

The Effect of Hexagon Fraud Theory on Financial Statement Fraud with Audit Committee As a Moderating Variable

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ABSTRACT

Increased competition forces companies to prepare accurate financial statements. However, this situation also encourages unethical practices, such as financial reporting fraud or manipulation. By analyzing the audit committee's function as a moderating variable, this study seeks to ascertain the impact of the notion of fraud on financial statement fraud. Six elements make up the theory: opportunity, pressure, capability, hubris, rationalization, and collusion. Financial statement fraud is quantified using the F-Score Model. Forty-three construction businesses that were listed on the Indonesia Stock Exchange between 2020 and 2022 are included in the sample. A component of the selection process was purposive sampling. Statistical Product and Service Solutions version 25 was used to process the results of the moderating regression analysis. The findings indicate that while opportunity, rationalization, and arrogance have little influence on financial statement fraud, cooperation does. On the other hand, capability and pressure have a beneficial impact. Furthermore, the audit committee does not regulate financial statement fraud via rationalization and arrogance; Rather, it does so through pressure, opportunity, capacity, and collaboration. Businesses should consider the factors that affect financial statement fraud detection, according to the study's findings.

Keyword: Fraud Hexagon, Audit Committee, Financial Statement Fraud.

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1. INTRODUCTION

The continuous increase in competition requires companies to prepare accurate financial reports that reflect the actual condition of the company. This situation has led to unethical actions that companies may take, such as manipulation or fraud in financial reporting keuangan (Setyono et al., 2023). The Association of Certified Fraud Examiners (ACFE) classifies financial statement fraud, asset theft, and corruption as distinct forms of fraud in their 2022 Report to the Nations on Occupational Fraud. Although it only accounts for 9% of instances worldwide, financial statement fraud results in the most damages, totaling \$593,000. Therefore, in comparison to other categories, financial statement fraud carries the potential for significant damages.

There is still a lot of financial reporting fraud in Indonesia. To the tune of IDR 7.7 trillion, the Supreme Audit Agency (BPK) discovered in 2020 that PT Asuransi Jiwasraya (Persero) had perpetrated financial statement fraud in 2017. Even though PT Garuda Indonesia (Persero)'s net profits increased dramatically in 2018, the company was also found to have been involved in financial statement fraud that year. The company recorded a net income of USD 809 thousand in its financial statements. But it turned out that they had lost USD 216.58 million. In 2023, there were suspicions of financial statement fraud against PT Waskita Karya (Persero) Tbk and PT Wijaya Karya (Persero) Tbk. For a number of years, the businesses seemed to be making money, but their cash flows could have been better.

Financial statement fraud can result in losses for all users of financial statements. With the increasing number of fraud cases, Financial statement fraud must be prevented and identified. The hexagon hypothesis developed by Vousinas (2019) may be employed to detect instances of fraud. The fraud hexagon hypothesis posits that six factors capacity, hubris, opportunity, rationalization, and pressure contribute to financial statement fraud.

Silaban and Suryani (2020) state that differences in interests between shareholders and management can lead to conflicts in their relationship. Shareholders' interests are only sometimes aligned with management's desires. Company management has more information about the company than the principals, who have limitations regarding the company's condition, thus prompting management to keep undisclosed information from principals and act unethically. These differences can lead to the emergence of financial statement fraud.

According to ACFE (2022), one form of fraud committed by corporate management is financial statement fraud. It consists of manipulating financial accounts to provide misleading information to decision-makers by altering or omitting key facts. Many scholars have reached contradictory outcomes when examining the impact of the fraud hexagon theory on financial statement fraud. From 2016 to 2019, Larum et al. (2021) examined the possibility of financial statement fraud in State-Owned Enterprises (SOEs) listed on the Indonesia Stock Exchange using the Beneish M-Score Model and the fraud hexagon hypothesis. To uncover the fake financial reports that non-financial service organizations had between 2015 and 2017, Pasaribu et al. (2020) investigated how the fraud pentagon assisted these businesses. The Audit Committee was considered a moderating variable in the study by Luhri et al. (2021) that examined the impact of the fraud pentagon on financial statement fraud.

