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Fraud Hexagon And Fraudulent Financial Reporting: The Role Of Power Distance

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Abstract

The purpose of this study is to examine the elements of the fraud hexagon that affect fraudulent financial reporting and also examine the influence of the power distance culture interaction on the relationship between the elements of the fraud hexagon on fraudulent financial reporting. This study uses financial statement data for 2018-2021 collected from the company's official website and cultural indexes collected from Hofstede's official website. The research population is State-Owned Enterprises (SOEs) in Indonesia, the United States, Australia, Germany and South Africa. The sample selection was based on purposive sampling method and the data was tested using logistic regression analysis on 70 companies. The results showed that only the variables of opportunity and collusion had an effect on financial statement fraud. The results also show that power distance is able to moderate the relationship of opportunity and arrogance to financial statement fraud. These results can explain the phenomenon that fraud is a complex and multidimensional problem.

Keyword: *Fraud Hexagon Theory, Fraudulent Financial Reporting, Power Distance.*

1. Introduction

Fraud is still a world problem. The survey results of Pricewaterhouse Coopers (PWC) and the Association of Certified Fraud Examiners (ACFE) show that fraud still has a high rate so that the impact is very significant, namely the potential for company losses and bankruptcy. According to the Report to the Nation 2020, companies in the world lose approximately 5% of their revenue due to fraud. There were 2,504 fraud cases collected from 125 countries with an average loss per case of US$ 1,509,000. In addition, the Report To The Nations 2018 Global Study On Occupational Fraud And Abuse also reports that the most common form of occupational fraud and the highest loss is financial statement fraud, there are about 10% of cases and cause an average loss of USD 800,000.

This research is focused on the topic of "Financial Statement Fraud", which according to a number of researchers, appears to be growing internationally. This phenomenon has attracted the attention of several researchers in the field of accounting who seek to detect the underlying logic and reasons. Therefore, it is expected that all parties ranging from internal companies, governments to inv[1]estors are expected to be aware of financial statement fraud activizies. Even though every organization in various industries has anti-fraud controls,

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organizations will still face the risk of fraud. This risk cannot be eliminated but can be minimized.

Previous research has attempted to identify and analyze the factors that play a role in realizing fraud by using various fraud theory approaches. Fraud triangle theory is a fraud theory that was first used as an approach to examine the factors that influence fraud (Skousen et al., 2008). Fraud triangle theory was developed by Cressey in 1953. There are 3 factors why someone commits fraud, including pressure, opportunity, and rationalization (Kassem & Higson, 2012). Fraud triangle theory is considered to have weaknesses. Dorminey et al (2012) stated that a person commits fraud his motivation is not only limited to the theory developed by Cressey. Based on the weaknesses of the fraud triangle theory, Wolfe & Hermanson in 2004 found the diamond theory by adding the ability factor as a cause of fraud (Dorminey et al., 2012; Kassem & Higson, 2012; Puspasari, 2015). The fraud diamond theory further developed into the fraud pentagon theory by adding the arrogance factor. The Fraud Pentagon Theory was discovered by Crowe Horawth in 2011. Someone can be arrogant when they have power and position, thus encouraging fraud to occur. 2019 is the latest development of fraud theory. Vousinans redeveloped the pentagon theory by including the collusion factor as a cause of fraud. The reason Vousinas added the collusion factor is because collusion is a problem that is very developed and difficult to stop (G. L. Vousinas, 2019).

In addition to the factors of pressure, opportunity, rationalization, ability, arrogance, and collusion that cause someone to commit fraud, according to previous researchers, cultural factors also contribute to triggering fraud because fraud is a social phenomenon that is multifaceted and penetrates horizontally and vertically into various aspects of people's lives (Getz & Volkema, 2001). As stated by Mihret (2014) The reason why someone commits fraud cannot be separated from cultural aspects. Different societal cultures affect various social phenomena. Culture will influence the way a person thinks, behaves and attitudes so that it can be said that actions are formed from the culture that exists in an environment. Furthermore, Lokanan (2015) dan Albrecht, Albrecht and Albrecht (2008), stated that fraud is a problem rooted in the behavior of individuals who have weak morals. The increasing number of fraud actions is due to the problem being more complex, situational and multifaceted or multidimensional (Krambia-Kapardis, 2016; Lokanan, 2015). A similar statement was also stated by Dorminey et al (2012) that today's fraud goes far beyond simplicity. Multidimensional fraud occurs due to the development of the character of the fraudster and his environment. A person's character is not caused by internal factors alone but also by external forces such as culture because culture plays a role in shaping a person's character and attitude.

Hofstede et al (2010) has developed 6 dimensions of national culture, namely power distance, uncertainty avoidance, individualism, masculinity, long-term orientation, and indulgence. Power distance culture is indicated to be one of the external factors as a cause of fraud. Doupnik (2008) states with high power distance make managers less likely to influence financial statements. Significant power distance differences imply fewer investigations into abuse of power (Hofstede et al., 2010). Countries that have this kind of culture will create opportunities for fraud to occur (Amaliyah, 2019). Power distance will lead to financial pressure, opportunity, ability, arrogance, collusion and become an opening to rationalize fraud (Mihret, 2014). Based on the statements above, it can be concluded that the power distance culture can be a reinforcing factor for fraudulent financial statements.

