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Fraudulent Financial Reporting and the Fraud Pentagon: Corporate Governance as a Moderator in the Financial Sector

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Abstract

This study examines the influence of the fraud pentagon dimensions (Pressure, Opportunity, Rationalization, Competence, Arrogance) on fraudulent financial statement within the financial industry, with good corporate governance (GCG) as a moderating variable. Data were collected from the annual financial reports of financial sector companies listed on Indonesia Stock Exchange (IDX) for the period 2019-2023 and analyzed using Moderated Regression Analysis (MRA) with Eviews, The findings reveal that Pressure and Rationalization affect fraudulent financial statements, while Opportunity, Competence, and Arrogance do not have significant impacts. Furthermore, GCG fails to moderate the relationship between the fraud pentagon dimensions and fraudulent financial statements. This study extends the fraud pentagon theory and offers practical insight for companies to enchance internal controls and for regulators to develop more effective policies for preventing fraudulent financial statement in the financial indutry.

Keywords: Fraud pentagon theory, Fraudulent financial statement, Good corporate governance

INTRODUCTION

Companies aim to make a profit through effective operations, where company performance is measured through financial statements (Sulistyawati et al., 2022). However, the quality of financial statements does not always reflect the transparency and reliability of information, often affected by fraud practices such as fraudulent financial statements (Amughoro, 2022; Kuntadi & Kristin, 2022; Pamungkas et al., 2018; Rashid et al., 2022). Globally, fraudulent financial statement are the most harmful (ACFE, 2024).

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According to the ACFE, Indonesia consistently ranks among the top five Asia-Pacific countries with the highest fraud cases, peaking at first place in 2020 with 36 cases before dropping to fourth in 2022 with 23 cases (ACFE, 2020, 2022).

The ACFE classifies fraud into asset misappropriation, corruption, and fraudulent financial statements, with the latter causing the greatest financial losses worldwide. These trends underscore the need for preventive measures, particularly in countries like Indonesia (ACFE, 2024). The ACFE Global Fraud 2022 Report identifies fraudulent financial statements as the costliest type of fraud, with average losses of USD 593,000, rising to USD 766,000 by 2024, posing a substantial threat to organizations, particularly in the financial sector (ACFE, 2022, 2024). The complexity of financial operations and organizational structures facilitates fraud, often undetected for up to 18 months (ACFE, 2024). Fraud theory has evolved from the fraud triangle, fraud diamond, to the fraud pentagon, adding competence and arrogance as critical drivers. Extensive system knowledge and unchecked authority increase fraud risks (Agusputri & Sofie, 2019). Implementing good corporate governance is essential for prevention, emphasizing enhanced supervision, professionalism, and ethical culture (Hamidah & Reskino, 2021). Good corporate governance (GCG) mitigates fraud risks, particularly in cases involving internal parties and asset transfers, while also enhancing detection and recovery efforts. Some firms adopt GCG strategies post-fraud to restore their reputation, whereas weak governance increases fraud susceptibility and hampers detection (Kassem, 2022). GCG strengthens fraud control, particularly in high-performing small and medium sized enterprises (SMEs). Similarly, (Mulyadianto et al., 2020) emphasize GCG's role in minimizing fraudulent financial statements by supporting more effective and efficient managerial systems. Fraud prevention is thus deeply rooted in robust internal corporate governance mechanisms (Nasrallah & El Khoury, 2022). GCG is widely implemented as part of the RGEC method to assess bank soundness and ensure financial reporting integrity, especially in the banking sector (Zainuddin & Djaelani, 2018)

Previous research on the correlation between fraud elements and good corporate governance as a moderating factor yield inconsistent findings. According to (Rohmatin et al., 2021), audit committees mediate opportunity and rationalization, whereas the fraud pentagon's competence and opportunity impact fraudulent financial statement. However, other studies (Dewi & Anisykurlillah, 2021; Ezrien et al., 2019; Pamungkas et al., 2018) highlight varying results, revealing gaps in understanding the impact of GCG in mitigating fraud influenced by managerial tendencies. With an emphasis on GCG as an interaction variable, this study investigates the impact of the Faud Pentagon dimensions (pressure,

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opportunity, rationalization, competence, and arrogance) on fraudulent financial statement in the financial industry.

THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

Fraud Pentagon Theory

According to Crowe Howarth's fraud pentagon theory, pressure, opportunity, rationalization, competence, and arrogance are the five elements that contribute to fraudulent financial statement (Lauwrens & Yanti, 2022). These interconnected elements can drive fraud in organizations. Pressure, often stemming from unmet financial targets or personal issues, is a common trigger (Kuntadi & Kristin, 2022). Opportunity arises from weak internal controls or lack of oversight (Reskino & Bilkis, 2022). Rationalization involves fraudsters justifying their actions, believing they are not causing harm or will rectify the situation (Kurniawati & Febiolla, 2022). Competence enables individuals to commit fraud intelligently and undetected (Ayem & Mas'adah, 2022). Arrogance leads individuals to believe they are above the rules and immune to detection due to their position (Oktaviany & Reskino, 2023).

Good Corporate Governance

Corporate governance encompasses systematic actions to manage and direct a company, aiming to enhance value and ensure business sustainability (Muhyi & Suratno, 2021). Implementing good corporate governance is essential for fostering corporate value, managing risks, supporting economic growth, and maintaining discipline, as companies must consider the interests of shareholders and stakeholders who provide funding (Fatimah et al., 2019). Good governance positively impacts business continuity by establishing transparent regulations and structured relationships between decision-makers and oversight bodies, thereby protecting the company from fraud.