Previous research by Larum et al. (2021), Pasaribu et al. (2020), and Luhri et al. (2021) is incorporated into this publication. The researchers are interested in exploring the components of financial statement fraud to better understand how to identify it. Hexagon Theory. A moderating variable called the audit committee has been included, which modifies the association between pressure, opportunity, rationalization, capacity,

hubris, and complexity with financial statement fraud, distinguishes this study from earlier research.

Companies must establish effective governance to reduce financial statement fraud by forming an audit committee (Kamila and Parinduri, 2023). According to Broye and Johannes (2023), the audit committee is in charge of monitoring managerial decisions and maintaining the accuracy of financial accounts. Due to its importance in the internal operations of the business, the audit committee is able to identify financial statement fraud. (Ghafran et al., 2022).

2. LITERATURE REVIEW AND HYPOTHESIS

Agency Theory

Shareholders and management are both elucidated by agency theory. It was stated by Jensen & Meckling (1976), they have a contractual relationship. Amalia & Annisa (2023) stated that this contract is believed to benefit both parties. As the capital owner, the principal seeks good financial performance and expects high returns, while the agent, as the company manager, desires substantial compensation, such as high salaries and bonuses (Nurbaiti & Putri, 2023).

According to Kusumawardhany & Shanti (2020), management, as an agent overseeing the company, has broader information about internal conditions and business circumstances that are inaccessible to the principal, resulting in information asymmetry. Imtikhani & Sukirman (2021) stated that information asymmetry allows management to manipulate accounting data presented in financial statements to conceal the actual situation.

Financial Statement Fraud

According to the study by Larum et al. (2021), financial statement fraud is a type of fraudulent activity committed by company management, particularly misrepresenting material information in financial statements, leading financial statement users to receive inaccurate

information when making decisions. Individuals may produce false financial statements for various reasons, such as overstating revenues, assets, and profits, understating costs and liabilities, and providing inadequate information (Oktaviany & Reskino, 2023).

