Determination of the Fraud Hexagon on the Tendency of Fraudulent Financial Reporting in the Provinces of Indonesia

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Abstract

Fraudulent financial reporting occurs when public officials and others intentionally engage in dishonest and illegal acts to alter or conceal financial information, thereby creating a false picture of financial health and performance. As a result, financial statements become unreliable and misleading for stakeholders when making important decisions. This study adopts the fraud hexagon which identifies six elements (pressure, capability, collusion, opportunity, rationalization, and arrogance) to analyze and obtain empirical evidence regarding the factors that influence the tendency of fraudulent financial reporting. A total of 34 provincial governments in Indonesia in 2019-2022 comprised the population and sample used in this study. Multiple linear regression data analysis techniques were used in this study to evaluate hypotheses using secondary data and SPSS 29. The results showed that the tendency of fraudulent financial reporting was simultaneously influenced by the elements of the fraud hexagon. The tendency of fraudulent financial reporting is partially influenced by pressure, opportunity and arrogance. However, the tendency of fraudulent financial reporting is partially uninfluenced by capability, collusion, and rationalization. Based on the results of this study, it is recommended that the government, society, and other stakeholders focus on key elements that affect the integrity of financial reporting.

Keywords: Fraud, Financial Reporting, Fraud Hexagon, Provincial Government

Introduction

Regional autonomy and fiscal decentralization is a new round of development bureaucratic reform and equalization of the central government to the regions with a local government system that has broad authority in planning and allocating the budget obtained to carry out effective development and governance in accordance with the main objectives of the

Indonesian government. Bureaucratic reform of regional autonomy and decentralization requires government agencies, especially the provincial government, to be accountable for their finances periodically in the form of financial reports (Erliani, 2023). The transfer of autonomous financial management authority to local governments is precisely the basis or opportunity for fraud to occur, resulting in losses to everyone in the state.

Fraud is prone to occur in government entities due to operational characteristics such as a high commitment to spending budgets, highly centralized authority (Jumaria et al., 2024), and an excessive focus on achieving results, making fraud more likely to occur in local governments (Cipta, 2021). According to the Association of Certified Fraud Examiners (ACFE), fraud is a criminal activity that violates the law and causes losses to other parties, regardless of one's credibility. Fraud is categorized into three types, namely corruption, misuse of assets, and fraud financial statements (Zimbelman et al., 2014). In addition, fraud in government institutions is a systematic crime that refers to the illegal and improper abuse of public trust by the state apparatus for personal gain (Dewi & Muslimin, 2021).
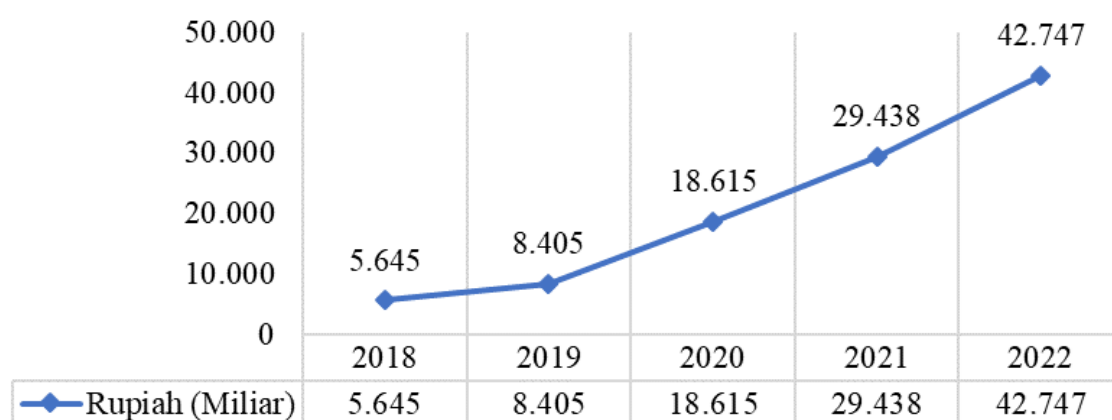

Figure 1 Trends in Potential Government Financial Losses 2018-2022
Source: Indonesian Corruption Watch (ICW), (2023)

