using purposive sampling at public companies in the construction industry in Indonesia periods 2016 - 2020. The research hypothesis was tested using Multiple Linear Regression Analysis with the SPSS device. Audit fee has negative effect to financial statement fraud because low audit fees make auditors not give greater effort to the audit process so the risk of audit quality is getting lower. The low quality of audits makes fraudsters confident that their behavior will not be detected, thus increasing the likelihood of financial fraud. Meanwhile, internal control will not run effectively if employees do not have the same perception as the company regarding internal control.

Kata Kunci:* *The Fraud Hexagon, Kecurangan Pelaporan Keuangan, Pengendalian Internal, Fraud

A B S T R A K

Fokus penelitian guna menyelidiki pengendalian internal dalam memoderasi pengaruh antara variabel pada elemen The Fraud Hexagon terhadap kecurangan pelaporan keuangan. Sampel dipilih menggunakan *purposive sampling* pada perusahaan publik industri konstruksi di Indonesia periode tahun 2016 – 2020. Hipotesis penelitian diuji menggunakan Analisis Regresi Linear Berganda dengan perangkat SPSS. Hasil penelitian menunjukkan bahwa *audit fee* berpengaruh negatif terhadap *financial statement fraud* karena *audit fee* yang rendah membuat auditor tidak memberikan *effort* lebih besar pada proses audit sehingga berisiko pada kualitas audit semakin rendah. Kualitas audit yang rendah membuat para *fraudster* yakin bahwa perilaku mereka tidak akan terdeteksi, sehingga meningkatkan kemungkinan terjadinya *financial statement fraud*. Sementara itu pengendalian internal tidak akan berjalan dengan efektif jika pegawai tidak memiliki persepsi yang sama dengan perusahaan terkait pengendalian internal.

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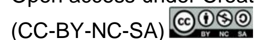
(CC-BY-NC-SA) 

1. Introduction

The Association of Certified Fraud Examiners (ACFE) in Report to The Nations (RTTN) 2020 defines financial statement fraud (FSF) as a scheme in which an employee intentionally causes a misstatement or omission of material information in the company's financial statements, for example recording fictitious income, understating reported costs, or inflating the reported value of assets. Despite having the lowest incidence of cases at only about 10% compared to corruption and asset misappropriation, FSF incurs the highest losses with a median loss of around $954,000 (ACFE, 2020). Several theories have emerged trying to explain the motives behind someone committing fraud, and the most frequently used is Cressey's fraud triangle in 1953. However, the fraud triangle alone is not sufficient to prevent, prevent and detect fraud because it is one of the components of the audit risk assessment plan. (Dorminey, Flemming, Kranacher, & Riley, 2012), as well as less effective in understanding the nature of all company employees and less relevant in facing current social changes when compared to the years when the fraud triangle was formed (Vousinas, 2019). Vousinas updated the existing theory by introducing the S.C.C.O.R.E model consisting of stimulus, capability, collusion, opportunity, rationalization, and ego to detect fraud by understanding the factors that lead to fraudulent behavior, known as The Fraud Hexagon (TFH).

Previous studies tried to test the effect of TFH on FSF, but still showed inconsistent results. On the stimulation element (Vivianita & Indudewi, 2018; Devi, Widanaputra, Budiasih, & Rasmini, 2021) found that the ROA ratio had a positive effect on FSF, while (Demetriades & Owusu-Agyei, 2021) no. In the director's change capability, it affects the FSF (Aviantara, 2021; Xu, Lin, & Chen, 2018; Yulistyawati, Suardikha, & Sudana, 2019; Devi, Widanaputra, Budiasih,

& Rasmini, 2021) while some research results were found to have no significant effect (Handoko & Tandean, 2021; Imtikhani & Sukirman, 2021; Demetriades & Owusu-Agyei, 2021; Vivianita & Indudewi, 2018). On the opportunity, Demetriades & Owusu-Agyei (2021), Devi, Widanaputra, Budiasih, & Rasmini (2021), and Imtikhani & Sukirman (2021) found that monitoring effectiveness affected FSF, while Handoko & Tandean (2021) did not. On rationalization, Auditor changes were found to affect the FSF (Imtikhani & Sukirman, 2021) but also had no effect on the research by Handoko & Tandean (2021).

TFH (Vousinas, 2019) is a relatively new model to explain the motives behind fraudulent behavior, so this research is interesting to do. Collusion as one of the factors added by Vousinas (2019) to be applied to financial crime cases is also still not widely studied regarding its relationship with fraud (Montesdeoca, Medina, & Santana, 2019). Researchers are motivated to add a moderating variable, namely internal control as used by Koomson, Owusu, & Bekoe (2020) for the influence of the SCORE model (Vousinas, 2019) on asset misappropriation within the company. Companies can prevent and detect fraud through internal control, which is one component of corporate governance (Rashid, Al-Mamun, Roudaki, & Yasser, 2022). The study (Koomson, Owusu, & Bekoe, 2020) found that the extent to which an individual will misappropriate assets depends on the magnitude of the individual's perception of the strength of the internal control of the company where he works. Internal control can prevent fraud because it can reduce pressure, opportunity, and improve individual morale at every level in the company (Soleman, 2013). So far, no research has been found that uses moderating variables on the influence of variables that become a person's motive for doing FSF.

Based on the Report to The Nation 2020, the construction sector is the industry with the largest financial statement fraud scheme found by 25%, it is also affected by the largest losses due to financial statement fraud when compared to corruption and asset abuse schemes (ACFE, 2020). The construction sector is vulnerable to various unethical behaviors such as fraud and collusion (Ho, 2011). Construction companies make it possible to speed up obtaining government approvals or permits for lucrative public contracts through corrupt payments (Ameyaw, Chan, Owusu-Manu, Edwards, & Darko, 2017). Meanwhile, Kowal-Pawul & Przekota (2021) mentions the construction sector as a sensitive sector related to the uncertainty of future operational results, as well as the vulnerability to loss of liquidity and the inability to finance the company's further operations because it has a lot to do with contractors who work with smaller entities, resulting in various types of payment delays. This can encourage companies to enter the gray area, such as committing fraud. In 2020, Desi Arryani as the former Head of Division III PT. Waskita Karya and several other officials became suspects for the alleged fictitious subcontractor project at the company, where one of the funds obtained was used to finance the purchase of equipment that was not recorded as a company asset (Winata, 2020).

This study uses six independent variables as proxies of TFH factors, including financial targets (variable for stimulation), director change (variable for capability), audit fees (variable for collusion), board age (variable for opportunity), accrual policy (variable for rationalization), and duality CEO (variable for ego) in construction sector companies listed on the IDX in 2016-2020. The main purpose of this study is to prove that these variables affect FSF. The second objective of this study is to obtain evidence that internal control is able to weaken a person's motives for committing fraud at the company where he works. This research contributes to the literature on fraud, especially TFH which is the most recent model of theories that explain the causes of someone committing fraud. This study also tries to solve the inconsistency of results in previous studies related to the influence of these models on the FSF by including internal control as a moderating variable. The results of the study are expected to be a guide for investors to able to detect the presence of FSF in the company, so that they can immediately take decisions to minimize losses incurred related to investment. Regulators can also review the effectiveness of policies that are currently in effect, both preventive measures and follow-up actions in the form of penalties for FSF on companies.