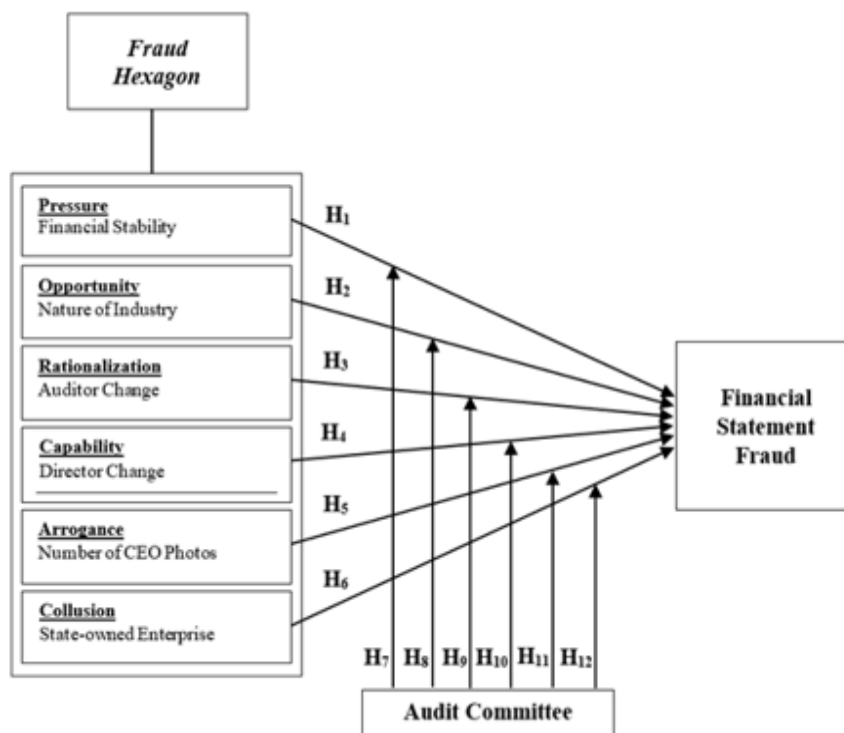
Fraud Hexagon

The fraud hexagon hypothesis, according to Vousinas (2019), is a way to understand the reasons and elements that lead to fraud in an organizational or corporate setting. Cressey (1953) introduced the fraud triangle, which is the basis of the fraud hexagon. According to the fraud triangle, there are three potential sources of financial statement fraud: pressure, logic, and circumstances. After adding capacity as another factor that originates fraud, Wolfe. Hermanson (2004) converted this theory into the fraud diamond. One of the components that Crowe (2011) included into the fraud pentagon concept was arrogance. The fraud hexagon was extended by Vousinas (2019) to include collusion as a component that leads to fraud. According to the fraudsters, there are six telltale signs of financial statement fraud: opportunity, justification, pressure, capacity, arrogance, and teamwork. Hexagon Theory.

The Effect of Pressure on Financial Statement Fraud

The proxy variable for pressure is financial stability. Companies naturally desire financial stability; however, even in stable conditions, financial instability may be possible (Agusputri & Sofie, 2019). Such conditions can pressure management regarding the financial reports presented to shareholders. Companies that effectively manage their assets create profits and high shareholder returns (Imtikhani & Sukirman, 2021). This situation motivates company management to seek solutions to maintain financial stability by engaging in the tendency of financial statement fraud to be seen as successfully managing company assets.

Figure 1. Research Model



H1: Pressure has a positive effect on financial statement fraud.

The Effect of Opportunity on Financial Statement Fraud

The proxy variable for opportunity is the nature of the industry calculated by the total change in company receivables. Investor capital investments are usually more interested in companies with ideal business conditions. This situation opens up opportunities for involvement in financial statement fraud. Company management will manipulate accounts in financial statements, especially receivables. Uncollected receivables can be a potential avenue for managers to commit fraud by presenting inaccurate information. Companies striving to appear ideal reduce their receivables and increase cash receipts (Agusputri & Sofie, 2019).

H2: Opportunity has a positive effect on financial statement fraud.

The Effect of Rationalization on Financial Statement Fraud

The proxy variable for rationalization is changing auditors. Companies change

auditors to conceal evidence of detected fraud from previous auditors, making it undetectable to new auditors and thus facilitating fraud (Oktaviyani & Reskino, 2023). Auditor changes create transitional phases or stress periods that management (agent) can use to justify involvement in fraudulent activities.

H3: Rationalization has a positive effect on financial statement fraud.

The Effect of Capability on Financial Statement Fraud

The proxy variable for capability is changing directors. Companies frequently change directors, a step taken to improve the performance of the previous director deemed less competent. Furthermore, changing directors is considered a measure to replace the previous director suspected of engaging in financial statement fraud. Long-serving directors have the potential to commit financial statement fraud because they have all the company information (Setyono et al., 2023).

H4: Capability has a positive effect on financial statement fraud.

The Effect of Arrogance on Financial Statement Fraud

The proxy variable for arrogance is the number of CEO photos (CEO Duality) displayed. Many photos in annual financial reports indicate a CEO's high arrogance level, i.e., the CEO's desire to be recognized by the public for their position or authority in a company. High arrogance levels enable CEOs to commit fraud as they seek to maintain their positions at all costs (Oktaviany & Reskino, 2023). A highly arrogant CEO may exhibit arrogant behavior and feel empowered. Such a CEO can freely exploit their authority by committing fraud for personal gain (Imtikhani & Sukirman, 2021).

H5: Arrogance has a positive effect on financial statement fraud.

The Effect of Collusion on Financial Statement Fraud

The proxy variable for collusion is cooperation with the government (state-owned enterprise). The relationship between a company and the government provides benefits and ease to the company in licensing processes and loan access. Company management has facilities and privileges that enable them to commit fraud for significant gains for their well-being. Companies actively involved in government cooperation can achieve substantial revenue or profits, which can be reported in the company's financial statements, showing good company performance (Sari & Nugroho, 2020).