The high state losses due to fraud indicate a failure to detect fraudulent financial reporting trends (Aviantara, 2021). The Indonesian Corruption Watch (ICW) reported that in 2019-2022, various professional backgrounds were named as suspects in fraud investigations. The most common mode in 2022, according to ICW analysis is the misuse of budgets that are not allocated according to their allocation or irregularities that occur. In addition, surcharging, fictitious projects, and procurement of goods and services are other common forms of fraud. This is in line with the results of a survey conducted by ACFE Indonesia in 2020, which stated that the proportion of fraud was dominated by 64.4% corruption, 28.1% misuse of assets and the remaining 6.7% manipulation of financial statements. ICW also highlighted that 34 provinces in Indonesia were affected by fraud, which is supported by Figure 1, which shows the government losses in each province in Indonesia. From 2018 to 2022, the province of East Java has consistently ranked among the top five in terms of the number of cases. Meanwhile, Riau is the province that caused the most state losses, amounting to Rp4,958 trillion.

The results of PwC's Global Economic Crime Survey 2022 stated that more than a third of the government sector reported cases of accounting fraud, including manipulation of figures

in financial reporting (Cipta, 2021). Provincial financial reporting that contains fraud is largely undetected in time because it is hidden from the eyes of the public or even auditors, such as overstating assets, revenues, and profits and understating liabilities, expenses, and losses, resulting in misuse of funds and government losses (Aviantara, 2021). Based on the overview of audit results (IHP) of BPK RI, there is a phenomenon of fraudulent local government financial reporting in 532 local governments, which resulted in 2,642 problems with a loss value of Rp1.30 trillion (Syahbana & Novita, 2020). These problems consisted of 40% of shortages in the amount of work and/or goods (Rp515.27 billion), 21% of inappropriate or excessive expenditures (Rp275.08 billion), 13% of overpayments other than shortages in the amount of work (Rp172. 15 billion), 9% for excessive and/or noncompliant official travel expenses (Rp114.11 billion), 6% for non-compliance with specifications of goods or services received (Rp83.03 billion), and 11% for other loss problems (Rp145.17 billion). In 277 local governments, there were 426 problems with potential losses of Rp308.85 billion. Among these problems, 53% were overpayments to partners that had not been reimbursed (Rp164.56 billion), 35% were unidentified assets (Rp106.73 billion), 6% were assets controlled by third parties (Rp20.09 billion), 4% were bad debts (Rp11.92 billion), and 2% were other potential losses (Rp5.55 billion) (BPK RI, 2020). Despite a number of measures taken in recent years, the government has not made significant progress in combating and detecting fraud (Siregar et al., 2023). The increasing number of detected fraud cases shows that the practice of fraud is closely related to the efforts made to stop it (Erliani, 2023).

Fraud increases with increasing position in the hierarchy, so the tendency to commit fraud is different for each individual (Dwiyanti et al., 2023). The Fraud hexagon theory, proposed by Georgios L. Vousinas, (2019), is a new approach to understanding why fraud occurs. Fraud Hexagon develops previous fraud theories such as Cressey's (1953) fraud triangle, Wolfe and Hermanson's (2004) fraud diamond, and Crowe's (2011) fraud pentagon. The fraud hexagon also extends the elements of fraud: pressure, opportunity, rationalization, capability, and ego by adding a new element, collusion. Thus, the latest fraud model is the fraud hexagon model S.C.C.O.R.E. (Stimulus, Capability, Collusion, Opportunity, Rationalization, and Ego). Vousinas, (2019) added collusion as a new element, because economic crime can arise from higher levels of cooperation, especially within central and local government entities (Dwiyanti et al., 2023). Therefore, today's fraud incidents require the adoption of the fraud hexagon theory.

This study aims to determine the factors of fraud hexagon in influencing the tendency of fraudulent financial reporting, because there are many cases of fraud that cause losses to many parties, and there are differences in the femenena gap and research gap of previous research. This research is a development of previous research conducted by Erliani et al., (2023) with some differences, namely, the use of the fraud score model as a proxy to investigate fraudulent financial reporting, the observation period used is 2019-2022 and the subject of research is all provinces in Indonesia. This difference is taken to be able to see the tendency of fraudulent financial reporting in the province in Indonesia, and to the best of the author's knowledge, research with the fraud hexagon variable has never been conducted in all provinces in Indonesia.