The results showed that audit fees had a negative effect on FSF, while financial targets, director change, board age, accrual policies, and CEO duality did not affect FSF. According to Barua, Lennox, & Raghunandan (2020) low audit fee reflects a low audit effort so the gap due to a decrease in audit quality is exploited by fraudsters to commit financial statement fraud because they believe their actions will not be detected. Hribar, Kravet, & Wilson (2014) are of the view that if the auditor faces higher audit risk and low quality of client accounting reporting, the auditor can charge a higher audit fee to be able to provide effort and longer audit hours, increase the scope of testing and assign more experienced employees to reduce the risk of detection, so that the quality of accounting reporting can be increased and suppress someone's initiative to commit financial statement fraud. High audit fees may also not be related to collusion between the company's management and its external auditors, but incentives from the auditors because they may face litigation and reputational sanctions in the event of an audit failure. So that auditors charge higher (Ivanova & Prencipe, 2020) audit fees when giving more effort and hours for audits to reduce the risk of audit failure.

This study found that internal control did not moderate the effect of TFH on FSF. According to Koomson, Owusu, & Bekoe (2020) asset abuse in the workplace depends on one's perception of the strength of the company's internal controls. In this study, although the company may already have good internal control, it is not sufficiently understood by employees. So employees' perceptions of internal control are not in line with the company's perception.

This study provides two practical implications, especially for corporate supervisors. First, they can be more concerned about audit fees. If auditors view audit fees as equivalent to audit

effort, then they will give more effort to the continuity of the audit process, for example by recruiting auditors with higher competence, or using a higher quality system, to improve audit quality. A quality audit is expected to be able to suppress someone's intention to perform FSF because they believe that bad behavior will be detected in the audit process. Second, even though internal control has been established in such a way as to be able to reduce the occurrence of fraud, it will not work effectively if employees do not understand and do not have a perception that is in line with the company. So, the company must make a series of socialization processes so that the internal control culture can be internalized in employees.

Furthermore, this article will describe the theoretical basis and formulation of hypotheses, research methodology, research results and discussion, closing with conclusions, limitations, and suggestions for further research.

2. Literature Review

Agency theory shows that management acts as an agent employed by company owners to manage company activities (Wolk, Dodd, & Rozycki, 2017). In carrying out its role, management can make discretionary efforts so that it creates information asymmetry that has an impact on the company. One of the problems that can arise from this information asymmetry is fraudulent financial reporting. The existence of pressure, opportunity, and ability, become a door for employees to commit fraud. Their rational nature makes it seem as if what they are doing is normal. Fraud perpetrators have high arrogance so they do everything they can to meet their needs, including conducting FSF (Devi, Widanaputra, Budiasih, & Rasmini, 2021). They obey the ego because they feel entitled to fulfill their personal interests (Vousinas, 2019). In addition, many fraud cases were found involving many actors colluding with each other. In fact, the greater the number of fraud perpetrators involved, the higher the losses (ACFE, 2020).

The incidence of fraud that continues to grow both in terms of frequency and severity, makes Vousinas (2019) looking at pre-existing theories such as the fraud triangle, the fraud diamond, the fraud scale, and the MICE model, need to be updated according to the times. Vousinas introduced the SCORE model to detect fraud by understanding the factors that lead to fraudulent behavior. He combines the fraud diamond theory of Wolfe & Hermanson in 2004 in the form of stimulus (pressure), capability, opportunity, rationalization, and adds an ego element obtained from the MICE model of Kranacher et al. in 2010. Vousinas completed the model by adding the collusion element, so that the model depicted in the form of a hexagon was introduced as The Fraud Hexagon (TFH).

Image 1
The Fraud Hexagon

Source: Vousinas, 2019

Financial targets are suspected to be the reason someone commits financial statement fraud (Handoko, 2021). In The Fraud Hexagon, stimulus or incentive is both financial and non-financial pressure to commit fraud, one of which is the result of targets that must be achieved so that there is a need to report better performance results (Vousinas, 2019). Managers will strive to achieve the given targets to obtain performance-based compensation by reporting untrue performance (Montesdeoca, Medina, & Santana, 2019) When someone is in a burdened condition both financially and non-financially, they tend to look for temporary options to solve it, including if they have to be involved in fraudulent acts (Prananjaya & Narsa, 2019; Koomson, Owusu, & Bekoe, 2020). Investors are attracted to companies that have a more stable financial condition, because the risk for loss is lower. (Aviantara, 2021) concludes that this has an impact on companies whose growth is below average which encourages their management to manipulate their financial statements to improve company performance. Because large total assets can attract investors, management tends to show high total assets so that it has the potential to make management commit fraudulent financial statements (Imtikhani & Sukirman, 2021). Based on agency theory, management as agents will face pressure in the form of financial targets, so they will get bonuses and high incomes if these targets can be met. One way to obtain maximum performance is to take financial statement fraud actions (Devi, Widanaputra, Budiasih, & Rasmini, 2021). Vivianita & Indudewi (2018), Demeriades & Owusu-Agyei (2021), and Devi, Widanaputra, Budiasih, & Rasmini (2021) found that financial targets have a positive effect on financial statement fraud

H_1: Financial targets have a positive effect on financial statement fraud

Changes in directors are often filled with political content and the interests of certain parties that trigger conflicts of interest. During the change period, there was an instability of

command and control in the company's activities, so the management who has the ability to use this instability to reap the benefits by designing strategies and determining the right time to commit fraud (Aviantara, 2021). The change of directors also occurred allegedly due to a mismatch with the directors who were not in line with committing fraud (Imtikhani & Sukirman, 2021). Directors who have knowledge of fraud are removed to weaken internal control operations and avoid detection (Demetriades & Owusu-Agyei, 2021). According to agency theory, management in carrying out its role as an agent is equipped with capabilities that can be a door for committing fraud that has a negative impact on the company (Devi, Widanaputra, Budiasih, & Rasmini, 2021). Meanwhile, The Fraud Hexagon shows that individual capabilities are the most determining factor whether fraud will actually occur when there are opportunities, pressures, and rationalizations (Vousinas, 2019). Research by Aviantara (2021) and Devi, Widanaputra, Budiasih, & Rasmini (2021) found that changes in directors had a positive effect on financial statement fraud.

