

RESEARCH ARTICLE

THE RELATIONSHIP OF INDIVIDUAL MORALITY AND AUDITOR PERCEPTIONS OF FRAUD TENDENCY: TESTING OF THE FRAUD PENTAGON THEORY APPROACH

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Abstract

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*Key words:-*Fraud Tendency, Fraud Pentagon, Individual Morality, Auditor Perception.

This study aims to examine the tendency of fraud to the perception of external auditors triggered by the five components of pentagon fraud: pressure, opportunity, arrogance, rationalization, and competence. In addition, the morality of the individual is placed as an intervention variable for this relationship. This is a quantitative study with a survey of external auditors at the BPK in Jakarta. The intervention model for the research framework was developed to investigate the role of individual morality interference. The findings suggest that the five components of the pentagon's fraud theory are not fully proven to be fraud triggers in the perception of external auditors. Arrogance, rationalization, and competence have proven to have a positive effect on the perception of fraud tendencies, while pressure and opportunity have a negative impact on the perception of fraud tendencies. Then pressure, rationalization, and competence are shown to negatively impact individual morality, while opportunity and arrogance positively impact individual morality. In addition, 5 (five) variables in fraud pentagon theory, namely pressure, opportunity, arrogance. rationalization, and competence, are proven to prevent the perception of fraud tendency. This can be explained because this study is the first study to examine pentagon fraud in the context of behavior in the environment of government external auditors, so the results cannot be compared with previous studies that used proxies in financial statements as predictors of fraud.

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Introduction:-

Fraud cases in finance and accounting are like an endless phenomenon(Reskino et al., 2021). Fraud cases have attracted much public attention, and global fraud cases have entered the private and government sectors. In Malaysia, the involvement of companies in combating fraud has expanded as a result of the rise and emergence of allegations of corruption involving companies in Malaysia. Fraud findings have undermined public trust in the accounting profession(Mahmud et al., 2021). Examples of global events include fraud scandals worldwide, such as Enron, WorldCom, Tyco International, Qwest Communications, and HealthSouth scandals. Currently, fraud scandals in Indonesia include cases of PT Kimia Farma, PT KeretaApi Indonesia, PT IndustriSandang Nusantara, Citibank, and 3 three major fraud cases, that is, PT Garuda Indonesia Tbk in 2018, a case of manipulation of life insurance financial statements in 2020 at PT Jiwasraya, and the Maybank case in 2020. The fraud is carried out

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Corresponding Author:- Reskino (reskino@uinjkt.ac.id) Address:- UIN SyarifHidayatullah Jakarta, Indonesia. individually or in groups inside or outside the organization to gain benefits for themselves by cheating others (Halbouni et al., 2016).

Apart from the widespread corruption cases in Indonesia, the critical purpose of being aware of fraud is to keep the business going(Carmichael & Eaton, 2023; Mustak et al., 2023; Suryaningsih & Simon, 2019; Zhang et al., 2023). According to the analysis published by the ACFE Report in 2022, out of 7,890 of the survey responses obtained, auditors can detect fraudulent work in the Asia - Pacific Region in as many as 2% of cases and anti-fraud control activities commonly used in the Asia-Pacific Region, external audits hold 88% of cases of fraudulent activity in the financial statements.

In 2022 there were several cases involving external government auditors, including cases of bribery to examiners at the BPK to be able to condition or regulate the findings of the LKPD examination for the fiscal year 2020 at the South Sulawesi Provincial Government at the South Sulawesi PUTR Office. In addition, there was a case of a hand-catching operation by the KPK against the Bogor regent and BPK examiners to condition the financial statement opinion because the Bogor Regency Government's financial statements for the 2021 fiscal year were considered inadequate and could have an impact on the conclusion of the disclaimer. According to BPK Deputy Chairman Agus Joko Pramono on https://kabar24.bisnis.com/read/20220905/16/1574423/bpk-sanksi-11-auditor-penerima-gratifikasi, acknowledging that gratification is one of the risks often encountered when a team of auditors is working in the field.

Individual morality becomes essential when faced with the fraudulent process of external auditors. Previous research has found that moral values help people see right and wrong in different situations (Urumsah et al., 2018;Setiawan, 2018). Also, individual morality is one factor that affects people's behavior in carrying out fraud tendency. Moral maturity becomes the basis and consideration in preparing responses and attitudes toward ethical issues, so morality becomes an important thing that influences the actions taken by someone(Elbæk & Mitkidis, 2023; Fauwzi, 2011; Hollan, 2023; Sharma, 2023).

The theory of fraud detection has been the subject of research before. One of the theories of embezzlement is the triangle theory of embezzlement, developed by Cressey in 1953 in his researchentitled "Other People's Money: A Study in the Social Psychology of Embezzlement."The fraud triangle consists of three elements of fraud detection: pressure, opportunity, and rationalization. The subsequent development was the diamond fraud initiated by Wolfe & Hermanson in 2004. Diamond fraud is a development of the fraud triangle theory by adding one aspect of fraud detection: ability. The following theoretical development is that the pentagon fraud is a development of the fraud triangle and diamond fraud theory with additional components of competence and arrogance. Vousinas refined the model in 2017 as the SCORE model with components of pressure, ability, opportunity, rationalization, and ego.