Literature Review

Agency Theory

Agency theory was first introduced by Jensen and Meckling (1976) explains the existence of a nexus of contracts between principals as owners of resources and agents as managers of resources based on contracts between principals and agents in an organization (Septiningrum & Mutmainah, 2022). The principal delegates authority to the agent with the expectation that the agent will act in the best interest of the principal. Based on the agreement, it can be assumed that certain decisions will authorize the agent. The delegation of authority raises agency problems that begin with information imbalances or asymmetries that trigger conflicts (Erliani, 2023).

Fraud Hexagon

The principal-agent conflict of interest leads to distrust, as agents prioritize personal interests over the principal's, creating an opportunity for fraud. Fraud is a result of human nature's selfishness, limited rationality, and risk-aversion, with each individual's tendency to commit fraud varying (Dwiyanti et al., 2023). The Fraud Hexagon Theory proposed by Georgios L. Vousinas (2019) is a new approach to finding out why fraud occurs. The basic theory on which fraud studies are based is the economic crime triangle, or fraud triangle, first introduced by Cressey (1953). This theory has been refined to reflect developments in the field and the increasing frequency and severity of fraud. Fraud Hexagon extends previous fraud theories such as Cressey's (1953) fraud triangle, Wolfe and Hermanson's (2004) fraud diamond, and Crowe's (2011) fraud pentagon. The fraud hexagon also expands the elements of fraud: stimulus, opportunity, rationalization, capability, and arrogance by adding a new element, collusion. Thus, the latest fraud model is the Fraud Hexagon Model S.C.C.O.R.E. (Stimulus, Capability, Collusion, Opportunity, Rationalization, and Ego). Vousinas, (2019) adds collusion as a new element to be better applied to white-collar crime cases, because this is a key factor in committing fraud, which causes the median losses to be much higher when fraudsters collude.

The Six Factors in The Fraud Factor Theory

Pressure

Pressure is the environment that motivates people to commit fraud, often due to professional and personal pressures. Fraudsters may feel pressured to discuss these issues or face situational pressures that lead to fraudulent activity (Rusmana & Tanjung, 2019). Therefore, engaging in fraudulent activity may be a way for fraudsters, such as employees working in high-pressure environments, to relieve pressure.

Capability

Capability refers to a person's ability to ignore or override internal controls to develop high-level concealment strategies and control social situations for their benefit or to sell to

others (Rusmana & Tanjung, 2019). Fraud is only perpetrated by someone who has knowledge or understanding of the thing being defrauded, allowing the fraudster to exploit or create opportunities. High level fraud is impossible for those who do not have the ability (Ketaren et al., 2023).

Collusion

Collusion is a conspiratorial attempt by two or more employees to take assets or make accounting errors that hinder the detection of fraud, especially when third parties are involved. Vousinas, (2019) argues that collusion is an important factor in fraud, including white-collar crime, because it involves the cooperation of multiple parties to commit fraud consisting of economic crimes such as fraudulent combinations (Jannah et al., 2021). Collusion is a form of corruption in which perpetrators conspire to commit fraud, often in collaboration with businessmen or government officials (Alfarago et al., 2023).

Opportunity

Opportunity is a situation that is perceived in an organization to increase the likelihood of fraud because fraudsters see it as an opportunity to commit fraud. This also allows individuals or organizations to commit dishonest acts for personal gain (Sudrajat et al., 2023). In fact, opportunities arise from fraudsters' beliefs because the perpetrators gain access to wrongdoing due to external factors or internal control weaknesses (Nugroho & Diyanty, 2022).

Rationalization

Rationalization is an attitude or ethical value that justifies cheating, often in stressful environments. Cheaters often rationalize their actions as righteous until the cheater recognizes that the action is a crime (Vousinas, 2019). Rationalization is motivated by an environment that favors fraud over wrongdoing and a desire to escape punishment. Cheaters believe that their actions are appropriate or that cheating is a common practice.