Prior Research and Hypothesis Development

The Effect of Pressure on Fraudulent Financial Statement

Companies with high levels of debt may face challenges in obtaining external funding due to perceived risks associated with asset collateral (Rahmawati et al., 2017). This situation pressures management to control debt levels and maintain good performance data, perhaps making financial statement fraud more likely. From an agency theory perspective, such pressures arise because agents (management) prioritize self-interest over principal goals under external constraints. External pressure, which is often

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represented as a leverage ratio that reflects debt repayment capacity, has been widely examined in previous studies (Amalia & Triyanto, 2022; Sangkala & Safitri, 2022; Yuwono & Marlina, 2021). While some researchers (Herdjiono & Kabalmay, 2021; Yuwono & Marlina, 2021) found a significant relationship between fraudulent financial statement and external pressure, other researchers (Amalia & Triyanto, 2022; Sangkala & Safitri, 2022; Tjen et al., 2020) found a significant relatonship between external pressure and fraudulent financial statement. Building upon disclosure, the present study proposes the following hypothesis:

H1: Pressure has a significant effect on Fraudulent Financial Statement

The Effect of Opportunity on Fraudulent Financial Statement

Ineffective monitoring is emphasized as a contributing factor to fraud in Statement of Auditing Standards No. 99. (Agusputri & Sofie, 2019) shows that Ineffective monitoring creates opportunities for management to exploit weaknesses for personal gain. Fraudulent acts often go undetected due to the absence of strict supervision, thereby increasing the risk of fraudulent financial statements. From an agency theory perspective, agents have more information than principals and can exploit Ineffective monitoring within the organization to commit fraud. This tendency is measured using the ineffective supervision proxy, which the percentage of independent commissioners on the board often represents. This proxy has been widely used in previous studies (Agusputri & Sofie, 2019; Carla & Pangestu, 2021; Yuwono & Marlina, 2021).

Findings regarding the correlation between ineffective monitoring and fraudulent financial statement are mixed. Some studies (Agusputri & Sofie, 2019; Rukmana, 2018) report a significant effect, but some other studies (Carla & Pangestu, 2021; Yuwono & Marlina, 2021) do not. Building upon disclosure,the present study proposes the following hypothesis:

H2: Opportunity has a significant effect on Fraudulent Financial Statement

The Effect of Rationalization on Fraudulent Financial Statement

(Dewi & Anisykurlillah, 2021) describe rationalization as an attempt to justify fraudulent acts, with the organizational environment playing an important role in fostering such behavior. The accrual method allows management to rationalize revenue recognition based on transaction events, regardless of cash receipts, potentially leading to overstatement of revenue and increasing the risk of financial statement fraud (M. R. Sari & Rofi, 2020). According to agency theory, management as an agent authorized by

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the principal has discretion in choosing accounting policies, including the use of accruals to recognize revenue. In several studies, including those by (Amalia & Triyanto, 2022; M. R. Sari & Rofi, 2020; Sihombing & Cahyadi, 2021), total accruals are frequently employed as a stand-in to gauge rationalization. The utilization of accruals is accurately reflected by this proxy, which is computed as the difference between net income and operational cash flow divided by total assets.

Previous studies provide mixed results. Research by (Amalia & Triyanto, 2022; Ezrien et al., 2019) confirmed the effect of rationalization on financial statement fraud, but other studies such as (Herdjiono & Kabalmay, 2021; M. R. Sari & Rofi, 2020) did not find a significant effect. Building upon disclosure,the present study proposes the following hypothesis:

H3: Rationalization has a significant effect on Fraudulent Financial Statement.

The Effect of Competence on Fraudulent Financial Statement

(Preicilia et al., 2022) define competence as the expertise and capacity of individuals, such as CEO's, to commit fraud, which is influenced by external pressures and personal attributes such as education level. According to ACFE, 51% of CEO's involved in fraud cases have at least a bachelor's degree, indicating that higher education enables CEO's to exploit weaknesses in corporate standards to commit financial manipulation. According to agency theory, CEO's, as agents, have the authority to make operational and financial decisions that impact the interests of the principal. Effective monitoring and evaluation mechanisms are essential to ensure the CEO's actions are aligned with the principal's objectives. In addition, the educational background of CEO's also affects their ability to manage and oversee internal financial reports.

Previous research reveals mixed findings. CEO education and fraudulent financial statements did not significantly correlate, according to (Putri & Suhartono, 2023; Sihombing & Panggulu, 2022), while (Preicilia et al., 2022) reported a significant effect. This study offers a hypothesis to further assess the connection between CEO education and fraudulent financial statements in light of these disparities in findings:

H4: Competence has a significant effect on Fraudulent Financial Statement

The Effect of Arrogance on Fraudulent Financial Statement

The attitude of disregarding internal controls is known as arrogance, policies, and regulations, with the belief that one is exempt from regulations (Bawekes et al., 2018). This attitude is often associated with high-risk behavior, such as manipulating financial

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statements to portray better performance, without regard to long-term legal or reputational risks. Agency theory states that arrogance leads to management behavior that is contrary to the interests of owners or investors. Arrogant managers may manipulate financial statements to protect their reputation, even at the expense of ethical or legal standards. Previous research has used the frequency of CEO photos in company reports or the media as an indicator of arrogance, demonstrating its influence on the detection of fraudulent financial statements (Bawekes et al., 2018; Puspitha & Yassa, 2018; Rusmanto & Elfia, 2020; Utami & Pusparini, 2019). However, (Aprilia, 2017) found different results. Building upon disclosure,the present study proposes the following hypothesis:

H5: Arrogance has a significant effect on Fraudulent Financial Statement

Good Corporate Governance Moderates the Relationship between Pressure and Fraudulent Financial Statement

Good corporate governance consists of structured procedures designed to optimize firm value (Muhyi & Suratno, 2021). In governance, the audit committee is a crucial component, which mitigates managerial fraud by increasing oversight of organizational activities and financial reporting (Sugita, 2018; Zulfa & Tanusdjaja, 2022). Often drives management to manipulate financial statements to meet specific objectives, such as securing capital. Trough more stringent scrutiny, the audit committee's role is to mitigate this pressure (Zulfa & Tanusdjaja, 2022). Empirical studies show that good governance moderates the correlation between external pressure and fraudulent financial statement, although the findings are still inconsistent (Dewi & Anisykurlillah, 2021; Sugita, 2018; Zulfa & Tanusdjaja, 2022). Building upon disclosure,the present study proposes the following hypothesis:

H6: Good Corporate Governance moderates the relationship between Pressure and Fraudulent Financial Statement

Good Corporate Governance Moderates the Opportunity Relationship to Fraudulent Financial Statement

Opportunity as the second element in the fraud pentagon theory can be controlled through the presence of an audit committee. The audit committee assists the board of commissioners by identifying potential conflicts of interest and addressing deficiencies in oversight, thereby mitigating the risk of management fraud (Sugita, 2018). The impact of the board of commissioners inadequate oversight is lessened by a robust audit

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committee. The function of sound corporate governance in continuously lowering fraud is supported by empirical data (Andayani & Wuryantoro, 2023). Research shows that good governance effectively reduces financial statement fraud by controlling the relationship between weak supervision and fraudulent behavior (Sawaka K., 2020; Sugita, 2018). However, findings by (Zulfa & Tanusdjaja, 2022) indicate that governance does not always manage this relationship effectively. Building upon disclosure,the present study proposes the following hypothesis:

H7: Good Corporate Governance moderates the relationship between Opportunity and Fraudulent Financial Statement.

