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Fraud Pentagon in Detecting Financial Statement Fraud

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ABSTRACT

Objective: *This study aims to analyze the influence of the fraud pentagon elements on financial statement fraud in manufacturing companies within the food and beverage sub-sector listed on the Indonesia Stock Exchange (IDX) during the 2016–2020 period.* ***Method:*** *A quantitative approach was employed using secondary data derived from company annual reports. The sample consisted of 12 companies selected through purposive sampling, resulting in 60 firm-year observations.* ***Results:*** *The findings reveal that the elements of pressure, opportunity, rationalization, competence, and dualism position significantly affect the likelihood of financial statement fraud. In contrast, the frequency of CEO photographs in annual reports was found to have no significant impact.* ***Novelty:*** *This study highlights the critical role of dualism in leadership positions as a contributing factor to fraudulent reporting, offering new insights into corporate governance concerns specific to the Indonesian context. These results underscore the necessity for strengthened monitoring mechanisms and enhanced governance to reduce the risk of fraudulent financial reporting and support the integrity of financial disclosures.*

INTRODUCTION

Indonesia is one of the countries with an economy that relies on the manufacturing sector. Manufacturing companies are businesses that engage in processing raw materials into semi-finished or finished products ready to be marketed to customers [1]. Every company in this case, including manufacturing companies in the food and beverage sub-sector, plays an important role in the economy by providing various basic needs of the community. In carrying out its operations, every company is required to prepare financial statements that reflect their financial condition. This financial report is one of the important instruments prepared in the company because through this report, various financial transactions of the company are systematically documented and can serve as the main source of information for various stakeholders, including managers, employees, investors, the government, and prospective investors [2]. Based on the Financial Accounting Standards Statement (PSAK) issued by the Indonesian Institute of Accountants (IAI), financial statements must meet four main characteristics, namely understandability, relevance, reliability, and comparability.

The information presented in financial statements must be easily understood by users with adequate knowledge, relevant to decision-making needs, reliable because it is free from material errors or misleading information, and comparable across periods or with other companies [3]. Financial statements that meet the specified characteristics can be a reliable tool for assessing company performance, supporting decision-making, and ensuring transparency for all stakeholders [4]. Fraud is an illegal act deliberately committed by individuals or groups to gain personal or specific group benefits, often to the detriment of others. Based on the report by the Association of Certified Fraud Examiners (2018), fraud in the workplace is classified into three main types: asset misappropriation, corruption, and financial statement fraud [5]. Of the three types, asset misuse and corruption are the most common forms of fraud, while financial statement manipulation, although rare, can have very significant impacts when it occurs.

Financial statement fraud is a type of fraud committed by company management by manipulating financial statements, which ultimately harms investors, creditors, and other stakeholders. According to the Association of Certified Fraud Examinations (ACFE-2000), this fraud occurs when a company intentionally presents misleading material information in its financial statements, such as inflating revenue, reducing expenses, or concealing certain liabilities [6]. Companies involved in fraud usually engage in actions such as exaggerating the number of work units or needs in a project, falsifying bill payments to fictitious vendors, replacing or downgrading the quality of materials, personal use of equipment, money laundering, and tax evasion [7]. Fraud can take the form of financial or non-financial misconduct. Financial fraud is directly related to money or company assets, while non-financial fraud involves manipulation of operational processes, contract fraud, or actions that could potentially damage the company's reputation [8]. Both types of fraud can disrupt the financial and operational integrity of the company. Therefore, the company needs to implement an effective internal monitoring and control system to detect and prevent fraud.

The agency theory explains the contractual relationship between the principal (owner or shareholder) and the agent (management or executive) where the principal entrusts the agent to run business operations and make decisions on their behalf. In this relationship, the principal delegates decision-making authority to the agent with the expectation that the agent will act in the best interest of the principal. However, because the agent has control over daily operations and access to more information than the principal, this relationship often leads to potential conflicts of interest, known as the agency problem [9]. One common conflict of interest is the difference in goals between the principal and the agent. Principals tend to want the company to achieve optimal financial performance, such as increased returns on investment and sustainable profit growth. Conversely, agents may be more focused on efforts to maximize their personal compensation, bonuses, or other incentives they receive based on short-term performance, which often leads them to make decisions that conflict with the long-term interests of the principal [10].