H_2: Change in Director has a positive effect on financial statement fraud

Collusion relations between management and third parties can encourage fraud (Montesdeoca, Medina, & Santana, 2019). Someone whose position has power, for example the CEO, will influence other parties to participate in committing fraud by taking advantage of the wishes of that party, such as gifts or benefits, and personal relationship needs (Albrecht, Holland, Malaguen˜o, Dolan, & Tzafrir, 2015). The Fraud Hexagon explains that collusion, both between employees, and between employees and external parties, can lead to fraud that is more difficult to stop (Vousinas, 2019). When management provides audit fees that are too large, a conflict of interest arises between the auditor and his client company regarding the provision of inappropriate opinions. This is done by the auditor's office to retain its clients. Even in some cases, auditors tend to cover up findings, and even collude with clients to manipulate financial statements by imposing large fees (Aviantara, 2021). Intimate relationships can also make auditors unprofessional and unmotivated to provide a high-quality audit process (Khaksar, Salehi, & DashtBayaz, 2022), one of which is because the client provides high profits or rewards from high audit fees. This economic bound interferes with auditor independence, resulting in low audit quality (Blankey, Hurtt, & MacGregor, 2012). Low audit quality can be an entry point for fraud. According to (Vousinas, 2019) fraud will be much more difficult to stop when it occurs due to collusion either between employees, or employees and external parties. Lenard, Petruska, Pervaiz, & Yu (2012) found that the company's audit fees were higher in the before-during-after years of fraud litigation compared to companies without fraud cases. Even an increase in audit fees occurs when the auditor must consider the compensation obtained by management in planning the audit because of the potential risk of fraud arising from equity

incentives (Kannan, Skantz, & Higgs, 2014). Another view comes from Ho & Hutchinson (2010) that the decrease in the number of fraud can also result from more characteristics and activities carried out by the company's internal auditors, resulting in a reduction in the audit process that must be carried out by external auditors, thereby reducing the amount of audit fees paid to them . Research on the relationship between collusion and fraud has not been widely studied (Montesdeoca, Medina, & Santana, 2019). (Aviantara, 2021) found that audit fees have an effect on financial statement fraud.

H_3: Audit fees have a positive effect on financial statement fraud

The increase in fraud due to the age of a younger CEO with minimal knowledge and experience (Montesdeoca, Medina, & Santana, 2019) can be mitigated by the age of the board of directors other than the CEO who is older than the CEO (Xu, Lin, & Chen, 2018). The Fraud Hexagon explains that the opportunity to commit fraud can arise from the opportunity of an individual who has a position and authority within the company (Vousinas, 2019). The age of the board (board age) can show the effectiveness of the monitoring role carried out by the board which can influence the evaluation and decision of the CEO of the company (president director) to commit financial fraud. The older the board of directors shows the richer their work experience that makes them have special skills to carry out a more effective monitoring role. In addition, the older board of directors are strongly motivated to carry out monitoring duties properly, especially the behavior of the CEO because they are worried that if the company is involved in financial fraud, it will affect the career reputation and financial security at the end of their retirement period. In his research in China, (Xu, Lin, & Chen, 2018) found that board age has a negative effect on the possibility of corporate financial fraud.

H_4: Board Age has a negative effect on financial statement fraud

Rationalization is one of the psychological factors that encourage management to commit fraud (Montesdeoca, Medina, & Santana, 2019). Although fraud perpetrators feel negative affect such as feeling guilty, anxious, and uncomfortable when they want to deviate, rationalization is here to reduce these feelings and seem to justify the (Murphy & Dacin, 2011) fraud . The Fraud Hexagon explains that fraud perpetrators rationalize their actions by looking for reasons that make their actions more acceptable, or by reframing the definition of wrongdoing to exclude their actions (Vousinas, 2019). Management's decision to rationalize financial statements makes total accruals related to the occurrence of fraudulent financial reporting. Earnings management through accruals is shown when managers increase or decrease the accrual rate of accounting numbers such as accounts receivable, inventory, accounts payable, deferred income, accrued liabilities, and prepaid expenses, to obtain the expected profit. . Research

(Demetriades & Owusu-Agyei, 2021) shows that the ratio of Total Accrual to Total Assets is the most significant factor in evaluating the risk of financial statement fraud at Toshiba. Toshiba's management wants to win the project after it was previously declared to collapse, thus making management challenged and doing everything possible to increase liquidity. Fraud behavior at Toshiba shows that the perpetrators justify such behavior as a rational thing because it brings benefits to the company. Based on agency theory, problems can occur when management as an agent of the owner of the company makes rational decisions for his personal gain. The use of the accrual principle is proven to be able to increase management risk in conducting financial statement fraud. This is in line with Yulistyawati, Suardikha, & Sudana (2019) who found that rationalization represented by the ratio of total accruals to total assets had a positive effect on fraudulent financial reporting.

H_5: Accrual Policy has a positive effect on financial statement fraud

A good company should not be associated with several directors' positions, because multiple positions allow an increase in the incidence of fraud. Individuals who have high arrogance tend to be able to do everything they can to meet their needs, including by committing fraudulent financial statements (Devi, Widanaputra, Budiasih, & Rasmini, 2021). According to agency theory, someone who has high arrogance is not afraid to do anything to fulfill his needs (Devi, Widanaputra, Budiasih, & Rasmini, 2021). Meanwhile, The Fraud Hexagon explains that the ego in the form of a sensation of power over individuals is a strong driver that determines why someone commits fraud (Vousinas, 2019). Devi, Widanaputra, Budiasih, & Rasmini (2021) shows that CEO duality has a positive effect on financial statement fraud.

H_6: CEO duality has a positive effect on financial statement fraud

Koomson, Owusu, & Bekoe (2020) concluded that strong internal control can close all gaps that can provide room for fraud in the work environment. Conversely, if the company has weak internal controls, fraudsters can take advantage of these opportunities to engage in fraudulent activities. According to Soleman (2013), fraud prevention can be done through internal control by reducing pressure, opportunity and improving individual morale at every level in the organization. Koomson, Owusu, & Bekoe (2020) found that strong internal control was able to weaken the factors causing asset abuse. Bimo, Prasetyo, & Susilandari (2019) concluded that internal control helps companies achieve their goals, minimize material misstatements in financial statements, comply with existing regulations and policies, and safeguard company assets. With effective internal control, investors can prevent and detect errors made by management, either intentionally or unintentionally. Internal control is also able

to reduce the occurrence of tax avoidance. Tax avoidance is a management deviant behavior that aims to obtain personal benefits, namely increasing compensation and bonuses.

A good internal control system is also able to control the opportunistic behavior of management when they have to face pressure (Hastuti, Ghozali, & Yuyetta, 2017). Despite facing great pressure, a company employee is not motivated to misappropriate assets if he is aware that the internal control system can detect the deviant act (Koomson, Owusu, & Bekoe, 2020). Management who is under pressure to be able to show good performance in the eyes of investors when the company's condition is not good, can survive not to commit financial statement fraud because he realizes that the company's control can detect his behavior.

Koomson, Owusu, & Bekoe (2020) found that internal control moderated the relationship between pressure and asset misappropriation. If an employee has a perception that the company's internal control system makes it possible to detect fraudulent behavior, even though there is pressure, they are still not motivated to commit fraud.

