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Analisis of Indications of Financial Statement Fraud: A Fraud Hexagon Approach

Astuti Anggraini[1*], Einde Evana[2], Tri Joko Prasetyo[3]
[1,2,3]Faculty of Economics and Business, Universitas Lampung
Corresponding Author e-mail: astutianggraini1010@gmail.com

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Abstract: *Financial statement fraud remains prevalent in Indonesia, particularly within the financial sector. This study aims to evaluate the influence of the six elements of the Fraud Hexagon theory on the occurrence of fraudulent financial reporting among companies in the financial industry. These six elements are operationalized through the following proxy variables: stimulus (financial stability), opportunity (ineffective monitoring), rationalization (auditor change), capability (director change), ego (arrogance), and collusion (whistleblowing system). The study population comprises all companies listed on the Indonesia Stock Exchange that were involved in financial statement fraud between 2019 and 2023. Using a purposive sampling method, the final sample consisted of 100 data points from 20 companies. Data analysis involved logistic regression, model fit testing, and both multivariate and univariate hypothesis testing. The results indicate that the variables opportunity, rationalization, and collusion significantly influence the likelihood of financial statement fraud, while stimulus, capability, and ego do not exhibit a statistically significant effect.*

Introduction

According to the ACFE (2022) survey on fraud, the Asia-Pacific region, including Indonesia, ranks third in the world for the highest number of fraud cases, accounting for 10% of all global fraud incidents, or 194 cases. These types of fraud are commonly categorized into three groups:

Asset Misappropriation, Corruption, and Financial Statement Fraud. Although financial statement fraud accounts for only 9% of cases, its impact is the most severe, with an average loss of $593,000 per case. In contrast, corruption and asset misappropriation cause average losses of $150,000 and $100,000, respectively (ACFE, 2022). Therefore, financial statement fraud, despite being less frequent, deserves significant attention due to its damaging consequences for stakeholders and the financial system.

Undetected fraud can lead to severe consequences such as loss of investor trust, damage to a company's reputation, and decreased government revenue. The ACFE (2022) also reported that between January 2020 and September 2021, 2,110 fraud cases were examined worldwide, with managers (39%), employees (37%), and executives (23%) being the main perpetrators. In Indonesia, the Indonesian Fraud Survey found that the average financial loss due to fraud exceeds IDR 10 billion. Private companies reported the highest monetary losses (ranging from IDR 500 million to IDR 1 billion), followed by the public sector (SFI, 2022). These findings highlight the urgency of studying fraud, particularly in financial reporting.

Fraud can occur at all levels within an organization and often thrives in environments with weak controls and ineffective oversight. The consequences are not limited to financial losses; they also include erosion of organizational integrity and employee morale (Naufal & Munari, 2023).

Most prior studies on fraud detection have relied on traditional models such as the Fraud Triangle, Fraud Diamond, and Fraud Pentagon, which primarily focus on three to five factors: pressure, opportunity, rationalization, capability, and arrogance. However, these frameworks may be insufficient in explaining complex fraud behaviors in modern organizations. The Fraud Hexagon, a recent development by Vousinas (2019), extends previous models by introducing a sixth factor—collusion—which acknowledges the cooperative dimension of fraud involving multiple parties. This model offers a more holistic understanding of fraud by capturing interactions among internal actors and systemic weaknesses. This research adopts the Fraud Hexagon model to investigate the influence of six factors (pressure, opportunity, rationalization, capability, ego, and collusion) on financial statement fraud in the Indonesian financial industry, offering a more comprehensive analysis than earlier models.

The purpose of this research is to empirically examine whether the six elements of the Fraud Hexagon influence the occurrence of financial statement fraud among financial companies listed on the Indonesia Stock Exchange. By doing so, this study contributes to the literature by validating a more recent theoretical framework (Fraud Hexagon) in the Indonesian context and providing insights for regulators, auditors, and corporate governance practitioners to strengthen early fraud detection and prevention mechanisms.

