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THE ROLE OF GENDER IN THE AUDIT COMMITTEE AS A MODERATOR ON THE DETERMINANTS OF INDICATIONS OF FINANCIAL STATEMENT FRAUD IN BANKING: A FRAUD HEXAGON PERSPECTIVE

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Abstract

This research aims to empirically prove the factors that lead the board of directors to commit financial statement fraud. These factors are explained and interpreted based on the elements found in the fraud hexagon theory. The study also aims to empirically demonstrate that the gender of the audit committee within the company can weaken the actions of the board of directors that lead to fraudulent behavior in financial statements. The research sample was selected using purposive sampling techniques, resulting in 41 companies that met the criteria, with observations over a period of 5 years from 2019 to 2023. Data were collected by downloading annual reports and audited annual financial statements. The data analysis technique employed binary logistic regression, analyzed using Stata software. The results indicate that capability and opportunity have a positive effect on indications of financial statement fraud. Stimulus, collusion, rationalization, and ego do not have an effect on indications of financial statement fraud. The gender of the audit committee does not moderate the influence of stimulus, capability, collusion, opportunity, rationalization, and ego on indications of financial statement fraud.

Keywords: fraud hexagon, indications of financial statement fraud, gender of the audit committee
JEL Code: M41, M42, M48

Abstrak

Penelitian ini bertujuan untuk membuktikan secara empiris faktor-faktor yang menyebabkan direksi melakukan tindak kecurangan laporan keuangan. Faktor-faktor tersebut dijelaskan dan diinterpretasikan berdasarkan elemen-elemen yang terdapat pada teori fraud hexagon. Penelitian ini juga memiliki tujuan yaitu untuk membuktikan secara empiris peran gender komite audit di dalam perusahaan mampu memperlemah tindakan-tindakan direksi yang mengarah kepada perilaku fraud dalam laporan keuangan. Sampel penelitian dipilih dengan menggunakan teknik purposive dan diperoleh sebanyak 41 perusahaan yang memenuhi kriteria dengan pengamatan selama 5 tahun yakni 2019-2023. Data dikumpulkan dengan mengunduh laporan tahunan dan laporan keuangan tahunan yang telah diaudit. Teknik analisis data menggunakan regresi logistik biner yang dianalisis dengan menggunakan software Stata. Hasil penelitian menunjukkan bahwa kapabilitas dan peluang berpengaruh positif terhadap indikasi kecurangan laporan keuangan. Stimulus, kolusi, rasionalisasi dan ego tidak berpengaruh terhadap indikasi kecurangan laporan keuangan. Gender komite audit tidak mampu memoderasi pengaruh stimulus, kapabilitas, kolusi, peluang, rasionalisasi, dan ego terhadap indikasi kecurangan laporan keuangan.

Kata Kunci: fraud hexagon, indikasi kecurangan laporan keuangan, gender komite audit
Kode JEL: M41, M42, M48

INTRODUCTION

The phenomenon of financial statement fraud continues to attract the attention of many stakeholders. According to the publication by the Association of Certified Fraud Examiners (2024) in the Report to The Nations, financial statement fraud results in the highest losses, amounting to USD 766,000 per case, which represents an increase of USD 173,000 from 2022. In comparison to other fraud schemes, as referenced in the fraud tree, corruption amounts to USD 200,000 per case, and asset misappropriation amounts to USD 120,000 per case.

Another finding from the Association of Certified Fraud Examiners (2024) indicates that Indonesia ranks third in the Asia-Pacific region for the highest number of fraud cases, with 25 cases out of a total of 183. China holds the first position with 33 cases, followed by Australia with 29 cases. The persistently high number of fraud cases suggests that fraud must be a concern for many parties in order to be minimized.

More specifically, based on industry type, the publication by the Association of Certified Fraud Examiners (2024) states that the banking and financial services industry is one of the sectors with the highest number of fraud cases. Thus, it can be concluded that the banking and financial services industry is currently in a precarious situation. This fact is supported by an article published in 2023 by kompas.com titled "Various Fraud Cases Endanger Indonesia's Economy," which states that fraud cases frequently occur in the national financial industry, thereby disrupting the stability of the financial ecosystem. A similar sentiment was expressed by Didik Madiyono, a member of the Board of Commissioners of the Deposit Insurance Corporation (LPS) in the field of Guarantee Programs and Bank Resolution, as quoted in an article published in 2024 by finance.detik.com. He stated that the rampant phenomenon of bank bankruptcies is almost entirely due to the integrity of management and the prevalence of fraud within the banks, rather than being caused by deteriorating economic conditions.

Indicators of financial statement fraud in the banking sector have emerged at PT Bank Rakyat Indonesia (Persero) Tbk, Batu branch. According to a report from surabaya.kompas.com in 2024, irregularities were suspected in the financial statements related to the People's Business Credit (KUR) program, which resulted in significant discrepancies. The modus operandi involved using debtor data to secure large loans. The number of victims is confirmed to be more than one, with the corruption amount reaching tens of millions of rupiah.

Another signal occurred at PT Bank Mayapada Internasional Tbk. According to a report from nusantara-news.co in 2023, the Public Accounting Firm (KAP) that audited Bank Mayapada's financial statements was found to have issues. Given the reputation of the KAP auditing Bank Mayapada, it is reasonable for the public to suspect that the financial statements are not honest, as they employed a problematic auditor. This suspicion arose from the audit results of the Audit Board of Indonesia (BPK), which detected unusual patterns related to the credit disbursements of Bank Mayapada under the supervision of the Financial Services Authority (OJK) from 2017 to 2019. Loans amounting to 4.3 trillion Rupiah were repeatedly disbursed to problematic debtors.

Research on financial statement fraud has been extensively conducted over the years in line with the development of fraud theory. This is evident in the systematic reviews by Homer (2020) and Shahana et al. (2023). The most recent and well-known development was made by Vousinas (2019) with the S.C.C.O.R.E. model. Several publications in reputable international journals have adopted this model as a theory, such as Bader et al. (2024), who refer to it as the hexagon theory, Alfarago et al. (2023) and Achmad et al. (2023), who call it the fraud hexagon theory, and Sari et al. (2022), who refer to it as the hexagon fraud theory. This theory comprises six elements: stimulus, capability, collusion, opportunity, rationalization, and ego.