H_7: Internal control weakens the influence of financial targets on financial statement fraud

Internal control exists as a tool of good corporate governance made to prevent management from making mistakes for personal gain that is not in line with company goals. Internal control is able to prevent someone from committing fraud within the company. Internal control is important in mitigating fraud committed by company employees when they have the ability and opportunity (Othman & Ameer, 2022). The control system is able to support the company to align the capabilities of its employees with the company's vision and mission. Companies can control their activities by conducting risk assessments and monitoring so that potential fraud that can hinder the achievement of company targets can be detected early (Shonhadji & Maulidi, 2022). Based on the perspective of agency theory, management as an agent has the capability to make decisions in running the company's operations. This ability can make management have goals that are not in line with company owners so that information asymmetry appears, one form of which is financial statement fraud (Devi, Widanaputra, Budiasih, & Rasmini, 2021). According to (Koomson, Owusu, & Bekoe, 2020) a person's tendency to commit fraud will decrease when he finds out that the company where he works has an effective internal control system, which will detect his fraudulent behavior, even though he has the capability to do so. In the context of financial statement fraud, effective internal control can occur when a change of director is caused to minimize the detection of financial statement fraud.

H_8: Internal control weakens the influence of change in director on financial statement fraud

Effective internal control is able to prevent and detect errors in financial reporting made by management either intentionally or unintentionally (Bimo, Prasetyo, & Susilandari, 2019). When the internal auditor's performance shown through the company's internal control has been running effectively, the external auditor does not need to charge a higher audit fee because the incidence of fraud is low (Ho & Hutchinson, 2010). Meanwhile, disclosure of a company's internal control deficiency shows a large number of fraud so that the auditor charges a higher audit fee (Hribar, et al., 2014). According to (Blankey, Hurtt, & MacGregor, 2012) high audit fees can create an economical bond that interferes with auditor independence, resulting in low audit quality and an entry point for fraud. Internal control in this context is able to help the company to ensure that the audit process can run well, and maintain independence between the company and the external auditor, so that the financial statements are free from material misstatement without any collusive relationship between management and external auditors.

H_9: Internal control weakens the effect of audit fees on financial statement fraud

Internal control is important in mitigating fraud committed by company employees when they have the ability and opportunity (Othman & Ameer, 2022). Effective internal control is able to mitigate management errors in making judgments so that decisions made can be in line with applicable laws and regulations (Bimo, Prasetyo, & Susilandari, 2019). According to agency theory, agency problems arise when management and company owners have different goals, so that management as an agent who runs the company can take opportunistic actions that can be bad for the company, one of which is financial statement fraud (Devi, Widanaputra, Budiasih, & Rasmini, 2021). Fraud occurs due to a lack of commitment to integrity and values, as well as ineffective monitoring activities. Companies can minimize fraud by implementing the COSO framework for internal control, as well as improving the monitoring function through internal audit (Oliveira, Imoniana, Slomski, Reginato, & Slomski, 2022). The board of directors, apart from the CEO, is in charge of being a representative who helps the CEO to run the company's operations, and helps management to be able to achieve the assigned targets. Moreover, those who are older than the CEO, have work experience that makes them have special skills to carry out a more effective monitoring role so that their CEO will not take actions that are detrimental to the company, and the company is at its best when it comes to providing benefits. in their retirement (Xu, Lin, & Chen, 2018). Effective internal control is able to support the board of directors who are older than the CEO in monitoring the behavior of the CEO who intends to manipulate financially (financial statement fraud).

H_{10}: Internal control strengthens the influence of board age on financial statement fraud

When an employee believes that the company's internal control system will be able to detect error behavior that they believe is rational, they will not be motivated to commit fraud (Koomson, Owusu, & Bekoe, 2020). In the perspective of agency theory, management in making judgments and estimating faces complexity and discretion, and through discretion, management has incentives to take personal profits and sacrifice shareholders (Bimo, Prasetyo, & Susilandari, 2019). Yulistyawati, Suardikha, & Sudana (2019) found that the accrual policy as measured by the total accrual to total asset ratio had a positive effect on financial statement fraud. According to Beneish in 1999, accruals are strongly influenced by management decisions to rationalize financial statements, so that it can result in financial statement fraud. The same result is also shown by Demetriades & Owusu-Agyei (2021) that a qualified audit opinion can be generated from a high discretionary accrual ratio, so that companies will tend to increasingly commit financial statement fraud. Effective internal control can control management behavior when they are faced with a situation to better defend personal interests that harm the company, including accruals earning management (Hastuti, Ghozali, & Yuyetta, 2017).

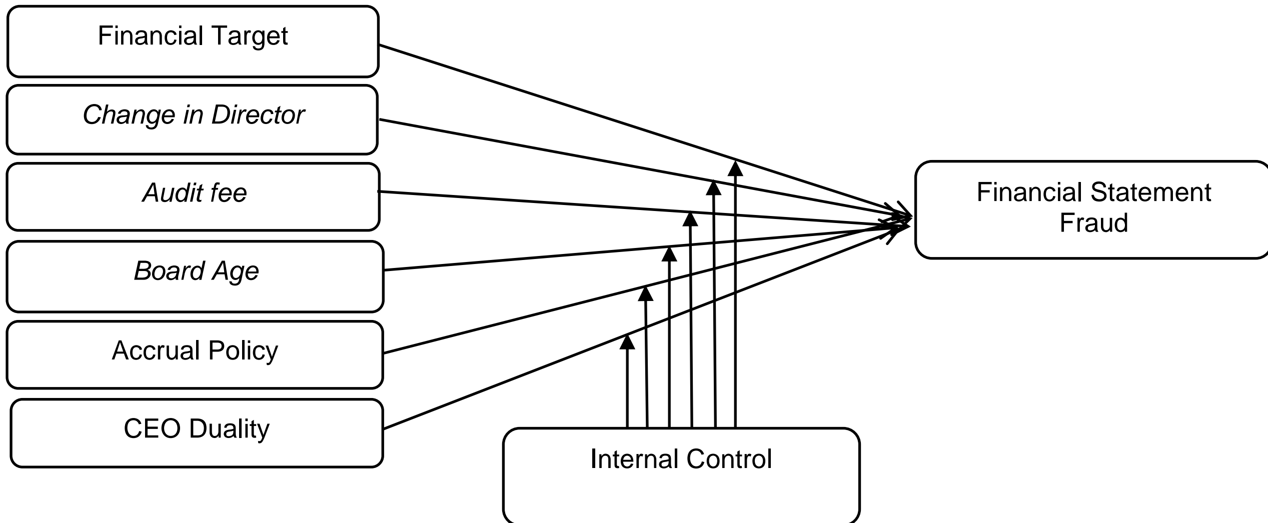
H_{11}: Internal control weakens the influence of the accrual policy on financial statement fraud

Internal control is able to threaten individuals who have ego over position and need a positive public image, not to commit deviant acts such as fraud because effective internal control is able to detect bad behavior (Koomson, Owusu, & Bekoe, 2020). As part of corporate governance, a good internal control system will minimize concentrated power, as well as divide and balance responsibilities between various positions at the executive level (Rashid, Al-Mamun, Roudaki, & Yasser, 2022). The dual position of a CEO allows an increase in the incidence of fraud, including several positions that encourage him to collude and even sacrifice the interests of shareholders. In addition, individuals who have high arrogance tend to be able to do everything they can to meet their needs, including by committing fraudulent financial statements (Devi, Widanaputra, Budiasih, & Rasmini, 2021). The existence of agency problems occurs when management and shareholders have different goals, resulting in information asymmetry because management knows all company information. CEO duality has a positive effect on financial fraud (Devi, Widanaputra, Budiasih, & Rasmini, 2021; Imtikhani & Sukirman, 2021), and the existence of effective internal controls is considered capable of weakening this influence.