Agency Theory

Agency theory explains the contractual relationship between company management (agents) and shareholders (principals), in which the principals delegate authority to the agents to manage the company (Jensen & Meckling, 1976). Within this relationship, goal divergence often arises between the two parties, leading to potential conflicts of interest due to each party's pursuit of their own objectives.

According to agency theory, information asymmetry emerges because management typically has greater access to internal company information than shareholders. This imbalance allows management to exploit its informational advantage by concealing facts or presenting misleading financial reports for personal gain. To reduce this information gap, principals may implement various monitoring mechanisms. However, these oversight efforts incur agency costs, which are expenditures aimed at aligning managerial decisions with the interests of shareholders (Jensen & Meckling, 1976).

Fraud

Fraud is defined as an intentional act committed by individuals, management, employees, or external parties, with the purpose of gaining personal or group benefit through deceptive practices that harm others (SA 240.pdf, n.d.). Mugalaa (as cited in Zainudin et al., 2020) describes fraud as a deliberate act of deceit committed with full awareness that it will negatively impact another party.

The risk of fraud within an organization increases when top management holds excessive power or maintains strong internal relationships, such as simultaneously controlling both the board of directors and key executive roles. Supadmini (2021) further explains that fraud represents a deliberate legal violation by an individual or group in pursuit of a specific objective. In the context of financial reporting, fraud occurs when financial statements are intentionally manipulated to present a misleading view of the company's actual condition, thereby benefiting certain parties—either internally or externally.

Fraud Hexagon Theory

The Fraud Hexagon Theory is a more recent approach to fraud detection developed by Georgios L. Vousinas (2019). This model extends previous frameworks by introducing collusion as an additional factor driving fraudulent behavior. The Fraud Hexagon identifies six core elements of fraud, summarized by the acronym S.C.C.O.R.E., namely: Stimulus (pressure), Capability, Collusion, Opportunity, Rationalization, and Ego (arrogance).

This expanded model builds upon the traditional Fraud Triangle, Fraud Diamond, and Fraud Pentagon by acknowledging that fraud can also result from collaborative misconduct (collusion), which was not explicitly addressed in earlier models. The Fraud Hexagon therefore offers a more comprehensive framework for understanding the complex causes of fraudulent behavior.

Financial Stability

Within the Fraud Hexagon Theory, stimulus—often interpreted as pressure—is one of the key motivators behind fraudulent behavior. Individuals are more likely to engage in fraud when they experience financial or performance pressures (Muawanah & Sari, 2023). Nuryatno Amin (2022) found a positive correlation between pressure and fraud frequency, suggesting that higher pressure levels can increase the likelihood of fraudulent actions.

In this context, financial stability is considered a form of pressure. Achmad et al. (2023) argue that companies facing unstable financial conditions may feel compelled to manipulate reports to attract investors or preserve credibility. Conversely, a company with stable asset growth is less likely to engage in fraud, as such growth reflects operational soundness and lowers pressure on management. Arifian & Januarti (2023) support this view, noting that strong financial conditions enhance a company's reputation and reduce incentives for fraud. Similarly, Hakim et al. (2023) confirm that financial stability serves as a deterrent to fraudulent financial reporting by decreasing the internal motivation to manipulate data.

Change in Directors

Within the Fraud Hexagon Theory, director turnover is used as a proxy for the capability element. Sihombing and Panggulu (2022) argue that an individual's position within a company can influence the likelihood of fraudulent behavior. Consequently, changes in the board of directors are often undertaken to improve company performance by appointing individuals with greater experience and competence. However, such transitions can also create instability and gaps in control, particularly when new directors are unfamiliar with the organization's systems, potentially increasing the risk of financial statement fraud.