H6: Collusion has a positive effect on financial statement fraud.

The effect of Pressure, Opportunity, Rationalization, Capability, Arrogance, and Collusion on Financial Statement Fraud with Audit Committee as a Moderating Variable

There may be more pressure to falsify financial statements when a firm is experiencing financial instability. This pressure may be reduced in part by the audit committee's presence. The audit

committee can correct false information throughout the financial statement preparation process and monitors management performance (Pickless & Nurdiansyah, 2022).

The nature of the industry provides opportunities for companies to engage in financial statement fraud. Companies will strive to reduce receivables and increase cash receipts. The audit committee can evaluate and review all financial information performed by the company. The presence of the audit committee can prevent accounting discrepancies in financial statements made by management (Murtanto & Sandra, 2019).

Changing auditors may occur because of financial statement fraud tendencies. The audit committee can monitor the company's financial statement preparation process. Findings obtained by the audit committee can be reported to external auditors for further investigation (Kamila & Parinduri, 2023).

The change in a company's directorship is highly susceptible to financial statement fraud tendencies. Monitoring actions by the audit committee and the board of directors can prevent fraud. The audit committee is responsible for evaluating director activities in the company (Santoso, 2019).

The arrogance of the CEO reflects a significant role in the company. The audit committee must be firm regarding detected financial statement fraud, which can enable the CEO to reduce their arrogance because they feel the need to act more cautiously and not excessively. The audit committee is responsible for overseeing every movement and ensuring that managers comply with applicable regulations and maintain good corporate governance (Amalia and Annisa, 2023).

Companies cooperating with the government can engage in financial statement fraud. The audit committee can detect this by seeking information from management. If the audit committee finds evidence of fraud from its findings,

it can be the basis for further research on collusion within the company (Oktaviany & Reskino, 2023).

H7: The audit committee moderates the effect of pressure on financial statement fraud.

H8: The audit committee moderates the effect of opportunity on financial statement fraud.

H9: The audit committee moderates the effect of rationalization on financial statement fraud.

H10: The audit committee moderates the effect of capability on financial statement fraud.

H11: The audit committee moderates the effect of arrogance on financial statement fraud.

H12: The audit committee moderates the effect of collusion on financial statement fraud.

3. METHODS

The study was conducted using the methodology of explanatory quantitative research. The population of the research consists of construction firms that are listed on the Indonesia Stock Exchange (IDX) for the year 2020–2022. The method used to choose the study population is known as purposeful sampling. The chosen sample consists of 45 firm samples from 15 construction enterprises spread throughout three time periods. Nevertheless, 43 construction businesses were examined as a result of two outlier data points.

Secondary data types from construction businesses' annual reports and financial statements are used in this study. Data sources were collected from the internet via the official websites of the firms and the www.idx.co.id website. Descriptive statistical analysis, traditional assumption testing, and hypothesis testing are among the data analysis techniques.

4. RESULTS AND DISCUSSION

Classical Assumptions Test Results

Normality Test Results

The results of the One-Sample Kolmogorov-Smirnov test, which checks for normality, indicate that the data under examination follows a normal distribution. A significance level higher than 0.05, namely 0.200, was produced using the regression model.

Multicollinearity Test Results

Findings from the multicollinearity test using the Variance Inflation Factor (VIF) and Tolerance tests indicate that the tested data does not contain any multicollinearity, as the regression model produced VIF values less than ten and Tolerance values greater than 0.10.

Heteroskedasticity Test Results

The regression model produced a significance value greater than 0.05, suggesting no heteroskedasticity in the tested data, according to the findings of the Glejser Test for heteroskedasticity.

Autocorrelation Test Results

Based on the autocorrelation test results using the Durbin-Watson (DW) test, the regression model yielded a DW value of 2.062, indicating $2 < DW\text{-value} < 4$, which suggests no autocorrelation in the tested data.

