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Analysis of fraud hexagon theory in detecting fraudulent financial statements: The role of Big 4

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Abstract

This study aims to analyze the application of the Fraud Hexagon Theory in detecting fraud in financial statements by considering the role of the Big 4 Public Accounting Firm. This study focuses on research on financial sector companies and banks in Indonesia. The background of this problem begins with the frequent occurrence of financial statement fraud cases, which in turn can harm shareholders and reduce public confidence in the integrity of financial statements. This trend raises the most important question regarding the effectiveness of the Big 4 (*Kantor Akuntan Publik-KAP*) audits. The research method used is quantitative research, using a secondary data analysis approach based on the company's financial statements. The research sample was selected based on the purposive sampling technique, and the data analysis testing tool used panel data regression analysis with E-Views application to test the hypothesis using various tests needed to form a good regression model. The results of this study indicate that the average fraud on financial statements in the sample taken is relatively low. The findings show that rationalization, ability, and collusion can be used to detect financial statement fraud, while KAP Big 4 can moderate the fraud risk. This study provides new insights into the dynamics of financial statement fraud in Indonesia, especially in the financial and banking sectors, and suggests the need for tighter supervision and improved audit quality to reduce the potential for financial statement fraud.

Keywords: Fraud hexagon theory; financial statement fraud; the Big 4; Indonesia financial and banking sector

1. Introduction

Financial statement fraud is one of the financial industry's biggest challenges (Sahla and Ardianto, 2023; Sari *et al.*, 2022). In Indonesia, financial scandals involving financial statement manipulation by several listed companies have raised deep doubts about the reliability and credibility of accounting and auditing practices (Achmad *et al.*, 2022; Meliana and Hartono, 2019). Activities such as earnings manipulation, asset embezzlement, fictitious asset recording, and misleading information disclosure have been shown to harm investors, shareholders, and the economy (Sari *et al.*, 2022).

Fraud in financial statements will disrupt several company activities and potentially damage a healthy investment ecosystem. Research conducted by Prastiwi (2022) and Sahla and Ardianto (2023) shows that fraud often occurs at public and private company levels, directly affecting shareholder decisions. These actions often aim to manipulate market perceptions and attract investment by presenting accurate performance (Christian *et al.*, 2019; Khamainy *et al.*, 2022). This crime can lead to a loss of trust between management and investors and tarnish the integrity of the Public Accounting Firm (KAP) responsible for auditing the company (Aviantara, 2019; Sahla and Ardianto, 2023).

In recent years, there has been an increase in the frequency and magnitude of losses due to financial statement fraud. The Association of Certified Fraud Examiners (ACFE) reported in its 2022 study that the average loss from financial statement fraud was $539,000 per case (ACFE, 2022).

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Furthermore, the ACFE found that most of these frauds are initiated by individuals at the senior management level who abuse their access and power to benefit themselves or to manipulate market perceptions of company performance.

Ernest and Young have also found that over 50% of fraudulent financial statements come from company management (Ernst and Young, 2009). This was emphasized by Meliana and Hartono (2019), who stated that management committed 80% of fraud crimes in banks. In several decades, there have been many fraud scandals involving large world companies, such as the Enron scandal, which also dragged the big name of the well-known public accounting firm Artur Anderson.

The scandals involving the Big 4 KAPs have shown that audits conducted by audit firms with international reputations are not always successful in preventing or detecting fraud (Meliana and Hartono, 2019; Sari *et al.*, 2020). This raises critical questions about the effectiveness and rigor of existing audit processes and the integrity of accounting and auditing professionals. Effective auditing is key to maintaining public and investor confidence in the financial system, and therefore, there needs to be an in-depth evaluation of current audit practices (Sari *et al.*, 2022).

The banking and other financial sectors in Indonesia are particularly sensitive to the issue of financial statement fraud, as these sectors are central to economic stability (Meliana and Hartono, 2019). When fraud occurs, the consequences can be far-reaching, including large financial losses for investors, a decline in domestic and foreign investor confidence, and a negative impact on the reputation of Indonesia's financial markets internationally (Mintara and Hapsari, 2021; Sari *et al.*, 2022; Siringoringo *et al.*, 2022).