This study aims to empirically prove the factors that lead directors to commit financial statement fraud. These factors are explained and interpreted based on the elements found in the fraud hexagon theory. The study also aims to empirically demonstrate the role of gender in the audit committee within companies in weakening the actions of directors that lead to fraudulent behavior in financial statements. Based on the initial literature review conducted by the author, the results still show inconsistent findings. Research gaps exist not only in the variables that constitute the elements of the fraud hexagon but also in the expansion of the model using moderating variables.

The theoretical contribution of this research is to fill the gaps in previous studies to pave the way for refinement. The fraud hexagon theory is an important finding in the wealth of existing fraud theory literature. This theory, proposed by Vousinas, can contribute to providing a reference for measuring the elements that are part of the fraud hexagon when linked to financial statement fraud. This research also offers a new understanding by linking the concept of gender with the audit committee as a crucial component of corporate governance in preventing fraudulent actions within a company. With this combination, it is hoped that a better research model can be created compared to previous studies.

The practical contribution of this research is to serve as a consideration for investors that directors may have a tendency to commit financial statement fraud, thus encouraging investors to be more cautious in making investment decisions. This research can also provide new insights into determining the level of gender diversity in filling various positions within a company, particularly in the audit committee. This is expected to enhance governance and indirectly improve the company's image in the mission of advancing the feminist movement.

The novelty of this research lies in two aspects: first, the moderating variable of the audit committee will be linked to gender. Gender is chosen as it is one of the ten characteristics of the audit committee based on the systematic classification by Omar et al. (2023). Second, the selection of proxies for each element of the fraud hexagon will be proxies that have significant value concerning the indicators of financial statement fraud, with the aim of forming a better model than those previously used in earlier research.

Association of Certified Fraud Examiners (2024) states that women commit less fraud and cause fewer losses. More specifically, in the Asia-Pacific region, which includes Indonesia, 75% of fraud cases are committed by men, while 25% are committed by women. This may occur because, borrowing the ideas of Wang et al. (2022), women tend to avoid risks and are more committed to ethical practices compared to men. Oradi & Izadi (2020) also state that women perform better in oversight roles, are more conservative, and make more ethical decisions. Both opinions are rooted in the nature of women, who possess patience, perseverance, and caution in their work (Sawarjuwono & Atmadja, 2005). The presence of women in the audit committee can reduce audit risk because women have superior abilities in monitoring and internal communication, and they demand high-quality audits, providing further assurance from external auditors when their companies are more complex and risky (Alkebsee et al., 2021). Thus, the presence of women in audit committee positions is expected to minimize the probability of directors committing financial statement fraud when they are surrounded by the elements of the fraud hexagon.

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

Fraud Hexagon Theory

The Fraud Hexagon Theory was proposed by Georgios L. Vousinas in a paper published in the Journal of Financial Crime in 2019. This paper elaborates on fraud theory by refining existing theories that explain the factors that compel individuals to commit fraud. Vousinas (2019) reviews widely accepted models that explain why individuals commit fraud, including the fraud triangle, fraud diamond, fraud scale, and the MICE model. Vousinas (2019) argues that these models need to be updated and adapted to current developments in the context of evolving fraud issues.

The Fraud Hexagon Theory consists of six elements: stimulus, capability, collusion, opportunity, rationalization, and ego. The first letter of each of these dimensions forms the acronym S.C.C.O.R.E. In some literature, the term "stimulus" is used interchangeably with "pressure," as both have similar meanings. Similarly, "ego" is sometimes referred to as "arrogance" in various literature, which also conveys the same concept.

Gender Theory

Gender theory is the study of what is understood as masculine and/or feminine and/or queer behavior within specific contexts, communities, societies, or fields of study (including but not limited to literature, history, sociology, education, applied linguistics, religion, health sciences, philosophy, and cultural studies) (Jule, 2014). The term "sex" refers to biologically observable categories, such as female and male or intersex (nature). In contrast, the term "gender" refers to socially constructed categories, roles, and behaviors, which can be feminine or masculine (nurture).

Women are credited with feminine attributes, while men are credited with masculine attributes. Draulans highlights the stereotypical differences between feminine and masculine traits (Breesch & Branson, 2009). Williams & Best (1990) outline gender stereotypes across 25 countries. Ghavami & Peplau (2013) present a list of the top 15 attributes associated with women and men. Kurniawati (2020) describes masculine and feminine characteristics, as well as Loden's characteristics with specific parameters.

Hypothesis Formulation

The Fraud Hexagon Theory by Vousinas (2019) states that stimulus (or incentive) refers to the pressure to commit fraud, which can be both financial and non-financial. Research findings by Sari et al. (2024), Alfarago et al. (2023), and Achmad et al. (2022) indicate that the stimulus element positively influences indications of financial statement fraud. An individual is likely to commit fraud when stimulated by certain factors. A person's response to take action is a result of the stimulus experienced during a prior event (Deutsch, 1966). Stimulus is closely related to self-control. Weak self-control can lead to impulsive deviant behaviors. Khatwani & Goyal (2019) argue that individuals with low self-control and an inability to resist temptation are more likely to engage in financial dishonesty.

If a company's asset growth fluctuates, management will face pressure to adjust financial statements to present a stable growth trajectory. At that point, directors will always be required to maintain the financial stability of their business. This pressure stimulates directors to commit financial statement fraud. Directors with weak self-control may respond to this pressure by engaging in fraud, even if they previously had no intention of doing so. Thus, when directors are stimulated, their likelihood of involvement in financial statement fraud increases.

H1: Stimulus positively influences indications of financial statement fraud.

The Fraud Hexagon Theory by Vousinas (2019) states that capability refers to the personal traits and abilities that play a crucial role in whether fraud actually occurs, given the presence of pressure, opportunity, and rationalization. Research by Naldo & Widuri (2023) and Sari et al. (2022) indicates that the capability element negatively influences indications of financial statement fraud. Naldo & Widuri (2023) note that many previous researchers have used changes in the Board of Directors (BOD) as a proxy for capability, assuming that changes in directors create a high-stress environment that triggers fraudulent actions. This stress arises because new directors are expected to adapt quickly, hindered by the delegation of tasks, authority, and responsibilities from previous directors, as well as instability in company policies due to high turnover among directors. However, Naldo & Widuri (2023) empirically do not support this assumption and instead align with the possibilities outlined by Sari et al. (2022).