Research results Mihret (2014), states that there is a positive significant relationship between power distance and fraud risk, Yoo & Lee (2019) empirically revealed that multinational industries headquartered in countries that have more power distance do more tax

avoidance. While the results of research conducted by Doupnik (2008) prove that power distance has no effect on earnings smoothing, and research Richardson (2008), Bame-Aldred et al (2013), Aldhian & Damayanti (2021), dan Yoo & Lee (2019)

2. Literature Review and Hypotheses Development

2.1 Fraud Hexagon Theory

Fraud hexagon theory is an evolutionary theory developed from the fraud triangle theory and fraud pentagon theory. The fraud triangle theory was first developed by Cressey in 1953 which explains that the reasons that cause someone to commit fraud. Because they feel there is pressure, opportunity and rationalization. These three reasons are the forerunners of the evolution of fraud theory. In 2011 Crowe Horwath initiated a new theory of fraud known as the fraud pentagon theory. Fraud pentagon theory explains that there are five factors that motivate someone to commit fraud, namely pressure, opportunity, rationalization, ability, and arrogance. However, the increasing number of fraud cases that occur shows that the reasons someone commits fraud are not only limited to the 5 things stated in the fraud pentagon theory, because fraudsters find new methods to commit fraud. Therefore, in 2019 Vousinans developed a new fraud theory called fraud hexagon theory by adding the collusion factor as a factor causing fraud to occur. According to Vousinas (2019) There are 6 factors that cause fraud to occur, namely pressure, opportunity, rationalization, ability, arrogance, and collusion. The reason Vousinas adds the collusion factor is because collusion is a problem that is very developed and difficult to stop. Collusion as one of the factors causing fraud where according to him the major frauds that have occurred in the last few decades all confirm collusion is the main cause in many complex fraud cases and is a financial crime. Many fraudulent financial statements are carried out by subordinates because they carry out superior orders to manipulate numbers in every way so that they can bring down the company such as the cases of Enron, Toshiba, and others.

2.2 Power Distance

The definition of power distance is the extent to which groups of people with less powerful conditions than an institution in a country's territory want and voluntarily accept conditions where the distribution of power is carried out without an equal distribution (Hofstede et al., 2010). Power distance focuses on traditions that show inequality and according to Hofstede, inequality can be seen from the situation of some people, some are stronger, smarter, have more wealth and even higher social status and honor than others. According to Pillay & Dorasamy (2010) Some countries with high power distance include India, Mexico, China, Indonesia, Poland, Korea, Pakistan and Kenya. Countries with high power distance have a centralized system of authority and authorization. Inequality in power will create a culture of corruption. In the international trade system, countries with a high power distance culture are more likely to bribe their business partners abroad than countries with low power distance. Furthermore, Davis & Ruhe (2003) and Nieuwbeerta et al (2003) stated that economic hardship in societies with a high power distance culture can encourage extortion of the lower levels of society.

2.3 Financial Statement Fraud

Fraud is an act that is intended to harm other parties, carried out with cunning and deceit then presenting false information and covering it up in order to gain personal or group benefits. Financial Statement Fraud activity is often associated with a type of management fraud. Fraud in this scheme differs from other frauds in terms of the nature or character of the perpetrator or the fraud technique. In general, the technique of changing the numbers in the financial statements can be realized by top management (W. S. Albrecht et al., 2012). In addition,

financial statement fraud is top down. Superiors can order subordinates to change or manipulate financial figures so that the impact is not only detrimental to the organization but also employees, individuals, and society (C. Albrecht et al., 2014).

Financial statement fraud is an act that is made intentionally with the aim of deceiving certain parties, especially those who have an interest in the organization such as creditors and investors by publishing financial statements that contain material errors (Rezaee, 2005). Financial statement fraud is an act that is made intentionally with the aim of deceiving certain parties, especially those who have an interest in the organization such as creditors and investors by publishing financial statements that contain material errors (Haqq et al., 2020).

2.4 Hypothesis Development

2.4.1 Financial Pressure and Financial Statement Fraud

Pressure is a factor that encourages people to commit fraud. People who are under pressure will increase the likelihood of committing fraud (Suyanto, 2009). Financial pressure is the main cause of fraud compared to non-financial pressure (Hollow, 2014). Personal financial problems, unstable company conditions or external party pressure are motives for fraud (Cressey, 1950). Financial strain, such as a distressed business or failed market investment is the catalyst that drives many perpetrators to commit fraud (Dellaportas, 2013). In an organizational context, financial stress stems from a company's failure to meet shareholder expectations (Power, 2013) and can also arise when the company's performance is at a point below the average industry performance (Skousen et al., 2008).

One proxy for financial pressure that can trigger fraud is external pressure. External pressure occurs when management must bear excessive pressure exerted by external parties related to financing (Fathmaningrum & Anggarani, 2021). For example, when debt is due, management feels pressure from external parties to maintain a timely commitment to payment in order to be valued by investors. According to Ratmono, Diany and Purwanto (2017) The company's ability to repay loans is a form of pressure that comes from external factors. When managers face maturing loans there is a possibility of manipulating financial statements by making discretionary accruals (Skousen et al., 2008). The higher the amount of debt in the financial statements, the higher the possibility of fraudulent financial statements (Ardiyani & Sri Utaminingsih, 2015; Fathmaningrum & Anggarani, 2021; Lou & Wang, 2009; Skousen et al., 2008).