To address this issue, several theories have been developed to understand the causes and factors that contribute to financial statement fraud. One of the newest and most promising is the Fraud Hexagon Theory, which builds on the more widely recognized Fraud Triangle Theory by adding three additional elements: ability, arrogance, and collusion (Crowe, 2011). This study aims to apply the Fraud Hexagon Theory in the context of companies in the Indonesian financial sector to assess how effective this theory is in detecting fraud risks.

This research provides valuable insights into more effective detection and prevention methods by understanding and analyzing the factors contributing to financial statement fraud. It also looks specifically at how the Big 4 (*Kantor Akuntan Publik-KAP*), with their capabilities and reputation, can play a role in detecting and preventing financial statement fraud in companies, especially financial companies and banks. Considering previous cases that turned out to involve the Big 4 (*Kantor Akuntan Publik-KAP*) and the financial scandals that occurred, this study aims to provide a critical assessment of audit effectiveness and the role of auditors in reducing the risk of possible financial fraud in the future.

In contrast to previous research by Achmad *et al.* (2022) and Sari *et al.* (2020), they still use fraud pentagon theory as well as Sahla and Ardianto (2023), which uses the public accounting firm code of ethics in their research. This study uses the Fraud Hexagon Theory and public accounting firm big four as moderating variables using three control variables.

2. Literature review and hypothesis development

Agency theory

Agency theory explains the contractual relationship between the owner (principal) and the company manager (agent) (Sari *et al.*, 2020). The principal assigns the agent to run the company in the owner's interests. However, sometimes, there are differences of interest between the agent and the principal, which can result in the agent acting fraudulently in preparing financial statements for his gain (Setiorini *et al.*, 2022). With the extensive information and knowledge the agent possesses compared to the principal, the information becomes unbalanced, triggering fraud in the company.

Legitimacy theory

This theory emphasizes the need for companies to gain legitimacy from society. This is based on the view that the actions and activities of the company must be considered acceptable and expected in the values and norms prevailing in society (Scott, 2015). The disclosure of financial statements will have a significant impact on attracting investors, so it is possible that if the company is not in a healthy condition, there will be an opportunity to commit fraud to get good value in front of investors (Meliana and Hartono, 2019; Sari *et al.*, 2022).

Financial statement fraud

Financial statement fraud is specifically related to manipulating or misrepresenting a company's financial position (ACFE, 2022). This fraud usually provides a more positive picture of the company's financial performance and stability than the actual reality (Sahla and Ardianto, 2023). It can include a variety of actions taken by management or employees of a company to distort the financial statements to benefit them personally or the company as a whole.

Fraud hexagon theory

The Fraud Hexagon theory has developed previous fraud theories in financial statements (Vousinas, 2019). This theory adds three influential elements from the original theory: the Fraud Triangle Theory Crowe (2011), Pressure, Opportunity, Rationalization, Ability, Ego, and Collusion. The Fraud Hexagon Theory was developed to provide a deeper understanding of the factors that can lead to fraud in financial statements by showing that more variables can influence fraudulent behavior. This theory helps auditors and other professionals detect and prevent fraud by paying attention to the indicators of the six elements.

Hypothesis development

Pressure

Financial pressure represented by financial targets that management must achieve can motivate them to manipulate financial statements. Investors and shareholders may withdraw their investment when the company faces a decrease in Return On Asset (ROA). Research by Achmad *et al.* (2022) states a significant influence between financial targets and financial statement fraud, while Handoko and Salim (2022) show the opposite result. However, the existence of KAP Big 4 is expected to reduce the possibility of financial fraud.
H1: Pressure is thought to influence financial statement fraud.
H7: The existence of KAP Big 4 can weaken the effect of pressure on fraudulent financial statements.

Opportunity

Ineffective supervision will allow management to commit fraud with financial statements. The audit committee and independent board of commissioners play a significant role in supervision to avoid fraud. Khamainy *et al.* (2022) highlight the importance of effective supervision, which shows that there is no opportunity for management and its staff to commit fraud. Plus, if the company hires the Big 4 KAP, it will reduce the opportunity for them to commit financial statement fraud.
H2: Opportunity is thought to influence financial statement fraud.
H8: The existence of KAP Big 4 can weaken the effect of opportunity on fraudulent financial statements.