Sari et al. (2022) explain two possible reasons for director turnover. First, the previous director may have been implicated in fraud and thus had to be dismissed. Second, the company may wish to improve its performance by hiring more qualified individuals. If the newly appointed director is more qualified than the previous one, this can minimize agency conflicts (Naldo & Widuri, 2023). Therefore, appointing a new director with sufficient capability reduces the likelihood of directors engaging in financial statement fraud.

H2: Capability negatively influences indications of financial statement fraud.

The Fraud Hexagon Theory by Vousinas (2019) states that collusion refers to an agreement or arrangement between two or more individuals, where one party provides assistance to another for criminal purposes, to deceive a third party regarding their rights. Research by Bader et al. (2024) indicates that the collusion element positively influences indications of financial statement fraud. The onset of collusion stems from the pressure faced by an individual, which gradually encourages the pressured individual to engage in collusion (Ramamoorti et al., 2009). Maas & Yin (2022) argue that a partner in crime is necessary when collusion is intended. In this context, directors act as representatives of the company who possess connectivity and networks with parties both inside and outside the company to form illegal collaborations. Directors can camouflage their fraudulent activities through collusion, making it difficult for oversight parties to detect.

Financial statements are generally prepared based on transactions conducted with external parties. When these parties collude with the company, the transactions appear legitimate and real. This creates a potential fraud loophole in financial statements when linked to collusion schemes. Collusion is highly likely to occur in companies with significant transactions with affiliated parties within a parent company system. Thus, the larger the collusion network held by directors, the greater the likelihood of their involvement in financial statement fraud.

H3: Collusion positively influences indications of financial statement fraud.

The Fraud Hexagon Theory by Vousinas (2019) states that opportunity refers to the ability to plan and commit fraud without detection. Research by Nugroho & Diyanty (2022) and Sari et al. (2022) indicates that the opportunity element positively influences indications of financial statement fraud. Financial statements contain various transactions conducted by the company. Directors have the opportunity to commit financial statement fraud because they have the authority to prepare these statements. Additionally, preparing financial statements requires estimates and subjective judgments, creating a loophole for directors to commit fraud. If directors intend to commit fraud, they will seek out and focus on transactions that can be manipulated.

One example of a routine economic transaction that can become a fraud loophole is revenue. In this case, revenue becomes a potential area for directors to commit fraud. An increase in revenue also increases the company's assets. If revenue does not lead to an increase in company assets and oversight is deemed inadequate, this may indicate the occurrence of financial statement fraud. This aligns with Sari et al. (2022), who state that assessments of estimates or projections, such as uncollectible receivables and obsolete inventory, can create opportunities for directors to manipulate. Thus, as oversight weakens, the opportunities increase, and the likelihood of directors engaging in financial statement fraud also rises.

H4: Opportunity positively influences indications of financial statement fraud.

The Fraud Hexagon Theory by Vousinas (2019) states that rationalization relates to the justification of fraud. Many fraud perpetrators view themselves as honest individuals, ordinary people, and not criminals; they must come up with reasons to make their fraudulent actions more acceptable to themselves. Research by Kirana et al. (2023) indicates that the rationalization element positively influences indications of financial statement fraud. Rationalization is an individual's attitude that allows them to justify their fraudulent actions as not criminal (Abdullahi & Mansor, 2015). In other words, fraud perpetrators often do not see themselves as fraudsters; instead, they rationalize their illegal actions while maintaining the belief that they are trustworthy individuals, just as they were before committing fraud.

Referring to the concept of rationalization, one form is the replacement of external auditors. This change can indirectly eliminate or conceal previous financial statement fraud, thereby increasing the risk of audit failure (Kirana et al., 2023). This risk arises because the time required for a new auditor to adapt can create an opportunity for perpetrators to erase traces of fraud. In other words, these traces would be easier to identify by the previous auditor, who has a deep understanding of the company's intricacies over several years. Any irregularities found by the previous auditor may be concealed by the company by replacing them with a new auditor, potentially one of lower quality. Thus, the higher the rationalization among directors in committing fraud, the greater their tendency to engage in financial statement fraud.

H5: Rationalization positively influences indications of financial statement fraud.

The Fraud Hexagon Theory by Vousinas (2019) states that one common personality type among fraud perpetrators is egoism, characterized by a drive for success at all costs, self-centeredness, and often narcissism. Research by Naldo & Widuri (2023) indicates that the ego element positively influences indications of financial statement fraud. Truluck & Courtenay (2002) show that higher education levels are associated with higher stages of ego development. A report from the Association of Certified Fraud Examiners (2022) indicates that 65% of fraud perpetrators have higher academic backgrounds than the remaining 35%. The implication is that the higher the education level of a CEO, the greater the likelihood of arrogance.

The superior nature of being the most powerful person in a company allows a CEO to behave arbitrarily and poses a significant potential for engaging in deviant behavior for personal gain. One form of such deviance is committing financial statement fraud. A high level of education among CEOs represents their ego. Therefore, the higher the education level of a CEO, the more arrogant they may be, and the greater their tendency to engage in financial statement fraud.

H6: Ego positively influences indications of financial statement fraud.

Gender theory from the perspective of feminine stereotypes explains that women possess love-oriented attributes and use soft indirect language (Breesch & Branson, 2009). Similarly, Haas (1979) argues that women are often more supportive, polite, and expressive, discussing home and family more frequently and using more words that imply feelings, evaluations, interpretations, and psychological states. Based on this, it can be stated that women are better at creating a calm atmosphere and can reduce tension arising from stressful situations. Stimulus (or incentive) refers to the pressure to commit fraud, which can be both financial and non-financial (Vousinas, 2019).

The audit committee is responsible for reviewing the company's financial information, ensuring that directors are always under strict oversight and control by the audit committee. This pressure creates a tense environment. The presence of women on the audit committee can alleviate the tension caused by pressures, which in this context may take the form of high financial needs, the need to report better results due to pressure to meet targets (especially during crises), stress from the work environment, and professional ambitions with a desire to achieve them as soon as possible. Thus, the representation of women on the audit committee can minimize the tension arising from pressure, thereby weakening the tendency of directors to commit financial statement fraud.