Arogansi

According to Georgios L. Vousinas (2019), perpetrators of fraud often have a "selfish" personality type, characterized by an attitude of superiority and greed, with the belief that internal controls and regulations do not apply to them, so they feel innocent of the fraud they commit. In various studies, arrogance is shown by the narcissistic attitude of the highest organizational unit, where the fraudster sees himself as very high and this view is consistently reinforced (Ketaren et al., 2023).

Fraudulent Financial Reporting

Financial statement fraud or financial misrepresentation involves financial engineering to conceal true financial conditions for personal gain with the goal of deceiving by preparing and reporting financial statements incorrectly, either through the use of accounting standards or techniques (Nguyen & Le, 2023). This fraud can be classified as a white-collar crime because it is committed by executives who prepare financial statements (Ketaren et al., 2023). Financial statement fraud can be divided into two categories: financial and non-financial. The financial category can be classified as overstating or understating the presentation of assets or

income, and the non-financial category can be classified as better-looking reports that mislead users (Erliani, 2023).

Research Method

This quantitative research investigates the impact of fraud hexagon elements on the tendency of fraudulent financial reporting in 34 Indonesian provinces from 2019-2022. The study uses 136 secondary data from audit reports, local government financial reports, performance reports, and provincial websites. The research aims to understand the influence of fraud hexagon elements on financial reporting trends in these provinces. The following is a table of operational variables in this research:

Table 1. Operational Definition of Variables

Variable	Proxy	Measurement	Scale
Pressure (X_1)	Regional Financial Performance	Financial Efficiency Ratio $= \dfrac{\text{Realization of Regional Expenditure}}{\text{Realization of Regional Revenue}}$	Ratio
Capability (X_2)	APIP Capability Score	Level 1 is assigned a value of 5 Level 2 is assigned a value of 4 Level 3 is assigned a value of 3 Level 4 is assigned a value of 2 Level 5 is assigned a value of 1	Nominal
Collusion (X_3)	*Whistle Blowing System* (WBS)	1 if WBS is not implemented 0 if WBS is implemented	Nominal
Opportunity (X_4)	Capital Expenditure Ratio	Capital Expenditure Ratio $= \dfrac{\text{Capital Expenditure Realization}}{\text{Total Expenditure Realization}}$	Ratio
Rationalization (X_5)	SPIP Maturity Score	Level 0 is assigned a value of 6 Level 1 is assigned a value of 5 Level 2 is assigned a value of 4 Level 3 is assigned a value of 3 Level 4 is assigned a value of 2 Level 5 is assigned a value of 1	Nominal
Arrogance (X_6)	Determination of APBD	1 if the APBD determination is not on time 0 if the APBD determination is on time	Nominal
Tendency of Financial Reporting Fraud (Y)	F-Score Model	$\text{F} - \text{Score} =$ Accrual Quality $+$ Financial Performance	Ratio

Result/Findings

Descriptive Statistical Analysis

Descriptive statistical tests are performed with the intention of providing an overview or definition for each research variable. The test results are represented by values such as minimum value, maximum value, mean, and standard deviation. The results of the data analysis are presented in a descriptive statistical table using 136 sample data analyzed using a data

processing application in the form of Statistical Program for Social Science (SPSS) version 29, the results can be seen in Table 2 below:

Table 2 Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Pressure (TEK)	136	0,74	1,20	0,9948	0,10103
Capability (KAP)	136	3	5	3,30	0,476
Collusion (KOL)	136	0	1	0,37	0,484
Opportunity (KES)	136	0,04	0,33	0,1559	0,06017
Rationalization (RAS)	136	3	5	3,20	0,452
Arrogance (ARO)	136	0	1	0,18	0,389
Tendency of Fraudulent Financial Reporting	136	0,86	1,92	1,3383	0,24078
Valid N (listwise)	136				

Source: Data processed by SPSS 29, (2024)

The results of descriptive statistical tests show that the amount of sample data used reached 136 data from 34 provincial governments in Indonesia in the period 2019-2022. Table 2 provides an overview of the statistics related to the variables and shows the results of descriptive statistical tests for independent variables and dependent variables in the study, as follows:

1. The pressure in this study is proxied by the regional financial efficiency ratio, resulting in a minimum value of 0,74, a maximum value of 1,20 with a mean of 0,9948 and a standard deviation of 0,10103. This analysis indicates that the provincial government in Indonesia tends to have a level of pressure with the realization of high regional expenditures compared to the realization of its regional income, as seen from the proximity of the average value to the maximum value.