Empirical findings support this dual perspective. Rachmawati and Raharja (2024) found that director changes contribute to a higher likelihood of fraud detection, possibly due to the exposure of previous irregularities. In contrast, Dwianto et al. (2024) concluded that director turnover has no significant impact on the detection of fraudulent financial reporting, suggesting that the effect may be context-dependent and influenced by organizational governance structures.

Ineffective Monitoring

In the Fraud Hexagon framework, opportunity is one of the key elements that enable fraud, and it can be assessed through the effectiveness of corporate oversight mechanisms. Oversight is typically exercised by the board of commissioners, especially independent commissioners, whose role is to supervise management activities (Purnaningsih, 2022). When this oversight is weak or symbolic, it creates an environment where fraudulent behavior can flourish (Nurfarida et al., 2023).

Inadequate monitoring provides room for manipulation of financial statements, as there are fewer deterrents or control mechanisms to prevent it. Research by Nugroho and Diyanty (2022) suggests that poor supervision may lead to increased fraud detection, perhaps because the absence of oversight allows more visible fraud patterns to emerge. Conversely, Purnaningsih (2022) reported that ineffective oversight negatively impacts fraud detection, as it hinders early identification and response. These contradictory findings indicate that the role of supervision in fraud prevention is complex and may vary depending on how oversight is implemented in practice.

Change in Auditor

The rationalization component of the Fraud Hexagon includes the practice of changing external auditors or public accounting firms. Companies may use auditor changes as a strategy to eliminate traces of fraud or avoid repercussions from previous audit findings (Yunita & Julia, 2022). The lengthy and bureaucratic process of auditor replacement can also serve as a justification mechanism for unethical actions, as management might rationalize fraud as a temporary measure during transition periods.

Research by Duffin and Djohan (2022) supports the notion that auditor rotation can enhance fraud detection, as fresh perspectives from new auditors may uncover irregularities that were previously overlooked. However, Dewi and Luthan (2023) found no significant relationship between auditor changes and fraud detection, implying that merely changing auditors is not a sufficient safeguard unless accompanied by improvements in audit quality and independence.

Dualism of Position

The element of ego, or arrogance, in the Fraud Hexagon model, is often reflected in the excessive self-importance of executives, particularly Chief Executive Officers (CEOs), who believe their authority is beyond reproach (Vousinas, 2019). One manifestation of this is dualism of position, where a CEO holds more than one strategic role within or outside the company (Kusumosari, 2020). Holding concurrent positions can centralize power and reduce internal checks and balances, potentially increasing the risk of fraudulent activity. Such concentration of authority may lead to a culture where decisions are unquestioned, and ethical boundaries are blurred.

Whistleblowing System

Collusion, as introduced in the Fraud Hexagon model, refers to collaborative fraudulent activities carried out by two or more individuals. In this study, the whistleblowing system is used as a proxy for collusion. While this may appear conceptually inverted, it is based on the idea that the absence or ineffectiveness of whistleblowing systems may indicate underlying collusive behavior that goes unreported.

To combat fraud and collusion, the government and regulatory bodies have encouraged the implementation of whistleblowing mechanisms as a tool for fraud detection and prevention. Many organizations have adopted these systems to allow employees or stakeholders to report unethical conduct anonymously and safely. However, the effectiveness of a whistleblowing system depends on several factors, including organizational commitment, whistleblower protection policies, and follow-up procedures. When poorly implemented, such systems may exist only as a formality and fail to deter or expose collusion within the company.

Research Methods

According to Sekaran and Bougie (2019), a population refers to the total number of elements or entities that are the subject of a research study. In this study, the population comprised all 828 companies listed on the Indonesia Stock Exchange (IDX) as of December 2023. A sample, on the other hand, is a subset of the population that represents its characteristics (Sekaran & Bougie, 2019).

