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Research Article

The Impact of Fraud on Financial Statement Fraud : Analysis of The Moderating Roe of The Audit Committee

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Abstract - *This study aims to examine the influence of Fraud Pentagon factors, namely pressure, opportunity, rationalization, competence, and arrogance , on financial reporting fraud , and to analyze the moderating role of the Audit Committee. The study population is companies listed on the SRI-KEHATI Index of the Indonesia Stock Exchange (IDX) in 2020-2024. Using the purposive sampling method, 125 panel data observations were obtained. The data analysis technique used panel data regression. The results of the study indicate that the variables pressure, opportunity, rationalization, and competence have a positive and significant effect on financial reporting fraud. Conversely, the arrogance variable does not have a significant effect. Another important finding is that the Audit Committee has been proven to be successful in significantly moderating (weakening) the influence of pressure, opportunity, rationalization, and competence on financial reporting fraud. This finding emphasizes the importance of strengthening the internal oversight function, especially the role of the Audit Committee, in preventing financial reporting fraud practices in companies committed to the principle of sustainability.*

Keywords - *Pressure, Opportunity, Rationalization, Competence, Arrogance, Corporate Governance.*

I. INTRODUCTION

There Financial statement integrity is a key pillar of investor confidence and capital market stability (Hidayat, 2018). However, cases of fraud in financial reporting continue to be a serious threat to companies worldwide. The Association of Certified Fraud Examiners (ACFE) reports that financial statement fraud is one of the types of fraud with the greatest impact on losses (Shahana et al., 2023). Financial statement fraud, defined as an intentional act to cause material misstatement (AICPA, 2021), not only harms stakeholders financially but also erodes public trust, and can even threaten the sustainability of the company. Therefore, detection and prevention of financial statement fraud are crucial priorities for regulators, capital market players, and company management (Shareef & Rubasundram, 2022). To understand the root causes and patterns of financial reporting fraud, several theories have been developed. Starting from the Fraud Triangle Theory by Cressey (1953) which identified the causes of fraud as pressure, opportunity, and rationalization, then developing into the Fraud Diamond Theory with the addition of capabilities (Oseifuah, 2025), then becoming the Fraud Pentagon Theory which added arrogance (Bader et al., 2024). The development of this theory reflects the complexity of the fraud phenomenon and the need to comprehensively identify the various driving factors.

Although fraud theories have been widely applied, the results of empirical research on the influence of each dimension on financial reporting fraud still show inconsistencies. For example, Khamainy et al. (2022) showed that personal financial needs (which are included in the pressure element) and weak supervisory systems (as a form of opportunity) have a negative influence on the occurrence of fraud in financial reporting. Meanwhile, financial stability factors, external pressure, and financial targets did not show a significant influence. . On the contrary, (Khairi & Alfarisi, 2019) identified that Financial Stability, Rationalization, and Capability (competence) had a positive effect. Likewise, (Taslim, 2024) found a negative impact of Financial Stability and External Pressure, while (Kultsum & Triyatno, 2022) confirmed the positive influence of Financial Stability, Financial

Target, and Pressure. This inconsistency creates a research gap that requires further exploration, especially in the context of different markets and company characteristics.

II. LITERATURE AND METHODS

Corporate governance plays a vital role in preventing fraud (Halbouni et al., 2016). One of the key components of governance is the Audit Committee , which functions as an internal oversight body to ensure the integrity of financial reporting and compliance with regulations (IGA, 2022). The existence of an effective Audit Committee is expected to reduce the chances of fraud through increased supervision and control mechanisms (Primastiwi & Ayem, 2021; Fajriani & Darmayanti, 2022). However, research that specifically examines the moderating role of the Audit Committee in the relationship between the five dimensions of Pentagon Fraud and financial reporting fraud, especially in companies committed to sustainability principles such as members of the SRI-KEHATI Index, is still limited. The SRI-KEHATI company, with an emphasis on the Environmental, Social, and Governance (ESG) aspects, is a good corporate governance with supervision from the Audit Committee. Therefore, it is necessary to test whether the supervisory role of the Audit Committee that carries out supervision remains effective in mitigating the risk of fraud.