Good Corporate Governance Moderates the Relationship between Rationalization and Fraudulent Financial Statement

Rationalization, the third element in the fraud pentagon theory, can be suppressed through the presence of an audit committee. The accrual principle in managerial, which allows revenue recognition without taking into account cash inflows, is often used for financial statement manipulation (M. R. Sari & Rofi, 2020). The audit committee serves as a key mechanism in minimizing the justification for excessive use of accruals, so that it can mitigate the association between total accruals and fraudulent financial statements. Previous research shows that good corporate governance can reduce fraud, including rationalization as one of the main elements (Ezrien et al., 2019; Rohmatin et al., 2021). However, some research has also found that good governance is not always effective in controlling this relationship (Sugita, 2018; Zulfa & Tanusdjaja, 2022). Building upon disclosure,the present study proposes the following hypothesis:

H8: Good Corporate Governance moderates the relationship between Rationalization and Fraudulent Financial Statement.

Good Corporate Governance Moderates the Competence Relationship to Fraudulent Financial Statement

Good corporate governance (GCG) ensures that companies are managed responsibly, transparently and ethically. As a proxy for GCG, the audit committee plays a role in overseeing financial reporting, ensuring compliance with regulations, and evaluating internal controls. Competence is measured through CEO education, which reflects the ability and knowledge to manage the company, including in the preparation of financial statements. A self-governing and proactive audit committee diminishes the likelihood of a CEO exploiting their education to manipulate financial statements by

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strengthening oversight, ensuring adherence to regulations, and cultivating ethical consciousness. The presence of an audit committee limits the CEO's flexibility in manipulating and detecting potential fraud early. Thus, the audit committee as a proxy for GCG can moderate the relationship between CEO competence and financial statement fraud. The proposed hypotheses are:

H9: Good Corporate Governance moderates the relationship between Competence and Financial Statement Fraud

Good Corporate Governance Moderates the Relationship between Arrogance and Fraudulent Financial Statement

Arrogance reflects a sense of superiority that can influence making decision, including in the manipulation of financial statements (S. P. Sari & Nugroho, 2020). The adoption of effective corporate governance, through the role of the audit committee, can encourage ethical behavior and reduce the effect of arrogance on fraud (Lastanti et al., 2022). An audit committee that is firm against fraud forces the CEO to act more carefully, thereby reducing the risk of fraud. Previous research shows mixed results, some studies indicate that GCG strengthens the relationship between arrogance and fraud (Achmad et al., 2022; Handoko & Natasya, 2019), while others find that GCG actually weakens the relationship (Lastanti et al., 2022; Nugroho & Diyanty, 2022). Based on these findings, the proposed hypotheses are:

H10: Good Corporate Governance moderates the relationship between Arrogance and Fraudulent Financial Statement

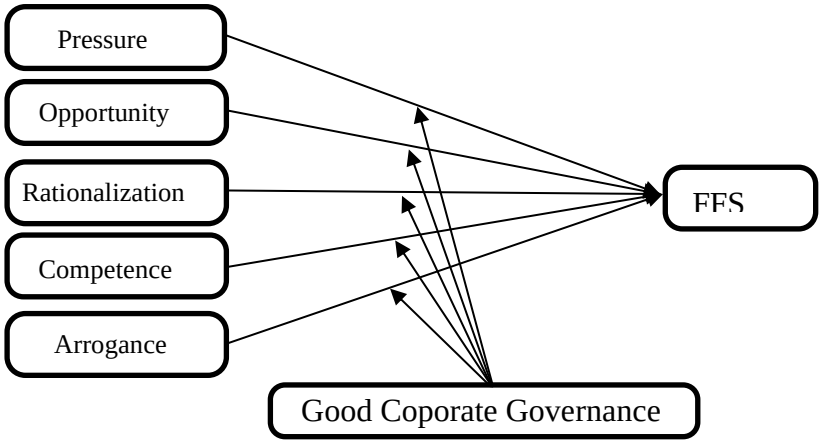


Figure 1. Research design

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METHODOLOGY

This study utilizes secondary data derived from the annual financial reports of companies in the financial industry listed on the Indonesia Stock Exchange (IDX) for the 2019-2023 period. These data were retrieved from the official IDX portal (www.idx.co.id) and the respective companies official websites. The data collection process employed the documentation method, which involved analyzing financial statement documents to gather information pertinent to the research variables. Purposive sampling was used to choose the research sample basen on predetermined standards. Companies that are sampled must have released audited annual financial statements during the study period, present comprehensive financial data in accordance with research needs, prepare financial reports in Rupiah currency, and not experience mergers or acquisitions during the research period.

Table 1. Selection of samples

Description	Total
Companies in the financial sector listed on the IDX	104
Companies that have made their audited annual financial reports available on the company's official website or the Indonesia Stock Exchange (IDX) portal from 2019 to 2023	-5
Companies that publish annual financial reports with comprehensive data according to research variables from 2019 to 2023	-4
Financial sector companies that present financial statements in rupiah (Rp) from 2019 to 2023	0
Companies that throughout the study period did not undergo mergers or acquisitions	-25
Research Sample	70

Table 1 shows that purposive sampling resulted in 70 data units that met the research criteria. Data processing that is carried out includes

Descriptive statistics, classical assumption test, panel data regression estimation model test (common effect model, fixed effect model, random effect model) and panel data regression model selection (chow test, hausman test, lagrange multiplier test), followed by hypothesis testing with t statistical test, f statistical test, and coefficient of determination (R^2) test.