The sample in this study was selected using a purposive sampling technique, based on specific criteria relevant to the research objective. The sampling criteria were as follows:

1. Companies listed on the IDX that experienced fraud or regulatory issues during the 2019–2023 period, including:
   a. Companies with a history of fraudulent activity and sanctions imposed by regulatory authorities.
   b. Companies receiving special notations from the IDX with the following codes:
      - ✓ B: Bankruptcy application
      - ✓ M: Deferment of debt payment application
      - ✓ A: Adverse opinion from a public accountant
      - ✓ D: Disclaimer of opinion from a public accountant
      - ✓ S: Latest financial report showing no revenue

- ✓ V: Administrative sanctions imposed by the Financial Services Authority (OJK) due to serious violations of capital market regulations

2. Companies that were suspended from trading on the IDX during the 2019–2023 period.
3. Companies that submitted complete and consecutive annual reports throughout the 2019–2023 period.

Based on data obtained from the Indonesia Stock Exchange, the study identified: 12 companies with a history of fraud, 32 companies that received special notations from the IDX, 15 suspended companies, 4 delisted companies, 1 company whose operations were frozen by the OJK, and 4 companies that failed to submit annual reports consistently during the study period.After applying the inclusion and exclusion criteria, the final sample consisted of 20 companies, each observed over a 5-year period, resulting in a total of 100 data points used for analysis in this study.

Result and Discussion

Based on the processed financial report data obtained from the selected companies, a total of 100 data points were used as the unit of analysis in this study, representing a 5-year observation period across 20 sampled companies. As summarized in the table above, 65 data points (65%) correspond to companies that received special notations from the Indonesia Stock Exchange (IDX), indicating potential financial or regulatory issues. These data points are categorized as non-fraud cases and coded with a dummy value of 0.

In contrast, the remaining 35 data points (35%) represent companies that were proven to have committed financial statement fraud and received formal sanctions from the Financial Services Authority (OJK). These are categorized as fraud cases and coded with a dummy value of 1. This binary classification is used as the dependent variable in the logistic regression analysis to assess the factors influencing the likelihood of financial statement fraud.

Table 1. Description of Statistic

Variable	B	S.E.	Wald	df	Sig.	Exp (B)
X1	-0.039	0.267	0.021	1	0.885	0.962
X2	0.941	0.494	3.628	1	0.057	2.563
X3	-3.807	1.804	4.453	1	0.035	0.997
X4	0.052	0.469	0.012	1	0.912	1.053
X5	0.601	0.461	1.705	1	0.192	1.825
X6	1.141	0.475	5.786	1	0.016	3.131
Constant	-0.209	0.781	0.072	1	0.789	0.811

a. Variables entered on step 1: X1, X2, X3, X4, X5, X6.
Source: Processed data, 2025

Significance Legend:
Significance α < 10%
** Significance α < 5%
*** Significance α < 1%

The Influence of Financial Stability on Financial Statement Fraud

Financial stability is often seen as a key indicator of how well a company manages its assets to generate sustainable income. Within the Fraud Hexagon framework, financial pressure—proxied by financial instability—is considered a major driver of financial statement manipulation. However, the statistical test in this study shows that the significance value for financial stability is 0.885, which is well above the 0.10 threshold. This indicates that financial stability does not have a statistically significant effect on financial statement fraud.

This result may suggest that both financially stable and unstable companies are generally committed to presenting accurate financial statements, especially due to increasing demands for transparency and accountability from investors, regulators, and other stakeholders. Furthermore, the presence of strong internal controls and the implementation of Good Corporate Governance (GCG) may prevent fraudulent actions even when companies face financial pressure. In other words, financial pressure alone is not a sufficient condition for fraud, unless it is accompanied by weak supervision or internal governance failures.

The Effect of Changes in the Board of Directors on Financial Statement Fraud

The second hypothesis proposed that changes in the board of directors would positively affect the likelihood of financial statement fraud. This is based on the assumption that leadership changes can disrupt internal control and corporate governance systems. The statistical results indicate that the significance value is 0.057, with a positive regression coefficient of 0.941. Since the p-value is below 0.10, it can be concluded that changes in the board of directors have a significant and positive effect on the occurrence of fraud.