H7: The gender of the audit committee can weaken the positive influence of stimulus on indications of financial statement fraud.

Gender theory from the perspective of masculine stereotypes explains that men tend to be more aggressive and have higher ambitions than women (Jule, 2014). This attribute suggests that everything must be done quickly. The presence of women in an organization can balance the aggressive and ambitious masculine traits, as women tend to be more quality-oriented and cautious in decision-making (Kurniawati, 2020). This balance will lead to higher-quality decisions. Januarsi et al. (2014) argue that the presence of women on the audit committee can enhance accounting quality. The presence of women on the audit committee can reduce audit risk because women have superior abilities in monitoring and internal communication. Additionally, women demand high-quality audits and provide further assurance from external auditors when their companies are more complex and risky (Alkebsee et al., 2021).

One proxy for measuring capability is the turnover of directors. Sari et al. (2022) explain two possible reasons for director turnover. First, the previous director may have been implicated in fraud and thus had to be dismissed. Second, the company may wish to improve its performance by hiring

more qualified individuals. It would be a strong combination if a company is led by a capable board of directors and its financial information is reviewed by a high-quality audit committee. Thus, the tendency of directors to engage in financial statement fraud will be further reinforced through the appointment of new directors combined with the representation of women on the audit committee.
H8: The gender of the audit committee can strengthen the negative influence of capability on indications of financial statement fraud.

Gender theory from the perspective of feminine stereotypes explains that women possess cooperative attitudes and relationship-oriented characteristics (Jule, 2014; Werastuti et al., 2022). Similarly, Kurniawati (2020) states that femininity is more dependent, collaborative, and team-oriented compared to masculinity, which tends to be more independent and competitive. The audit committee is tasked with reviewing the financial information prepared by the directors. Financial information that contains elements of collusion will be more easily detected through the representation of women on the audit committee. This is because women are more relationship-oriented, leading to broader relational networks compared to men. Such extensive networks will provide more useful information for reviewing the company's financial statements.

Additionally, according to POJK No 55 /POJK.04/2015 regarding the Formation and Guidelines for the Work of the Audit Committee, the audit committee is responsible for reviewing the company's compliance with laws and regulations. Collusion is one of the unethical practices that falls under the category of KKN (Corruption, Collusion, and Nepotism). Through the representation of women on the audit committee, it is hoped that this practice can be prevented, given that, as suggested by Wang et al. (2022), women are more committed to ethical practices than men. Thus, the representation of women on the audit committee can suppress and prevent collusion within the company, thereby weakening the tendency of directors to commit financial statement fraud.
H9: The gender of the audit committee can weaken the positive influence of collusion on indications of financial statement fraud.

Gender theory from the perspective of both feminine and masculine stereotypes explains that women tend to be more practical compared to men, who are often more theoretical (Breesch & Branson, 2009). Generally, practical individuals are more adept at discovering creative solutions, while theoretical individuals may struggle due to rigidity and adherence to theoretical concepts. This notion is supported by Idawati (2021), who links it to psychological and marketing theories, noting that women are known to be more frugal and creative in generating information during complex tasks, leading to more accurate decision-making compared to men.

The audit committee is responsible for reviewing the financial information prepared by the directors. One way to address companies that are perceived to be capable of committing undetected financial statement fraud is by developing more creative and unconventional audit strategies. One example is surprise audits, which involve conducting inspections unexpectedly and confidentially. Other creative and unconventional audit strategies can be more easily implemented through the representation of women on the audit committee.

As previously mentioned, women tend to be more practical and adept at discovering creative solutions. Therefore, the representation of women on the audit committee, through the development of more creative and unconventional audit strategies, can narrow the opportunities for fraud, thereby weakening the tendency of directors to commit financial statement fraud.
H10: The gender of the audit committee can weaken the positive influence of opportunity on indications of financial statement fraud.

Gender theory from the perspective of Loden's characteristics, as described by Kurniawati (2020), states that the objective basis of femininity is based on output quality, while the objective basis of masculinity is goal achievement (winning). Based on this, women are likely to be more perfectionistic than men. Perfectionistic individuals are characterized by high standards, critical thinking, and a pursuit of excellence (Prahara & Baridji, 2021). Bagaskara & Chariri (2024) state that there are two reasons why companies change external auditors: regulatory compliance and voluntary changes. Voluntary changes in auditors should receive special attention from the audit committee compared to changes made for regulatory compliance.

Kirana et al. (2023) argue that changing external auditors can indirectly eliminate or conceal previous financial statement fraud, thereby increasing the risk of audit failure. The presence of women on the audit committee can minimize risks associated with changing external auditors. In this context, the financial information produced by directors will be reviewed more thoroughly and critically by the audit committee, utilizing high standards. This aligns with the view of Alkebsee et al. (2021) that women demand high-quality audits and provide further assurance from external auditors when their companies are more complex and risky. Thus, the representation of women on the audit committee will counter the rationalization of directors who change external auditors, thereby weakening the tendency of directors to commit financial statement fraud.

H11: The gender of the audit committee can weaken the positive influence of rationalization on indications of financial statement fraud.

Gender theory from the perspective of feminine stereotypes explains that women possess love-oriented attributes (Breesch & Branson, 2009). Loden's characteristics, as described by Kurniawati (2020), indicate that one key feminine characteristic is empathy. Furthermore, Williams & Best (1990) state that one feminine trait is having a gentle heart, and Ghavami & Peplau (2013) note that maternal qualities are among the attributes of femininity. Generally, ego is defined as an unhealthy belief in one's self-interest, arrogance, and self-centered ambition. Based on this definition, Holiday (2016) provides an analogy of the angry child within each person, who chooses or acts solely based on their desires above all else. The need to always be superior to others and to be recognized as such overshadows all reasonable needs, which is what is referred to as ego. Ego is the feeling of superiority and the belief that exceeds self-confidence and ability.

Holiday (2016) analogy of "ego as an angry child wanting to do something above all else" is compelling and important for understanding this concept. The presence of women on the audit committee can create a positive atmosphere (Werastuti et al., 2022). This is rooted in feminine traits such as love orientation, empathy, gentleness, and nurturing qualities. Therefore, the representation of women on the audit committee is expected to reduce the egocentric tendencies of directors, characterized by a high level of education among CEOs, thereby weakening the likelihood of directors engaging in financial statement fraud.