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This study used Moderated Regression Analysis (MRA), an extension of multiple linear regression that incorporates moderating variables through interaction effects. The analysis uses the following equation:

Model 1:

$EM = \beta0 + \beta1X1 + \beta2X2 + \beta3X3 + \beta4X4 + \beta5X5 + \epsilon$

Model 2:

$EM = \beta0 + \beta1X1 + \beta2X2 + \beta3X3 + \beta4X4 + \beta5X5 + \beta6GCG + \beta7(X1 \times GCG) + \beta8(X2 \times GCG) + \beta9(X3 \times GCG) + \beta10(X4 \times GCG) + \beta11(X5 \times GCG) + \epsilon$

Description :

EM : Fraudulent Financial Statement (earnings management)
X1,X2,X3,X4,X5: Dimensions of the Fraud Pentagon
GCG : Good Corporate Governance
β0 : Konstanta (Intercept)
β1,β2,β3,β4,β5 : Coefficient for each dimension of the fraud pentagon
β6 : Regression coefficient for Good Corporate Governance
β7,β8,β9,β10,β11: Regression coefficients for the interaction between the dimensions of the Fraud Pentagon and Good Corporate Governance
ϵ : Error term

Table 2. Operational Variables

Variable	Proxy	Operational Definition	Measurement
Fraudulent Financial Statement	Earnings Management	Accounting procedure to raise or lower profits. (Fatimah et al., 2019)	$DAit = \left(\frac{TAit}{Ait-1}\right) - NDAit$
Pressure	External Pressure	Pressure from external parties demands management to present good financial ratios and high earnings in order to obtain capital. (Novitasari & Chariri, 2018)	LEV = Total Debt/Total Assets

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Opportunity	Ineffective Monitoring	A situation in which the board of commissioners oversight is not adequately performed, opening opportunities for management to maximize their personal profits. (Agusputri & Sofie, 2019)	BDOUT = Total Board of Commissioners Independent/Total Board of Commissioners
Rationalization	Total Accrual	Management principle where revenue is recognized without considering cash receipts, but rather recognized at the time the transaction occurs. (M. R. Sari & Rofi, 2020)	$\text{TATA} = \frac{\text{Total Accruals}}{\text{Total Assett}}$
Competence	CEO's Education	The level of formal education held by the Chief Executive Officer (CEO) of a company	1 = CEO who holds a master's degree or above. 0 = CEO who has less education than a master's degree
Arrogance	Frequent Number of CEO's Picture	The company's annual report regularly includes photos the CEO, along with detils of their performance, accomplishments, and profile pictures (Oktaviany & Reskino, 2023)	Total photos of the CEO in a company's annual report
Good Corporate Governance	Audit Comittee	Part of good corporate governance that aids in oversight. (Zulfa & Tanusdjaja, 2022)	Audit Committee = Total members of audit committee

RESEARCH RESULTS

Descriptive Statistics

These descriptive statistics offer an overview of the data distribution and basic characteristics of the variables involved, such as FFS, pressure, opportunity, rationalization, competence, arrogance, and good corporate governance (GCG).

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Through this table, it can be seen the range of values and the distribution of data obtained from the sample of financial sector companies.

Table 3. Descriptive Statistical Analysis Test Results

	Mean	Median	Maximum	Minimum	Std. Dev.	N
FFS	0.043	0.017	3.769	-1.799	0.359	350
Pressure	0.922	0.703	64.651	0.000	3.743	350
Opportunity	0.515	0.500	0.750	0.000	0.126	350
Rationalization	0.132	0.100	1.860	-0.520	0.183	350
Competence	0.451	0.000	1.000	0.000	0.498	350
Arrogance	2.860	3.000	7.000	1.000	1.339	350
GCG	3.348	3.000	8.000	2.000	0.878	350

Based on the descriptive analysis, external pressure representing the pressure variable ranges from 0,000 to 64,651 with a mean of 0,922 and a standard deviation of 3,743. A minimum value of 0,000 indicates firms experiencing no external pressure, while the maximum value represents firms facing significant external pressure. The high standard deviation highlights substantial differences in external pressure across sampled firms, suggesting a diverse distribution.

Ineffective monitoring, representing the opportunity variable, ranges from 0,000 to 1,000, with a mean of 0,515 and a standard deviation of 0,126. The minimum value signifies firms with effective monitoring, whereas the maximum value indicates weak oversight. The relatively low standard deviation implies minimal variation in ineffective monitoring across financial firms, suggesting a stable distribution.

Total accrual, as a proxy for rationalization, has values between -0,520 and 1,860, with a mean of 0,132 and a standard deviation of 0,183. Negative accrual values indicate conservative accounting practices, while high positive values suggest aggressive earnings manipulation. The standard deviation demonstrates significant variation in accrual practices among sampled firms.

CEO's education level, representing competence, varies from 0,000 to 1,000, with a mean of 0,451 and a standard deviation of 0,498. The lowest value indicates CEO's without higher education, while the highest value signifies CEOs with advanced education. The moderate standard deviation suggests some variation in educational backgrounds among financial industry CEO's.

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Arrogance, measured by the frequency of CEO's photos, ranges from 1,000 to 7,000, with a mean of 2,860 and a standard deviation of 1,339. A lower frequency reflects limited public exposure, whereas a higher frequency represents significant exposure. The standard deviation indicates varying levels of CEO arrogance across sampled firms.

Fraudulent financial statement variable, proxied by earnings management, based on 350 samples. The values range from -1,799 to 3,769, with a mean of 0,043 and a standard deviation of 0,598. The lowest value indicates minimal earnings management, whereas the highest value signifies aggressive earnings management. The standard deviation suggests a considerable variation in earnings management practices among financial industry firms.

Good corporate governance ranges from 2,000 to 8,000, with a mean of 3,348 and a standard deviation of 0,878. The lowest value reflects weak corporate governance, while the highest value denotes strong governance practices. The relatively low standard deviation suggests a stable distribution of corporate governance practices among financial industry firms.

Panel Data Regression Model Estimationt

Common Effect Model

The Common Effect Model (CEM) combines time-series and cross-sectional data without accounting for individual or time variations. Estimation is conducted using Ordinary Least Squares (OLS) (Ghozali & Ratmono, 2017). This study tested the CEM and obtained the following results:

Table 4. Common Effect Model

Variable	*Coefficient*	*Std. Error*	*t-Statistic*	*Prob.*
C	0.009269	0.096893	0.095662	0.9238
X1	-0.050307	0.005456	-9.220099	0.0000
X2	-0.104389	0.140161	-0.744780	0.4569
X3	0.846322	0.113260	7.472376	0.0000
X4	-0.016713	0.035209	-0.474688	0.6353
X5	-0.013973	0.013142	-1.063201	0.2884
Z	0.020901	0.020740	1.007767	0.3143

Source: Eviews – secondary data processed

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Fixed Effect Model

The Fixed Effect Model (FEM) assumes that α is a specific constant term in the regression model. FEM focuses on individual-specific effects and ignores time-specific effects. This study tested the FEM and obtained the following results:

Table 5. Fixed Effect Model

Variable	*Coefficient*	*Std. Error*	*t-Statistic*	*Prob.*
C	0.041953	0.179889	0.233218	0.8158
X1	-0.059660	0.006274	-9.508881	0.0000
X2	-0.067103	0.219866	-0.305200	0.7604
X3	1.210074	0.122634	9.867349	0.0000
X4	0.018729	0.055547	0.337176	0.7362
X5	0.009522	0.024437	0.389662	0.6971
Z	-0.031268	0.042132	-0.742123	0.4586

Source: Eviews – secondary data processed

Random Effect Model

The Random Effect Model (REM) assumes that residuals are correlated across individuals and time, incorporating individual differences into the error component model. This model preserves the degrees of freedom and serves as an alternative to the Fixed Effect Model if the Chow test shows unsuitability. Estimation is done using Generalized Least Squares (GLS). This study tested REM and obtained the following results:

Table 6. Random Effect Model

Variable	*Coefficient*	*Std. Error*	*t-Statistic*	*Prob.*
C	-0.025210	0.115266	-0.218708	0.8270
X1	-0.055466	0.005474	-10.13234	0.0000
X2	-0.071198	0.160035	-0.444887	0.6567
X3	1.042313	0.109858	9.487793	0.0000
X4	-0.000181	0.040219	-0.004491	0.9964
X5	-0.006748	0.015807	-0.426913	0.6697
Z	0.011352	0.025366	0.447528	0.6548

Source: Eviews – secondary data processed

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Selection of Panel Data Regression

Chow Test

The Chow test determines whether the Fixed Effect Model (FEM) or Common Effect Mode l (CEM) is more appropriate. If the probability (p-value) < 0,05, FEM is used; otherwise, if p-value > 0,05, CEM is applied.

Table 7. Chow Test

Effects Test	*Statistic*	*d.f.*	*Prob.*
Cross-section F	3.023187	(69,274)	0.0000
Cross-section Chi-square	198.120969	69	0.0000

Source: Eviews – secondary data processed

Results from Table 7 indicate that the cross-section chi-square probability is 0,000, which is less than 0,05, confirming the use of the Fixed Effect Model.

Hausman Test

The Hausman test determines the most appropriate estimation model between the Fixed Effect Model (FEM) and the Random Effect Model (REM) for panel data analysis. If the cross-section random p-value < 0,05, FEM is chosen; otherwise, if p-value > 0,05, REM is applied.

Table 8. Hausman Test

Test Summary	*Chi-Sq. Statistic*	*Chi-Sq. d.f.*	*Prob.*
Cross-section random	15.925444	6	0.0142

Source: Eviews – secondary data processed

Results from Table 8 indicate that the cross-section random probability is 0,0449, which is less than 0,05, confirming the selection of the Fixed Effect Model.

Lagrange Multiplier (LM) Test

The LM test determines whether the Random Effect Model (REM) or Common Effect Model (CEM) is more appropriate for panel data regression. If the cross-section random p-value < 0,05, CEM is chosen; otherwise, if p-value > 0,05, REM is applied.

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Table 9. LM Test

	Test Hypothesis		
	Cross-section	*Time*	*Both*
Breusch-Pagan	45.91676	0.000983	45.91775
	(0.0000)	(0.9750)	(0.0000)

Source: Eviews – secondary data processed

Table 9 show a cross section value of 0,0000, which is less than 0,05, indicating that the Lagrange Multiplier (LM) test favors the Random Effect Model (REM). However, based on the overall panel data model selection, the Fixed Effect Model (FEM) is used for panel regression analysis in this study.

Regression Analysis Results

This study employs Moderated Regression Analysis (MRA) to examine the impact of independent variables on the dependent variable and assess the moderating variable's role in strengthening or weakening this relationship.

Table 10. Multiple Regression Analysis

Variable	*Coefficient*	*Std. Error*	*t-Statistic*	*Prob.*
C	-0.051756	0.128018	-0.404284	0.6863
X1	-0.059813	0.006266	-9.546345	0.0000
X2	-0.081572	0.218821	-0.372777	0.7096
X3	1.216309	0.122246	9.949680	0.0000
X4	0.016561	0.055424	0.298797	0.7653
X5	0.008389	0.024369	0.344229	0.7309
Root MSE	0.239602	*R-squared*		0.555348
Mean dependent var	0.043738	*Adjusted R-squared*		0.435697
S.D. dependent var	0.359834	*S.E. of regression*		0.270308
Akaike info criterion	0.408900	*Sum squared resid*		20.09326
Schwarz criterion	1.235600	*Log likelihood*		3.442541
Hannan-Quinn criter.	0.737956	*F-statistic*		4.641373
Durbin-Watson stat	2.723011	*Prob(F-statistic)*		0.000000

Source: Eviews – secondary data processed

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Table 11. Moderated Regression Analysis (MRA)

Variable	*Coefficient*	*Std. Error*	*t-Statistic*	*Prob.*
C	0.276355	0.855781	0.322927	0.7470
X1	-0.533550	0.744837	-0.716331	0.4744
X2	0.335757	1.272525	0.263851	0.7921
X3	1.402767	0.961195	1.459400	0.1456
X4	0.026868	0.192693	0.139436	0.8892
X5	-0.023014	0.078547	-0.293000	0.7697
Z	-0.105088	0.274366	-0.383022	0.7020
X1Z	0.157961	0.248381	0.635963	0.5253
X2Z	-0.133203	0.405662	-0.328359	0.7429
X3Z	-0.064069	0.307100	-0.208626	0.8349
X4Z	-0.002215	0.054408	-0.040719	0.9676
X5Z	0.009160	0.020245	0.452439	0.6513
Root MSE	0.238956	*R-squared*		0.557745
Mean dependent var	0.043738	*Adjusted R-squared*		0.426219
S.D. dependent var	0.359834	*S.E. of regression*		0.272568
Akaike info criterion	0.437781	*Sum squared resid*		19.98496
Schwarz criterion	1.330617	*Log likelihood*		4.388351
Hannan-Quinn criter.	0.793161	*F-statistic*		4.240579
Durbin-Watson stat	2.729122	*Prob(F-statistic)*		0.000000

Based on the regression analysis, the relationships between variables in this study can be expressed through the following equation:

EM = -0,0517 – 0,0598 Pressure – 0,0815 Opportunity + 1,2163 Rationalization + 0,0165 Competence + 0,0083 Arrogance + ε

EM = 0,2763 – 0,5335 Pressure + 0,3357 Opportunity + 1,4027 Rationalization + 0,0268 Competence + 0,0230 Arrogance – 0,1050 GCG + 0,1579 (Pressure x GCG) – 0,1332 (Opportunity x GCG) – 0,0640 (Rationalization x GCG) – 0,0022 (Competence x GCG) + 0,0091 (Arrogance x GCG) + ε

Interpretation of The Regression Equation:

1. The constant coefficient of -0,0517 indicates that if all independent variables are zero, the fraudulent financial statement value would be -0,0517.
2. The coefficient of pressure (-0,0598) suggests that an increase in external pressure reduces FFS by 0,0598, implying that higher external pressure lowers the likelihood of financial statement fraud.