The conflict of interest between the principal and the agent often triggers manipulative actions from the agent, such as manipulating financial reports to make them look better than the actual condition. The agent can inflate revenues, reduce costs, or hide liabilities to create the impression of better financial performance in order to obtain higher compensation or achieve performance targets desired by the principal. The practice of manipulating financial statements is a form of fraud that arises from the misalignment of interests between both parties, reflecting the moral hazard in the agency relationship, where the agent acts more in their own interest than in the interest of the principal. Therefore, agency theory becomes very important in business management, as it emphasizes the need for appropriate monitoring and incentive mechanisms to align the interests of the principal and the agent. The company must design contracts, policies, and compensation structures that encourage agents to act in accordance with the principal's long-term goals, while also implementing effective internal control systems and external oversight to minimize the risk of fraud or manipulation [11].

Errors in the presentation of financial statements are often related to fraudulent actions that can be explained through several existing theories, including the fraud triangle, fraud diamond, and fraud pentagon. According to [12], there are three main conditions that drive financial statement fraud, namely pressure, opportunity, and rationalization, known as the fraud triangle. Pressure can come from external or internal factors such as personal financial pressure or excessively high company targets. Opportunities arise when there are weaknesses in the internal control system, which provide a gap for the perpetrator to commit fraud. Meanwhile, rationalization is the justification made by the perpetrator to justify their actions, such as feeling entitled to more or believing that their actions do not harm others.

As time has progressed, the fraud triangle theory has evolved. Wolfe and Hermanson (2004) added a fourth element, namely capability, to the three indicator elements proposed by Cressey; these four elements are known as the fraud diamond. According to them, in addition to pressure, opportunity, and rationalization, a person must also have the ability or competence to effectively commit fraud. This element includes the skills, position, or authority possessed by the perpetrator in accessing information and manipulating the system. Then, Crowe (2011) further refined the theory by adding a fifth element, namely arrogance, which indicates the perpetrator's belief that they will not be caught or feel superior, making the fraudulent act seem legitimate in their eyes. Thus, the fraud model proposed by Crowe, known as the fraud pentagon, includes five indicator elements: pressure, opportunity, rationalization, competence, and arrogance. This model provides a more comprehensive insight into detecting and understanding the factors that influence the occurrence of fraud in financial statements.

The first element in the fraud pentagon that can detect financial statement fraud is pressure. Pressure is the urge experienced by an individual that can trigger someone to commit fraud [13]. This pressure can come from various factors, such as economic demands, lifestyle, or the burden of high performance targets. In the context of a company, pressure can arise when the company's financial condition is unstable or facing significant challenges, leading individuals to feel compelled to manipulate in order to maintain the company's image or gain personal benefits. However, interestingly, pressure can also arise even when the company's finances are stable, for example, due to the desire to maintain good performance or meet the continuously increasing expectations of shareholders. Siddiq et al. (2017) research shows a significant influence of pressure on financial statement fraud. This reinforces the view that pressure plays an important role in triggering fraudulent behavior. However, another study by Novitasari and Chariri (2018) yielded different results, as they did not find a strong relationship between pressure and financial statement fraud. This study shows that other factors such as rationalization or opportunity also need to be considered. The differences in the results of this study indicate the complexity of the relationship between pressure and fraud, thus requiring further analysis to understand how pressure affects fraudulent behavior under various conditions.

The second element in the fraud pentagon that can detect financial statement fraud is opportunity. This opportunity arises when there are weaknesses in the company's internal controls, thus opening the chance for individuals to commit fraud without worrying about being detected [13]. These weaknesses can include ineffective internal controls, management negligence in oversight, or abuse of position and authority by individuals with access to important information. One of the factors that also influences the likelihood of financial statement fraud is the quality of the audit. The higher the quality of the audit applied in the company, the greater the likelihood of detecting fraud because competent and experienced auditors are more capable of identifying indications of fraud in financial statements. The research by Sari and Primasari (2020) supports this view by showing a significant influence between opportunity and the occurrence of financial statement fraud, where the greater the opportunity, the higher the likelihood of fraud occurring. However, contrary to those findings, the research by Ratnasari and Sholikhah (2019) states that opportunity does not always have a direct impact on financial statement fraud. This indicates that other factors such as pressure or rationalization may also influence a person's decision to commit fraud. These differing results reflect the complexity of the relationship between opportunity and fraud, as well as the importance of quality internal controls and audits to prevent the occurrence of financial statement fraud.