Rationalization

The change of auditors made by the company raises a variety of perceptions; in this case, rationalization may involve management's justification for changing auditors, which may be done for legitimate reasons such as cost or auditor specialization or for less ethical reasons such as finding auditors who are more willing to accommodate or ignore questionable accounting practices. This is in line with Aviantara (2019), Handoko and Salim (2022), and Sari *et al.* (2022), which prove that with the change of auditors that occurs, there is an indication of fraudulent financial statements. However, the existence of the Big 4 KAP is expected to suppress the fraud.
H3: Rationalization is thought to influence financial statement fraud.
H9: The existence of KAP Big 4 can weaken the effect of rationalization on fraudulent financial statements.

Capability

The board of directors plays an important role in good corporate governance and overseeing management. Changes in the board of directors may reflect changes in corporate strategy, control, or priorities. These changes can affect the company's ability to prevent, detect, and respond to financial

statement fraud. According to research, Khamainy *et al.* (2022), Sari *et al.* (2022), and Setiorini *et al.* (2022) have proven through their research that with a change in the board of directors, it is suspected that fraud has occurred in the financial statements. However, if there is a Big 4 (*Kantor Akuntan Publik-KAP*) as an auditor, it is expected to weaken the possibility of fraud.
H4: Ability is thought to influence financial statement fraud.
H10: The existence of KAP Big 4 can weaken the effect of ability on fraudulent financial statements.

Arrogance

The arrogance of a director can affect ethical behavior and allow fraud to occur. Excessive arrogance can lead to the false belief that the unethical act will not be detected or can be justified. Research conducted by Achmad *et al.* (2022), Handoko and Salim (2022), and Sari and Nugroho (2020) prove that there is a significant influence between the number of appearances of CEO photos and indications of fraud. However, the existence of KAP Big 4 is expected to reduce the possibility of fraud.
H5: Arrogance is thought to influence financial statement fraud.
H11: The existence of KAP Big 4 can weaken the effect of arrogance on fraudulent financial statements.

Collusion

Political relationships refer to conditions where an individual or group within an organization has strong indirect connections or influence due to their relationship with parties who have political power. This often occurs in a business context where companies may leverage these relationships to gain competitive advantage, access to resources, or more favorable treatment from governments and regulators.

Conversely, collusion is a secret agreement or cooperation between two or more parties to achieve goals that usually violate the law or ethics, such as manipulation in financial statements. Research conducted by Handoko and Salim (2022) explains that the existence of government projects calculates that collusion affects financial statement fraud. It is hoped that the existence of KAP Big 4 can reduce the possibility of fraud.
H6: Collusion is thought to influence financial statement fraud.
H12: The existence of KAP Big 4 can weaken the effect of collusion on fraudulent financial statements.

Quality of public accounting firm (Kantor Akuntan Publik-KAP)

The quality of the Public Accounting Firm (*Kantor Akuntan Publik-KAP*) is closely related to the KAP's ability to provide reliable audit services, which results in financial reports that are free from material error or fraud. The quality of this accountant is important because the financial statements audited by KAP are used by various stakeholders, including investors, creditors, and regulators, to make informed economic decisions.

KAP must comply with internationally recognized auditing standards, such as the International Standards on Auditing (ISA), and professional ethical standards set by professionals, such as IFCA (International Federation of Accountants). In addition, auditors must also be independent both factually and in appearance, which means they must not have conflicts of interest that could influence their audit decisions or opinions.

The Big Four audit firms are Deloitte, PricewaterhouseCoopers (PwC), Ernst & Young (EY), and KPMG. They are often considered capable of providing the highest quality audit services. They have a global network, access to extensive resources, and experience dealing with various audit issues. The quality of KAP is an important aspect that can affect the credibility of financial statements and investor confidence. Which in turn can affect the capital market and investors' investment decisions.