This study was conducted as a response to previous research gap research. with the aim of examining how the five aspects of the Fraud Pentagon model affect the practice of financial reporting fraud.", and testing the moderating role of the Audit Committee in companies with a sample of companies listed in the SRI-KEHATI Index of the Indonesia Stock Exchange in 2020-2024. This study is expected to provide empirical contributions and practical implications for management, regulators, and investors in strengthening the fraud prevention system, especially in the sustainability-oriented corporate sector.

Financial Reporting Fraud is an intentional act involving deception to obtain illegitimate gain, often through manipulation, concealment of facts, or presentation of false statements (Damayanti et al., 2024; Ferrell et al., 2005), while according to Prasetyo & Dewayanto, (2024). specifically, financial reporting fraud is defined as an intentional misstatement or omission in financial statements that results in a material misinterpretation of the company's financial condition. These actions can include manipulation of accounting records, falsification of documents, concealment of transactions, or application of inappropriate accounting principles, with the aim of misleading users of financial statements (Meilani et al., 2024).

The development of fraud theory aims to identify the factors that drive fraud. This theory originated from the Fraud Triangle (Cressey, 1953) which describes three elements: pressure, opportunity, and rationalization (Mumpuni & Jatiningsih, 2020). Then, the Fraud Diamond (Wolfe & Hermanson, 2004) added a fourth element, namely capability , which refers to an individual's capacity to commit fraud. The latest development is the Fraud Pentagon, which adds a fifth element, namely arrogance. Mitchell et al. (2024), These five elements form a comprehensive framework for analyzing fraud risk.

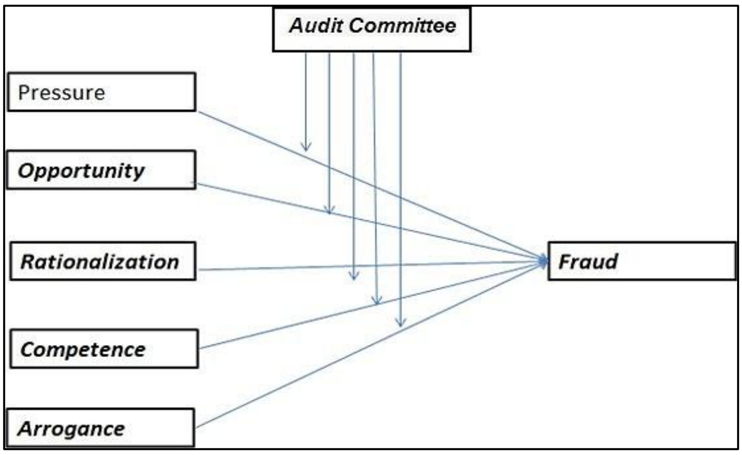

Figure 1. Research Model Concept

Pressure refers to the motivation or need felt by an individual to commit fraud. In the corporate context, pressure can come from unrealistic performance targets, deteriorating financial conditions, or the desire to maintain a positive image. This pressure encourages management to manipulate financial statements to show good performance with promising profitability (Luhri et al., 2021). This study uses a proxy for changes in the company's total assets to measure the financial or operational pressures that management may face. A significant increase or decrease in total assets may indicate pressure to maintain stability or growth that can encourage manipulative actions.

Hypothesis 1: Pressure has a Positive Effect on Financial Reporting Fraud

Opportunity arises when there are weaknesses in the internal control system, lack of supervision, or an environment that allows individuals to commit and conceal fraud without being detected (Kurniawati & Febiolla, 2022). Weaknesses in supervision can provide loopholes for financial statement fraud.