2. Capability in this study is proxied by the APIP capability score. The data distribution shows a minimum value of 3, a maximum value of 5 with a mean value of 3,30 and a standard deviation of about 0,476, which indicates that the distribution of data does not vary because it is smaller than the mean value and indicates that the provincial government in Indonesia has carried out supervisory activities (assurance and consulting) according to standards so that the tendency to commit fraud is small.

3. Collusion in this study is a dummy variable proxied by local regulations or implementation of the whistleblowing system, resulting in a mean of 0,37 and a standard deviation of around 0,484. This means that about 37% of the sample of provincial governments in Indonesia tend to practice fraudulent financial reporting.

4. Opportunity in this study is proxied by the capital expenditure ratio. The test results show a minimum value of 0,04, a maximum value of 0,33 with a mean of 0,1559 and a standard deviation of 0,06017. This analysis indicates that the provincial government in Indonesia tends to have a level of opportunity with lower capital expenditure realization compared to the total expenditure realization owned, seen from the proximity of the mean value to the minimum value, the standard deviation of 0,06017

indicates that the distribution of data does not vary because it is smaller than the mean value.

5. Rationalization in this study is proxied by the SPIP maturity value. The data distribution shows a minimum value of 3, a maximum value of 5 with a mean value of 3,20 and a standard deviation of around 0,452, which indicates that the distribution of data does not vary because it is smaller than the mean value and indicates that the provincial government in Indonesia has implemented defined control policies and procedures for all activities including financial reporting so that the gap for fraud is small.

6. Arrogance in this study is a dummy variable proxied by the timeliness of APBD determination, resulting in a mean of 0,18 and a standard deviation of around 0,389. This means that about 18% of the sample of provincial governments in Indonesia tend to practice fraudulent financial reporting.

7. The dependent variable on the tendency of fraudulent financial reporting in this study is proxied by the F-score. The test results show a minimum value of 0,86, a maximum value of 1,92 with a mean of 1,3383 and a standard deviation of 0,24078. This analysis indicates that the provincial government in Indonesia tends to have a high level of financial reporting fraud tendency, seen from the average value of 1.3383 > 1 (above normal risk) strengthened also by the proximity of the average to the maximum value, the standard deviation of 0 24078 indicates that the distribution of data does not vary because it is smaller than the average value.

Analysis of Multiple Linear Regression

The study employs multiple linear analysis with SPSS version 29 to examine the impact of various factors such as pressure, capability, collusion, opportunity, rationalization, and arrogance on the likelihood of engaging in fraudulent financial reporting. The results of the regression analysis are presented in Table 3.

Table 3 Multiple Linear Regression Analysis

Coefficients[a]							
	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1 (Constant)	3,030	0,191		15,843	<0,001		
Pressure (TEK)	-1,567	0,149	-0,658	-10,535	<0,001	0,944	1,060
Capability (KAP)	-0,035	0,035	-0,069	-1,003	0,318	0,772	1,296
Collusion (KOL)	-0,034	0,034	-0,069	-1,015	0,312	0,796	1,256
Opportunity (KES)	-0,570	0,267	-0,142	-2,135	0,035	0,826	1,210
Rationalization (RAS)	0,021	0,036	0,040	0,594	0,554	0,817	1,224
Arrogance (ARO)	0,091	0,039	0,147	2,319	0,022	0,919	1,088
a. Dependent Variable: Tendency of Fraudulent Financial Reporting							

Source: Data processed by SPSS 29, (2024)

The multiple linear equations in this study are as follows:

> **Y = 3,030 - 1,567 TEK - 0,035 KAP - 0,034 KOL - 0,570 KES + 0,021 RAS + 0,091 ARO + ε**

The multiple linear equations in this study are as follows:

1. The constant value of 3,015 indicates that if pressure, capability, collusion, opportunity, rationalization, and arrogance are held constant, the average propensity to engage in fraudulent financial reporting is 3,030.
2. Pressure (TEK) of -1,567 indicates that each 1% increase in pressure reduces the propensity to engage in fraudulent financial reporting by 156,7%, holding other variables constant.
3. Capability (KAP) of -0,035 indicates that each 1% increase in capability reduces the propensity to commit financial fraud by 3,5%, holding other variables constant.
4. Collusion (KOL) of -0,034 indicates that each 1% increase in collusion will reduce the propensity for fraudulent financial reporting in the province by 3,4%, holding other variables constant.
5. Opportunity (KES) of -0,570 indicates that each 1% increase in opportunity will reduce the propensity to commit fraud by 57%, holding other variables constant.
6. Rationalization (RAS) of 0,021 indicates that each 1% increase in rationalization will increase the propensity to engage in fraudulent financial reporting by 2,1%, holding other variables constant.
7. Arrogance (ARO) of 0,091 indicates that each 1% increase in arrogance increases the propensity for fraudulent financial reporting by 9,1%, holding other variables constant.

F-Test

Table 4 F-Test

Model		Sum of Squares	df	Mean Square	F	Sig.
ANOVAª						
1	Regression	4,116	6	0,686	23,848	<0,001ᵇ
	Residual	3,711	129	0,029		
	Total	7,827	135			

a. Dependent Variable: Tendency of Fraudulent Financial Reporting
b. Predictors: (Constant), Pressure (TEK), Capability (KAP), Collusion (KOL), Opportunity (KES), Rationalization (RAS), and Arrogance (ARO)

Source: Data processed by SPSS 29, (2024)

The study reveals that pressure, capability, collusion, opportunity, rationalization, and arrogance all have a 50,4% simultaneous impact on fraudulent financial reporting, as indicated by the adjusted R square value of 0,504 and F test significance value of <0.001 < 0.05.

Discussion

The Effect of Pressure on the Tendency of Fraudulent Financial Reporting

Based on the data analysis and hypothesis testing conducted, it is known that the pressure proxied by the regional financial efficiency ratio affects the tendency of fraudulent financial reporting. This can be seen in the regression coefficient value of -1,567 and shows a negative direction or opposite relationship between pressure and the tendency of fraudulent financial reporting. As a result, the lower the level of pressure generated, the more the provincial government tends to commit fraudulent financial reporting. Pressure to achieve effective, efficient, and economical performance may cause the provincial government to tend to take unethical actions such as manipulating data in financial statements. This is done to achieve better performance targets and to maintain the reputation of the provincial government in the eyes of the public and the central government. The results of this study are consistent with and supported by agency theory, which explains that the conflict of interest between agents and principals can cause agents to take opportunistic actions, such as fraudulent financial reporting, in order to maintain their own image and interests.

This study aligns with previous research by Sagala & Siagian, (2021), Achmad et al., (2022), and Triyanto et al., (2023) that suggests pressure influences the tendency of fraudulent financial reporting. On the other hand, contrary to Fadly et al., (2020) and Erliani et al., (2023) who did not find any effect of pressure on the tendency of fraudulent financial reporting.

The Effect of Capability on the Tendency of Fraudulent Financial Reporting

Based on the data analysis and hypothesis testing conducted, it is known that capability has no effect on the tendency of fraudulent financial reporting. This can be seen in the regression coefficient value of -0,035 with a significance value of $0,318 > 0,05$, which means that the capability variable has no effect on the tendency of fraudulent financial reporting. The results of this study indicate that the APIP capability value, as a proxy for the resulting capability, is unable to influence the provincial government to commit fraudulent financial reporting. The results of this study also cannot support the agency theory, which states that provinces that experience rationalization cannot show that the weak internal control system and existing loopholes are the failure of the agent, so that this understanding opens loopholes and justifies agents behaving fraudulently (Ketaren et al., 2023). This is because the average province studied is in a state of internal control level 3 (Delivered), which means that it is in accordance with the target set in the Presidential Regulation No. 18 of 2020 on the National Medium-Term Development Plan for 2020-2024, which sets the APIP capability level target at 3 on a scale of 1-5.