The debt ratio owned by the company can be calculated using the leverage ratio, that high leverage raises concerns about creditors to provide loans to the company and this condition is a pressure for management because management must provide confidence to creditors that the company is able to pay off its obligations (Koharudin & Januarti, 2021; Wicaksono & Suryandari, 2021). The higher the leverage ratio indicates that the value of the company's debt is also high, allowing the company to commit financial statement fraud by understating the value of debt. Research results Wicaksono and Suryandari (2021), Amara, Amar and Jarboui (2013), and Suyanto, (2009) stated that leverage has an effect on the possibility of fraudulent financial statements, while the results of the study stated that leverage has an effect on the possibility of fraudulent financial statements. Skousen, Smith and Wright (2008), Ardiyani and Sri Utaminingsih (2015), Anitya and Daljono (2014), and Koharudin and Januarti (2021), leverage has no effect on financial manipulation.

Based on the explanation above, it is suspected that financial pressure affects the occurrence of fraudulent financial statements so that the following hypothesis can be formulated:

H1: Financial pressure has a positive effect on financial statement fraud

2.4.2 Opportunity and Financial Statement Fraud

Opportunity (opportunity) is one of the factors that cause fraud which has been proven by previous researchers (W. S. Albrecht et al., 2008; Skousen et al., 2008; Zahra et al., 2005). Several researchers have stated that poor corporate governance such as an ineffective supervisory system can trigger fraud. An effective supervisory system can be carried out by forming a supervisory unit to observe the company's operations (Rahman & Anwar, 2014). According to Hogan et al (2008) The role of good governance, audit committees, boards of directors, internal controls and external auditors is important to prevent or mitigate opportunities for fraud to occur. Poor governance in terms of supervision creates opportunities for financial statement fraud to occur. As stated by Rezaee (2005) manipulation of financial statements can occur because managers are not properly supervised (ineffective monitoring). Therefore, the existence of an independent board of commissioners is a party that can supervise management activities in managing the company so that it can prevent fraud from occurring.

Some previous research results found that the independent board of commissioners was able to minimize financial statement fraud (Maria & Dwi, 2019; Matoussi & Gharbi, 2011). Research results Fitri, Syukur and Justisa (2019) proves that a small number of commissioners causes financial statement fraud to occur. However, several other studies have found that the independent board of commissioners has no effect on fraudulent financial statements (Amara et al., 2013; Hasnan et al., 2013; Koharudin & Januarti, 2021; Noble, 2019; Wicaksono & Suryandari, 2021).

Based on the explanation above, it is suspected that opportunity affects the occurrence of fraudulent financial statements so that the following hypothesis can be formulated:
H2: Opportunity has a positive effect on the occurrence of fraudulent financial statements

2.4.3. Rationalization and Financial Statement Fraud

Rationalization is an attempt to find a justification that dishonest actions are not wrong (Lou & Wang, 2009; Omar et al., 2015). The act of rationalizing dishonesty is carried out consciously by the perpetrator by making excuses as justification, for example, the company's money is only borrowed and no one is harmed (Singleton & Singleton, 2010). Someone who does not intend to commit fraud suddenly changes to commit fraud because the action is something that is considered normal. This condition can become a deviant culture in both organizations and society where illegal behavior of organizational members and community members can be tolerated.

Several hexagon theory proxies have been formulated by previous researchers, but some researchers still have difficulty in formulating proxies that are in accordance with financial statement fraud, especially the rationalization proxy (Hogan et al., 2008; Skousen et al., 2008). This study uses changes in accounting policies as a proxy for rationalization. The relationship between rationalization and accounting policies can be seen from research Yusof et al (2015) which states that frequent changes in accounting policies show a higher tendency towards the possibility of fraudulent financial statements. So changes in accounting policies will become management rationalization in committing fraudulent financial statements.

Based on the explanation above, it is suspected that rationalization affects the occurrence of fraudulent financial statements so that the following hypothesis can be formulated:
H3: Rationalization has a positive effect on fraudulent financial statements

2.4.4 Capability and Financial Statement Fraud

Many frauds, especially multi-billion dollar financial statement frauds, do not occur without the right people with the right skills to commit them (G. Vousinas, 2018; Wolfe & Hermanson, 2004). Management's ability to manage the company can be attributed to experience and how long they have served in that position. Wolfe & Hermanson (2004) stated that people who have a great opportunity to commit fraud are people who are good at understanding and exploiting internal control weaknesses and taking advantage of their position to manipulate. The longer a person serves on the board of directors, the more extensive his knowledge of the company's business processes so that he will be better able to identify internal control weaknesses and take the opportunity to commit financial statement fraud. Research results Yusof et al (2015) and Uciati & Mukhibad (2019) and prove that management tenure affects financial statement fraud.

Based on the explanation above, it can be hypothesized that the longer a person holds a certain position, the more understanding he has of company activities and has the ability to find out more about the weaknesses of the company's internal control, it is suspected that ability affects the occurrence of fraudulent financial statements so that the following hypothesis can be formulated:
H4: Ability has a positive effect on fraudulent financial statements

2.4.5 Arrogance and Financial Statement Fraud

Hidayah & Saptarini (2019) stated that arrogance or ego is the character of someone who feels he has power over everything in the organization. Someone who has this character dares to commit fraud because he feels that internal control and organizational regulations do not apply to him. There is an assumption that people in senior positions have high arrogance. According to (Aprilia, 2017) High arrogance can lead to the possibility of fraud due to the arrogant attitude and superiority possessed by the CEO.