Hypothesis 2: Opportunity has a Positive Effect on Financial Reporting Fraud

Rationalization is a self-justification carried out by fraud perpetrators to believe that their fraudulent actions are acceptable or justified. Auditor changes can be a proxy for rationalization ((Arifah & Efrinal, 2024) & (Arifah & Efrinal, 2024).

Hypothesis 3: Rationalization has a Positive Effect on Financial Reporting Fraud

Competence is a combination of skills, knowledge, and position that a person has to commit complex and difficult-to-detect fraud. Individuals who have a deep understanding of a company's accounting, financial, and operational systems can exploit existing weaknesses or even design sophisticated fraud schemes. Changes in directors can be a proxy for competence. Changes in directors, especially if they involve individuals with less transparent track records or ulterior motives, can open up opportunities for competent individuals to manipulate financial statements or cover up previous practices (Sari et al., 2022).

Hypothesis 4: Competence has a Positive Effect on Financial Reporting Fraud

Arrogance is a privilege that individuals have, so they believe that the rules do not apply to them can overcome the consequences of their fraudulent actions. Arrogant CEOs or management may commit fraud to protect their status, position, or self-image, ignoring ethics and regulations ((Yovita & Suryani, 2024) and (Rizaldi & Shonhadji, 2022) found arrogance to have a significant impact. In this study, arrogance was proxied through the frequency of the appearance of the CEO's image in the annual report, assumed to be an indicator of narcissism or focus on the individual, which can trigger risky behavior.

Hypothesis 5: Arrogance has a Positive Effect on Financial Reporting Fraud

The Audit Committee consists of members of the board of commissioners who are responsible for overseeing the financial reporting process, internal control, and compliance (IGA, 2022). The existence of an effective Audit Committee is believed to be able to reduce financial statement fraud because of its function in increasing supervision and ensuring that management operates in accordance with good governance principles (Rezaee et al., 2003) . The Audit Committee can act as a barrier to opportunistic management behavior (Khamainy et al., 2022) . (Khamainy et al., 2022)

The Audit Committee is expected to act as a moderator in the relationship between the dimensions of Pentagon Fraud and the occurrence of financial reporting fraud, by ensuring that financial and operational pressures are managed ethically, not through manipulative actions, and by implementing strict supervision. The Audit Committee on internal control and accounting systems can close the gap of fraud opportunities, with a culture of integrity and transparent supervision, the Audit Committee can suppress the rationalization of fraudulent behavior. and the Audit Committee can ensure that individual competencies are used for positive purposes and not to design complex fraud. Research by (Amalia et al., 2025) shows that the Audit Committee is able to moderate the effect of pentagon fraud on fraudulent financial reporting. Luhri et al. (2021), (Khofsoh et al., 2023), Kon et al. (2024), Hartono & Mukhibad (2024b), and Kwamboka et al. (2025) also found the role of the Audit Committee in moderating several elements of fraud. Therefore, the following moderation hypothesis is proposed:

Hypothesis 6: The Audit Committee Weakens the Influence of Pressure on Financial Reporting Fraud
Hypothesis 7: The Audit Committee Weakens the Influence of Opportunity on Financial Reporting Fraud
Hypothesis 8: The Audit Committee Weakens the Influence of Rationalization on Financial Reporting Fraud
Hypothesis 9: The Audit Committee Weakens the Influence of Competence on Financial Reporting Fraud
Hypothesis 10: The Audit Committee Plays a Role in Reducing the Influence of Arrogance on Financial Report Manipulation

The selection of this research sample was carried out using the purposive sampling method with several criteria, including; companies listed on the Sri Kehati Indonesia Stock Exchange (IDX) in 2020-2024, companies that consistently publish financial reports during the period 2020 to 2024. Data analysis was carried out using the panel regression method, by testing three models, namely the Common Effect Model, Fixed Effect Model, and Random Effect Model, hypothesis testing.