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3. The coefficient of opportunity (-0,0816) indicates that weaker internal monitoring decreases FFS by 0,0816, though this effect is statistically insignificant (p-value > 0,05).
4. The rationalization coefficient (1,2163) suggests that a one-unit increase in total accrual raises FFS by 1,2163.
5. The competence coefficient (0,0166) implies that higher CEO education levels slightly increase FFS by 0,0166, but the effect is not statistically significant.
6. The arrogance coefficient (0,0084) suggests that frequent CEO exposure in annual reports increases FFS by 0,0084, though this effect is also insignificant.
7. A second constant coefficient of 0,2764 indicates that if all independent and moderating variables are zero, FFS will be 0,2764.
8. Pressure (-0,5335) initially reduces FFS, but after interacting with Good Corporate Governance, the effect reverses to 0,1580, indicating that GCG weakens the negative relationship between external pressure and FFS.
9. Opportunity (0,3358) increases FFS when internal monitoring is weak, but its interaction with GCG (-0,1332) mitigates this effect, suggesting GCG strengthens internal controls.
10. Rationalization (1,4028) strongly increases FFS, but this effect weakens (-0,0641) when moderated by GCG, indicating GCG helps reduce accrual-based manipulation.
11. Competence (0,0269) slightly raises FFS, though its interaction with GCG (-0,0022) shows minimal impact.
12. Arrogance (-0,0230) initially reduces FFS, but its interaction with GCG (0,0092) suggests that under certain conditions, CEO exposure may increase fraud risk.

Hypothesis Testing

Individual Parameter Significance Test (t-Test)

The individual parameter significance test (t-test) results indicate that Pressure has a probability value of 0,000, which is lower than the 0,05 significance level, suggesting a significant effect on fraudulent financial statements (FFS) and supporting the hypothesis. In contrast, Opportunity has a probability value of 0,709, which exceeds 0,05, indicating no significant effect on FFS, leading to the rejection of the hypothesis. Similarly, Rationalization shows a probability value of 0,0000, confirming its significant impact on FFS and supporting the hypothesis. Meanwhile, Competence and Arrogance, with probability values of 0,7653 and 0,7309, respectively, do not exhibit a significant influence on FFS, resulting in the rejection of both hypotheses.

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Regarding the moderating effect of Good Corporate Governance (GCG), the interaction variables, including Pressure & GCG (p = 0,5253), Opportunity & GCG (p = 0,7429), Rationalization & GCG (p = 0,8349), Competence & GCG (p = 0,9676), and Arrogance & GCG (p = 0,6513), all have probability values greater than 0,05. These results indicate that GCG does not significantly moderate the relationship between the independent variables and FFS, leading to the rejection of all moderation hypotheses**.**

Simultaneous Significance Test (Statistical Test f)

The F-test assesses whether all independent variables collectively influence the dependent variable. If the significance value is below 0,05, the independent variables significantly affect the dependent variable; otherwise, they do not (Ghozali, 2018). Regression results in table 4.10 show an F-statistic of 4,6413 (p = 0,0000) for the first model and 4,2405 (p = 0,0000) for the second model. Since both p-values are below the 0,05 threshold, this indicates that Pressure, Opportunity, Rationalization, Competence, Arrogance, and their interactions with Good Corporate Governance (GCG) significantly influence Fraudulent Financial Statements (FFS). Thus, the model effectively explains the occurrence of FFS. However, while the variables are significant simultaneously, individual t-tests indicate that not all independent variables have a significant partial effect. This suggests that other factors, such as external regulations and corporate ethical culture, should also be considered in predicting fraudulent financial statements.

Coefficient of Determination (R^2)

The coefficient of determination (R^2) measures the extent to which the model explains variations in the dependent variable, ranging from 0 to 1. A higher R^2 value indicates a stronger explanatory power of the independent variables (Ghozali, 2018). Table 4.10 shows an R^2 of 0,5553 in the model without moderation and 0,5577 in the moderated model, meaning the independent variables pressure, opportunity, rationalization, competence, arrogance, and their interactions with good corporate governance (GCG) explain approximately 55.5% to 55.7% of the variation in fraudulent financial statements (FFS). The remaining 44.3% to 44.5% is influenced by external factors not included in this model.

These results suggest that the selected variables significantly contribute to explaining FFS, though other factors, such as regulatory pressure, internal controls, or individual fraud characteristics, may also play a role. Additionally, limitations in data or model simplicity may impact the findings. Despite this, the model provides valuable

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insights into the relationship between fraud pentagon dimensions, GCG, and FFS, while recognizing the need for broader factors to improve predictive accuracy.

DISCUSSION OF HYPOTHESIS TESTING

The Effect of Pressure on Fraudulent Financial Statements

The analysis indicates that pressure has an effect on fraudulent financial statements with a coefficient of -0,059, t-statistics of -9,546, and a p-value of 0,000 ($p < 0,05$). Higher pressure tends to lessen the chance of fraudulent financial statements, according to the negative coefficient. According to this study, pressure pushes management to make more cautious financial decision in order to prevent mistake or fraudulent activity. From the perspective of agency theory, pressure often triggers increased external oversight, such as from auditors or shareholders, this lessens the possibility of principals and agents having conflict interests. This intensified supervision creates incentives for management to avoid actions detrimental to the organization. These findings align with previous studies, such as those by (Herdjiono & Kabalmay, 2021; Yuwono & Marlina, 2021), which emphasize how pressure affects financial decisions and the possibility of deception. Both studies emphasize that pressure frequently influences individual behavior in financial decision-making. However, this study offers a novel perspective by revealing that higher pressure may mitigate the likelihood of fraud through enhanced oversight and risk mitigation mechanisms. The results support the initial hypothesis and add the body of literature by offering new insights into the unique relationship between pressure and fraudulent financial statements. These results are consistent with agency theory, which emphasize how crucial external oversight in reducing the risks of conflicts of interest.