The media plays an important role in strengthening the self-image of CEOs, especially those who position themselves as meritorious parties in the company who show their ego or arrogance. CEOs show their status and position through news about their success in leading the company. News about the CEO's leadership and success has an impact on the reputation and image of the CEO. CEO (C. C. Chen & Meindl, 1991; Francis et al., 2008; Milbourn, 2003). CEO arrogance can also be shown by the number of CEO photos that appear in the company's annual report. The more photos of the CEO in the annual report, the more it shows his arrogance and causes the more courage to commit fraudulent financial statements.

CEOs will try to announce their position and authority by showing their superiority (Aprilia, 2017; Apriliana & Agustina, 2017; Haqq et al., 2020; Situngkir & Triyanto, 2020; Uciati & Mukhibad, 2019). Research results Uciati and Mukhibad (2019) proves narcissism with the proxy of the number of CEO photos has an effect on fraud, while the results of research by Apriliana and Agustina (2017) and Situngkir and Triyanto (2020) proves that the number of CEO photos has no effect on fraudulent financial statements.

Based on the explanation above, it can be hypothesized that the greater the CEO's desire to show his identity and important role in leading the company, the more arrogant he will be so that there is a chance of fraudulent financial statements, so it is suspected that arrogance has an effect on fraudulent financial statements so that the following hypothesis can be formulated:
H5: Arrogance has a positive effect on fraudulent financial statements.

2.4.6 Collusion and Financial Statement Fraud

Collusion is a factor that causes fraud which is considered the most dangerous and can have a very large loss impact. Collusion can occur when there is a close relationship between several individuals in a group. Collusion activities only benefit them and the risk of fraud becomes more significant and complex if this collusion occurs in a company (G. L. Vousinas, 2019). Then Getz and Volkema (2001) also stated that individual relationships in groups with strong ties and mutual care can create illegal transactions. The relationship will naturally create a mutual protection attitude and the opportunity for collusion. Collusion within the company can be identified through related party transactions (RPTs) (Yusrianti, Ghozali, Yuyetta, et al., 2020). Related parties are those who have an interest or who offer an interest, such as the board of directors, associates of the company, controlling shareholders and all minority shareholders (Mohammed, 2019).

According to Suyanto (2009) Related party transactions (RPTs) are defined as transactions between parent companies and subsidiaries, family companies, transactions with employees and so on. Unfair bargaining is likely to occur in these transactions. RPTs may lead to fraudulent financial statements (Fimanaya & Syafruddin, 2014; Fitri et al., 2019; Yusrianti, Ghozali, Yuyetta, et al., 2020). Transfer of assets and profits can be made by minority shareholders to majority shareholders (Mohammed, 2019). Earnings management practices to increase profits can be applied in relation to transactions with related parties. In addition, according to Subastian, Widagdo and Setiawan (2021) The large number of related party transactions will affect the disclosure of the company's net income if it is carried out through the acquisition of the wealth of minority shareholders.

Research results Suyanto (2009) and Fitri, Syukur and Justisa (2019) proves that RPTs have an effect on financial statement fraud, while the results of this study show that RPTs have an effect on financial statement fraud Yusrianti et al (2020) and Fimanaya and Syafruddin (2014) Empirically, it states that RPTs have no effect on financial statement fraud. Financial statement fraud has no relationship with the number of transactions with related parties.

Based on the explanation above, it can be hypothesized that the more collusion activities expressed by RPTs can create financial statement fraud. Management tries to carry out earnings management to cover up these transaction practices so that activities that are mutually beneficial or only benefit major shareholders can be known by their circles only, so it is suspected that collusion has an effect on the occurrence of fraudulent financial statements so that the following hypothesis can be formulated:
H6: Collusion has a positive effect on fraudulent financial statements

2.4..7 Power Distance and Financial Statement Fraud

The power distance dimension focuses on a culture that shows inequality between people who are stronger, smarter, have more wealth and even higher social status and honor than others (Mihret, 2014; Richardson, 2008; Seleim & Bontis, 2009). High power distance is reflected in a high gap between those who have authority and those whose position is low, which will lead to emotionally unclose relationships. The higher the power distance, there is a tendency for people who have authority to ignore those who do not have power. According to Alfarin and Meiranto (2021) When those without power feel neglected, it can erode commitment to the group and can even encourage opportunistic behavior.

Doupnik (2008) states with high power distance make managers less likely to influence financial statements. Significant power distance differences imply fewer investigations into abuse of power (Hofstede et al., 2010). Countries that have this kind of culture will create

opportunities for fraud to occur (Amaliyah, 2019) Ketidaksetaraan yang ada menjadi tekanan, peluang, kolusi, dan menjadi celah untuk merasionalisasi kecurangan (Mihret, 2014), Based on the statements above, it can be concluded that the power distance culture can be a reinforcing factor for fraudulent financial statements. Based on the explanation above, the following hypothesis is formulated:

H7a : Power distance is able to moderate the relationship between financial pressure and financial statement fraud.

H7b : Power distance is able to moderate the relationship between opportunity and financial statement fraud.

H7c : Power distance is able to moderate the relationship between rationalization and financial statement fraud.