H_{12}: Internal control weakens the influence of CEO duality on financial statement fraud

The research conceptual framework can be seen in Image 2.

Image 2
Research Framework



Source: Processed by the Author

3. Research Methodology

3.1 Sample and Research Population

Based on Report to The Nation 2020, Nation 2020, the construction sector is the industry where the financial statement fraud scheme is the most found by 25%. The construction sector is also affected by the largest losses due to financial statement fraud when compared to corruption and asset abuse schemes (ACFE, 2020). The population of this study are companies that are included in the construction sub-industry listed on the Indonesia Stock Exchange. Ho (2011) and (Ameyaw, Chan, Owusu-Manu, Edwards, & Darko, 2017) concluded that the construction sector is vulnerable to various unethical behaviors such as fraud and collusion. On the other hand, the construction sector in Indonesia is ranked 4th at the top of the contributor to Gross Domestic Product (GDP) in the first quarter of 2021, which is 10.8% (Central Bureau of Statistics, 2021). The sample was selected using purposive sampling method. From a population of 100 company years, a sample of 45 company years was obtained. Financial data is obtained through financial reports on the IDX website, the company's official website, and Osiris. Meanwhile, non-financial data was obtained by content analysis on the disclosure of the company's annual report

3.2 Data Analysis Techniques

The data analysis method used in this study is multiple regression, followed by moderated regression analysis (MRA). Hypothesis testing using SPSS (Statistical Package for Social Science) software version 20. The multiple regression equation is:

- FSF = 0 + 1 ROA + 2 DIRCHGE + 3 LNAUDFEE + 4 AVGBOARDAGE + 5 TATA + β6 DUALCEO + β7 SIZE + ……..…………………………..……………… …..……………(1)
- FSF = 1 + 1 ROA + 2 DIRCHGE + 3 LNAUDFEE + 4 AVGBOARDAGE + 5 TATA + β6 DUALCEO + 7 SIZE + 8 ICDISC + ………………………………………… ……………(2)
- FSF = 2 + 1 ROA + 2 DIRCHGE + 3 LNAUDFEE + 4 AVGBOARDAGE + 5 TATA + β6 DUALCEO + 7 SIZE + 8 ICDISC + β9 ROA * ICDISC + β10 DIRCHGE * ICDISC + β11 ICDISCARDFEE *13 ICDISCARDFEE + 13 * ICDISC + 14 DUALCEO * ICDISC + 15 SIZE * ICDISC + ………………………………………………………………..………………(3)

3.3 Definition and Measurement of Variables

3.3.1 Financial Statement Fraud

Financial statement fraud (FSF) is a scheme in which the perpetrator intentionally causes a material misstatement or omission in the company's financial statement statements, for example recording fictitious income, understating reported costs, or inflating the value of reported assets (ACFE, 2020). Financial statement fraud is measured using Dechow et al.'s F-score in 2007 after being modified by Skousen & Twedt (2009) into six variables, namely RSST accruals as a variable of accrual quality, change in receivables, change in inventory, change in cash sales, change in earnings as a variable of performance, and actual issuance as a variable of market incentives. Devi, Widanaputra, Budiasih, & Rasmini (2021) uses companies that are known to have FSF have an F-Score below 1.00 indicating a normal or low risk of fraud; if F-Score above 1.00 indicates above normal fraud risk, and if F-Score above 1.85 indicates substantial fraud risk, and if F-Score above 2.45 indicates high fraud risk.

- RSST Accrual = WC + NCO + FIN / Average Total Assets
- Change in receivables = Accounts Receivable / Average Total Assets
- Change in inventory = Inventory / Average Total Assets
- % of soft assets = (Total assets – PP&E – Cash and cash equivalent) / Total assets
- Change in cash sales = [Sales - Accounts Receivable]
- Change in ROA = [$Earnings_t$/ Average total $assets_t$] – [$Earnings_{t-1}$ / Average total $assets_{t-1}$]

Where:

RSST is accrual quality Richardson, Sloan, Soliman, and Tuna (2005)

WC = (Current Assets – Cash and Short-term Investment) – (Current Liabilities – Debt in Current Liabilities)

NCO = (Total Assets – Current Assets – Investment and Advances) – (Total Liabilities – Current Liabilities – Long term Debt)

FIN = (Short-term Investments + Long-term Investment) – (Long term Debt + Debt in Current Liabilities + Preferred Stock)

3.3.2 Financial targets

Financial targets are targets set by company management related to financial performance. This study uses return on assets (ROA) as financial target which is a proxy for the element of pressure that is suspected to be the reason someone commits financial statement fraud (Handoko & Tandean, 2001).

Return on Assets = Net Income/ Total Assets

3.3.3 Change in Director

Change of director is the company's attempt to change someone who holds the position of director in a company, when that person is considered aware of fraudulent practices in the company. This happened because of the assumption that the change of directors needed time to adapt, so that initial performance was not immediately optimal. This study uses the same measurements as (Aviantara, 2021).

Changes in directors = Number of changes in directors during the study period (2016-2020).

3.3.4 Audit Fee

The audit fee is the cost incurred by the company for the services provided by the auditor. This study uses the same audit fee measurement as that used by (Aviantara, 2021).

Audit fee = Ln (Audit Fee)

3.3.5 Board age

Board age is a situational stimulus that shows the effectiveness of monitoring activities carried out by the board which can influence the evaluation and decision of the company's CEO (president director) to commit financial fraud. Board age is measured using the average age of all directors other than the CEO (president director). This is done because the age of the non-

CEO director is seen as a characteristic that can influence the CEO's decision in this case to commit financial statement fraud (Xu, Lin, & Chen, 2018).

Board age = average age of non-CEO directors, i.e.the number of ages of non-CEO directors divided by the number of non-CEO directors (for each year, during the 2016-2020 research period)

3.3.6 Accrual policy

Accrual policy is a policy taken by company management by recognizing income or expenses that have not been received or have been issued in the form of cash. The use of the accrual principle is a form of rational behavior according to management so that it is proven to be able to increase management risk in conducting financial statement fraud. This study uses rationalization which is proxied using the ratio of total accruals to total assets introduced by Beneish in 1999 (Yulistyawati, Suardikha, & Sudana, 2019)

Total accrual to Total asset ratio (Beneish 1999) = total accrual / total asset

3.3.7 CEO duality

CEO duality is a CEO who has multiple positions, either with the same position as a director and/or as a commissioner, either in the same company or in other companies. Based on POJK No. 33/POJK.04/2014 concerning the Board of Directors and Board of Commissioners of Issuers or Public Companies, Article 6 paragraph (1) members of the Board of Directors may hold concurrent positions as: a. members of the Board of Directors at most 1 (one) other Issuer or Public Company; b. members of the Board of Commissioners at most 3 (three) other Issuers or Public Companies; and/or c. committee members in a maximum of 5 (five) committees in the Issuer or Public Company where the person concerned also serves as a member of the Board of Directors or a member of the Board of Commissioners. Similar to Devi et al (2021), CEO duality is measured by a dummy:

- If the CEO has multiple positions more than the criteria in POJK No. 33/POJK.04/2014 concerning the Board of Directors and Board of Commissioners of Issuers or Public Companies, = 1
- If the CEO does not have multiple position then = 0

3.3.8 Internal Control

Internal control is a system owned by the company to close all internal gaps that can provide room for fraud in the work environment. If the company has weak internal controls, fraudsters can take advantage of these opportunities to engage in fraudulent activities. Deumes

& Knechel (2008) created an index to measure the level of disclosure of internal control by identifying six reportable items related to internal control. These items include:

1. The supervisory board reports having discussed the internal control system;
2. The management board reports on the objectives of the internal control system;
3. The board of directors reports most years of responsibility for internal control;
4. The board of directors reports on the effectiveness of internal controls
5. The board of directors reports on the role of internal auditors with respect to internal control; and
6. The board of directors discloses specific activities to manage risk,

This study measures by calculating the score of each company in the sample, then adding up all disclosure items, and placing the same weight on each item. The resulting index measures the extent to which management voluntarily reports on internal control from zero (no items disclosed) to six (all items disclosed).

- If the company discloses information related to the internal control scoring statement, then score = 1
- If the company does not disclose then score = 0
- The total score is obtained from the total score of each company divided by the number of questions

3.3.9 Company Size

This study uses firm size as a control variable, which is calculated by the formula:

SIZE = Total Asset Log

4. Results and Discussion

4.1 Descriptive Statistics

The statistical results show that the financial statement fraud (FSF) variable has the highest value of 1.9 belonging to TOTL in 2020 indicating a substantial risk of fraud (Devi, Widanaputra, Budiasih, & Rasmini, 2021), and the average f-score of the sample is 0.6444 indicates normal or low fraud risk. The average ROA in the study sample was 4.6422 and the highest ROA belonged to PBSA of 33.6. The change of directors (DIRCHGE) was at most 6 changes during the year belonging to WSKT in 2018, while the average was 1.22 changes

Table 4.1
Descriptive statistics

Growth Rate	Minimum	Maximum	Mean	Standard Deviation
FSF	-1.3000	1.9000	0.6444	0.6423
ROA	-0.5000	33.6000	4.6422	5.2601
DIRCHGE	0.0000	6,0000	1.2200	1.5500
LNAUDFEE	18.8000	22.1000	20.2222	0.9083
AVGBOARDAGE	45.0000	65.0000	55.2090	4.8873
SYSTEM	-0.1000	0.2000	0.0178	0.0716
DUALCEO	0.0000	1.0000	0.1300	0.3440
ICDISC	2.0000	5.0000	3.5556	0.8675
SIZE	13.4100	21.9000	16.8303	2.37381

Source: Processed Data

audit fee as measured by Ln Audit Fee, has the lowest score of 18.8 belonging to WEGE in 2016, the highest value of 22.1 belongs to WSKT in 2019, while the average is 22.1. The average age of directors other than CEO (AVGBOARDAGE) is 55.2 years, while the oldest average age is 65 years belonging to JKON in 2019, and the youngest average age is 45 years belonging to PBSA in 2019. The highest TATA ratio is at 0.2 while the average is 0.0178. CEO duality (DUALCEO) is measured by dummy, where if the CEO of a company that is considered to have duality according to the measurement of the variable will be given a value of 1, and otherwise given a value of 0. The average company in the research sample that discloses internal control in its annual report (ICDISC) is 3.5556 disclosures. The largest company size is 21.9, the smallest is 13.41, and the average value is 16.803.

4.2 Pearson Correlation

Based on the Pearson correlation shown in Table 2, there is a correlation between the audit fee variable (LNAUDFEE) and FSF with a Pearson correlation value of -0.327* at a significance level of 0.05. In addition, there is also a correlation between the variable board age along with the moderating variable internal control (AVGBOARD X ICDISC) and FSF with a Pearson correlation value of -0.316* at a significance level of 0.05. For the rest there are no variables that correlate with FSF.

4.3 Hypothesis Testing and Discussion

Based on the results of the regression and MRA shown in Table 3, the t-test value for the audit fee variable (LNAUDFEE) is -2.015 with a significance value of 0.051 which is smaller than 0.10, indicating that the audit fee has a negative effect on FSF. This is not in line with the third hypothesis which states that audit fees have a positive effect on FSF (H3 is rejected). The other hypotheses are also entirely rejected.