The size of the fraud component cannot be studied directly, so we have to find a way to measure this part. Many previous researchers have researched the factors that influence financial statement fraud and inconsistent results, including the research conducted byAchmad et al., (2023);Chen & Han (2023); Desta (2023); Lestari & Henny (2019); Yaghobnezhad & Tajiknia (2023) on the impact of pentagon fraud on financial statement fraud from banking institutions. The variables used are financial targets, financial stability, ineffective supervision, change of auditors, executive training, CEO photo, and frequency. The results of this study show that the variables of financial stability and ineffectiveness of supervision affect financial statements, while financial targets, auditor turnover, CEO training, and CEO frame rate do not affect financial statement fraud. Meanwhile, Achmad et al., (2023); Agusputri & Sofie (2019); Kuang & Natalia (2023); Setyono et al., (2023)stated that financial stability does not affect financial statement fraud.

Several studies have been conducted on financial statement fraud and its relationship with fraud theory, including Aviantara (2021); Agung et al., (2021); and Lastanti et al., (2022) but so far, no research has been done that makes the connection with the field of behavioral accounting, especially those related to individual morality inherent in each auditor. Therefore, in this study, researchers tried to look at it from a different perspective by combining individual morality with the fraud pentagon theory.

The auditor, who is responsible for assuring the fairness of a financial report, needs to play a more active role in order to reduce the likelihood of fraud(Reskino & Anshori, 2016). In this study, individual morality variables were placed as intervening variables that linked the pentagon fraud component with fraud tendency, as in the study of

Reskino et al.,(2021), which found that the individual morality of financial staff has not been able to minimize the tendency of fraud.

Literature Review:-

Fraud Pentagon Theory

In 1953, Donald R. Cressey developed the Fraud Triangle Theory, which became the first theory to explain the elements of the causes of fraud. The three parts of the fraud triangle include pressure, opportunity, and rationalization. In 2004, Wolfe and Hermanson completed the triangle theory of fraud in a fraud diamond theory by adding one component, competence. Competence is defined as an individual's ability to play an essential role in fraud. The success of fraud depends on one's abilities, with components consisting of position, intelligence, egocentrism, persuasion, deception, and stress control (Wolfe dan Hermanson, 2004).

The latest theory that delves deeper into the factors that trigger fraud is the pentagon fraud theory. Crowe Howarth put forward this theory in 2011. The fraud pentagon theory is an extension of the triangle theory of fraud previously proposed by Cressey. This theory adds two other elements of fraud: competence and arrogance. The competencies described in the pentagon fraud theory mean the same using the abilities described earlier in Wolfe and Hermanson's diamond theory of fraud (2004). Competence is the ability of employees to ignore existing internal controls, spread concealment strategies, and control social situations aimed at taking personal advantage (Crowe, 2011). Crowe also explained that arrogance is an attitude of superiority over rights that are not affected by internal control or company rules. Thefive variables in fraud pentagon theory, namely pressure, opportunity, arrogance, rationalization, and competence will be used together to test their effect on the perception of fraud tendency together with individual morality as intervening variables.

Perception

Perception is how individuals regulate and interpret their sensory impressions to give meaning to their environment (Robbins, 1997). Gordon (1983) defined perception as the sensory process of capturing environmental stimuli and understanding and activating human insight into those stimuli. From the definition above, it can be concluded that perception is a process of giving meaning that starts with getting inspiration and understanding the world around them.

Pressure, individual morality, and perception of fraud tendency by auditors

Pressure is the impulse or motivation or a goal to be achieved but is limited by the inability to do it, which can lead to cheating (Albrecht et al., 2010). Becker et al., (2006) found that the higher the pressure a person faces, the more likely there are to cheat.

Some researchers have found a significant association between stress and the occurrence of fraud (Aghghaleh et al., 2014; Albrecht et al., 2010; Fitri et al., 2019; Thamlim & Reskino, 2023; and Huang, 2021). The study's results Faradiza (2019) also stated that pressure affected financial reporting fraud in manufacturing companies listed on the IDX for the 2014-2015 period. Said et al., (2017) their research showed that pressure had not been shown to play an essential role in increasing the likelihood of fraud among bank employees in Malaysia. Research conducted by Marliani & Jogi (2015) in Hasuti & Wiratno (2020) explained that pressure has a positive effect on the occurrence of fraud. This is because if the pressure increases, the fraud tendencies is also higher. In this situation, individuals are more likely to engage in suspicious activities that, as a result, can lead to fraud (Hooper et al., 2010; Radford et al., 2018).

Individual morality is closely related to fraud, which is seen from the low/high morality of the individual itself. People with a low level of moral reasoning when there is a higher pressure of need and there is an opportunity to commit fraud. On the contrary, people with a high level of moral reasoning will attach importance to those around them and minimize fraud. The findings of Eliza (2015) and Yando & Purba (2020) argue that individual morality has a negative impact on accounting fraud. Based on the description, the hypotheses proposed in this study are: H1. Pressure positively affects the perception of fraud tendency by auditors

H2. Pressure negatively affects individual morality

Opportunity, individual morality, and perception of fraud tendency by auditors

Opportunity is an element capable of detecting a person's tendency to commit fraud due to weak internal control systems and poor organizational governance(Reskino & Bilkis, 2022). The greater the opportunity of someone

cheating, the higher the possibility of doing it (Utami & Purnamasari, 2021). A person can be motivated to cheat through perceived opportunities, such as opportunities to profit from other sources. Opportunities occur due to the lack of control and governance structures to control the operation and use of corporate assets (Peprah, 2018). Weaknesses in internal control have been identified as the primary mechanism that provides an opportunity for fraud to occur. Weaknesses in internal control in the implementation of audit duties contained in the Financial Audit Agency can also be used by auditors to commit fraud.