The third element in the fraud pentagon is rationalization, which is the justification made by individuals to convince themselves that their fraudulent actions are not violations [13]. In the context of financial statement fraud, perpetrators often seek justification for their actions, for example, by thinking that the fraud is necessary for the company's interests or is only temporary. One of the factors that can influence the occurrence of financial statement fraud is the change of auditors. The more often a company changes auditors, the greater the likelihood of fraud occurring because such changes can create gaps or inconsistencies in oversight [14]. Siddiq et al. (2017) support the influence of rationalization on financial statement fraud, while Haqq and Budiwitjaksono (2020) argue the opposite, indicating that the impact of rationalization can vary depending on the situation and other factors involved.

The fourth element in the fraud pentagon is competence, which refers to an individual's ability to bypass internal control systems, devise concealment strategies, and manipulate social situations for personal gain [15]. In the context of financial statement fraud, this competence enables individuals to execute fraudulent actions cleverly and systematically [16]. One of the conditions that trigger fraud is a change in management. The change of directors can open opportunities to cover up fraud committed by the previous directors or create gaps in accountability that can be exploited to commit fraud. This change may reflect competence in concealing fraud, as it would not be possible without specific expertise. Siddiq et al. (2017) support the view that competence has a significant impact on financial statement fraud, although Novitasari and Chariri (2018) show different results, illustrating that the relationship between competence and fraud can vary depending on the context and situation.

The fifth element in the fraud pentagon is arrogance, which is a dominant and superior attitude where individuals feel that internal control rules and company policies do not apply to them [15]. This arrogance is often seen in executives who are excessively confident, such as CEOs who overly showcase themselves, like frequently appearing in the company's annual reports, which can reflect their sense of superiority. That arrogance can drive them to ignore rules and commit financial fraud. Siddiq et al. (2017) found that arrogance has a significant influence on the occurrence of financial statement fraud. However, the research by Pratiwi and Nurbaiti (2018) argues the opposite, indicating that the impact of arrogance on fraud may depend on other factors within the company.

The update in this research is the addition of the dualism position proxy variable to the arrogance element in the fraud pentagon theory. This study aims to detect financial statement fraud occurring in manufacturing sector companies in the food and beverage sub-sector listed on the Indonesia Stock Exchange (IDX) during the period 2016-2020 by using the fraud pentagon as an influencing factor. By analyzing data from companies in the food and beverage sub-sector during that period, this research is expected to provide deeper insights into how fraud characteristics can be identified and prevented.

Companies with stable financial conditions attract investors and creditors to invest, so management works hard to maintain that stability [17]. However, the pressure to show good financial performance can drive managers to make various efforts, including manipulating financial statements, in order to maintain the company's image. In this situation, managers may feel compelled to engage in earnings management to create the impression that the company remains in a stable condition. Siddiq et al. (2017) support this view, stating that financial stability has a significant influence on the likelihood of financial statement fraud occurring.

H1: Pressure with financial stability proxies affects financial statement fraud.

Audit quality is the auditor's ability to detect and report the results of the auditing process. The ability to detect deviations in accounting policies is greatly influenced by the expertise possessed by the auditor. The determination of the quality of external auditors is conducted during the selection of audit services at public accounting firms designated by the company, such as public accounting firms that are part of the BIG 4 and Non-BIG 4. Whereas the BIG 4 accounting firms have human resources capable of detecting financial statement fraud compared to Non-BIG 4 public accountants [18]. The explanation is supported by research conducted by Sari and Primasari (2020) which states that audit quality affects financial statement fraud.

H2: The opportunity with audit quality proxies affects financial statement fraud.

Rationalization is a concept used to justify fraud that will occur or has already occurred. Almost all fraud is motivated by the desire to act rationally. Rationalization will continue to occur when there are repeated audit failures. Rationalization can be measured using the proxy of auditor turnover or change within the company [19], because of the frequent occurrence of audit failures, management desires a change of auditors on the grounds that the new auditor still does not understand the overall condition of the company. This explanation is supported by research conducted by Siddiq et al., (2017) which states that auditor change has a significant impact on financial statement fraud.