H7d : Power distance is able to moderate the relationship between ability and financial statement fraud

H7e : Power distance is able to moderate the relationship between arrogance and financial statement fraud

H7f : Power distance is able to moderate the relationship between collusion and financial statement fraud

2.5 Methodology

2.5.1. Data Collection and Sampling

The population in the study are countries that have a high Gross Domestic Product (GDP). The reason is that countries that have high GDP tend to have a lot of wealth so that if it is associated with Hofstede's cultural dimensions, a lot of wealth can create power distance, individualism, entryulin and indulgence. Based on data from the Indonesia Stock Exchange (IDX), there are 16 BUMNs listed, in the United States based on data from the U.S. Government Accountability Office, there are 7 BUMNs, in Australia based on data from the Australian Finance Government there are as many as 16 BUMNs, Germany 15 BUMNs, and South Africa 31 BUMNs, so the total population of this study was 85 BUMNs. Sampling with nonprobability techniques based on purposive sampling, namely sampling techniques based on certain criteria. The criteria are: (1) Non-financial SOEs that publish consecutive financial reports during 2018-2021. (2) Based on the predetermined criteria, 70 BUMNs as samples of this study are presented in the following table:

Table 1. Research Sample Criteria

No	Criteria	**Unit**
1	The companies studied are non-financial SOEs in Indonesia, Australia, the United States, Germany and South Africa in 2018-2021.	85
2	The companies studied did not publish complete Annual Reports during the 2018-2021 period	(6)
3	The companies studied do not have data related to the variables studied during the 2018-2021 period	(9)
Total Sampel		70
Number of Years Observed		4
Number of Observations		**280**

Source: Author, 2023

2.5.2. Variable Operationalization and Measurement

Table 2. Variable Indicators and Measurement Scale

Variable	Proksi	Operational	Definition	Scale Measurement
Financial Statement Fraud	FFR	It is a fraud scheme that is intentionally carried out to omit or manipulate material information in the financial statements. (Association of Certified Fraud Examiners (ACFE), 2020)	Beniesh Model (M-score) M-Score = -4.84 + 0.920DSRI +0.528GMI + 0.404AQI + 0.892 SGI + 0.11 DEPI - 0.172SGAI +4.679TATA - 0.327LEVI Variable Dummy: 1 = Jika M-score > -2,22 perusahaan cenderung sebagai manipulator, 0 = jika M-score < -2,22 bukan sebagai manipulator (Aris et al., 2013; Beneish, 1999; Omar et al., 2014; Sutainim et al., 2021; Tarjo & Herawati, 2015)	Nominal
(Financial Pressure)	External Pressure	Financial pressure is a condition felt by someone related to economic or financial difficulties. Financial pressure will occur when management has to bear excessive pressure exerted by external parties related to financing. (Fathmaningrum & Anggarani, 2021)	LEVERAGE = Total Debt / Total Equity (Aprilia, 2017; Apriliana & Agustina, 2017; Noble, 2019; Ratmono et al., 2017; Skousen et al., 2008; Yesiariani & Rahayu, 2017; Yusrianti, Ghozali, Yuyetta, et al., 2020)	Ratio

(Opportunity)	Effectiveness of Supervision	Opportunity is a condition that is felt by fraudsters that the company's governance is not properly supervised. Supervisory effectiveness is an effective supervisory mechanism accompanied by the formation of a supervisory unit to oversee the company's operations. (Rahman & Anwar, 2014). Multiple independent commissioners can be involved in effective oversight to mitigate fraud. (Aprilia, 2017)	BODINDE = Total dewan komisaris independen / Total dewan komisaris (Amara et al., 2013; Apriliana & Agustina, 2017; Devi et al., 2021; Koharudin & Januarti, 2021; Noble, 2019; Ratmono et al., 2017; Skousen et al., 2008; Yesiariani & Rahayu, 2017)	ratio
(Razionalitation)	Change in accounting policy	Rationalization is an attempt to find justification that dishonest actions are not wrong. Frequent changes in accounting policies are rationalized there is a higher tendency for fraud to occur (du Toit, 2008; Nizarudin et al., 2023; Yusof et al., 2015)	ACCHG Dummy variable 1 = if there are changes in accounting policies more than twice in the study period 0 = if not (du Toit, 2008; Ferica et al., 2019; Nizarudin et al., 2023; Yusof et al., 2015)	Nominal
(Capability)	Term of Office of BOD	Ability is the skills, knowledge, basic attitudes, and values possessed by a person, from	Total tenure of BOD members/Number of BOD members Chtourou et al (2001) dalam	Rasio

		abilities, ways of thinking, acting, and behaving consistently. and behave consistently (Sudharma Santosa et al., 2020). Ability can also be indicated by how long the members of the board of directors have served as directors of the company (Dewi & Anisykurlillah, 2021)	(Dewi & Anisykurlillah, 2021; Pradani & Diyanty, 2023; Uciati & Mukhibad, 2019)	
(Arogance)	Number of CEO photos in the company's annual report	Arrogance or ego is the character of someone who feels they have power over everything in the organization (Hidayah & Saptarini, 2019) The large number of CEO photos in the annual financial report reflects the CEO's arrogance (Haqq et al., 2020)	Number of CEO photos in the company's Annual Report (Aprilia, 2017; Apriliana & Agustina, 2017; Haqq et al., 2020; Setiawati & Baningrum, 2018; Situngkir & Triyanto, 2020)	Ratio