H12: The gender of the audit committee can weaken the positive influence of ego on indications of financial statement fraud.

RESEARCH METHODS

This study is designed with a quantitative causal study approach. The population for this research consists of limited companies (Perseroan Terbatas/PT) whose shares are listed on the Indonesia Stock Exchange (IDX). The sample is determined using a non-probability technique, specifically purposive sampling, with the following criteria: (1) classified under the financial sector (sector code G) with industry code G11 (banks); (2) publishes annual financial statements audited by public accountants and annual reports from 2019 to 2023 (5 years); and (3) has complete data to calculate the variables in the study. Based on these three criteria, 40 companies were identified that met the requirements, resulting in a total of 200 data samples for further statistical analysis.

This research employs binary logistic regression analysis. The model is statistically analyzed using Stata software. The models used in this study are as follows:

Model 1:

$$KLK1_{i,t} = \alpha + \beta_1 STI_{i,t} - \beta_2 KAP_{i,t} + \beta_3 KOL_{i,t} + \beta_4 PEL_{i,t} + \beta_5 RAS_{i,t} + \beta_6 EGO_{i,t} + \beta_7 ROE_{i,t} + \beta_8 AGE_{i,t} + \beta_9 KMJ_{i,t} + \varepsilon$$

Model 2:

$$KLK2_{i,t} = \alpha + \beta_1 STI_{i,t} - \beta_2 KAP_{i,t} + \beta_3 KOL_{i,t} + \beta_4 PEL_{i,t} + \beta_5 RAS_{i,t} + \beta_6 EGO_{i,t} - \beta_7 GKA_{i,t}{*}STI_{i,t} + \beta_8 GKA_{i,t}{*}KAP_{i,t} - \beta_9 GKA_{i,t}{*}KOL_{i,t} - \beta_{10} GKA_{i,t}{*}PEL_{i,t} - \beta_{11} GKA_{i,t}{*}RAS_{i,t} - \beta_{12} GKA_{i,t}{*}EGO_{i,t} + \beta_{13} ROE_{i,t} + \beta_{14} AGE_{i,t} + \beta_{15} KMJ_{i,t} + \varepsilon$$

This study utilizes eight (8) variables, consisting of one dependent variable, six independent variables, and one moderating variable. Table 1 presents the operational definitions of each research variable.

Table 1. Operational Definitions of Variables

Variable	Measurement
Dependent Variable (Y): Indication of Financial Statement Fraud (KLK) Achmad et al. (2022)	KLK = 1 if M-Score > -1,78 indicating fraud in the financial statements. KLK = 0 if M-Score < -1,78 indicating no fraud in the financial statements. M-Score = -4,840 + (0,920 x DSRI) + (0,528 x GMI) + (0,404 x AQI) + (0,892 x SGI) + (0,115 x DEPI) - (0,172 x SGAI) - (0,327 x LVGI) + (4,697 x TATA) *Days Sales in Receivables Index* (DSRI) DSRI = $(Receivables_t / Sales_t) / (Receivables_{t-1} / Sales_{t-1})$ *Gross Margin Index* (GMI) GMI = $[(Sales_{t-1} - CoGS_{t-1}) / Sales_{t-1}] / [(Sales_t - CoGS_t) / Sales_t]$ *Asset Quality Index* (AQI) AQI = $[(Total\ Assets - Current\ Assets_t - PP\&E_t) / Total\ Assets_t] / [(Total\ Assets - Current\ Assets_{t-1} - PP\&E_{t-1}) / Total\ Assets_{t-1}]$ *Sales Growth Index* (SGI) SGI = $Sales_t / Sales_{t-1}$ *Depreciation Index* (DEPI) DEPI = $(Depreciation_{t-1} / (PP\&E_{t-1} + Depreciation_{t-1})) / (Depreciation_t / (PP\&E_t + Depreciation_t))$ *Sales General Administrative Index* (SGAI) SGAI = $(SG\&A\ Expense_t / Sales_t) / (SG\&A\ Expense_{t-1} / Sales_{t-1})$ *Leverage Index* (LVGI) LVGI = $[(Current\ Liabilities_t + Total\ Long\ Term\ Debt_t) / Total\ Assets_t] / [(Current\ Liabilities_{t-1} + Total\ Long\ Term\ Debt_{t-1}) / Total\ Assets_{t-1}]$ *Total Accruals to Total Assets* (TATA) TATA = $(Income\ from\ Continuing\ Operations_t - Cash\ Flows\ from\ Operations_t) / Total\ Assets_t$
Independent Variable 1 (X_1): Stimulus (STI) Sari et al. (2024) Alfarago et al. (2023) Achmad et al. (2022)	STI = $(Total\ Assets_t - Total\ Assets_{t-1}) / Total\ Assets_{t-1}$
Independent Variable 2 (X_2): Capability (KAP) Naldo & Widuri (2023) Sari et al. (2022)	KAP = 1 if there is a change in the CEO KAP = 0 if there is no change in the CEO
Independent Variable 3 (X_3): Collusion (KOL)	KOL = 1 if at least one form of tone developed by Bader et al. (2024) is present

Bader et al. (2024)	KOL = 0 if none of the tones developed Bader et al. (2024) are present
Independent Variable 4 (X_4): Opportunity (PEL) Nugroho & Diyanty (2022) Sari et al. (2022)	PEL = $(\text{Receivables}_t / \text{Revenue}_t) / (\text{Receivables}_{t-1} / \text{Revenue}_{t-1})$
Independent Variable 5 (X_5): Rationalization (RAS) Kirana et al. (2023)	RAS = 1 if there is a change in the external auditor RAS = 0 if there is no change in the external auditor
Independent Variable 6 (X_6): Ego (EGO) Naldo & Widuri (2023)	EGO = 1 if the CEO's highest education level is a PhD EGO = 0 if the CEO's highest education level is below a PhD
Moderating Variable (Z): Gender of the Audit Committe (GKA) Velte (2018)	GKA = Number of Female Audit Committee Members / Total Number of Audit Committee Members
Control Variables (C): Profitability (ROE) Company Age (AGE) Managerial Ownership (KMJ) Nugroho & Diyanty (2022) Ansori & Fajri (2018)	ROE = Net Income / Total Equity AGE = Year of Observation – Year of Company Establishment KMJ = Number of Managerial Shares / Total Shares Outstanding