H3: Rationalization with auditor change proxy affects financial statement fraud.

Competence is an individual's ability within a company to provide opportunities for committing fraud. According to Wolfe and Hermanson (2004), changes in the board of directors manifest as a conflict of interest. Changes in the board of directors are one of the main driving factors behind financial statement fraud, as the impact of these changes is the management's effort to improve the previous board's performance by altering the company's organizational structure or recruiting new directors who are believed to have better capabilities than the previous directors [20]. The explanation is supported by research conducted by Siddiq et al. (2017) that director changes influence the detection of financial statement fraud.

H4: Competence with the proxy of directors' change affects financial statement fraud.

Arrogance is a characteristic of someone who feels that they have power over everything in the company. This character can lead someone to dare to commit fraud because they assume that internal controls and regulations enforced in the company do not apply to them[21]. According to Crowe (2011) in [20] frequent number of CEO’s is the number of portrayals of a CEO in a company by displaying the CEO's profile photo and/or other information about the CEO's track record that is repeatedly shown in the company's annual report. Research conducted by Siddiq et al., (2017) revealed that the frequent number of CEO's has an effect or influence in detecting financial statement fraud.

H5: Arrogance with the proxy of the frequent number of CEO's pictures affects financial statement fraud.

Dualism position is related to agency theory, which explains that if the CEO or directors hold more than one position, they will use their power for their own benefit. This condition will result in a low supervisory function within the company, which will be exploited by certain parties to commit fraud, thereby increasing the conflict of interest between the agent and the principal [22]. The study conducted by Darmawan et al., (2021) states that dualism position affects financial statement fraud.

H6: Arrogance with dualism position proxy affects financial statement fraud.

Here is the research framework related to the pentagon fraud in detecting financial statement fraud:

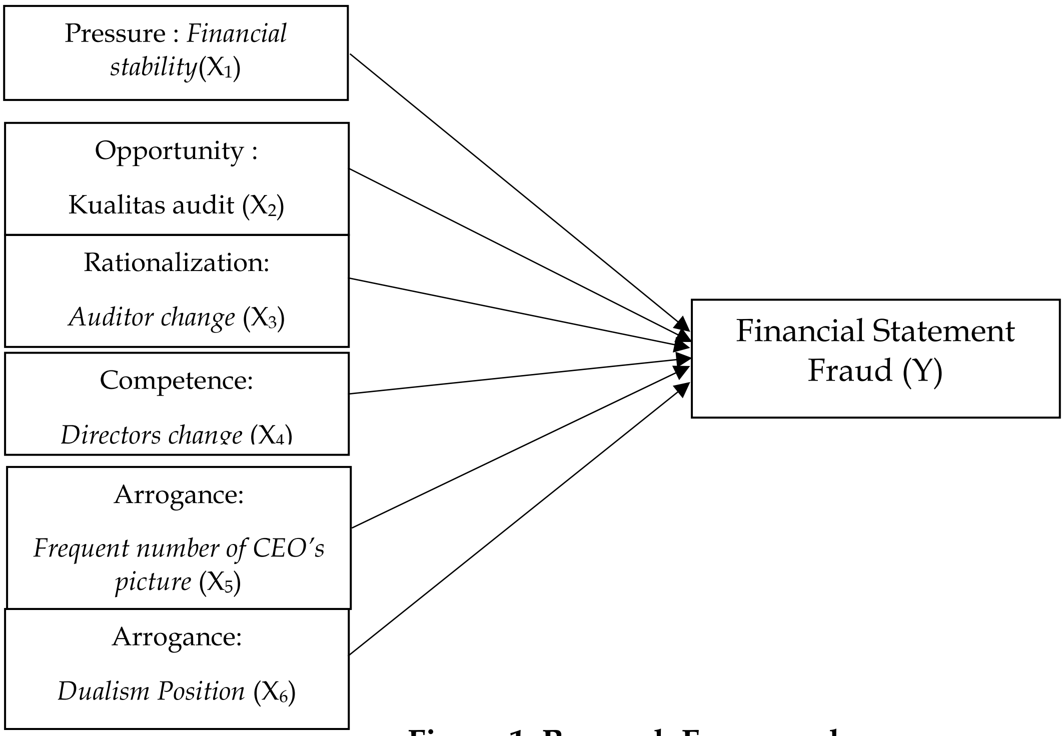

Figure 1. Research Framework
Source: Research Data, 2022

RESEARCH METHOD

This research uses a quantitative approach with the data being secondary data in the form of the company's annual report sourced from the UMSIDA Stock Exchange Gallery and the official website of PT Bursa Efek Indonesia (BEI)/ www.idx.co.id. The population of this study includes all manufacturing companies in the food and beverage sub-sector listed on the IDX during the period 2016-2020. The research sample was selected using purposive sampling techniques, resulting in 12 companies that met the criteria as research samples in accordance with the established criteria. The criteria that have been determined are as follows:

Table 1. Sample Selection Criteria

Sample Criteria	Number of Companies
1. Manufacturing companies in the food and beverage sub-sector that were not delisted from the Indonesia Stock Exchange during the research period	26
2. Manufacturing companies in the food and beverage sub-sector that published annual reports during the research period.	12
3. Using data related to the variables used in the research comprehensively (all the data needed by the researchers is available in publications from the period 2016-2020).	12

Sample Criteria	Number of Companies
Total Sample Used (12 Companies × 5 years)	60

Source: Research Data, 2022

The independent variables used in this study include several factors represented by certain proxies. Pressure is measured through the proxy of financial stability, which is measured by the asset change ratio, while opportunity is measured through the proxy of audit quality using Return on Assets (ROA). Rationalization is represented by the auditor change proxy, measured using a dummy variable, while competence is measured by the directors change proxy, also using a dummy variable. Arrogance is analyzed through two proxies: the number of CEO photos (frequent number of CEO's picture) to measure the CEO's presence in company publications, and dualism position, which is measured using a dummy variable indicating whether the CEO holds another position in the company.

The dependent variable used in this study is financial statement fraud, which is measured using earnings management proxies. Earnings management is calculated through discretionary accruals, which are the difference between total accruals (TAC) and non-discretionary accruals (NDACC). The modified Jones model is used to calculate these discretionary accruals, which allows for more accurate detection of earnings management practices. Thus, this study examines how various internal and external factors of the company can influence the occurrence of financial statement fraud through earnings management mechanisms. The calculation of discretionary accrual (DAit) can be calculated using the following formula:

DAit = TACit/Ait – NDAit

Explanation:

DAit : *Discretionary accrual* pada perusahaan i di tahun t

NDAit : *Non discretionary accrual* pada perusahaan i di tahun t

TACit : Total akrual pada perusahaan i di tahun t

Data analysis in this study was conducted using descriptive statistical tests and classical assumption tests to ensure the quality and validity of the research results. Descriptive statistical tests are used to provide an overview of the distribution and characteristics of the data, while classical assumption tests, including data normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test, aim to examine whether the data meet the requirements for linear regression analysis. The normality test aims to ensure that the data used is normally distributed, while the multicollinearity test is conducted to check whether there is a strong relationship between independent variables that could affect the regression results. The autocorrelation test is used to detect the presence of correlation among residuals, and the heteroscedasticity test ensures that the variability of residuals is consistent across all observations.

This research uses SPSS software as a tool to test the relationship between these variables. The independent variables in this model include proxies of the pentagon fraud elements, namely pressure, opportunity, rationalization, competence, and arrogance. The dependent variable measured is financial statement fraud, using earnings management proxies measured through discretionary accrual. The regression model applied in this study is as follows:

$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + e$

Description:

Y : Financial Statement Frauda
a : Constant
b : Regression Coefficient
X_1 : Pressure (*Financial Stability*)
X_2 : Opportunity (Kualitas Audit)
X_3 : Rasionalisasi (*Auditor Change*)
X_4 : Kompetensi (*Directors Change*)
X_5 : Arogansi (*Frequent Number of CEO's Picture*)
X_6 : Arogansi (*Dualism Position*)
e : *Error Term*

RESULTS AND DISCUSSION

Results

Descriptive statistics provide an overview or description of data based on minimum, maximum, mean, and standard deviation values. The results of the descriptive statistical test are shown in Table 2.