The results of the study by Mintara & Hapsari (2021) found that opportunities through ineffective surveillance proxies negatively affect the detection of financial statement fraud. However, in other proxies, namely the nature of the industry, it has proven to have a positive effect. Said et al., (2017) also showed the result that opportunity has a positive effect on fraud. Aghghaleh et al., (2014) in their research showed evidence that opportunity negatively affects fraud.

Hooper (2010) in Radford et al., (2018) state that, even when an employee has excessive pressure, financial fraud is unlikely to occur unless there is an opportunity. Weaknesses in the internal control of the organization, poor auditing of the system, lack of accounting records, and poor separation of duties significantly influence individuals to commit fraud. When opportunities appear when faced with a weak internal control system, it is possible for an auditor to override individual morality so that it will be tempted to commit fraud. Based on the description, the hypothesis is formulated as follows:

H3. The opportunity to positively affect the perception of fraud tendency by auditors

H4. Opportunity negatively affects individual morality

Arrogance, individual morality, and perception of fraud tendency by auditors

Arrogance is a person's attitude that reveals that internal controls, policies, and company regulations do not apply to him (Wira Utami & Purnamasari, 2021). He felt excluded from the applicable procedures, regulations, and internal controls. A person who commits fraud with snobbery is not afraid of the sanctions that will befall him. The arrogance that an auditor might raise is to feel superior in the audit engagement process. It is almost confident that the company's management respects and "fears" auditors when the audit process is underway. Auditors can use this condition to commit fraud.

Faradiza (2019) reveals that arrogance has no impact on financial reporting fraud. The study's results Mintara&Hapsari (2021) also showed that many photos of CEOs in the company's annual report that were proxied with arrogance did not prove to affect financial reporting fraud. However, Wahyudi et al., (2022) also revealed that arrogance does not affect financial reporting fraud. Puspitha & Yasa (2018) and Apriliana & Agustina (2017) proved that arrogance positively affects financial reporting fraud. In addition, the feeling of superiority can give rise to arrogance or pride in oneself and weaken morality. Based on the description, the hypotheses proposed in this study are:

H5. Arrogance positively affects the perception of fraud tendency by auditors

H6. Arrogance negatively affects individual morality

Rationalization, individual morality, and perception of fraud tendency by auditors

According to Hamidah & Reskino (2021) Fraud perpetrators generally use several justifications to support their unethical activities, such as pretending to behave unethically, justifying themselves for acting unethically because it is done in the organization's interest, blaming the organization, assuming no one is paying attention, and anticipating support and protection. suppose the action is known later. Therefore, the probability of being caught and the severity of the punishment are two key aspects that influence a person's unethical behavior and propensity to cheat.

Rationalization is a justification for fraud to overcome competition or make a profit (Peprah, 2018). Rationalization is the reason a person supports the acceptance of committing fraud. Fraudsters make excuses as justification for their actions, and they rationalize that they only borrow the organization's money so that no one is harmed by the actions (Fitri et al., 2019). In this case, the auditor rationalizes the "reward" of the client in return for his services and is not part of the approach or bribe to fulfill the client's wishes. Tolerance of some procedures to help clients is also considered a rational thing.

Apriliana & Agustina (2017) who tested the effect of rationalization through auditor turnover proxies, found that auditor turnover did not prove to be a factor influencing financial reporting fraud. In line with these findings, the results of the study by Faradiza (2019) also stated that rationalization does not affect financial reporting fraud.

However, Said et al., (2017) also prove that rationalization is a factor that affects fraud committed by bank employees in Malaysia.

Rationalization can occur because most perpetrators feel they are not committing a criminal act but doing something they deserve. In line with this, rationalization can weaken individual morality so that auditors can justify themselves to benefit themselves. Based on the description, the hypothesis is formulated as follows:

H7. Rationalization has a positive effect on the perception of fraud tendency by auditors

H8. Rationalization negatively affects the morality of the individual

Competence, individual morality, and perception of fraud tendency by auditors

According to Wolfe & Hermanson (2004), competence is related to the skills, knowledge, beliefs, and positions that individuals have to commit fraud. Fraud is impossible if someone does not do itwith the proper ability and position to do every detail of the fraud. Ability means the attempt of a person to commit fraud to achieve specific goals by ignoring internal control, developing concealment strategies, and controlling the social situation for his interests (Sahla & Ardianto, 2022). An auditor is a person who understands the accounting process very well, including the loopholes for creative accounting. These competencies can be used to take advantage of opportunities to commit fraud.