Table 4.2
Pearson Correlation

	FSF	ROA	DIR CHGE	LNAUD FEE	AVGBOARD AGE	TATA	DUAL CEO	ICDISC	SIZE	ROAxICD DISC	DIRCHGEx ICDDISC	LNAUDFEE xICDISC	AVGBOARD AGE xICDISC	TATAx ICDISC	DUALCEO xICDISC
FSF	1	0.057[a]	-0.247	-0.327*	0.178	0.052	0.055	-0.033	-0.015	-0.022	-0.008	0.185	-0.316*	-0.094	0.166
		0.712[b]	0.101	0.028	0.243	0.736	0.720	0.829	0.920	0.886	0.959	0.224	0.034	0.540	0.276
ROA	0.057	1	-0.208	-0.385**	-0.035	0.052	0.200	-0.030	-0.189	-0.716**	-0.080	0.016	0.146	0.034	-0.110
	0.712		0.170	0.009	0.819	0.733	0.187	0.847	0.213	0.000	0.601	0.915	0.339	0.822	0.470
DIRCHGE	-0.247	-0.208	1	0.308*	-0.193	-0.036	-0.227	-0.060	0.047	-0.106	-0.096	0.046	-0.178	-0.084	0.120
	0.101	0.170		0.040	0.205	0.812	0.133	0.695	0.759	0.488	0.529	0.764	0.242	0.583	0.432
LNAUDFEE	-0.327*	-0.385**	0.308*	1	-0.193	-0.059	-0.395**	0.402**	0.545**	0.020	0.042	-0.061	0.058	-0.057	0.115
	0.028	0.009	0.040		0.205	0.702	0.007	0.006	0.000	0.897	0.784	0.691	0.703	0.709	0.454
AVGBOARDAGE	0.178	-0.035	-0.193	-0.193	1	0.333*	-0.392**	-0.145	-0.093	0.203	-0.187	0.067	-0.368*	-0.162	0.401**
	0.243	0.819	0.205	0.205		0.025	0.008	0.341	0.543	0.180	0.219	0.661	0.013	0.289	0.006
TATA	0.052	0.052	-0.036	-0.059	0.333*	1	-0.283	-0.053	0.019	0.054	-0.100	-0.075	-0.183	-0.442**	0.319*
	0.736	0.733	0.812	0.702	0.025		0.060	0.730	0.902	0.723	0.513	0.626	0.228	0.002	0.033
DUALCEO	0.055	0.200	-0.227	-0.395**	-0.392**	-0.283	1	-0.178	-0.456**	-0.139	0.114	0.119	0.363*	0.255	-0.419**
	0.720	0.187	0.133	0.007	0.008	0.060		0.243	0.002	0.362	0.455	0.435	0.014	0.091	0.004
ICDISC	-0.033	-0.030	-0.060	0.402**	-0.145	-0.053	-0.178	1	0.514**	-0.015	0.072	-0.368*	0.233	0.009	-0.065
	0.829	0.847	0.695	0.006	0.341	0.730	0.243		0.000	0.923	0.640	0.013	0.123	0.952	0.670
SIZE	-0.015	-0.189	0.047	0.545**	-0.093	0.019	-0.456**	0.514**	1	0.198	-0.129	-0.128	0.117	-0.121	0.015
	0.920	0.213	0.759	0.000	0.543	0.902	0.002	0.000		0.192	0.400	0.402	0.443	0.429	0.920
ROAxICDISC	-0.022	-0.716**	-0.106	0.020	0.203	0.054	-0.139	-0.015	0.198	1	-0.075	-0.154	-0.032	-0.110	-0.040
	0.886	0.000	0.488	0.897	0.180	0.723	0.362	0.923	0.192		0.625	0.312	0.835	0.472	0.795
DIRCHGExICDISC	-0.008	-0.080	-0.096	0.042	-0.187	-0.100	0.114	0.072	-0.129	-0.075	1	0.222	-0.138	0.062	-0.302*
	0.959	0.601	0.529	0.784	0.219	0.513	0.455	0.640	0.400	0.625		0.143	0.366	0.687	0.044
LNAUDFEExICDISC	0.185	0.016	0.046	-0.061	0.067	-0.075	0.119	-0.368*	-0.128	-0.154	0.222	1	-0.291	-0.002	-0.211
	0.224	0.915	0.764	0.691	0.661	0.626	0.435	0.013	0.402	0.312	0.143		0.052	0.991	0.164
AVGBORDAGExICDISC	-0.316*	0.146	-0.178	0.058	-0.368*	-0.183	0.363*	0.233	0.117	-0.032	-0.138	-0.291	1	0.412**	-0.599**
	0.034	0.339	0.242	0.703	0.013	0.228	0.014	0.123	0.443	0.835	0.366	0.052		0.005	0.000
TATAxICDISC	-0.094	0.034	-0.084	-0.057	-0.162	-0.442**	0.255	0.009	-0.121	-0.110	0.062	-0.002	0.412**	1	-0.418**
	0.540	0.822	0.583	0.709	0.289	0.002	0.091	0.952	0.429	0.472	0.687	0.991	0.005		0.004
DUALCEOxICDISC	0.166	-0.110	0.120	0.115	0.401**	0.319*	-0.419**	-0.065	0.015	-0.040	-0.302*	-0.211	-0.599**	-0.418**	1
	0.276	0.470	0.432	0.454	0.006	0.033	0.004	0.670	0.920	0.795	0.044	0.164	0.000	0.004	

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).
[a]. Pearson Correlation
[b]. Sig. (2-tailed)
Source: Data Proces

The results showed that ROA had no effect on FSF (H2 was rejected). This is not in line with (Devi, Widanaputra, Budiasih, & Rasmini, 2021) that management is encouraged to do FSF because of pressure in the form of financial targets, which can be seen from the ROA ratio which shows the company's ability to manage assets to generate profits. Companies with low ROA ratios also encourage their management to commit fraud so that they can produce a better financial position (Demetriades & Owusu-Agyei, 2021; Vivianita & Indudewi, 2018).

Table 4.3
Multiple Regression Results and MRA

Variable	Model 1	Model 2	Model 3
Constant	4.997[a]	5.108	-0.124
	1.410[b]	1.411	-0.731
ROA	-0.011	-0.011	-0.355
	-0.536	-0.554	-1.153
DIRCHGE	-0.052	-0.049	-0.256
	-0.741	-0.687	-1.394
LNAUDFEE	-0.294	-0.302	-0.525
	-2.015*	-10.990	-2.225
AVGBOARDAGE	0.013	0.013	0.001
	0.508	0.514	0.004
TATA	-0.047	-0.036	0.011
	-0.032	-0.024	0.062
DUALCEO	0.029	0.027	0.128
	0.071	0.066	0.554
ICDISC		0.032	0.159
		0.237	0.797
SIZE	0.059	0.054	0.303
	1.099	0.935	1.324
ROAxICDISC			-0.461
			-1.065
DIRCHGExICDISC			-0.125
			-0.617
LNAUDFEExICDISC			0.149
			0.595
AVGBOARDAGExICDISC			-0.369
			-1.335
TATAxICDISC			0.011
			0.067
DUALCEOxICDISC			0.039
			0.121
R2	0.177	0.178	0.366
F-Statistik	1.135	0.975	1.240

[a] coefficient; [b] t-statistics

* significant at the 0,10 level; ** significant at the 0,05 level; *** significant at the 0,01 level

Source: Data Processed

However, this research is in line with Handoko & Tandean (2021) that the company's ability to generate profits with the effectiveness and efficiency of using company assets is not an

indication of fraud. The company's management is able to carry out the company's business operations properly, among others by using the latest technology, recruiting experienced and competent employees, and management who are able to make the right decisions in accordance with applicable regulations.

Change in director has no effect on FSF (H2 rejected). Changes in directors are carried out as a routine matter because the contract with the director has ended, so that one form of the company's strategy is to immediately fill the vacancy (Yulistyawati, Suardikha, & Sudana, 2019; Handoko & Tandean, 2021; Imtikhani & Sukirman, 2021). In addition, the company may also be dissatisfied with the performance of the old director, thus replacing it with a more competent director in order to work more optimally (Winata, 2020) with the hope of improving the company's performance (Handoko & Tandean, 2021). The results of this study are not in line with (Ariyanto, Jhuniantara, Ratnadi, Putri, & Dewi, 2021; Aviantara, 2021; Devi, Widanaputra, Budiasih, & Rasmini, 2021; Demetriades & Owusu-Agyei, 2021; Xu, Lin, & Chen, 2018).

Audit fee has a negative effect on FSF, thus rejecting the hypothesis which states that audit fees have a positive effect on FSF (H3 is rejected). This result is not in line with Aviantara (2021) which finds that high audit fees can influence auditors to collude with companies to manipulate financial statements. According to (Barua, Lennox, & Raghunandan, 2020) a low audit fee reflects a low audit effort. Auditor companies may cut costs such as cheaper labor, and traditional technology, thus risking disrupting audit procedures carried out and resulting in low audit quality. This motivates company employees to take advantage of weaknesses by committing financial statement fraud because they believe that their actions will not be detected. On the other hand, Hribar, Kravet, & Wilson (2014) said if the auditor faces a higher audit risk and the client's accounting reporting quality is low, the auditor will charge a higher audit fee with a longer audit hour, increase the scope of testing and assign more experienced employees to reduce detection risk. These efforts were made to improve the quality of accounting reporting and suppress someone's initiative to commit financial statement fraud. High audit fees may also not be related to collusion between the company's management and its external auditors, but incentives from the auditors because they may face litigation and reputational sanctions in the event of an audit failure. So that auditors charge higher (Ivanova & Prencipe, 2020) audit fees when giving more effort and hours for audits to reduce the risk of audit failure.