Table 2. Results of Descriptive Statistical Test

	N	Minimum	Maximum	Mean	Std. Deviation
X1	60	-.86	8.75	10.2545	1.15221
X2	60	.20	551.10	53.1653	151.85292
X3	60	0	1	40.53	.503
X4	60	0	1	50.22	.415
X5	60	.00	1.95	.7978	.59867
X6	60	0	1	5.13	.343
Y	60	-.95	.72	.8923	.46285
Valid N (listwise)	60				

Source: Research Data, 2022

Table 2 explains that pressure with the financial stability proxy (X1) has an average value of 10,2545 and a standard deviation of 1,15221. Opportunity with the audit quality proxy (X2) has an average value of 53,1653 and a standard deviation of 151,85292. Rationalization with the auditor change proxy (X3) has an average value of 40,53 and a standard deviation of 0,503. Competence with the proxy directors change (X4) has an average value of 50,22 and a standard deviation of 0,415. Arrogance with the proxy frequent number of CEO's picture (X5) has an average value of 0,7978 and a standard deviation of 0,59867. Arrogance with the dualism position proxy (X6) has an average value of 5,13 and a standard deviation of 0,343. Financial statement fraud with the earnings management proxy (Y) has an average value of 0,8923 and a standard deviation of 0,46285.

The classical assumption tests consist of normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test. The normality test in this study used the One-Sample Kolmogorov-Smirnov test, and the Asymp. Sig. (2-tailed) value obtained from the test results was greater than 0,05, indicating that the data residuals are normally distributed. The multicollinearity test of this study shows that all variables have a tolerance value ≥ 0,10 and a VIF value ≤ 10, indicating that there are no variables in the regression model that exhibit multicollinearity. The autocorrelation test of this study shows that the Durbin-Watson value is 2,357, where the DW value is between 1,55 and 2,46, indicating that the autocorrelation test results state that there is no autocorrelation problem in the data of this study. Figure 2 shows the results of the heteroscedasticity test in the form of a scatterplot, where the points are randomly scattered both above and below the number 0 on the Y-axis. Therefore, it can be concluded that there is no heteroscedasticity in the regression model used.

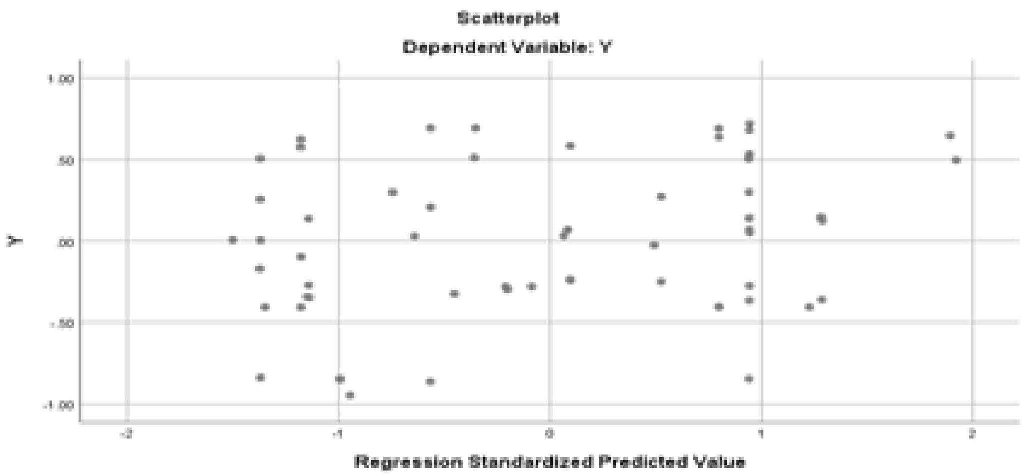

Figure 2. Heteroskedasticity Test Results
Source: Research Data, 2022

Table 3. Results of Multiple Linear Regression Analysis

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.113	.106		1.062	.293
	X1	.160	.055	-.004	20.029	.007
	X2	.600	.001	-.129	5.635	.010
	X3	.309	.208	-.336	5.487	.003
	X4	.500	.172	.045	6.292	.002
	X5	.598	.186	.077	.321	.749
	X6	.128	.196	.095	7.652	.007