(Collusion)	Transactions with related parties (RPTs)	Collusion is a secret agreement between two or more people to deceive someone or a third party. (G. L. Vousinas, 2019). Related party transactions are transactions with those who have an interest or who offer an interest, such as the board of directors, associates of the company, controlling shareholders and all minority shareholders (Mohammed, 2019; Subastian et al., 2021)	Total transactions with related parties divided by total sales (K. Y. Chen & Elder, 2007; Marchini et al., 2018; Subastian et al., 2021; Yusrianti, Ghozali, & N. Yuyetta, 2020)	Rasio
(Power Distance)	Hofstede National Culture index value	Power distance is the extent to which community groups with less powerful conditions voluntarily accept the conditions that occur where the distribution of power is carried out without an equal distribution (Hofstede et al., 2010)	Each country's Power Distance Dimension index value (www.hofstede-insight.com)	Ratio

Source: Researcher, 2023

2.5.3. Data Analysis Method

Data is processed using logistic regression equations and logit analysis is used to analyze quantitative data that reflects two choices which is often called binary logistic regression. This model was chosen because the data used in this study are non metric two categories in the dependent variable, while the independent variables are continuous (metric) and categorical (non metric) data variables. The mixture of scales in the independent variable causes the

assumption of multivariate normal distribution cannot be fulfilled so that it is analyzed by logistic regression because there is no need for normality assumptions on the independent variable (Ghozali, 2018).

3. Results and Discussion

3.1. Results

3.1.1. Descriptive Statistics

Table 3. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std Deviation
TKN	280	-56.10	213.38	2.03	13.77
KSMP	280	.04	4.00	.56	.31
KMPN	280	.00	8.63	1.97	1.66
ARO	280	0	25	4.50	5.29
KOL	280	.00	4.44	.21	.39
JRKS	280	35.00	78.00	51.4286	15.35209
Valid N (listwise)	280				

Source : Data Processed, 2023

Based on table 3, it can be seen that the number of samples is 280 with five independent variables and one moderation variable. The highest average value is in power distance, which is 51.4286 and the lowest is collusion of 0.21.

3.1.2. Logistic Regression Analysis

3.1.2.1. Regression Equation I

The results of the logistic regression test are explained in table 4.

Table 4. Logistic Regression Test Results I

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	TKN	-.002	.009	.033	1	.857	.998
	KSMP	1.367	.666	4.212	1	.040	3.924
	RAS	-.424	.307	1.900	1	.168	.655
	KMPN	.019	.101	.036	1	.849	1.019
	ARO	.053	.032	2.818	1	.093	1.055
	KOL	-1.102	.469	5.520	1	.019	.332
	Constant	.497	.385	1.665	1	.197	1.643

a. Variable(s) entered on step 1: TKN, KSMP, RAS, KMPN, ARO, KOL

Catatan:Hosmer and Lemeshow Test: Chi-square = 11,120, Sig = 0,195
Overall Model Fit Test: -2 Log Likehood Block Number = 0 adalah 323,396
-2 Log Likehood Block Number = 1 adalah 305,344
Negel Karke R Square : 0,091
Cox & Snell R Square : 0,062
Omnibus Test : 0,006

Source; Data Processed, 2023

The first regression equation is as follows:
FFR = 0.497 - 0.002TKN + 1.367KSMP -0.424RAS + 0.019KMPN + 0.053ARO -1.102KOL + e

Based on table 4, it can be seen from the results of the Hosmer and Lemeshow test, the Chi-square value is 11.120 with a significance of 0.195. This means that it can be stated that the model built has been able to explain the data. The Overall Model Fit Test can be seen from the -2 Log Likehood statistical value at Block Number = 0 is 323,396 and the - 2 Log Likehood value at Block Number = 1 is 305, 344, indicating a decrease of 18,052. The difference in the decrease in likelihood value means that the hypothesized model fits the data.
Predicting model accuracy can also use a classification matrix that calculates the accuracy of the estimated value on the dependent variable. The classification test results are presented in table 3. Based on Table 3, it can be seen that the prediction of companies that do not manipulate financial statements is 74 of the total sample or around 6.8%. While the prediction of companies that manipulate financial statements is 206 of the entire sample or around 99%. Meanwhile, based on observations there are only 70 companies. In conclusion, the model's ability to predict fraudulent financial reporting or no fraudulent financial reporting is 74.6%.

Table 5. Classification Matrix Test

			Predicted		
			FFR		
	Observed		No Manipulation	Perform Manipulation	Percentage Correct
Step 1	FFR	No Manipulation	5	69	6,8
		Manipulate	2	204	99
Overall Percentage					74,6

Source: Data Processed, 2023

Based on table 4, it can be seen that only two variables are significant, namely opportunity (KSMP) and collusion (KOL). KSMP has a beta coefficient value of 1.367 with a significance of 0.040 (5% sig), and KOL has a beta coefficient value of -1.102 with a significance of 0.019 (5% sig). While other variables are statistically insignificant to detect fraudulent financial reporting.

1. Regression Equation II

In this second test, the interaction model between independent variables with power distance as a moderating variable. The results can be seen in table 6.