RESULTS AND DISCUSSION

Research Results

Table 2. Descriptive Statistics

Variable	Obs	Mean	Std Dev	Min	Max
KLK	205	0.1609756	0.3684081	0	1
STI	205	0.156834	0.3908842	-0.3979573	4.648229
KAP	205	0.2341463	0.4245007	0	1
KOL	205	0.8585366	0.3493521	0	1
PEL	205	1.020526	0.1865883	0.4907781	1.91747
RAS	205	0.1902439	0.3934543	0	1
EGO	205	0.0243902	0.1546351	0	1
GKA	205	0.1795645	0.2007195	0	0.75
ROE	205	0.0406602	0.1281397	-1.239267	0.3356645
AGE	205	47.31707	23.13477	5	128
KMJ	205	0.0028991	0.0154652	0	0.1934226

This study consists of two regression models: Model 1 is used to examine the direct effects of the dimensions of the Fraud Hexagon Theory on indications of financial statement fraud, while Model 2 is used to test the interaction effects between the role of gender diversity in the audit committee and the dimensions of the Fraud Hexagon Theory on financial statement fraud. Based on the output displayed by Stata, the predictive models for this research are as follows.

Model 1:

$$KLK1 = -3.298139 + 0.7910413STI + 1.173722KAP - 0.2283746KOL + 2.411051PEL + 0.2814286RAS - 1.030926EGO - 1.252182ROE - 0.027643AGE - 7.414396KMJ$$

Model 2:
KLK2 = –3.13631 + 0.3028667STI + 1.210805KAP – 0.1520427KOL + 2.707495PEL + 0.2734777RAS – 55.15836EGO + 2.019486GKA*STI + 0.0883925GKA*KAP – 1.608425GKA*KOL – 1.527778GKA*PEL – 2.361826GKA*RAS + 169.4947GKA*EGO – 1.27377ROE – 0.029445AGE – 12.01307KMJ

The coefficient of determination for Model 1 is 15.52%, while the coefficient of determination for Model 2 is 19.28%. This study will utilize the Hosmer and Lemeshow test to assess the adequacy of the regression models. The Prob > chi2 value for Hosmer and Lemeshow's test for Model 1 is 0.3047 > 0.05, and for Model 2, it is 0.3491 > 0.05, indicating that both regression models are deemed adequate for predicting the influence of independent variables on the dependent variable. A simultaneous test is also used as information for testing the logistic model or the accuracy of the logistic model, as the simultaneous test evaluates parameters concurrently. In Model 1, the Prob > chi2 Likelihood Ratio (LR) value is 0.0009 < 0.05, indicating a significant simultaneous effect. In Model 2, the Prob > chi2 Likelihood Ratio (LR) value is 0.0026 < 0.05, indicating a significant simultaneous effect.

Partial tests are used as information for hypothesis testing in this research. Table 4 presents the partial test values for both models in this study.

Table 4. Hypothesis Testing

Model 1				Model 2			
Hypothesis	Coefficient	P > |z|	Result	Hypothesis	Coefficient	P > |z|	Result
H1	0.7910413	0.094	Rejected	H7	2.019486	0.573	Rejected
H2	1.173722	0.008	Rejected	H8	0.0883925	0.972	Rejected
H3	-0.2283746	0.687	Rejected	H9	-1.608425	0.555	Rejected
H4	2.411051	0.021	Accepted	H10	-1.527778	0.468	Rejected
H5	0.2814286	0.576	Rejected	H11	-2.361826	0.532	Rejected
H6	-1.030926	0.489	Rejected	H12	169.4947	0.995	Rejected

Discussion

The results of the hypothesis testing reject H1. This finding is consistent with the research conducted by Bader et al. (2024) and Naldo & Widuri (2023). Theoretically, this study does not support the Fraud Hexagon Theory. The relevant theories to explain these findings are Stewardship Theory, which examines the internal perspective, and Economic Regulation Theory, which examines the external perspective. Stewardship Theory posits that stewards (directors or managers) will behave in accordance with the interests of the principals (owners or shareholders) (Ghozali, 2020). Stewards believe that by advancing the company, their personal needs will be met, leading them to act in the interests of the company or its owners. Economic Regulation Theory, as proposed by Stigler (1971), emphasizes the role of regulation and oversight in preventing fraud. If the regulations and oversight implemented are effective, the potential for fraud will decrease, regardless of various conditions within the company.

Some industries may have a higher resilience to financial pressures compared to others. Companies operating in highly regulated industries, such as banking or finance, tend to have stricter oversight (Costello et al., 2019). This can prevent them from responding to financial pressures by committing fraud. Strict regulatory policies can serve as a significant barrier for companies to engage in financial misconduct. In such environments, directors may not be able to exploit financial instability to commit fraud.

The results of the hypothesis testing reject H2. The hypothesis testing results indicate that capability has a positive influence on indications of financial statement fraud. This means that changes in the board of directors, which are expected to reduce the potential for financial statement fraud, may actually trigger fraud. Theoretically, this finding supports the Fraud Hexagon Theory and aligns with the research conducted by Abbas & Laksito (2022), Sasongko & Wijayantika (2019), and Lutfi & Sunardi (2019).

Capability, proxied by changes in the board of directors, can create instability within the company environment. This leadership change may drive new directors to demonstrate optimal performance results in a relatively short time. In such situations, new leadership may feel compelled to take various actions, even if those actions are not justifiable procedures, thereby increasing the risk of financial statement manipulation (Situngkir & Triyanto, 2020).

The leadership transition process often involves shifts or changes in policies and procedures (Goldring et al., 2003). New directors may face challenges in delegating tasks and responsibilities, especially if the previous director left unresolved issues or workloads. This creates an environment where the pressure to adapt quickly can lead to fraudulent actions as a short-term solution.