Several studies have examined the effect of competence on fraud (Apriliana & Agustina, 2017; Mintara & Hapsari, 2021; Peprah, 2018; Puspitha & Yasa, 2018; Wira Utami & Purnamasari, 2021). The results showed further evidence in the study by Apriliana & Agustina (2017); Peprah (2018); Puspitha & Yasa (2018) that competence positively affects financial reporting fraud proxied through the change of directors. Meanwhile, Mintara&Hapsari (2021) research shows a positive but no significant effect between competence and fraud in financial statements. Wira Utami & Purnamasari (2021) report that competence positively influences the tendency of fraudulent behavior in the academic world. Auditors who have the competence to commit fraud but still have solid individual morality in themselves will be able to face and maintain a code of ethics. Based on the description, the hypotheses proposed in this study are:

H9. Competence has a positive effect on the perception of fraud tendency by auditors

H10. Competence negatively affects the morality of the individual

Pressure, opportunity, arrogance, rationalization, competence, individual morality, and perception of fraud tendency by auditors

The influence of pressure, opportunity, arrogance, rationalization, competence, organizational culture, and religiosity will affect the morality of each auditor. Junaidi & Ubaidillah (2018) in their research explain the importance of individual morality and the importance of morality because it affects the actions of individuals taken in it. They also state that individuals with high internalized moral norms are less likely to cheat. In contrast, individuals develop opinions on ethical issues according to their innate views on false/correct, opinions about influencing individuals around them, and opinions of others through individual perceptions and experiences in expected outcomes.

Individual morality negatively affects the tendency to accounting fraud. The tendency is due to the conclusion that individuals with a high moral level will be doubtful to engage in fraudulent behavior. Thus proving that the tendency to accounting fraud can be prevented by applying moral knowledge in daily activities (Fernandhytia & Muslichah, 2020).

Based on the description, the hypotheses proposed in this study are:

H11. Individual morality negatively affects the perception of fraud tendency by auditors

H12. Pressure, opportunity, arrogance, rationalization, competence, and morality of individuals affect the perception of fraud tendency by auditors

A research image model can be proposed based on the above hypothesis.



Figure 1:- Conceptual Framework.

Research Methods:-

Sampling and sampling techniques

This study used data analysis with a Partial Least Squares (PLS) approach. Ghozali (2021) stated that the PLS method is used because it has several advantages, among which are being able to test theories with weak data or a small number of samples, or the presence of data normality problems. Although PLS is used to explain whether or not there is a relationship between latent variables (prediction), it can also be used to confirm the theory. PLS analysis consists of two submodels, the measurement model, or the outer model, and the structural model called the inner model (Ghozali, 2021). The measurement model shows the ability of the indicator to measure latent variables, while the structural model shows the relationship or influence between latent variables.

The population in this study were government auditors who worked at the Financial Audit Agency of the Head Office in Jakarta. In this study, the sampling method used was Bartlett's Test method. Based on Bartlett's Test, the number of auditors at the Financial Audit Agency of the Head Office in Jakarta is 4,462 people, so the number of samples used is 115 people as respondents. This follows the research of Dyer & Keating (1980) in Wu & Wong (2003), which mentions that the Bartlett test has an exact critical value for the balanced sample size of some normal populations; Bartlett's test is also very accurate even for petite sample sizes and large population numbers (Wu et al., 2003). The data used in this study are primary; the data is obtained directly from the source. Primary data were obtained through a survey using a list of statements/questions (questionnaires). Each of the questionnaire question items was measured using a five-level Likert scale consisting of highly non-conforming (STS), non-conforming (TS), doubtful (RR), appropriate (S), and highly appropriate (SS).

Variable measurement

The variables in this study consisted of dependent variables and independent variables. The dependent variable is the Perception of Fraud Tendency (Y), defined as the auditor's view of issues about fraud in his professional environment. The question that measures this variable consists of three questions.

Independent variables include pressure, opportunity, rationalization, competence, and arrogance. Pressure (X1) is defined as financial pressure, needs, job targets, and pressure between professionals, which consists of 3 questions. Opportunity (X2) is defined as a loophole for the auditor to cheat due to the weak internal control system for the assigned auditor, which consists of 4 questions. Arrogance (X3) is defined as the attitude of a person who reveals that internal controls, internal policies, and regulations do not apply to him. He felt excluded from the applicable procedures, regulations, and internal controls. Rationalization (X4) is a justification for committing fraud because it is reasonable to do so as long as the act substantially harms no one. Competence (X5) is measured by the skills, knowledge, beliefs, and position of auditors to commit fraud,

Statistical models and tests

Data analysis using descriptive statistics, validity tests, and reliability tests with Cronbach's alpha and moderate regression. The decision of a free variable has a significant effect or is not determined by the magnitude of the probability value. If the probability value (p-value) or sig. Below 5% (A = 0.05), then the free variable is said to have a significant influence. Conversely, if the probability value (p-value) or sig. Above 5% (a = 0.05), the free variable is said to have no significant effect.

Result and Discussion:-

Data Analysis

The research was carried out using primary data, which was obtained using a questionnaire in the form of a list of statements/questions that were distributed online through google form media and distributed to 145 employees with available positions of examiners at the BPKHead Office. The questionnaire was distributed to respondents for approximately 3 (three) weeks, from December 12, 2022, to January 2, 2022.

The obstacle in the distribution of this questionnaire is the time of distribution of the questionnaire; where when the questionnaire is distributed, most auditors are carrying out on-field audit tasks in other entities, so the acquisition of respondents is limited. Below is presented table 1 on the dissemination and return of the research questionnaire.

Overall, the target number of respondents in this study was 140 respondents. The number of questionnaires filled out completely was 115 questionnaires, so 25 questionnaires were not filled out. All questionnaires that have been filled out and sent by respondents can be processed in this study. The response rate was 82% while the remaining 18% did not fill out. The obstacle in the distribution of this questionnaire is the time of distribution of the questionnaire, where when the questionnaire is distributed, most auditors are carrying out on-field audit tasks in other entities so the acquisition of respondents is limited.