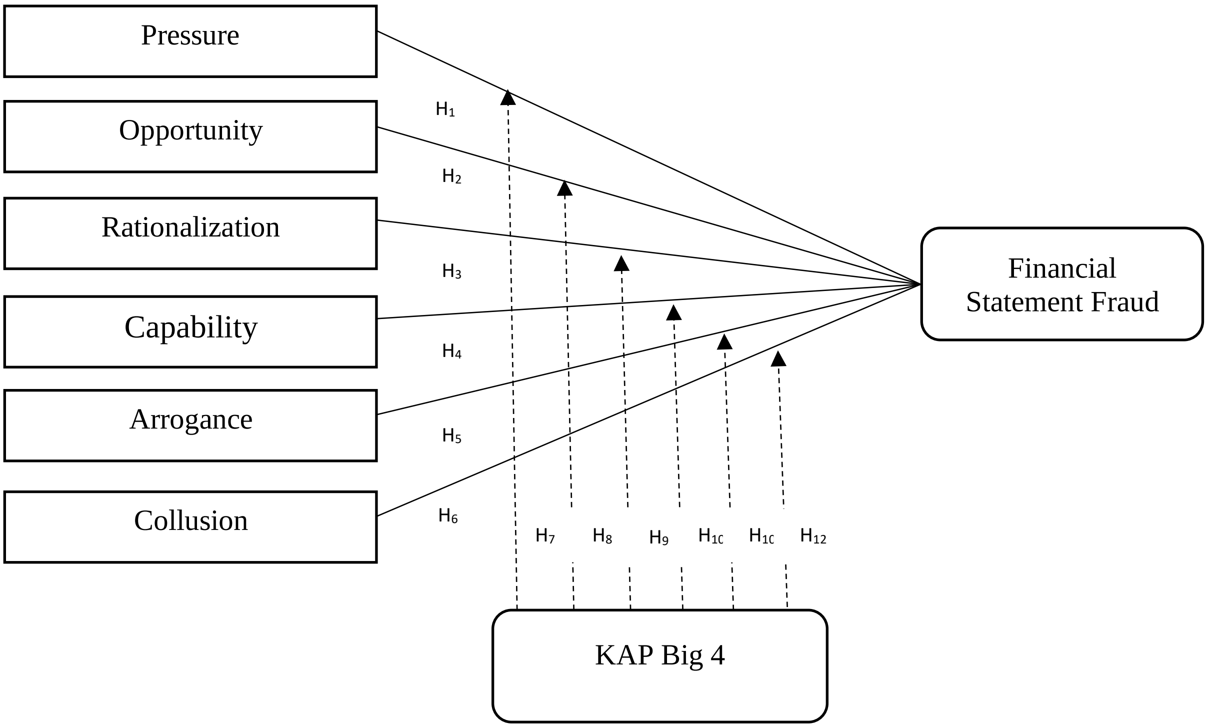

Figure 1. Research framework

3. Method

Population and sample

In this study, the population used is all companies listed on the Indonesia Stock Exchange from 2018 to 2022. The sample is of financial companies and banks. The selection of this research sample is based on a purposive sampling technique with several criteria described in the following table:

Table 1. Sampling criteria

No	Sample criteria	Sample data	
1	Financial and banking sector companies listed on the Indonesia Stock Exchange from 2018 to 2022.	(0)	49
2	Companies that delisted during the period 2018-2022.	(4)	45
3	The company should have published financial reports on the company website and the IDX website from 2018 to 2022.	(5)	40
4	The published annual report is expressed in Rupiah.	(0)	40
5	All data required in the study is available in the annual reports of the companies studied.	(0)	40
6	The company did not conduct any mergers between 2018 and 2022.	(2)	38
7	A total sample of financial and banking sector companies.		38
8	Total samples tested	38 x 5	190

Variables and measurement of research variables

Dependent variable

The dependent variable in this study is financial statement fraud. This variable is measured using the Fraud Score Model according to research (Sari and Nugroho, 2020). This analysis model is obtained by summing two variables: accrual quality and financial performance (Skousen *et al.*, 2009).

This assessment will produce a dummy variable, where if the F-Score value> 1, it is given a score of 1, which means that the financial statements experience fraud, while if the F-score < 1, it is given a score of 0, which means that the financial statements are far from fraud.