Table 6. Power Distance Interaction Test Results

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	TKN	-18.435	9.667	3.636	1	.057	.000
	KSMP	-281.349	150.342	3.502	1	.061	.000
	RAS	52.019	56.742	.840	1	.359	3.906E+22
	KMPN	.024	.133	.031	1	.860	1.024
	ARO	11.640	8.526	1.864	1	.172	113547.029
	KOL	191.202	131.588	2.111	1	.146	1.092E+83
	TKN_JRKS	-.002	.002	.917	1	.338	.998

KSMP_JRKS	-.059	.027	4.808	1	.028	.942
RAS_JRKS	-.025	.024	1.025	1	.311	.976
KMPN_JRKS	.038	.023	2.760	1	.097	1.039
ARO_JRKS	-.446	.226	3.887	1	.049	.640
KOL_JRKS	.063	.043	2.143	1	.143	1.065
Constant	116.839	77.035	2.300	1	.129	5.528E+50

Note: Hosmer and Lemeshow Test: Chi-square = 15.174, Sig = 0.238
Overall Model Fit Test: -2 Log Likehood Block Number = 0 is 263.562
-2 Log Likehood Block Number = 1 is 251.976
Negel Karke R Square: 0.329
Cox & Snell R Square: 0.225
Omnibus Test: 0,003
Source; Data Processed, 2023

The first regression equation is as follows:
FFR = 116.839 - 18.435TKN - 281.349KSMP + 52.019RAS + 0.024KMPN + 11.640ARO + 191.202KOL - 0.002TKN_JRKS - 0.059KSMP_JRKS - 0.025RAS_JRKS + 0.038KMPN_JRKS - 0.446ARO_JRKS + 0.063KOL_JRKS + e

Based on table 6, it can be seen from the results of the Hosmer and Lemeshow test, the Chi-square value is 15.174 with a significance of 0.238. This means that it can be stated that the model built has been able to explain the data. The Overall Model Fit Test can be seen from the -2 Log Likehood statistical value at Block Number = 0 is 263.562 and the - 2 Log Likehood value at Block Number = 1 is 251.976, indicating a decrease of 11.586. The difference in the decrease in likelihood value means that the hypothesized model fits the data.

3.2 Discussion

3.2.1 The Effect of Financial Pressure on Fraudulent Financial Reporting

Based on table 4, the results of the financial pressure test proxied by leverage prove that financial pressure has no effect on financial statement fraud with a significance value of 0.857 (0.857> 0.05) and a negative beta coefficient value (0.002). The results of this study support research conducted by Skousen, Smith and Wright (2008), Ardiyani and Sri Utaminingsih (2015), Anitya and Daljono (2014), Koharudin and Januarti (2021), dan Situngkir & Triyanto (2020) which states that leverage has no effect on financial statement manipulation.

The reasons underlying financial pressure has no effect on financial statement fraud include (1) the company's status as a state-owned company where most of the capital is government capital. When BUMN is experiencing financial difficulties, the government will rarely protect, maintain, and improve the performance of BUMN through additional capital participation, (2) BUMN is a business entity that controls the livelihood of the community and has an important role in the national economy, therefore the government continues to maintain the sustainability of BUMN by continuing to support the resilience of BUMN performance.

3.2.2 The Effect of Opportunity on Fraudulent Financial Reporting

The test results prove that the opportunity proxied by the number of independent commissioners affects financial statement fraud with a significance value of 0.040 (0.040 <0.05) and a beta coefficient value of 1.367. The results of this study support research conducted by Skousen et al (2008), Tessa & Harto (2016), Apriliana & Agustina, (2017), and

Sihombing & Rahardjo (2014), which states that the number of independent commissioners has no significant effect on detecting fraudulent financial statements. The reasons underlying the results of this study include (1) the independent board of commissioners is only to fulfill the rules. The large number of their existence actually creates ineffectiveness in supervision which leads to problems with fraudulent financial statements. (2) The development of BUMN which is increasingly dynamic and competitive causes the supervision carried out to be ineffective so that governance does not run effectively.

3.2.3 The Effect of Rationalization on Fraudulent Financial Reporting

The test results prove that rationalization proxied by changes in accounting policies has no effect on fraudulent financial statements with a significance value of 0.168 (0.168> 0.05) and a negative beta coefficient value (0.424). The results of this study are in line with research Apriliana & Agustina (2017), dan Yusrianti, Ghozali, Yuyetta, et al. (2020) which states that rationalization has no influence on fraudulent financial reporting. However, it is not in line with research Yusof et al (2015), and Sihombing & Rahardjo (2014) which states that frequent changes in accounting policies show a higher tendency towards the possibility of fraudulent financial statements. The reason underlying the results of this study is that changes in accounting policies are made only to adjust financial reports to applicable financial standards, not to commit fraud because each entity is required to implement Good Corporate Governance (GCG) consistently and continuously.

3.2.4 The Effect of Ability on Fraudulent Financial Reporting

The test results prove that the ability proxied by the tenure of the board of commissioners has no effect on financial statement fraud with a significance value of 0.849 (0.849> 0.05) and a beta coefficient value of 0.019. The results of this study are in line with research Abu Nizarudin et al (2023), Pradani and Diyanty (2023), Dewi and Anisykurlillah (2021), Koharudin and Januarti (2021), Noble (2019), Akbar (2017) and Yesiariani and Rahayu (2017) namun tidak sejalan dengan penelitian yang dilakukan oleh Yusof et al (2015) and Uciati & Mukhibad (2019). The reason underlying the results of this study is that the length of tenure of the board of commissioners is not a benchmark for fraudulent financial reporting. Changing the board of directors is an effort to improve the performance of the previous directors by recruiting new directors who are more competent so that company performance increases.