From the 115 questionnaire answers collected, an overview of the demographics of respondents was obtained, where in filling out male auditors answered as many as 61 people or 53.04% and female auditors as many as 54 people or 46.96%. Most of the respondents were employees with the position of Young Expert Examiner as many as 64 people or 55.65%, the position of First Expert Examiner as many as 49 people or 42.61%, and the position of Associate Expert Examiner as many as 2 respondents or 1.74%.

Descriptive Statistics

The 115 collected questionnaire answers were tabulated with the aim of data analysis. The tabulated data is the answer from the respondent to each question in the questionnaire, which relates to the variables of pressure, opportunity, arrogance, rationalization, competence, individual morality, and perceptions of fraudtendency. The results of these descriptive statistics are as follows.

The pressure variable (X1) is measured using an instrument consisting of 5 (five) question items. The average respondent's answer was answered at 2 or disagree (TS). For the respondents answer spread, the lowest value is at point 1 and the highest at point 5. The opportunity variable (X2) is measured using an instrument consisting of 5 (five) question items. The average respondent's answer was answered at 4 or agree (S) and 5 or strongly agree (SS). For the respondents answer spread, the lowest value is at point 1 and the highest at point 5. The arrogance variable (X3) is measured using an instrument consisting of 6 (six) question items. The average respondent's answer was answered at numbers 2 or disagree (TS) and 3 or neutral (N). For the respondents answer spread, the lowest value is at point 1 and the highest at point 5. The rationalization variable (X4) is measured using an instrument consisting of 5 (five) question items. The average respondent's answer was answered at 1 or strongly disagree (STS). For the respondents answer spread, the lowest value is at point 1 and the highest at point 5. The competency variable (X5) is measured using an instrument consisting of 5 (five) question items. The average respondent's answer was answered at 3 or neutral (N). For respondent sent answer spread, the lowest value is at point 1 and the highest at point 5. The individual morality variable (Z6) is measured using an instrument consisting of 8 (eight) question items. The average respondent's answer is answered at 4 or agree (S). For the respondents answer spread, the lowest value is at point 1 and the highest at point 5. The perception variable of fraud tendency (Y) is measured using an instrument consisting of 3 (three) question items. The average respondent's answer was answered at 2 or disagree (TS). For the respondents answer distribution, the lowest value is at point 1 and the highest at point 5.

Partial Least Square (PLS) Test Results

In conducting data analysis, this study used the Partial Least Square (PLS) method approach with the help of the SmartPLS 3.2.9 program. The first step is to test the outer model. Convergent validity is evaluated through loading factor values and Average Variance Extracted (AVE) values. Statement items are valid if they have a loading factor value above 0.5. This is because the research is still in the scale development stage. Meanwhile, statement items with a loading factor value below 0.5 will be dropped from the model and not included in the analysis. The results of data processing on the evaluation of convergent validity are known as follows:

- 1. The pressure variable (X1) and opportunity variable (X2) there are 2 (two) questions each that have a loading factor value below 0.5 so 2 (two) questions are issued because they are considered ineligible. So that there are 3 (three) questions each that have the results of the Average Variance Extracted (AVE) validity test that meets the loading factor value above 0.5.
- 2. For the competency variable (X5)there is 1 (one) question that has a loading factor value below 0., so 1 (one) question is issued because it is considered ineligible. So that there are 4 (four) questions have the results of the Average Variance Extracted (AVE) validity test that meet the loading factor value above 0.5.
- 3. The arrogance variable (X3), all question items with as many as 6 (six) questions have a loading factor value above 0.5, and in the rationalization variable (X4), all question items with as many as 5 (five) have a loading factor value above 0.5. So all of these questions have been qualified.
- 4. The individual morality variable (Z), 3 (three) questions have a loading factor value below 0.5 so 3 (three) questions are sued because they are considered ineligible. So that 5 (five) questions have the results of the Average Variance Extracted (AVE) validity test that meet the loading factor value above 0.5.
- 5. The perception variable of fraud tendency (Y), all question items as many as 3 (three) questions have a loading factor value above 0.5. Soall of these questions have been qualified.

The following evaluation of the outer model is the evaluation of the validity of the discriminant. This validity is evaluated by measuring using the Heteroite-Monoroite Ratio (HTMT). A construct is considered to have good discriminant validity if the value criterion of Heteroite-Motonoroit (HTMT) is less than 0.90. From the data processing results, it is known that all values of the Heteroite-Motonoroit (HTMT) each variable i.e. arrogance, competence, individual morality, opportunity, perception of fraud tendency, pressure and rationalization are worth below 0.90 so that conclusions can be drawn to evaluate the validity of the descriptive has met the criteria.

The next test is the evaluation of construct reliability which helps determine the accuracy, consistency, and accuracy of research instruments measuring their constructs. Reliability was evaluated by looking at Cronbach's alpha value, with a criterion of more than 0.70. Then the reliability of the construct is also evaluated with the composite reliability criteria with a value are more than 0.70. From the results of the data process, it is known that there is an unreliable value of Cronbach's alpha, namely in the perception of fraud tendency with a value of 0.599, while the composite reliability has been above 0.70. While the other 6 (six) variables, namely pressure, opportunity, arrogance, rationalization, competence, and morality of individuals have a Cronbach's alpha value above 0.70 and composite reliability value above 0.70 so 6 (six) variables are considered reliable. So it can be concluded that the construct has met the reliability requirements. The following is seen in the summary of table 1 below.