The results of the hypothesis testing reject H3. This finding is consistent with the research conducted by Sadda & Januarti (2023) and Abriatika & Cahyonowati (2024). Theoretically, this study does not support the Fraud Hexagon Theory. The relevant theories to explain these findings are Stewardship Theory and Economic Regulation Theory. Stewardship Theory posits that stewards (directors or managers) will behave in accordance with the interests of the principals (owners or shareholders) (Ghozali, 2020). Stewards believe that by advancing the company, their personal needs will be met, leading them to act in the interests of the company or its owners. Economic Regulation Theory, as proposed by Stigler (1971), emphasizes the role of regulation and oversight in preventing fraud. If the regulations and oversight implemented are effective, the potential for fraud will decrease, regardless of various conditions within the company.

Although related party transactions are often considered a high-risk area for manipulation, many companies have now implemented strict internal control and oversight policies for these transactions. Regulatory authorities and external auditors are generally more vigilant regarding these transactions, especially when they involve management or shareholders (Bennouri et al., 2012). Thus, the scope for manipulation through related party transactions becomes more limited.

Not all related party transactions are manipulative or fraudulent (Henry et al., 2012). In some cases, these transactions may be conducted in good faith for legitimate business purposes and do not involve elements of fraud. This could be one reason why collusion, proxied through related party transactions, does not influence indications of financial statement fraud in this study. The development of more comprehensive oversight and internal control methods will help identify fraud patterns that are not directly reflected in related party transactions.

The results of the hypothesis testing accept H4. Theoretically, this finding supports the Fraud Hexagon Theory. This research confirms the findings of Nugroho & Diyanty (2022) and Sari et al. (2022). The opportunity element, as stated by Sari et al. (2022), can be linked to the nature of the industry, which includes elements such as accounts receivable, sales, and inventory management. In this study, the nature of the industry, proxied by the ratio of changes in receivables to sales, serves as one indicator for assessing the opportunity for financial statement fraud.

One example of a routine economic transaction that can become a fraud loophole is revenue. In this case, revenue becomes a potential area for directors to commit fraud. An increase in revenue also leads to an increase in the company's assets. If revenue does not result in an increase in the company's assets and oversight is deemed inadequate, this may indicate the occurrence of financial statement fraud.

This aligns with the explanation by Sari et al. (2022), which states that assessments of estimates or projections, such as uncollectible receivables and obsolete inventory, can create opportunities for directors to manipulate. Thus, the higher the opportunity, the greater the tendency for directors to engage in financial statement fraud.

The results of the hypothesis testing reject H5. This finding is consistent with the research conducted by Bader et al. (2024), Raihan et al. (2024), Alfarago et al. (2023), Naldo & Widuri (2023), and Achmad et al. (2023). Theoretically, this study does not support the Fraud Hexagon Theory. The relevant theories to explain these findings are Stewardship Theory and Economic Regulation Theory. Stewardship Theory posits that stewards (directors or managers) will behave in accordance with the interests of the principals (owners or shareholders) (Ghozali, 2020). Stewards believe that by advancing the company, their personal needs will be met, leading them to act in the interests of the company or its owners. Economic Regulation Theory, as proposed by Stigler (1971), emphasizes the role of regulation and oversight in preventing fraud. If the regulations and oversight implemented are effective, the potential for fraud will decrease, regardless of various conditions within the company.

According to Bader et al. (2024), the replacement of external auditors by companies is not driven by fraudulent motives but rather by other reasons, such as the expiration of the legal term allowed for auditors to audit the company. Generally, external auditors are replaced to comply with regulations in Indonesia (Raihan et al., 2024). Based on OJK Regulation No. 13/POJK.03/2017, the Financial Services Authority (OJK) outlines policies regarding auditor replacement. External auditors may also be replaced due to poor performance (Imtikhani & Sukirman, 2021).

Although new auditors require time to adapt, they must still adhere to high audit standards. Good independence among external auditors can reduce the risk of audit failure (Hemraj, 2002), even in the event of auditor replacement. If the new auditor possesses good quality and integrity, they will be able to detect fraud even if they are new to the company. This may explain why auditor replacement does not have a significant impact on financial statement fraud.

The results of the hypothesis testing reject H6. This finding is consistent with the research conducted by Aviantara (2021) and Wicaksono & Suryandari (2021). Theoretically, this study does not support the Fraud Hexagon Theory. The relevant theories to explain these findings are Stewardship Theory and Economic Regulation Theory. Stewardship Theory posits that stewards (directors or managers) will behave in accordance with the interests of the principals (owners or shareholders) (Ghozali, 2020). Stewards believe that by advancing the company, their personal needs will be met, leading them to act in the interests of the company or its owners. Economic Regulation Theory, as proposed by Stigler (1971), emphasizes the role of regulation and oversight in preventing fraud. If the regulations and oversight implemented are effective, the potential for fraud will decrease, regardless of various conditions within the company.

Higher education does not always lead to arrogant or narcissistic attitudes. Advanced education can also enhance professional ethics, social responsibility, and accountability, which can inhibit fraudulent behavior (Wicaksono & Suryandari, 2021). Although individuals with higher education may have a greater tendency towards ego, a strong organizational environment with effective internal controls and governance can limit the influence of ego on fraudulent actions.

The results of the hypothesis testing reject H7. Theoretically, the feminine gender stereotype theory, as explained by Breesch & Branson (2009) and Haas (1979), cannot serve as a foundation because the findings of this study indicate that such characteristics are not significant in the context of moderating the influence of stimulus on the tendency to commit fraud. The relevant theory to explain these findings is Gender Egalitarianism Theory, which posits that men and women have equal status and should be treated equally in gender roles.

The audit committee has a very complex task, especially in reviewing financial statements and ensuring compliance with accounting rules and regulations. In situations involving indications of financial statement fraud, the oversight and control performed by the audit committee may focus more on technical and regulatory aspects, where the competence and experience of audit committee members, regardless of gender, may be more important than personal characteristics such as the ability to diffuse tension (Baxter, 2007).

In some contexts, the role of women in the audit committee is still limited by traditional norms, which may lead to their contributions being less recognized or optimized. In this regard, even if women are present in the audit committee, their roles may be more symbolic than substantial in important decision-making processes, including overseeing potential financial statement fraud. Although the results of this study reject the hypothesis that the gender of the audit committee cannot moderate the influence of stimulus on indications of financial statement fraud, this does not imply that gender is unimportant. On the contrary, these results highlight the complexity of the influence of various factors in preventing fraud and the need for a more holistic approach to understanding the dynamics of oversight at the audit committee level.