Independent, moderating, and control variables

Table 3. Variable size

Variable	Measurement tools	Scale	Source
Financial statement fraud (FSF)	F_{Score} = Accrual quality + Financial performance	Ratio	(Skousen *et al.*, 2009)
Financial target (FT)	$ROA = \frac{\text{Net profts}}{\text{Total assets}}$	Ratio	(Skousen *et al.*, 2009)
Ineffective monitoring (IM)	$IM = \frac{\text{Numbers of independent commissioners}}{\text{Total board of commissioners}}$	Ratio	(Skousen *et al.*, 2009)
Change of auditors (CA)	(Dummy Variable) Code "1" if there is a change in the Public Accounting Firm Code "0" if there is no change in Public Accounting Firm	Nominal	(Skousen *et al.*, 2009)
Change of directors (CD)	(Dummy Variable) Where code "1" if there is a change in the board of directors Code "0" if there is no change in the board of directors	Nominal	(Skousen *et al.*, 2009)
CEO photo appearance (PA)	Number of CEO pictures that appear in the annual report	Nominal	(Crowe, 2011)
Political relations (PR)	(Dummy Variable) Code "1" if there is a political relationship Code "0" if there is no political relationship	Nominal	(Vousinas, 2019)
Size of public accounting firm (B4)	(Dummy Variable) If 1 = KAP Big 4 If 0 = Non KAP Big 4	Nominal	(Aviantara, 2019)
Number of commissioners (NC)	NC = Number of board of commissioners	Nominal	(Mulyadianto *et al.*, 2020)
Growth (GR)	$Growth = \frac{\text{Total profit t} - \text{total profit (t}-1)}{\text{total profit (t}-1)}$	Ratio	(Siringoringo *et al.*, 2022)
Company size (CZ)	Size = ln $(Total\ assets)$	Nominal	(Setiawan and Mahardika, 2019)

Regression panel data

The model in this study is as follows:

$$Y_{FSF} = \alpha_i + \beta.X\ (FT)_{i.t} + \beta.X\ (IM)_{i.t} + \beta.X\ (CA)_{i.t} + \beta.X\ (CD)_{i.t} + \beta.X\ (PA)_{i.t} + \beta.X\ (PR)_{i.t} + \beta.\mathrm{X\ (FT)}.M(B4)_{i.t} + \beta.\mathrm{X\ (IM)}.M(B4)_{i.t} + \beta.\mathrm{X\ (CA)}.M(B4)_{i.t} + \beta.\mathrm{X\ (CD)}.M(B4)_{i.t} + \beta.\mathrm{X\ (PA)}.M(B4)_{i.t} + \beta.\mathrm{X\ (PR)}.M(B4)_{i.t} + \varepsilon_{i.t} \ldots (1)$$

Where i and t represent the bank index and year, FT (financial targets) is a proxy of pressure, IM (supervisory ineffectiveness) is a proxy of opportunity, CA (auditor change) is a proxy of rationalization, CD (board of directors change) is a proxy of ability, PA (number of CEO photo appearances) is a proxy of arrogance and PR (political relations) is a proxy of collusion and B4 is Big 4 Public Accounting Firm is moderation.

4. Results and discussion

From the tests produced by the Chow test and the Hausman test, the model chosen in this study is the Fixed Effect Model, where the analysis test results are as follows:

Table 3. Panel data regression results with moderation

Variable	Coefficient	Std. Error	T-Statistic	Prob.
C	-3.190621	0.487581	**-6.543777**	**0.0000**
X1	-0.041839	0.968672	-0.043193	0.9656
X2	0.271055	0.263022	1.030542	0.3046
X3	-0.134966	0.063768	**-2.116514**	**0.0362**
X4	-0.223450	0.057761	**-3.868524**	**0.0002**
X5	-0.047627	0.040440	-1.177715	0.2410
X6	0.310989	0.098368	**3.161481**	**0.0019**
C1	-0.069738	0.024122	**-2.890991**	**0.0045**
C2	-0.000240	0.002108	-0.113878	0.9095
C3	0.334370	0.039374	**8.492091**	**0.0000**
X1M	1.495023	1.180956	1.265943	0.2077
X2M	-0.247330	0.373215	-0.662701	0.5087
X3M	0.131298	0.098629	1.331230	0.1854
X4M	0.133467	0.073979	1.804128	0.0735
X5M	0.021774	0.047804	0.455493	0.6495
X6M	0.305938	0.132655	**2.306263**	**0.0226**
C1M	0.083215	0.035965	**2.313775**	**0.0222**
C2M	-0.002735	0.003328	-0.821756	0.4127
C3M	-0.053592	0.022871	**-2.343200**	**0.0206**