Tuble IF Reliability Test Results.				
Variable	Cronbach's	Conclusion	Composite	Conclusion
	Alpha (A)		Reliability (B)	
Pressure (X1)	0,709	Reliable	0,833	Reliable
Opportunity (X2)	0,735	Reliable	0,829	Reliable
Arrogance (X3)	0,856	Reliable	0,885	Reliable
Rationalization (X4)	0,797	Reliable	0,862	Reliable
Competence (X5)	0,805	Reliable	0,858	Reliable
Individual Morality (Z)	0,944	Reliable	0,957	Reliable
Perception of Fraud Tendency	0,599	Unreliable	0,782	Reliable
(Y)				

Table 1:- Reliability Test Results.

Source: Primary Data processed 2022

After evaluating the outer model, the next step is the evaluation of the structural equation model (inner model), which explains the influence between variables or testing on the research hypothesis, from the results of processing

inner model data with the SmartPLS application version 3.2.9 against data that has passed the outer model prerequisite test. In significance tests with multiple regression models in table 2, for the hypothesis to be accepted, the established significance value (P values) must be less than 0.05, and the t-statistical value must be greater than 1.960. The conclusions in Table 2 are produced as follows:

Table 2:-	Model	Significance	Test	Results.
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Variable	Expected	Т	P Values	es Conclusion	
		Statistics			
Pressure -> Perception of Fraud Tendency	Positive	0,849	0,198	Negative	Rejected
Pressure -> Individual Morality	Negative	0,164	0,435	Negative	Accepted
Opportunity -> Perception of Fraud Tendency	Positive	1,049	0,147	Negative	Rejected
Opportunity -> Individual Morality	Negative	5,439	0	Positive	Rejected
Arrogance -> Perception of Fraud Tendency	Positive	0,352	0,362	Positive	Accepted
Arrogance -> Individual Morality	Negative	1,635	0,051	Positive	Rejected
Rationalization -> Perception of Fraud Tendency	Positive	7,027	0	Positive	Accepted
Rationalization -> Individual Morality	Negative	2,499	0,006	Negative	Accepted
Competence -> Perception of Fraud Tendency	Positive	1,056	0,146	Positive	Accepted
Competence -> Individual Morality	Negative	2,159	0,016	Negative	Accepted
Individual Morality -> Perception of Fraud Tendency	Negative	1,74	0,041	Negatif	Accepted

Source: Primary Data processed 2022

Path Coefficient helps see whether bound variables have a positive or negative effect. If the result is positive, it has a positive effect, and rather; if it is negative, it has a negative effect. This can be seen in the following table.

Path Coefficient	Perceptions of Fraud Tendency	Individual Morality
Pressure	-0,085	-0,02
Opportunity	-0,109	0,493
Arrogance	0,032	0,175
Rationalization	0,523	-0,214
Competence	0,096	-0,209
Individual Morality	-0,179	
	R Square	R Square Adjusted
Individual Morality	0,627	0,603
Perceptions of FraudTendency	0,505	0,468

Table 3:- Path Coefficient and R Square values.

Source: Primary Data processed 2022

From Table 3 above, this study has an R-Square Adjusted value on the Individual Morality Variable of 0.603. This means that the dependent variable can only be explained by the independent variable of 60.3%, while other variables outside this study influence the remaining 39.7%. Similarly, R-Square Adjusted variable perception of fraud tendency is 0.468. This means that the dependent variable can only be explained by an independent variable of 46.8%, while other variables outside this study influence the remaining 53.2%. According to the criteria stated in Ghozali (2021), the R Square value on the individual morality variable of 0.627 and the variable perception of fraud tendency of 0.505 indicate an explanation of the moderate research model.

In significance tests with multiple regression models in table 2, for the hypothesis to be accepted, the significance values set (P values) must be smaller than 0.05 and the t-statistical values must be greater than 1.960. Based on Tables 2 and 3, it can be concluded as follows.

- 1. The test of the influence of pressure variables and perception of fraud tendency has a significance value of 0.198 which means it is greater than 0.05. Similarly, the statistical value is 0.849 which is smaller than 1.960 and has a negative coefficient path of -0.085. From the value of the significance test results, the direct influence of pressure on the perception of fraud tendency was found to be **negative and insignificant**.
- 2. The test of the influence of individual pressure and morality variables has a significance value of 0.435 which means it is greater than 0.05. Similarly, the statistical value is 0.164 which is smaller than 1.960 and has a

negative coefficient path of -0.02. From the value of the results of the significance test, the direct influence of pressure on individual morality was found to be **insignificant**.