The Effect of Opportunity on Fraudulent Financial Statements

The results of the analysis show that opportunity has no bearing on fraudulent financial statement, with a p-value of 0,709 ($p < 0,05$), a coefficient value of -0,081, and t-statistics of 0,372. These findings indicate that opportunity alone is not sufficient to drive the occurrence of fraud. In the context of agency theory, opportunity is often considered a trigger for fraudulent actions, especially when external supervision or internal control mechanisms are weak. However, this theory also emphasizes that opportunity must be accompanied by other factors, such as pressure or rationalization, to trigger fraudulent actions. These results differ from previous research, such as (Agusputri & Sofie, 2019), which found that ineffective monitoring as a proxy for opportunity potentially increases

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the risk of fraud. However, this research shows that the influence of opportunity on fraud is complex and requires interaction with other variables. Thus, the hypothesis that opportunity affects fraudulent financial statements is disproved. This research emphasizes that opportunity does not work independently in driving fraud and requires further research to understand the interaction with other supporting factors.

The Effect of Rationalization on Fraudulent Financial Statements

The analysis's findings indicate that fraudulent financial statement is impacted by rationalization, with a coefficient of 1,216, a t-statistic of 9,949, and a p-value of 0,000 ($p < 0,05$). These findings indicate that rationalization is an important factor driving management to commit fraud. In the perspective of agency theory, rationalization can be considered a tool for the agent (management) to defend acts that go against the principal's interests. With rationalization, management can ignore norms and rules to achieve certain goals, such as maintaining the company's image or gaining personal benefits. An example is the manipulation of revenue accruals to legitimize unethical or illegal actions. These results are consistent with earlier studies, such as (Dewi & Anisykurlillah, 2021; M. R. Sari & Rofi, 2020), which show that rationalization allows for the justification of fraudulent actions for the sake of credibility or better performance image. Although they were impacted by external pressure and internal oversight, other research like (Amalia & Triyanto, 2022; Sihombing & Cahyadi, 2021) also support the link between rationalization and fraudulent financial statements. The hypothesis that rationalization affects fraudulent financial statements is accepted. This research highlights the importance of understanding psychological and organizational justification factors in supporting fraudulent actions, so that prevention efforts can be more focused and effective.

The Effect of Competence on Fraudulent Financial Statements

The analysis's finding demonstrate that fraudulent financial statement is unaffected by competence, with a coefficient value of 0,016, a t-statistic of 0,298, and a p-value of 0,765 ($p > 0,05$). These results show that the competence of individuals or organizations has no directly affect the likelihood of fraud occurring, although it is important in the context of decision-making. In agency theory, competence can support internal supervision and ethical decision-making. Nonetheless, this study's findings show that competency is not the main determining factor and requires interaction with other

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factors, such as external pressure, incentives, or organizational culture, to significantly influence fraudulent behavior.

These results are consistent with the studies of (Putri & Suhartono, 2023; Sihombing & Panggulu, 2022), which found that an individual's educational background or competence does not always correlate with the potential for fraud. (Preicilia et al., 2022) also found that competence is often influenced by external factors, such as environmental characteristics or organizational leaders, which do not always ensure fraud prevention. Even data from (ACFE, 2022) reveals that higher education does not guarantee individuals will be free from fraudulent behavior. Thus, the hypothesis that competence affects fraudulent financial statements is rejected. Competence functions as a supporting element, but not the main element affecting the likelihood of fraud.

The Effect of Arrogance on Fraudulent Financial Statements

The analysis's finding demonstrate that fraudulent financial statements is unaffected by arrogance, with a coefficient of 0,008 and a p-value of 0.730 ($p > 0,05$). These results show that although arrogance can increase the risk of fraudulent actions, its influence is not strong enough in the context of this study. In agency theory, arrogance is understood as a management attitude that disregards internal controls and rules in order to maintain an image or demonstrate superior performance. However, these results indicate that arrogance does not directly trigger fraud without the influence of other factors. This research supports the view of (Bawekes et al., 2018) that arrogant individuals tend to ignore legal and reputational risks, but it does not always lead to fraud. (Aprilia, 2017) also noted that the frequency of the CEO's appearance in the annual report, as an indicator of arrogance, is not significant in detecting fraud. Thus, the hypothesis that arrogance affects fraudulent financial statements is disapproved. These findings indicate the need for further exploration to understand the interaction between arrogance and other factors in driving fraudulent actions.

Good Corporate Governance Moderates the Relationship Between Pressure and Fraudulent Financial Statement

The study's conclusions demonstrate that GCG does not mitigate the connection between pressure and fraudulent financial statement. The coefficient of 0,157, t-statistics of 1,635, and p-value of 0,525 ($p > 0,05$) indicate that GCG is not strong enough to moderate this relationship, thus the GCG moderation hypothesis is rejected. In the context of agency theory, Through more accountability and transparency, GCG seeks to

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lessen disputes between principals and agent. However, this study's finding show that GCG, despite having a supervisory role, has not yet been able to fully address the pressure faced by management to prevent fraudulent actions. This indicates that the influence of external pressure can be more dominant compared to the oversight mechanisms possessed by GCG. These findings align with the research carried out by (Zulfa & Tanusdjaja, 2022), it came to the conclusion that pressure and fraudulent financial statements are not moderated by GCG. However, they contradict previous studies such as (Dewi & Anisykurlillah, 2021; Sugita, 2018), which found that GCG can function as a moderator. These differences indicate the complexity of GCG's influence, which is affected by factors such as the suboptimal implementation of GCG or the characteristics of the pressure faced. This study concludes that GCG mechanisms, including the audit committee, have not been effective in reducing the influence of pressure on fraud. Additional approaches such as strengthening ethical culture, enhancing supervisory skills, and developing more effective control mechanisms are needed to support transparency and accountability in line with agency theory.