From the results of the regression analysis shown above, it is concluded that the results of the hypothesis are as follows:

a. Hypothesis 1

The t-test results between pressure with the proxy of financial targets on financial statement fraud have a coefficient value of -0.042 with a prob. value of 0.965, more significant than 0.05. It is stated that pressure does not significantly affect financial statement fraud, so H0 is accepted, and H1 is rejected.

b. Hypothesis 2

The t-test results for an opportunity with the proxy for supervisory ineffectiveness on financial statement fraud have a coefficient value of 0.271 with a prob. value of 0.304, more significant than 0.05. It is stated that opportunity does not significantly affect financial statement fraud, so H0 is accepted, and H1 is rejected.

c. Hypothesis 3

The t-test results for rationalization with the proxy for auditor changes on fraudulent financial statements have a coefficient of -0.135 with a prob value. 0.036, where the value is smaller than 0.05, it is stated that rationalization significantly affects fraudulent financial statements, so H0 is rejected, and H1 is accepted.

d. Hypothesis 4

The results of the t-test for ability with the proxy for changes in the board of directors on fraudulent financial statements have a value of -0.223 with a prob. value of 0.0002, which is smaller than 0.05 so that it is stated that the ability has a significant effect on fraudulent financial statements, so H0 is rejected, and H1 is accepted.

e. Hypothesis 5

The t-test results for arrogance with the proxy for the number of CEO photos on financial statement fraud have a value of -0.476 with a prob. value of 0.241, which is greater than 0.05, so it is stated that arrogance does not have a significant effect on financial statement fraud, so H0 is accepted, and H1 is rejected.

f. Hypothesis 6

The t-test results for collusion with the proxy for political relations on fraudulent financial statements have a value of 0.310 with a prob. value of 0.0019, which is smaller than 0.05, so it is stated that collusion has a significant effect on fraudulent financial statements, so H0 is rejected, and H1 is accepted.

g. Hypothesis 7

The t-test results between pressure with financial target proxies moderated by KAP Big 4 on financial statement fraud have a coefficient value of 1.495 with a prob. value of 0.207, which is greater than 0.05; it is stated that KAP Big 4 cannot moderate pressure on financial statement fraud, so H0 is accepted and H1 is rejected.

h. Hypothesis 8

The results of the t-test between the opportunity with the proxy for supervisory inefficiency moderated by KAP Big 4 on financial statement fraud have a coefficient value of -0.247 with a prob. value of 0.508, which is greater than 0.05; it is stated that KAP Big 4 cannot moderate opportunities for financial statement fraud, so H0 is accepted and H1 is rejected.

i. Hypothesis 9

The t-test results between rationalization with the proxy for auditor changes moderated by KAP Big 4 on financial statement fraud have a coefficient value of 0.131 with a prob. value of 0.185, more significant than 0.05. It is stated that KAP Big 4 cannot moderate rationalization on financial statement fraud, so H0 is accepted, and H1 is rejected.

j. Hypothesis 10

The t-test results between the ability with the proxy for changes in the board of directors moderated by KAP Big 4 on financial statement fraud have a coefficient value of 0.133 with a prob. value of 0.073, which is more significant than 0.05, it is stated that KAP Big 4 cannot moderate the ability to cheat financial statements, so H0 is accepted, and H1 is rejected.

k. Hypothesis 11

The t-test results between arrogance and the proxy of the number of CEO photos moderated by KAP Big 4 on financial statement fraud have a coefficient value of 0.021 with a prob. value of 0.649, more significant than 0.05. It is stated that KAP Big 4 cannot moderate arrogance on financial statement fraud, so H0 is accepted, and H1 is rejected.

l. Hypothesis 12

The t-test results between collusion with the proxy of political relations moderated by KAP Big 4 on fraudulent financial statements have a coefficient value of 0.305 with a prob. value of 0.022, smaller than 0.05. It is stated that KAP Big 4 can moderate collusion on fraudulent financial statements, so H0 is rejected, and H1 is accepted.