- 3. The test of the influence of opportunity variables and perception of fraud tendency has a significance value of 0.147 which means it is greater than 0.05. Similarly, the statistical value is 1.049 which is smaller than 1.960 and has a negative coefficient path of -0.109. From the value of the significance test results, the direct influence of the opportunity on the perception of fraud tendency was found to be **negative and insignificant**.
- 4. The test of the influence of individual opportunity and morality variables has a significance value of 0 which means it is less than 0.05. Similarly, the statistical value is 5.439 which is greater than 1.960 and has a positive coefficient path of 0.493. From the value of the results of the significance test, the direct influence of chances on individual morality was found **to be positively significant**.
- 5. The test of the influence of arrogance variables and perception of fraud tendency has a significance value of 0.362 which means it is greater than 0.05. Similarly, the statistical value is 0.352 which is smaller than 1.960 and has a positive coefficient path of 0.032. From the value of the significance test results, the direct influence of arrogance on the perception of fraud tendency was found to be **positive and insignificant**.
- 6. The test of the influence of individual arrogance and morality variables has a significance value of 0.051 which means greater than 0.05. Similarly, the statistical value is 1.635 which is smaller than 1.960 and has a positive coefficient path of 0.175. From the value of the results of the test of significance, the direct influence of arrogance on the morality of the individual was found to be **positive and insignificant**.
- 7. The test of the influence of rationalization variables and perception of fraud tendency has a significance value of 0.000 which means it is less than 0.05. Similarly, the statistical value is 7.027 which is greater than 1.960 and has a positive coefficient path of 0.523. From the value of the significance test results, the direct influence of rationalization on the perception of fraud tendency was found to be **positive and significant**.
- 8. The test of the influence of individual rationalization and morality variables has a significance value of 0.006 which means less than 0.05. Similarly, the statistical value is 2,499 which is greater than 1,960, and has a negative coefficient path of -0.214. From the value of the results of the test of significance, the direct influence of rationalization on the morality of the individual was found to be **negative and significant**.
- 9. The test of the influence of competency variables and perception of fraud tendency has a significance value of 0.146 which means it is greater than 0.05. Similarly, the statistical value is 1.056 which is smaller than 1.960 and has a positive coefficient path of 0.096. From the value of the significance test results, the direct influence of competence on the perception of fraud tendency was found to be **positive and insignificant**.
- 10. The test of the influence of individual competence and morality variables has a significance value of 0.016 which means it is less than 0.05. Similarly, the statistical value is 2.159 which is greater than 1.960 and has a negative coefficient path of -0.209. From the value of the results of the test of significance, the direct influence of competence on individual morality was found to be **negative and significant**.
- 11. The test of the influence of individual morality variables and perception of fraud tendency has a significance value of 0.041 which means it is less than 0.05. Similarly, the statistical value is 1.74 which is smaller than 1.960 and has a negative coefficient path of -0.179. From the value of the test results the significance of the direct influence of individual morality on the perception of fraud tendency was found to be **negative and insignificant**.

Researchers recalculated the significance test by including the intervening effect so that a multiple regression model was obtained with the results in table 4 below.

Variable	T Statistics	P Values	Conclusion
Pressure -> Individual Morality -> Perception of Fraud Tendency	0,139	0,445	Accepted
Opportunity -> Individual Morality -> Perception of Fraud Tendency	1,62	0,053	Accepted
Arrogance -> Individual Morality -> Perception of Fraud Tendency	1,322	0,093	Accepted
Rationalization -> Individual Morality -> Perception of Fraud Tendency	1,413	0,079	Accepted
Competence -> Individual Morality -> Perception of Fraud Tendency	1,389	0,083	Accepted

Table 4:- Influence of Intervening Variables.

Source: Primary Data processed 2022

Based on Table 4, it can be concluded as follows.

1. The test of the influence of pressure variables on individual morality and perception of fraud tendency has a significance value of 0.445 which means it is greater than 0.05. Similarly, the statistical value is 0.139 which is smaller than 1.960. From the value of the results of the significance test, the direct influence of pressure on individual morality and the perception of fraud tendency was found to have**an insignificanteffect.**

- 2. The test of the influence of opportunity variables on individual morality and perception of fraud tendency has a significance value of 0.053 which means greater than 0.05. Similarly, the statistical value is 1.62 which is smaller than 1,960. From the value of the test results the significance of the direct influenceof opportunity on individual morality andthe perception of fraud tendency was found to have an insignificant effect.
- 3. The test of the influence of arrogance variables on individual morality and perception of fraud tendency has a significance value of 0.093 which means greater than 0.05. Similarly, the statistical value is 1,322 which is smaller than 1,960. From the value of the results of the significance test, the direct influence of arrogance on individual morality and the perception of fraud tendency wasfound to have an insignificant effect.
- 4. The test of the influence of rationalization variables on individual morality and perception of fraud tendency has a significance value of 0.079 which means greater than 0.05. Similarly, the statistical value is 1,413 which is smaller than 1,960. From the value of the results of the significance test, the direct influence of rationalization on individual morality perception of fraud tendency was found **to be insignificant**.
- 5. The test of the influence of competency variables on individual morality and perception of fraud tendency has a significance value of 0.083 which means it is greater than 0.05. Similarly, the statistical value is 1,389 which is smaller than 1,960. From the value of the results of the significance test, the direct influence of competence on individual morality perception of fraud tendency was found to have an insignificant effect.

Overall, the summary of the results of quantitative analysis with the Partial Least Square (PLS) test is as follows.