The results of this study are consistent with the research conducted by Sukmadilaga et al., (2022), Septiningrum & Mutmainah, (2022), Alfarago et al., (2023) which states that capability has no effect on the tendency of fraudulent financial reporting. However, it is not consistent with the research conducted by Aviantara, (2021) and Triyanto et al., (2023) who say that capability has a positive effect on the tendency of fraudulent financial reporting and is not consistent with the research of Sari & Khoiriah, (2021) who says that capability has a negative effect on the tendency of fraudulent financial reporting.

The Effect of Collusion on the Tendency of Fraudulent Financial Reporting

Based on the data analysis and hypothesis testing conducted, it is known that collusion has no effect on the tendency of fraudulent financial reporting. This can be seen from the regression coefficient value of -0,034 with a significance value of 0,312 > 0,05, which means that the collusion variable has no effect on the tendency of fraudulent financial reporting. The results of this study indicate that local regulations or the implementation of a whistleblowing system (WBS) as a proxy for the resulting collusion are unable to influence the provincial government to commit fraudulent financial reporting. The results of this study also fail to support agency theory, which suggests that provinces that experience collusion cannot demonstrate that weak oversight and existing loopholes are a failure of the agent, so that this understanding opens loopholes and justifies agents behaving fraudulently (Ketaren et al., 2023). This is because, on average, the provinces studied had regulations that had been established before this study was conducted, and the complaint suggestions were clearly explained and provided by the supporting agencies, so if there was fraud, employees and even the public could complain, so the tendency to cheat was low.

The results of this study are consistent with the research conducted by Pranyanita et al., (2021) and Sudrajat et al., (2023) which state that collusion has no effect on the tendency of fraudulent financial reporting. However, it is not consistent with the research conducted by Aviantara, (2021), Erliani et al., (2023) and Ketaren et al., (2023) which state that collusion does affect the propensity to engage in fraudulent financial reporting.

The Effect of Opportunity on the Tendency of Fraudulent Financial Reporting

The results of data analysis and hypothesis testing show that the opportunity proxied by the ratio of capital expenditure affects the tendency of fraudulent financial reporting in the provincial government in Indonesia. This can be seen from the regression coefficient value of -0,570, which indicates the direction of a negative relationship or an opposite relationship between opportunity and the tendency of fraudulent financial reporting. Thus, it can be interpreted that low opportunity (low capital expenditure ratio) may encourage the provincial government to engage in unethical actions such as manipulating financial data or misusing the budget by increasing the value of capital expenditure so that it is seen as a province that is able to use the budget for the public interest in the future. Provincial governments that consistently have a high capital expenditure ratio tend to receive support and assistance from the central government and maintain legitimacy in the eyes of the public; consequently, when they have a low capital expenditure ratio, the provincial government tends to commit financial reporting fraud to maintain its image. This can be supported by Enan's theory, which states that conflicts of interest between agents and principals can cause agents to engage in opportunistic actions, such as fraudulent financial reporting, in order to maintain their own image and interests.

The results of this study are consistent with the research conducted by Fadly et al., (2020), Aviantara, (2021), Nugroho & Diyanty, (2022), and Ketaren et al., (2023) which state that opportunity affects the propensity to engage in fraudulent financial reporting. However, this research is inconsistent with the research of Alfarago et al., (2023) and Atmadja et al., (2024) who find that opportunity has no effect on the propensity to engage in fraudulent financial reporting.

The Effect of Rationalization on the Tendency of Fraudulent Financial Reporting

Based on the data analysis and hypothesis testing conducted, it is known that rationalization has no effect on the propensity to commit financial reporting fraud. This can be seen from the small regression coefficient value of 0,021 with a significance level of 0,554, where 0,554 > 0,05 which means that the rationalization variable has no effect on the tendency of fraudulent financial reporting. The results of this study indicate that the SPIP maturity value as a proxy for the resulting rationalization is unable to influence the provincial government to commit fraudulent financial reporting. The results of this study also fail to support the agency theory, which states that provinces that experience rationalization cannot demonstrate that the weak internal control system is an agent failure, thus justifying fraudulent financial reporting behavior (Jannah et al., 2021). This is because the average province studied is in the condition of the government internal control system at level 3 (defined) in accordance with the target in the Presidential Regulation of the Republic of Indonesia Number 18 of 2020 on the National Medium-Term Development Plan for 2020-2024, which targets a score of 3 on a scale of 1-5.