Good Corporate Governance Moderates the Relationship Between Opportunity and Fraudulent Financial Statement

The research results indicate that (GCG) does not act as a moderator in the relationship between opportunity and fraudulent financial statement, as evidenced by the coefficient of -0,133, t-statistics of -0,328, and p-value of 0,742 ($p > 0,05$). Thus, the GCG moderation hypothesis in this relationship is rejected. This indicates that GCG is not yet strong enough to reduce the opportunities available for management to commit fraud. In agency theory, GCG aims to minimize conflicts between management (agent) and owners (principal) through good governance and effective internal control. In theory, GCG should be able to limit opportunities for fraudulent actions. However, these findings indicate that although the GCG structure is implemented, weaknesses in the implementation of supervision and internal control still allow management to exploit opportunities for committing fraud.

These results are consistent with the research carried out by (Zulfa & Tanusdjaja, 2022), which states that the effectiveness of GCG in reducing the opportunity for fraud is still questionable. However, these results run counter to the study by (Sugita, 2018), which found that GCG plays a significant role in limiting fraud opportunities. This difference indicates that the implementation of GCG, organizational characteristics, or the quality of internal control can affect the outcome. This study concludes that GCG

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cannot moderate the relationship between opportunity and fraudulent financial statements. To enhance the effectiveness of GCG, it is necessary to strengthen oversight, implement more integrated internal controls, and develop an ethical culture at all levels of management.

Good Corporate Governance Moderates the Relationship Between Rationalization and Fraudulent Financial Statements

The analysis's results show that GCG does not moderate the relationship between rationalization and fraudulent financial statements. With coefficient of -0,064, a t-statistic of -0,208, and a p-value of 0,834 (p > 0,05), these findings indicate that GCG has no effect on the relationship's strength or weakness. In agency theory, rationalization is a justification mechanism used by management to view unethical actions as legitimate. Although GCG is designed to enhance oversight and transparency, these results indicate that GCG has not yet been effective enough in influencing the relationship between rationalization and fraudulent actions. Psychological and social factors, such as internal pressure and company policies, seem to play a more dominant role. These results are consistent with the research carried out by (Zulfa & Tanusdjaja, 2022), who add that the relationship between fraud and rationalization is not always moderated by GCG. However, these findings differ from the theoretical perspective that strong internal controls can reduce the justification for rationalizing financial statement manipulation. Factors such as organizational culture and more effective internal supervision seem to be more influential. Thus, the hypothesis stating that GCG moderates the relationship between rationalization and fraudulent financial statements is rejected. These findings indicate that although GCG has the potential to improve governance, its mere implementation is not sufficient to reduce the rationalization that drives fraudulent actions.

Good Corporate Governance Moderates the Relationship Between Competence and Fraudulent Financial Statement

The analysis results show that GCG does not moderate the relationship between competence and fraudulent financial statement. With an original sample value of -0,002, t-statistics of -0,040, and a p-value of 0,967 (p > 0,05), this link is neither strengthened nor weakened by GCG. In agency theory, individual competence, measured through education and experience, can influence management decision-making (agent). Although GCG is designed to strengthen internal supervision and control, these results

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indicate that GCG has not yet been able to reduce the potential for financial statement manipulation by individuals with high competence.

Previous research revealed that the audit committee, serves as a vital component of GCG, guaranteeing the supervision of financial reporting. However, these findings indicate that the presence of an audit committee is not sufficiently effective in moderating the influence of individual competence on fraud. Thus, the hypothesis that GCG moderates the relationship between competence and fraudulent financial statements is rejected. These results indicate that although GCG plays a role in creating transparency and accountability, preventing the impact of individual competency on the incidence of fraudulent financial statements is insufficient

Good Corporate Governance Moderates the Relationship Between Arrogance and Fraudulent Financial Statements

The analysis results show that GCG does not moderate the relationship between arrogance and fraudulent financial statements. With an original sample value of 0,009, t-statistics of 0,452, and a p-value of 0,651 ($p > 0,05$), these findings indicate that GCG is not strong enough to influence that relationship. Arrogance, as a fundamental trait, continues to have a significant influence on fraud despite the presence of GCG oversight and control. In agency theory, arrogant individuals tend to disregard supervision because they feel superior and unbound by rules, thereby encouraging fraudulent actions. Although GCG aims to enhance transparency and ethical behavior, these results indicate that structural controls are insufficient to address the impact of arrogance. Previous research, such as (Achmad et al., 2022; Handoko & Natasya, 2019), shows that GCG can strengthen oversight against arrogance. However, these findings are consistent with the research of (Lastanti et al., 2022; M. P. Sari et al., 2022), which state that GCG is not effective in reducing the influence of arrogance on fraud, considering that arrogant individuals often ignore supervision. The hypothesis that GCG moderates the relationship between arrogance and fraudulent financial statements is rejected. These findings emphasize that arrogance, as an individual characteristic, requires a holistic approach, including behavioral changes and the strengthening of an ethical culture within the organization, to effectively reduce the potential for fraud.

CONCLUSION

This study examines the impact of the fraud pentagon dimensions on fraudulent financial statements and evaluates the moderating role of good corporate governance in

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this relationship. The study was carried out between 2019 to 2023 on financial sector companies that were listed on the Indonesia Stock Exchange. The results showed that pressure and rationalization significantly affect FFS, indicating that external pressure and justification for unethical actions are the main drivers of fraud. However, the dimensions of opportunity, competence, and arrogance did not significantly affect FFS, indicating that these factors alone are not enough to drive fraudulent behavior in the absence of other supporting factors. In addition, GCG was not found to significantly moderate the relationship between the dimensions of the fraud pentagon and FFS. These results emphasize the necessity of additional study to identify GCG mechanisms that are more effective in fraud prevention.

This research provides practical and theoretical implications. Practically, companies should address management and employee pressure while fostering a culture of integrity and transparency. Initiatives such as business ethics training and strengthening supervisory systems are key strategies for fraud prevention. Theoretically, this study adds to the body of research on fraud by emphasizing that not all model dimensions have a substantial impact on fraud, suggesting the need for a more comprehensive framework that incorporates cultural and religiosity factors. This analysis is restricted to Indonesian financial industry companies between 2019 to 2023, reducing its generalizability. In addition, reliance on secondary data and certain proxies may not fully capture organizational dynamics. Future research should expand its scope to include other sectors, such as manufacturing, and explore models such as the fraud heptagon, which integrates cultural and religiosity dimensions. Combining quantitative and qualitative methods, such as surveys and interviews, can provide deeper insights into the drivers of internal fraud and inform more effective prevention measures.

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