Hypothesis Testing Results

Coefficient of Determination Test Results

R-Square, after adjustments, is 0.815. Financial statement fraud (Y) may be explained by the regression equation to a degree of 81.5%, according to this figure. The remaining 18.5% is attributable to variables that are not considered in the model.

Tabel 1. Adj R Square

R	R Square	Adj R Square
0,934	0,873	0,815

Source: Data Processed

Classical Assumptions Test Results

The regression analysis F-test value is 15.268, and the significance value is $0.000 < 0.05$. Therefore, the pressure variable (X1), opportunity (X2), rationalization (X3), capability (X4), arrogance (X5), collusion (X6), moderation of pressure (X1) and audit committee (Z), moderation of opportunity (X2) and audit committee (Z), moderation of rationalization (X3) and audit committee (Z), moderation of capability (X4) and audit committee (Z), moderation of arrogance (X5) and audit committee (Z), A number of factors influence the probability of financial statement fraud, including the audit committee (Z) and the prevention of collaboration (X6). These results provide support for the idea that the regression model may be used to estimate the likelihood of financial statement fraud.

Tabel 2. Adj R Square

F	Sig
15,268	0,000

Source: Data Processed

Tabel 3. T-test

Variabel	Koefisien	t	Sig
X1	30,436	3,295	,003
X2	2,086	1,177	,249
X3	,316	,438	,665
X4	7,989	2,791	,009
X5	,477	,622	,539
X6	-8,155	-6,747	,000
Z	,237	1,144	,262
X1*Z	4,349	3,434	,002
X2*Z	-,569	-2,130	,042
X3*Z	-,022	-,242	,810
X4*Z	1,020	2,666	,012
X5*Z	,112	1,386	,176
X6*Z	-1,064	-6,498	,000

Source: Data Processed

DISCUSSION

Pressure on Financial Statement Fraud

Pressure has a positive influence on fraud that occurs within companies. Company management that can maintain its financial stability by increasing company assets will

receive incentives and contract extensions from investors because they are considered successful in managing the company.

The company's financial stability becomes an important parameter for investors in assessing whether the company is worthy of investment. This situation pressures management to increase company assets to maintain financial stability and satisfactory financial performance. The likelihood of management falsifying financial accounts increases when a company's financial situation is precarious. This study's results are consistent with those of other researchers (Sagala and Siagian, 2021), (Fouziah and Djadandg, 2022), (Putri and Suhartono, 2023), and (Octaviana, 2022).

Opportunity on financial Statement Fraud

Opportunity does not influence fraud that occurs within companies. Deferred payment accounts Management must not have the ability to defer investors through accounts receivable. Applicable accounting principles must do recognition and measurement of uncollectible accounts receivable by companies. Companies must adhere to the accounting standards guidelines in Indonesia by using PSAK, which is adopted by the International Financial Reporting Standards (IFRS).

PSAK 71 provides guidelines and frameworks for recognizing, measuring, and disclosing uncollectible accounts receivable. Therefore, it becomes tough for management to manipulate the value of uncollectible accounts receivable. These research findings are in line with studies by (Widyaningsih et al., 2022), (Fouziah and Djadandg, 2022), and (Tiapandewi et al., 2020).

Rationalization on Financial Statement Fraud

Based on the research findings, rationalization does not influence fraud that occurs within companies. Companies change auditors due to obligations according to government regulations that require auditor rotation (mandatory) or

due to the company's initiative to change auditors (voluntary).

The company has chosen to change auditors in order to comply with the article 11 paragraph 1 of the Regulation of the Republic of Indonesia Number 20 Year 2015 Regarding Public Accountant Practices, which states that audit services provided by public accountants are limited to no more than five (five) consecutive fiscal years.

Moreover, companies change auditors because they are dissatisfied with the performance and quality of the previous auditor. Substandard audit quality is evident in the information presented in the audit findings. The company undertakes this action to enhance the quality of financial statements and attract investors to invest in the company.