The results of this study are consistent with the research conducted by Achmad et al., (2022), Sagala & Siagian, (2021) and Sudrajat et al., (2023) that rationalization has no effect on the tendency of fraudulent financial reporting. However, it is inconsistent with the research conducted by Septiningrum & Mutmainah, (2022) and Setyono et al., (2023), who state that rationalization has a positive effect on the propensity to engage in fraudulent financial reporting, and inconsistent with Fadly et al., (2020), who state that rationalization has a negative effect on the propensity to engage in fraudulent financial reporting.

The Effect of Arrogance on the Tendency of Fraudulent Financial Reporting

The results of data analysis and hypothesis testing show that arrogance, proxied by the timeliness of APBD provision, affects the tendency of fraudulent financial reporting in the provincial government in Indonesia. This can be seen from the regression coefficient value of 0,091, which indicates a positive and significant relationship between arrogance and the tendency of fraudulent financial reporting. The results of this study indicate that the higher the level of arrogance of the provincial government, which is reflected in the delay in determining the APBD, the higher the tendency to commit fraudulent financial reporting. This is in line with the agency theory, which states that the conflict of interest between the agent and the principal encourages an attitude of arrogance to increase and causes delays in determining the regional regulation on the APBD, where the executive (regional head) and the legislative (DPRD) show an attitude of superiority due to differences in interests. This behavior increases the risk of fraudulent practices in the preparation of the APBD, which have the potential to affect the timing of the APBD determination. Thus, it can be interpreted that high arrogance can encourage the provincial government to take unethical actions, such as manipulating financial data or misusing the budget for the benefit of certain parties.

The results of this study are consistent with the research conducted by Sari & Khoiriah, (2021), Sukmadilaga et al., (2022), Septiningrum & Mutmainah, (2022), and Ketaren et al., (2023) that opportunity affects the tendency of fraudulent financial reporting. However, this research is not consistent with the research of Pranyanita et al., (2021) and Alfarago et al., (2023) who found that opportunity has no effect on the propensity to engage in fraudulent financial reporting.

Conclusion

This study investigates the impact of pressure, capability, collusion, opportunity, rationalization, and arrogance on the tendency of fraudulent financial reporting in Indonesian provinces from 2019-2022, based on information processing results, the conclusions of this study can be summarized as follows:

1. Pressure proxied by the regional financial efficiency ratio has a negative effect on the tendency of fraudulent financial reporting in provinces in Indonesia.
2. Capability proxied by the value of APIP capability has no effect on the tendency of fraudulent financial reporting in the province in Indonesia.
3. Collusion proxied by local regulations or implementation of the whistleblowing system has no effect on the tendency of fraudulent financial reporting in the province in Indonesia.
4. Opportunity proxied by the ratio of capital expenditure has a negative effect on the tendency of fraudulent financial reporting in the province in Indonesia.
5. Rationalization proxied by the SPIP maturity value has no effect on the tendency of fraudulent financial reporting in the province in Indonesia.
6. Arrogance proxied by the timeliness of APBD provision with a positive effect on the tendency of fraudulent financial reporting in the province in Indonesia.
7. The independent variables in this study, namely pressure, capability, collusion, opportunity, rationalization and arrogance simultaneously affect the tendency of fraudulent financial reporting in the province in Indonesia.

This study has disadvantages owing to its brief research time, single measuring technique, and dummy variables such as arrogance and collusion. It may be less effective in detecting false financial reporting tendencies. To increase accuracy, researchers can include factors such as the leverage index, financial target, asset change, audit opinion, and collaboration between the government and private parties. Researchers may also utilize models such as the Beneish M-Score or leverage. Furthermore, researchers should prolong the observation time and broaden the observation sample to offer more complete data. This will assist us create more accurate and complete studies.

Declaration of conflicting interest

The authors declare that there is no conflict of interest in this work.

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