Table 1. Classification of Companies Included in the Sri Kahati List for 2020-2024

NO	Group	Lots
1	Financial Sector	8 Companies
2	Consumer Goods Sector	7 Companies
3	Infrastructure and Construction Sector	3 Companies
4	Energy and Natural Resources Sector	5 Companies
5	Telecommunications and Technology Sector	2 Companies
6	Transportation and Logistics Sector	3 Companies
7	Health Sector	1 Company
8	Property and Real Estate Sector	1 Company

Source: Jakarta Stock Exchange

III. RESULTS

Table 2. Results of Descriptive Statistical Analysis

Statistic	TF	Pressure	Rationalization	Opportunity	Kesom-bonanza	Compe-tension	Committe e Audit
Mean	0.732	0.176	0.156	-0.012	2.630	0.473	3.034
Max	12.065	6.642	1.000	0.792	4.000	1.000	5.000
Min	-2.259	-0.309	0.000	-1.670	0.769	0.000	2.000
Std. Dev	2.331	0.880	0.366	0.279	0.769	0.001	0.532
Observation	125	125	125	125	125	125	125

Source: processed data, 2025

Table 3. Results of Descriptive Statistical Analysis

Variable	Coefficient	Std. Error	t-statistic	Probability
C (Constant)	1.547929	1.121432	7.44801	0.0000
Pressure	0.271733	0.375766	2.45711	0.0006
Rationalization	0.228786	0.889744	2.03235	0.0043
Opportunity	0.936687	1.171146	4.75231	0.0009
Vanity	0.167231	0.465565	1.35941	0.2371
Competence	0.551849	0.693135	3.74804	0.0009
R-square	0.6693790	Mean d depdt var		0.742916
Adjusted R-squared	0.621799	SD dept var		2.333601
Prob (F-statistic)	0.000000			

Source: processed data, 2025

Based on the estimation results using the Common Effect Model approach as listed in Table 3, a constant value of 1.547 was obtained. Meanwhile, the regression coefficients for each variable are as follows: Pressure of 0.271; Opportunity of 0.937; Rationalization of 0.229; Competence of 0.518; and Arrogance of 0.367.

IV. CONCLUSION

Based on the research findings, it can be concluded that the variables of pressure, opportunity, rationalization, and competence contribute positively and significantly to the increasing risk of fraud. These findings indicate that various internal and external conditions, such as operational or financial pressure, opportunities due to weak supervision, rational justification for fraudulent actions, and high managerial capacity but not accompanied by integrity, also contribute to the possibility of fraud in financial reporting. On the other hand, the element of arrogance that describes the tendency of superiority in managerial decisions, does not show a significant relationship to fraudulent financial reporting. This result indicates that although arrogance is often associated with ethical risk, in the context of companies that uphold the principles of sustainability and social responsibility, its influence tends not to be dominant or can be suppressed through good governance.

This study also reveals that the existence of an Audit Committee (AC) plays a significant role as a moderating variable that can weaken the influence of pressure, opportunity, rationalization, and competence on fraudulent practices in financial reporting. The existence of an effective audit committee contributes to improving internal supervision, strengthening control mechanisms, and creating a transparent, accountable, and highly ethical corporate governance environment. Thus, the audit committee is proven to be an important element in mitigating fraud risks in sustainability-oriented companies. For company management, especially those included in the SRI-KEHATI Index , it is recommended to strengthen internal supervision of factors that can trigger fraud, including in this case the change of directors. A leadership transition process that is not well controlled can open up loopholes for deviations and fraudulent actions. Therefore, the board of commissioners and audit committee need to ensure that every change of management is carried out in a structured manner and refers to the principles of healthy corporate governance. Future research is suggested to expand the population coverage by involving all companies listed on the Indonesia Stock Exchange, so that the findings produced can better represent the real conditions of the business world in Indonesia as a whole. In addition, the addition of independent variables such as external audit quality, organizational culture, and ownership structure can be considered, considering that these factors may have a significant influence on the tendency of financial reporting fraud.

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