- 1. The first hypothesis that pressure has a positive effect on the perception of fraud tendency by auditors **is rejected.** The direct influence of pressure on the perception of fraud tendency was found to be negative and insignificant. So that the first hypothesis, is not statistically supported. The average respondent's answer was at 2 or disagree. This means that auditors tend to admit that there is pressure in their work. However, the pressure in the form of time, finances, and competition between professions does not affect the perception of external auditors in committing fraud. Auditors are used to dealing with various work pressures but then do not encourage them to cheat. These results are in line with the research of Said etal., (2017) and contrary to the study (Aghghaleh et al., 2014; Faradiza, 2019; Fitri et al., 2019; Huang et al., 2016).
- 2. The second hypothesis is that pressure negatively affects the morality of the individual **is accepted**. The direct influence of pressure on individual morality was found to be negative but insignificant. In this case, people who have a low level of moral reasoning, when faced with the pressure of high needs, will open up opportunities to commit fraudulent acts.
- 3. The third hypothesis, namely that the opportunity to have a positive effect on the perception of fraud tendency by auditors **is rejected.** Opportunities are defined as opportunities that external auditors can take to act fraudulently when BPK's internal control system is weak for assigned auditors. This weakness is reflected in the BPK quality control system. Based on the results of statistical tests, the direct influence of opportunities on the perception of fraud tendencies was found to be negative and insignificant, meaning that the monitoring system in the form of quality control in the BPK has been running well, so there is little chance for external auditors to commit fraud. These results are in line with the study Aghghaleh et al., (2014); Mintara and Hapsari, (2021) and contrary to those(Said et al., 2017;Utami and Purnamasari, 2021).
- 4. The fourth hypothesis that the chance of negatively affecting individual morality **is rejected.** The direct influence of opportunity on individual morality is found to be positive and significant. This means that when faced with a low internal control system, people who have a low level of morality tends to be tempted to commit fraud.
- 5. The fifth hypothesis is that arrogance positively affects the perception of fraud tendency by auditors **to be accepted.** In this case, there is a direct influence of arrogance on the perception of fraud tendency found to be positive but not significant. Arrogant auditors feel that they are superior and feared enough that it can trigger fraud tendency. The higher the arrogance of auditors, the higher their propensity to cheat. These results are in line with the findings of several studies such as Apriliana and Agustina (2017); Puspita and Yasa(2018) and contrary to those(Pamungkas et al., 2018;Faradiza, 2019).
- 6. The sixth hypothesis that arrogance negatively affects individual morality **is rejected.** The direct influence of arrogance on individual morality was found to be positive but insignificant. This means that the feeling of superiority can cause arrogance or arrogance in oneself and weaken the morality possessed.
- 7. The seventh hypothesis is that rationalization has a positive effect on the perception of fraud tendency by auditors **to be accepted.** The direct influence of rationalization on the perception of fraud tendency was found to be positive and significant. Rationalization is defined as a justification for fraudulent behavior and considers it normal and reasonable to do as long as it does not cause great harm. For example, auditors consider it quite rational when receiving a gift from a client because the gift is a sign that they have provided good service and

that there is no substantial loss from receiving the gift. In this case, it does not necessarily encourage respondents to cheat. These results are in line with the research of Said et al. (2017) and contradict (Apriliana& Agustina, 2017;Faradiza, 2019).

- 8. The eighth hypothesis that rationalization negatively affects the morality of the individual **is accepted.** The direct influence of rationalization on individual morality was found to be negative and significant. This means that auditors are guided by their morality not to justify fraudulent acts.
- 9. The ninth hypothesis is that competence has a positive effect on the perception of fraud tendency by auditors **is accepted.** The direct influence of competence on the perception of fraud tendency was found to be positive but not significant. The competencies defined in this study are related to the skills, knowledge, confidence, and position of external auditors to commit fraud. So that the higher the competence of external auditors, the higher the tendency to commit fraud. These results are in line with the findings from (Apriliana and Agustina, 2017; Puspita and Yasa, 2018; Utami and Purnamasari, 2021).
- 10. The tenth hypothesis is that competence negatively affects the morality of the individual **is accepted.** The direct influence of competence on individual morality is found to be negative and significant. In this case, the higher the competence of the auditor, when he does not have good moral reasoning, it tends to override the code of ethics to cheat.
- 11. The eleventh hypothesis of individual morality negatively affects the perception of fraud tendency to **be accepted**. The direct influence of individual morality on the perception of fraud tendency was found to be negative and insignificant. This means that the higher the level of morality that the auditor has, the more it will prevent the opportunity for the auditor to cheat.
- 12. The twelfth hypothesis of pressure, opportunity, arrogance, rationalization, competence, and individual morality affects the perception of fraud tendency by auditors. In this case, the influence of pressure, opportunity, arrogance, rationalization, and competence has **an influence but is not significant**.

Conclusion:-

This research provides evidence that the five components of pentagon fraud have not been fully proven in predicting the tendency of government external auditors towards fraud in Indonesia. Pressure and opportunity have a negative impact on the perception of fraud tendencies, while arrogance, rationality, and competence have proven to have a positive effect on the perception of fraud tendencies. Thenpressure, rationalization, and competence are shown to negatively impact individual morality, while opportunity and arrogance positively impact individual morality. In addition, 5 (five) variables in fraud pentagon theory, that is pressure, opportunity, arrogance, rationalization, and competence, have been proven to prevent the perception of fraud tendencies. This can be explained because this study is the first study to examine pentagon fraud in the context of behavior in the environment of government external auditors, so the results cannot be compared with previous studies that used proxies in financial statements as predictors of fraud.

This research is inseparable from limitations, a limited number of respondents who are willing to fill out the questionnaire because the auditor is still in the report preparation period and some are still carrying out audit tasks in the field, even though filling out the questionnaire has used Google Form, the implementation schedule is quite busy because the research completion schedule coincides with the busyness of respondents. Subsequent research can expand the scope or increase the number of respondents from other work units so that the results can be generalized as an overall BPK and develop other variables related to behavioral accounting. In addition, the preparation of the questionnaire is still in the development stage, so improvements are needed to improve the validity and reliability of the questionnaires used to produce better and more valuable research.

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