The results of this study reject the hypothesis which states that the average age of non-CEO directors (board age) has a negative effect on financial statement fraud (H4 is rejected). This is not in line with research Xu, Lin, & Chen (2018) where board directors other than older CEOs are able to minimize the motivation of younger CEOs to commit financial statement fraud. In the sample companies, the average age of directors other than CEOs in the sample companies is 55 years, or the same age as the CEO's average age of 56 years so it has no

effect on CEO behavior related to fraud. Rather, this age indicates the average age of an individual's maturity level, both in terms of competence and mental adequacy to occupy strategic positions in the company.

Results of the statistical test show that the accrual policy has no effect on financial statement fraud (H5 rejected). This is not in line with Demetriades & Owusu-Agyei (2021) who found that companies negatively rationalize discretionary accruals behavior to obtain a good audit opinion and Yulistyawati, Suardikha, & Sudana (2019) who found that management rationalization in subjective and company decision making related to the use of the accrual principle can increase the risk of management in conducting fraudulent financial reporting. Construction companies are closely related to credit transactions, where the exchange of goods and services provided is not done in cash. The Company obtains payment on a term basis, especially on long-term contracts, where revenue is recognized before settlement or delivery occurs. The accrual policy taken by the company is carried out to improve the information in the financial statements so that it is more accurate in describing the financial condition of a company.

CEO duality has no effect on FSF, thus, the results of this study reject the hypothesis which states that CEO duality has a positive effect on financial statement fraud (H6 is rejected). This is not in line with (Devi, Widanaputra, Budiasih, & Rasmini, 2021) that the duality of positions allows increasing the possibility of fraud, either through collusion, or ego to do all kinds of ways to meet needs that are not in line with the interests of shareholders. This research is in line with Imtikhani & Sukirman (2021) that CEOs use duality of positions to improve company performance, and this position does not motivate them to carry out FSF because of the effective monitoring role of the board of commissioners. Based on POJK No. 33/POJK.04/2014 concerning the Board of Directors and Board of Commissioners of Issuers or Public Companies Article 6 paragraph (1) members of the Board of Directors may hold concurrent positions as: a. members of the Board of Directors at most 1 (one) other Issuer or Public Company; b. members of the Board of Commissioners at most 3 (three) other Issuers or Public Companies; and/or c. committee members in a maximum of 5 (five) committees in the Issuer or Public Company where the person concerned also serves as a member of the Board of Directors or a member of the Board of Commissioners. The results of this study showed that 86.7% of companies are still in the criteria for concurrent positions regulated in POJK No. 33/POJK.04/2014, so that the duality of the existing CEO is carried out to maximize the competence and managerial skills of the CEO in improving company performance.

The study found that internal control does not moderate the influence of financial targets, changes in directors, audit fees, board age, accrual policies, and CEO duality on financial statements fraud. Thus the results of this study reject the hypothesis which states that strong

internal control is able to strengthen or weaken the influence of financial targets, changes in directors, audit fees board age, accrual policies, and CEO duality on financial statement fraud (H7, H8, H9, H10, H11, H12 is rejected). This is not in line with Bimo, Prasetyo, & Susilandari (2019) that internal control reduces management's tendency to avoid tax, and research Koomson, Owusu, & Bekoe (2020) that asset abuse in the workplace depends on one's perception about the strength of internal control. Low accountability for the internal control system, repeated findings regarding weaknesses in the internal control system (Din, Munawarah, Ghozali, Achmad, & Karim, 2022), as well as relatively simple internal control itself, allow employees to have the opportunity to commit fraud (Othman & Ameer, 2022). The company must have comprehensive internal control to prevent fraud. However, management must also be able to set priorities in carrying out the company's strategy, and must communicate to all lines of the company (Soleman, 2013). Even though the company already has a well-designed internal control system, to be able to run effectively, management as the company's leader is responsible for internalizing the system so that all company employees from various levels of office have the same perception. The application of corporate culture is able to increase the sense of responsibility and ownership of the company in each individual employee (Utami, Nugroho, Mappanyuki, & Yelvionita, 2020). If a strong perception has been built that the internal control system is running well, employees will discourage their intention to commit fraud because they believe that the behavior will be detected (Koomson, Owusu, & Bekoe, 2020).

5. Conclusion

The results of this study indicate that the financial target variables, change in director, board age, and accrual policies that describe five of the six elements in The Fraud Hexagon are not the motivation for an employee to commit financial statement fraud. Meanwhile, the audit fee has a negative effect on the FSF. This is in line with Barua, Lennox, & Raghunandan (2020) that low audit fees reflect low audit effort. Auditor companies may cut costs such as recruiting cheaper labor and using more traditional technology, thereby risking disrupting audit procedures and resulting in low audit quality. This is a motivation for company employees to take advantage of the weaknesses of audit quality by conducting financial statement fraud , because they believe that their actions will not be detected. On the other hand, if the auditor faces a higher audit risk and the client's accounting reporting quality is low, the auditor can charge a higher audit fee with a longer audit hour, increase the scope of testing and assign more experienced employees to reduce detection risk (Hribar, Kravet, & Wilson, 2014). These efforts were made to improve the quality of accounting reporting and suppress someone's initiative to commit financial statement fraud. High audit fees may also not be related to collusion between the

company's management and its external auditors, but incentives from the auditors because they may face litigation and reputational sanctions in the event of an audit failure. So that auditors charge higher (Ivanova & Prencipe, 2020) audit fees when giving more effort and hours for audits to reduce the risk of audit failure.

The results of this study have implications for investors or shareholders to be concerned about audit fees as an indicator in assessing the closeness and independence between the company and its auditors, which will affect the relevance of the audited financial statements. The board of commissioners can monitor the anomaly in the value of the audit fee to be adjusted to a reasonable nominal in order to obtain a higher quality audit result. This is done because the auditor will conduct an audit effort that is equivalent to the nominal audit fee obtained. A higher quality audit is thought to be able to suppress a person's intention to commit financial statement fraud because they believe that bad behavior will be detected in the audit process. This can be one of the materials for further research.

Weaknesses in the control system that are not immediately followed up, as well as systems that are relatively simple compared to the needs of the organization as a whole, can be exploited by fraud perpetrators to take actions that are detrimental to the company. On the other hand, although the internal control system has been established in such a way as to be able to prevent fraud, it will not work effectively if employees do not understand and do not have a perception that is in line with the company. The Board of Commissioners can monitor the socialization process so that the internal control culture can be internalized in employees. This is because the application of corporate culture is able to increase the sense of responsibility and share ownership of the company in each individual employee (Utami, Nugroho, Mappanyuki, & Yelvionita, 2020), so that loyalty can reduce the desire to do actions that are detrimental to the company.

This study uses secondary data in the financial statements and annual reports, so it is limited to what has been disclosed by the company. Future research can use similar research using primary data such as the technique of distributing questionnaires, as was done (Koomson, Owusu, & Bekoe, 2020). This study takes a sample of construction companies, where in Indonesia the impact due to financial statement fraud is not too large. This can be seen in the average F-Score of 0.66 whereas an F-score of less than 1.00 indicates a normal or low risk of fraud. Further research can use other industries such as manufacturing or banking.

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