This finding suggests that leadership transitions may increase the risk of fraud, as new directors require time to adapt to company operations, understand internal systems, and build trust with existing personnel. The temporary instability during leadership change may weaken oversight mechanisms and increase the opportunity for financial manipulation, especially if governance structures are not properly enforced.

The Effect of Ineffective Supervision on Financial Statement Fraud

The third hypothesis stated that ineffective supervision increases the likelihood of financial statement fraud. This aligns with the "opportunity" component of the Fraud Hexagon, where weak monitoring mechanisms create favorable conditions for fraud to occur. The regression results show a significance value of 0.035 and a negative coefficient of -3.807, indicating that ineffective supervision significantly increases the likelihood of fraud.

This supports the argument that inadequate monitoring—particularly by independent boards of commissioners—contributes to increased fraud risk. In the Indonesian context, many companies appoint independent commissioners merely to comply with formal regulations from the Financial Services Authority (OJK), without empowering them with real authority or responsibilities (Murtanto & Sandra, 2019). As a result, their role becomes symbolic rather than substantive, reducing the effectiveness of fraud prevention and detection efforts.

The Effect of Auditor Changes on Financial Statement Fraud

The fourth hypothesis assumed that auditor changes would positively influence financial statement fraud, based on the rationale that companies might replace auditors to avoid detection or soften audit scrutiny. However, the statistical test result shows a significance value of 0.912, which is much higher than the accepted threshold of 0.05. Thus, auditor changes do not have a significant effect on financial statement fraud.

This result suggests that switching auditors does not automatically increase or decrease the risk of fraud. This may be because external auditors, regardless of whether they are from Big Four or non-Big Four firms, are required to adhere to the same auditing standards and professional codes of ethics. Consequently, the quality and integrity of an audit depend more on the professionalism of the auditor than on the firm's identity, and companies with strong internal control systems are less affected by changes in external auditors.

The Effect of Dual Positions on Financial Statement Fraud

The fifth hypothesis posited that dual positions—where an individual holds more than one strategic position within a company—would increase the likelihood of fraud, due to concentrated authority and reduced accountability. However, the statistical results indicate a significance value of 0.192, which exceeds the 0.05 threshold. Therefore, dual positions do not significantly influence the occurrence of financial statement fraud.

This outcome may be explained by the fact that dual roles are not always associated with weak governance, especially if a company maintains strong oversight systems. In some firms, even when executives hold multiple roles, the presence of independent audit committees, internal auditors, and external auditors provides sufficient checks and balances. In Indonesia, dual roles are not necessarily a violation of governance principles as long as they comply with OJK regulations and the company's own internal policies.

The Effect of the Whistleblowing System on Financial Statement Fraud

The final hypothesis in this study stated that the whistleblowing system has a positive influence on financial statement fraud. The regression results show a significance value of 0.016 and a positive coefficient of 1.141, indicating that there is a statistically significant positive relationship between the whistleblowing system and the occurrence of fraud.

Although this seems counterintuitive—since whistleblowing systems are generally designed to prevent fraud—the positive relationship may reflect the ineffectiveness or symbolic nature of such systems in certain companies. In cases where whistleblowing channels exist only as formalities and lack real enforcement or protection for whistleblowers, fraudulent activities may persist. Studies by Puspitanisa & Purnamasari

(2021), Aviantara (2021), and Hanifah & Clyde (2022) support the view that whistleblowing systems must be accompanied by management commitment, anonymity guarantees, and serious follow-up mechanisms to function effectively.

On the other hand, when properly implemented, a whistleblowing system can be a powerful tool for fraud prevention, allowing employees to report unethical actions safely and anonymously. In companies with strong ethical cultures and support for transparency, these systems contribute significantly to early fraud detection and overall corporate accountability.