Discussion

Table 4. Descriptive statistics of variables

Hypothesis	Coefficients	Prob. (Sig.)	Results	Directions
H1	-0.042	0.9656	Not Significant	Negative
H2	0.271	0.3046	Not Significant	Positive
H3	**-0.135**	**0.0362**	**Significant**	**Negative**
H4	**-0.223**	**0.0002**	**Significant**	**Negative**
H5	-0.048	0.2410	Not Significant	Negative
H6	**0.311**	**0.0019**	**Significant**	**Positive**
H7	1.495	0.2077	Not Significant	Positive
H8	-0.247	0.5087	Not Significant	Negative
H9	0.131	0.1854	Not Significant	Positive
H10	0.133	0.0735	Not Significant	Positive
H11	0.022	0.6495	Not Significant	Positive
H12	**0.306**	**0.0226**	**Significant**	**Positive**

Table 4 shows the results of the panel data logistic regression test and parameter interpretation by looking at the E-Views output. In the results of data processing, there are four significant hypotheses, namely hypothesis 3, hypothesis 4, hypothesis 6, and hypothesis 12, with the following explanation:

Hypothesis 3 states a significant negative effect of the rationalization variable with the proxy of auditor changes on financial statement fraud. A change in auditors can increase independence because new auditors tend to have different client relationships, which might affect their objectivity. Independent auditors may be better able to identify and report errors or fraud. A change in auditor can also deter management from committing fraud because they realize that the new auditor can investigate financial records more rigorously. The results of this study prove that a more robust ethical culture and effective compliance training tends to have a lower level of fraud, assuming that employees.

Hypothesis 4 states a significant negative effect of the ability variable with the proxy for changes in the board of directors on financial statement fraud. Changes in the board of directors can bring new perceptions and increase management supervision. New board members tend to be more critical of financial statements and management practices because pre-existing decisions or norms do not bind them. Changes in the board of directors can also signal to investors and the market that the company is committed to good governance and transparency, which can improve the integrity of financial statements. The frequency of changes in the board of directors can also be used as a prevention mechanism against fraud. Management may feel it is riskier to commit fraud if they believe the new directors will be more likely to review previous decisions and financial statements and implement more rigorous audits. From this explanation, a change in the board of directors can show that the company wants to improve its performance by replacing directors who are considered more competent and optimal in doing their job.

Hypothesis 6 states a significant positive effect of the collusion variable with the proxy of political relations on fraudulent financial statements. Collusion is generally considered a factor that increases the likelihood of fraudulent financial statements. Collusion occurs when two or more parties, such as company management, auditors, or government officials, work together in an unethical or illegal manner to achieve certain goals, such as manipulating financial statements. The existence of political relationships is usually expected to protect investigation or punishment, encouraging perpetrators to commit fraud with the thought that they can easily escape responsibility. Collusion can also be influenced by political relationships that allow access to resources or information that is not yet generally available, which can be used to distort financial statements. Overall, political relationships can add complexity to the tendency of collusion in financial statement fraud. When political relationships are used to influence supervision or regulatory treatment, the ratio of financial statement fraud will increase.

Hypothesis 12 states that KAP Big 4 can be used to moderate the effect of collusion with political relations proxies on financial statement fraud. The Big Four Public Accounting Firm (*Kantor Akuntan Publik-KAP*) refers to the four largest law firms in the world that provide audit, insurance, tax, and consulting services. These four audit firms are known to have a global reputation and audit quality standards. So, using the Big 4 KAP, many consider that the company has credible financial reports. Companies audited by KAP Big 4 may feel greater supervision and accountability. Therefore, the existence of KAP Big 4 as an auditor and independent supervisor can reduce the possibility of fraudulent financial statements influenced by collusion in political relations. Big Four auditors may identify and correct problems before the financial statements are published or can be used as a prevention tool when management wants to try to commit fraudulent practices from the start.

5. Conclusion

The conclusion of this study is that the variables that influence financial statement fraud are variables of rationalization, ability, collusion, and moderation variables in the form of KAP Big 4. Meanwhile, the variables that do not influence financial statement fraud are pressure, opportunity, and arrogance. This shows that by looking at rationalization in the form of changes in auditors, the ability represented by changes in the board of directors and collusion proxied by political relations will be able to detect fraudulent financial statements significantly.

Meanwhile, the moderation variable in the form of KAP Big 4, which in this test divides the company into two, namely companies using KAP Big 4 and Non-KAP Big 4, can only moderate the influence of collusion on financial statement fraud. In contrast, other variables are not proven to be moderated by KAP Big 4.

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