3.2.5 Effect of Arrogance on Fraudulent Financial Reporting

The test results prove that arrogance proxied by the number of CEO photos in the annual report has no effect on fraudulent financial statements with a significance value of 0.093 (0.093> 0.05) and a beta coefficient value of 0.053. The results of this study are in line with Akbar's research (2017), Apriliana and Agustina (2017) Situngkir and Triyanto (2020), Koharudin and Januarti (2021), and Abu Nizarudin et al (2023) empirically proves that the number of CEO photos has no effect on financial statement fraud. The reason underlying the results of this study is that not every appearance of a CEO photo is considered to display arrogance but rather to show the existence of the CEO to the public and also to state that they are responsible for the company's performance.

3.2.6 The Effect of Collusion on Fraudulent Financial Reporting

The test results prove that collusion proxied by the number of transactions with related parties affects financial statement fraud with a significance value of 0.019 (0.019 <0.05) and a negative beta coefficient value (1.102). The results of this study are in line with research. The results of this study support the results of research Chen and Elder (2007), Suyanto (2009), and Fitri, Syukur and Justisa (2019), which proves that RPTs have an effect on financial statement fraud.

Research results Subastian et al.(2021) found that related party transactions have an effect on earnings management. Research Marchini et al (2018) found that RPTs are positively and significantly related to earning management. The results also found that good governance quality can reduce the relationship between RPTs and abnormal accruals. The reason underlying the results of this study is that collusion activities are fraud that is difficult to avoid and comprehensive enough to fall into the category of financial crimes. As stated by the ACFE in its 2016 report justifying the dangers of collusion where the results of its survey state that the examination of fraud cases is mostly due to collusion involving many actors.

3.2.7. The Moderating Effect of Power Distance on the Relationship between Financial Pressure, Opportunity, Rationalization, Ability, Arrogance, and Collusion on Financial Statement Fraud.

The test results can be seen in table 6 which shows that power distance is able to strengthen the relationship between opportunity and arrogance towards fraudulent financial reporting. The results of this study are in line with research Yoo & Lee (2019), Mihret (2014), Morgan & Burnside (2014), Banuri & Eckel (2012), Seleim & Bontis (2009), Doupnik (2008), and Richardson (2008). Power distance culture aims to explain that there are cross-cultural differences in behavior, and different perceptions of the power distance of the same role in different countries. Countries with high power distance have well-defined and publicly recognized hierarchical structures. There is respect and even fear of superiors based on position in the company. Low power distance countries, on the other hand, are more about peer relationships and more about social and psychological factors.

This research relates the power distance culture in Indonesia, the United States, Australia, Germany, and South Africa. Of the five countries, Indonesia is the country with the highest power distance while the other four countries have low power distance. Based on the research results, it is illustrated that when power distance is interacted with opportunity and arrogance, it is empirically proven to be able to strengthen the occurrence of fraudulent financial reporting. This result can be interpreted that opportunity and arrogance are factors that can encourage fraudulent financial reporting both in countries that have high or low power distance.

4. Conclusions and Implications

4.1. Conclusion

- The purpose of this study is to examine the risk factors that influence fraudulent financial reporting. This research can be said to be an important study that identifies the power distance culture that affects financial statement fraud in Indonesia, the United States, Australia, Germany and South Africa.
- This study examines the interaction of power distance culture on the relationship between financial pressure, opportunity, rationalization, ability, arrogance, and collusion on financial statement fraud.
- Hypothesis testing conducted using logistic regression analysis can be concluded as follows:

1. Financial pressure (TKN) proxied by leverage, rationalization (RAS) proxied by changes in accounting policies, ability (KMPN) proxied by the tenure of the board of commissioners, and arrogance (ARO) proxied by the number of CEO photos in the annual report have no effect on fraudulent financial reporting, meaning that this variable is unable to detect potential fraud that occurs in the company.

2. Opportunity (KSMP) proxied by the number of independent commissioners has a significant positive effect on fraudulent financial reporting, but collusion (KOL) has a significant negative effect on fraudulent financial reporting
3. The results of the interaction using power distance culture proved to be able to strengthen the relationship between opportunity (KSMPN) and arrogance (ARO) on fraudulent financial reporting.

4.2. Implications

- This research contributes to the fraud literature, particularly the fraud hexagon theory. Given that fraud is universal and a complex phenomenon, this study has explored the culture of power distance. This can be used to detect risk factors for fraudulent financial reporting that occur in countries that have high or low power distance. In addition, it also contributes to interested parties such as auditors in assessing the fraud potential of the company.
- In addition, it also contributes to the preparation, development of regulations and professional organizations regarding early warning signs, fraud prevention measures, raising awareness of public fraud and organizational risk management, and providing a foundation for good corporate governance related to internal control to realize value enhancement by controlling fraud in countries with high or low power distance.

4.3. Limitations

There are several that may affect the results of the study:

- It is recommended to add proxies for the variables studied such as, abnormal accruals for rationalization proxies, because almost some researchers find it difficult to determine rationalization proxies.
- The sample is only five countries that have high GDP, it is recommended to explore the number of countries and compare how fraud activities in countries with the highest GDP.

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