Another possibility is that the company disagrees with the proposed audit service fees. Consequently, the company changes auditors to secure audit service fees at a lower rate than before. These research findings align with studies conducted by (Widyaningsih et al., 2022), (Grace Fabiolla et al., 2021), (Sagala and Siagian, 2021), and (Sari and Nugroho, 2020).

Capability on Financial Statement Fraud

Fraud inside businesses is positively impacted by the capacity. Fraud by former directors may be covered up by the corporation when it replaces them. The business wants to hide any unethical behavior that has occurred. In order to improve the performance of the previous director, improve the firm's reputation, and create a more transparent atmosphere, the corporation chooses to replace them with a new director who is more qualified.

Because of the fraud that the previous directors committed, changing the directors becomes a calculated move to win back the confidence of many stakeholders, including shareholders, investors, clients, and business partners. The organization takes this action to enhance governance and moral business conduct. The findings of this study are consistent with those of

studies by (Preicilia et al., 2022), (Kamila and Parinduri, 2023), and (Ayem et al., 2022).

Arrogance on Financial Statement Fraud

Arrogance does not influence fraud that occurs within companies. It has become common practice for all companies to include a portrait of the chief executive officer (CEO) in their annual report. To introduce the CEO and provide readers or investors with background information about them, the company's annual report includes their photo. A CEO may protect their image by not lying, as seen in this image.

Employees are afraid to commit fraud, perform at their best, and do not break corporate rules since the CEO of the company exudes arrogance in order to project charm and firm leadership. The findings of this study are consistent with those of studies by (Widyaningsih et al., 2022), (Grace Fabiolla et al., 2021), and (Sagala and Siagian, 2021).

Collusion on Financial Statement Fraud

Based on research findings, collusion negatively influences fraud that occurs within companies. Companies that collaborate with the government will undoubtedly attract public attention. Therefore, companies must maintain their reputation to appear clean in the eyes of the public by avoiding engagement in financial statement fraud. Fraudulence can damage a company's reputation and jeopardize its sustainability, so companies must avoid detrimental practices.

Collaboration between companies and the government is governed by strict regulations and standards. Parties involved in such collaborations must understand, adhere to, and implement applicable regulations. Compliance with these rules can foster an environment that discourages fraud and upholds the company's reputation in the public eye. Conversely, if a company indulges in fraud, it can harm its image, business relationships, and public perception.

These research findings align with studies conducted by (Sagala and Siagian, 2021), (Putri and Suhartono, 2023), (Octaviana, 2022), and (Imtikhani and Sukirman, 2021).

Audit Committee in Moderating Pressure

Using the study's conclusions as a guide, the audit committee can reduce the likelihood of financial statement fraud. The principal role of the audit committee is to oversee and monitor the efficiency with which management prepares the financial statements of the organization. With the help of the audit committee, the risk of financial statement fraud by management might be reduced.

The audit committee's ability to oversee the process of creating the company's financial statements can enhance its credibility and reliability. Management may feel less pressure to inflate financial figures if the audit committee is present. The audit committee oversees management decisions to prevent damage to the business, thus reducing company management's potential for financial statement fraud. These research findings are consistent with studies by (Zulfa and Tanusdjaja, 2022), (Murtanto and Sandra, 2019), and (Putra, 2023).

Audit Committee in Moderating Opportunity

Based on the research results, the audit committee can moderate opportunities for financial statement fraud. The audit committee is responsible for ensuring that the policies used by the company's management in recognizing uncollectible receivables comply with applicable accounting principles. The company must adhere to applicable Financial Accounting Standards (PSAK) for recognizing and measuring uncollectible receivables. This oversight helps prevent deviations from applicable accounting principles.

The audit committee also needs to ensure that the disclosure of uncollectible receivables in the financial statements is clear and transparent, which helps stakeholders or investors understand the risks and estimates associated with

receivables considered uncollectible. These research findings are consistent with studies by (Asni and Heniwati, 2023), (Murtanto and Sandra, 2019), (Putra, 2023), and (Nugroho and Diyanty, 2022).