Conclusion and Recommendation

Based on the results of the logistic regression analysis, it can be concluded that among the six independent variables examined as potential predictors of financial statement fraud, three variables show statistically significant influence: changes in directors (X2), ineffective supervision (X3), and the whistleblowing system (X6). These findings reinforce the argument that companies experiencing frequent changes in board members are more vulnerable to fraudulent financial reporting, likely due to transitional periods that reduce internal stability and control. During such periods, new directors may lack sufficient understanding of internal systems, which can either conceal or fail to detect existing irregularities.

Similarly, ineffective supervision—often indicated by the symbolic or passive role of independent commissioners—was found to significantly increase the likelihood of fraud. Weak oversight limits the company's ability to detect early warning signs of financial manipulation. Furthermore, the whistleblowing system, which is designed to serve as an early detection mechanism, may paradoxically be associated with increased fraud if not implemented effectively. Poor execution, lack of protection for whistleblowers, and management's failure to respond to reports can undermine the system and reduce employee willingness to report violations.

Conversely, the variables financial stability (X1), changes in auditors (X4), and dual positions (X5) did not exhibit a statistically significant effect on financial statement fraud. While these variables are theoretically linked to fraud risk, the results of this study suggest that their influence may be conditional on other factors, such as the strength of internal control systems, governance effectiveness, or organizational culture. This implies that financial pressure, auditor rotation, or role concentration alone do not necessarily lead to fraudulent behavior unless compounded by other structural weaknesses.

Practical Implications

To mitigate the risk of financial statement fraud, companies should consider implementing the following strategic measures:

1. Director Transition Management: Ensure a structured and transparent transition process by conducting thorough handovers, reviewing historical audit trails, and reinforcing internal audits during the leadership change period to prevent oversight gaps.
2. Enhanced Supervision: Strengthen the role and effectiveness of independent commissioners by ensuring their true independence, providing training in fraud detection, and encouraging active participation in audit committees and governance processes.
3. Effective Whistleblowing System: Develop a robust whistleblowing framework that guarantees anonymity and protection for reporters, coupled with strong managerial commitment to act on reports. Building a culture of integrity and openness is key to making the system function as an effective deterrent.

Recommendations for Future Research

Building on the limitations and findings of this study, the following directions are recommended for future research:

a. Expand the sample to include delisted companies from the Indonesia Stock Exchange to capture a broader range of fraud cases and gain deeper insight into patterns of financial misconduct.
b. Explore additional variables, such as ethical climate, corporate culture, digital audit tools, or board characteristics, to develop a more comprehensive model of fraud causation.
c. Use alternative proxies or ratio-based measures to capture fraud indicators more accurately and enhance the predictive power of fraud detection models.

Limitations

This study acknowledges several limitations that may have influenced the research results and should be considered in future studies. First, the research utilized a relatively limited sample of 20 companies, comprising 7 companies with a proven history of financial statement fraud that were sanctioned by the Financial Services Authority (OJK) and 13 companies that received special notations from the Indonesia Stock Exchange (IDX) due to financial or governance concerns. While this small sample size may affect the generalizability of the findings, the limitation was partially mitigated by the use of a five-year observation period (2019–2023), resulting in a total of 100 data points for analysis.

Second, further investigation is recommended regarding the role of financial distress—a variable that remains underexplored in the context of financial statement fraud detection. Although financial pressure is theoretically relevant within the Fraud Hexagon framework, its measurement and statistical significance remain inconclusive, as shown in this study.

Third, in terms of variable measurement, only three out of the seven independent variables in this study were operationalized using financial ratios, while the remaining four were represented using dummy variables. This may limit the granularity and sensitivity of the analysis. Therefore, it is recommended that future research explore alternative proxy indicators, particularly those based on continuous or ratio-scale measurements, to enhance the robustness and precision of fraud detection models.

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