The results of the hypothesis testing reject H8. Theoretically, the masculine gender stereotype theory cannot serve as a foundation because the findings of this study indicate that such characteristics are not significant in the context of moderating the influence of capability on the tendency to commit fraud. The relevant theory to explain these findings is Gender Egalitarianism Theory, which posits that men and women have equal status and should be treated equally in gender roles.

The presence of women in the audit committee in a high-pressure and uncertain corporate environment, such as during a change in directors, does not appear to have a significant impact. While women in the audit committee may tend to be more cautious and enhance the quality of oversight (Januarsi et al., 2014), they may not have a strong direct influence in moderating the effects of changes in top management.

Another reason that may explain why the gender of the audit committee does not play a moderating role is the complexity of the director transition process itself. Changes in directors often involve shifts in policies and procedures (Goldring et al., 2003), including strategies, organizational culture, and broader management priorities, making the impact of the audit committee's oversight, including gender contributions, insignificant. New directors may bring significant changes that require time to adapt, while the audit committee may not have sufficient time or influence to moderate the dynamics occurring.

The results of the hypothesis testing reject H9. The relevant theory to explain these findings is Gender Egalitarianism Theory, which posits that men and women have equal status and should be treated equally in gender roles.

Although the presence of women in the audit committee theoretically can develop networks and obtain more information, collusion appears to involve more closed and strategic networks. Collusion by directors can be very difficult to detect, especially when the parties involved have access to information that is highly restricted from outsiders, including the audit committee. In such cases, feminine attributes, such as relationship orientation and cooperation, may not be strong enough to overcome the complexity and concealment of collusion.

Collusion is often associated with related party transactions, where directors have very close networks with parties outside the company, including suppliers, clients, or even other business partners. These related party transactions can be used to conceal fraud or provide undue advantages to certain parties. Bader et al. (2024) developed the concept of tone in related party transactions to measure the likelihood of collusion. However, in many cases, collusion is very cleverly disguised, making it a significant challenge to detect, even for an audit committee with female representation. This may be due to the complexity of financial transactions and the efforts made by the parties involved to obscure collusion.

The results of the hypothesis testing reject H10. The relevant theory to explain these findings is Gender Egalitarianism Theory, which posits that men and women have equal status and should be treated equally in gender roles.

The nature of opportunities in the realm of fraud, particularly those arising from industries with significant receivables and high revenues, is very difficult to detect solely through changes in gender perspectives within the audit committee. Fraud in the context of opportunity often stems from systemic and technical structures within the industry that require in-depth knowledge of industry operations (Bayou & Reinstein, 2001). The creativity expected from women may not be sufficient to address the complex technical aspects involved.

While women are expected to bring a more practical approach, the oversight systems of audit committees may still be heavily dominated by rigid procedural mechanisms that limit the application of creative oversight strategies. This means that even though the audit committee has female representation, it still operates within the constraints of a rigid system that is difficult to adapt to the creative oversight needed to detect fraud opportunities.

The results of the hypothesis testing reject H11. The relevant theory to explain these findings is Gender Egalitarianism Theory, which posits that men and women have equal status and should be treated equally in gender roles.

In fraud theory, rationalization allows fraud perpetrators to morally justify their actions. In the context of external auditor changes, this rationalization may emerge as a step to improve audit quality. However, in reality, changing auditors could be a strategy to evade detection of existing fraud. In this situation, even if the audit committee, including perfectionist women, conducts oversight, they may face limitations in countering seemingly legitimate rationalization arguments.

Even with a more critical audit committee, as described by Alkebsee et al. (2021), the replacement of external auditors is often technical and beyond the direct oversight of the audit committee. Furthermore, the high standards demanded by female audit committee members do not always reveal the hidden motives behind auditor changes, especially when such rationalizations are wrapped in regulatory or improvement-related justifications.

The results of the hypothesis testing reject H12. The relevant theory to explain these findings is Gender Egalitarianism Theory, which posits that men and women have equal status and should be treated equally in gender roles.

The dynamics of power and ego at the executive level cannot be effectively mitigated solely through the presence of women on the audit committee. The high and dominating egos of directors encompass not only confidence in their abilities but also in strategic decision-making, which can sometimes be fully challenged or opposed by the audit committee. Therefore, the representation of women in the audit committee may not have a significant impact in this regard due to the strong and dominating egocentric traits of the directors.

Additionally, higher education does not always lead to arrogant or narcissistic attitudes. Advanced education can also enhance professional ethics, social responsibility, and accountability, which can inhibit fraudulent behavior (Wicaksono & Suryandari, 2021). Although individuals with higher education may have a greater tendency towards ego, a strong organizational environment with effective internal controls and governance can limit the influence of ego on fraudulent actions.

CONCLUSION

The results of this study indicate that capability and opportunity have a positive influence on indications of financial statement fraud. Stimulus, collusion, rationalization, and ego do not have an effect on indications of financial statement fraud. The gender of the audit committee does not moderate the influence of stimulus, capability, collusion, opportunity, rationalization, and ego on indications of financial statement fraud.

Future research is recommended to develop a more comprehensive and holistic model to capture the phenomenon of fraud. Qualitative methods or mixed methods combining quantitative and qualitative approaches may be considered to address statistical limitations. The proxies for each variable in this study are still simplistic, necessitating the introduction of novel proxies that can represent variables that are essentially complex. A reevaluation of the gender of the audit committee as a moderating variable in fraud research should involve more complex proxies or measurements of gender. Future researchers may also consider using other sectors as research samples, such as manufacturing, energy, technology, healthcare, infrastructure, and others. Additionally, it may be worthwhile to integrate advanced technologies, such as Artificial Intelligence (AI) and Natural Language Processing (NLP), into models for detecting financial statement fraud.

For business practitioners, it is advisable to continuously enhance existing oversight and internal control mechanisms. Enforcement against fraud perpetrators with stricter and heavier sanctions is necessary to ensure that all components involved in a business organization comply with existing regulations. The banking sector is one of the financial service institutions that is closely regulated by the government through various legal products. The issuance of the Financial Services

Authority of the Republic of Indonesia Regulation Number 12 of 2024 concerning the Implementation of Anti-Fraud Strategies for Financial Service Institutions (POJK SAF LJK) can serve as a significant breakthrough to reduce the incidence of fraud in the financial sector, particularly in banking.

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