Audit Committee in Moderating Rationalization

The results show that when it comes to the inclination of financial statement fraud, the audit committee does not moderate thinking. There are limitations on the audit committee's authority to decide on and oversee auditor changes. The decision to replace the company's auditor ultimately rests with the board of commissioners and the General Meeting of Shareholders (GMS). These choices must be entirely within the audit committee's authority.

Because government restrictions restrict auditors' stay with clients, auditor rotation is required. Article 11 Paragraph 1 of Government Regulation Number 20 Year 2015 Concerning Public Accountant Practices states that audit services with public accountants may only be provided for a maximum of five (five) fiscal years in a row. Companies must still make changes even if they have an audit committee. auditors by applicable regulations. These research findings are consistent with studies by (Oktaviany and Reskino, 2023), (Luhri et al., 2021), and (Asni and Heniwati, 2023).

Audit Committee in Moderating Capability

Based on the research results, the audit committee can moderate capability regarding the propensity for financial statement deception. The audit committee advises and recommends new directors to the board of commissioners of the corporation. Along with discussing pertinent corporate elements, the audit committee might work with the board of commissioners to recruit and evaluate new directors.

There will be a stress-related adjustment phase when new directors replace the previous ones. One aspect of successfully overseeing the new directors is the

audit committee. As a result, the audit committee is responsible for evaluating the competence, honesty, and credibility of the new directors.

Director changes have the potential to influence the compliance culture within the company. The audit committee has a crucial role in monitoring the new directors to support transparent business practices and compliance with applicable ethical standards. This monitoring is an effective preventive measure to prevent fraud within the company's environment. These research findings are consistent with studies by (Oktaviany and Reskino, 2023), (Luhri et al., 2021), and (Asni and Heniwati, 2023).

Audit Committee in Moderating Arrogance

The study's results show that the audit committee has no control over their inflated expectations regarding the possibility of financial statement fraud. The audit committee is responsible for regulating the number of CEO photos included in the annual reports of the corporation. Oversight of financial statement preparation and audit findings (both internal and external) is the principal function of the audit committee. The audit committee is powerless to prevent or expose CEOs' arrogant behavior in company operations.

The quantity of CEO pictures in the company's yearly reports has nothing to do with the quality and dependability of the financial data. As a result, the audit committee will concentrate more on other areas that are more relevant to financial statement integrity and compliance. Despite their importance in establishing the company's image, CEO images are not thought to be the primary factor that can compromise the accuracy and reliability of the financial data included in the annual report. These study results align with research conducted by (Nugroho and Diyanty, 2022), (Fajriani and Darmayanti, 2020), and (Putra, 2023).

Audit Committee in Moderating Collusion

According to the results of the study, the audit committee can limit the likelihood of financial statement fraud by discouraging coordination. The audit committee can prevent fraud if the information presented is detailed. When collusion occurs, the audit committee will gather information from the parties involved. If the audit committee finds issues during the examination, these findings can be the basis for further investigation into collusion within the company.

Companies that collaborate with the government receive significant public funds. The audit committee is responsible for ensuring that these funds are used transparently, in line with the initial goals of the collaboration, and accurately recorded in the financial statements. The audit committee must ensure that all transactions related to projects and partnerships with the government are accurately recorded and presented according to applicable accounting standards. These research findings are consistent with studies by (Putra, 2023), (Riyanti, 2021), and (Sari et al., 2022).

5. CONCLUSION

The findings of the study indicate that financial statement fraud is positively impacted by pressure and capacity, negatively impacted by cooperation, and unaffected by opportunity, rationalization, or hubris. Additionally, the audit committee moderates financial statement fraud through pressure, opportunity, capacity, and coordination; but, it does not moderate financial statement fraud through rationalization and hubris. This study's conclusion is that businesses should take into account the variables that influence financial statement fraud detection.

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