Source: Research Data, 2022

Table 3 shows the results of the multiple linear regression analysis, so the calculation of the multiple linear regression equation is as follows:

$$Y = 0{,}113 + 0{,}160X1 + 0{,}600X2 + 0{,}309X3 + 0{,}500X4 + 0{,}598X5 + 0{,}128X6 + e$$

Based on the t-test results, the pressure variable measured using the financial stability proxy shows a significance value of 0,007 < 0,05, thus H1 is accepted. This means that pressure through the company's financial instability significantly affects the occurrence of financial statement fraud. Companies with stable financial conditions tend not to commit fraud, while companies experiencing financial instability face pressures that can trigger earnings management practices to present financial statements that look better. In an effort to achieve profits or maintain the company's image, management can utilize certain accounting policies, such as increasing or decreasing asset values using fair value mechanisms or market capitalization [18]. This research aligns with the findings of Siddiq et al. (2017), which indicate that financial stability has a significant impact on financial statement fraud, where financial instability often triggers earnings management to cover up the company's weaknesses.

Based on the t-test results, the opportunity variable measured through the audit quality proxy shows a significance value of 0,010 < 0,05, thus H2 is accepted. This indicates that audit quality has a significant impact on financial statement fraud. The quality of the audit is very important in producing accurate and reliable financial statements. This serves as the basis for decision-making by stakeholders [23]. The selection of high-quality auditors, such as auditors from the Big 4 Public Accounting Firms (KAP), is considered more capable of detecting financial statement fraud compared to auditors from Non-Big 4 KAP. The higher the quality of the audit, the greater the likelihood that the auditor will detect fraud, thereby reducing the risk of financial statement fraud [24]. This research is supported by the findings of Sari and Primasari (2020), which show that audit quality has a significant impact on the level of financial statement fraud and emphasizes the importance of a competent auditor's role in maintaining the integrity of financial statements.

Based on the t-test results, the rationalization variable measured using the auditor change proxy shows a significance value of 0,003 < 0,05, thus H3 is accepted. This indicates that auditor rotation has a significant impact on financial statement fraud. Changing auditors often becomes a strategy for companies to hide or eliminate traces of fraud that have been discovered by previous auditors, as revealed by [18]. The more frequently a company changes auditors, the greater the likelihood of financial statement manipulation to cover up discrepancies. This research is supported by the findings of Siddiq et al. (2017), which affirm that the rationalization variable in this case, auditor changes, has a significant impact on the tendency for financial statement fraud.

Based on the t-test results, the competency variable measured through the proxy of directors change shows a significance value of 0,002 < 0,05, thus H3 is accepted. This indicates that changes in the board of directors have a significant impact on financial statement fraud. Changes in the board of directors often drive fraud because the transfer of responsibility to the new board members creates the potential to conceal fraud committed by the previous board if the transition is not carried out according to regulations [18]. Furthermore, changes in the board of directors are usually not made without strong reasons, and the individuals replacing the directors are expected to have adequate competence. However, this condition can also indicate the presence of fraudulent practices in financial statements [25]. This research is supported by the findings of Siddiq et al. (2017), which state that the competency variable through changes in the board of directors has a significant impact on the likelihood of financial statement fraud.

Based on the t-test results, the element of arrogance measured through the proxy of the number of CEO photos in the annual report (frequent number of CEO’s picture) shows a significance value of 0,749 > 0,05, thus H5 is rejected. This indicates that the number of CEO photos does not have a significant impact on financial statement fraud. The purpose of including the CEO's photo in the annual report is more about introducing the CEO to stakeholders and demonstrating the CEO's participation in the company's activities, rather than being an indicator of arrogance or potential fraud. By showcasing the CEO's activities, the annual report allows stakeholders and the public to assess the CEO's commitment and responsibility in running the company [25]. This research is in line with the findings of Pratiwi and Nurbaiti (2018), who also stated that the frequency of CEO photo appearances in annual reports does not affect financial statement fraud.

Based on the t-test results, the element of arrogance measured through the dualism position proxy shows a significance value of 0,007 < 0,05, thus H6 is accepted. This indicates that dualism position significantly affects financial statement fraud. Dual roles, especially by the CEO, can lead to ineffective work and create opportunities for fraud. When the CEO holds multiple positions, oversight of the company's activities can weaken. This will provide opportunities for managers or other parties to commit fraud without adequate supervision [26]. This study is in line with the findings of Darmawan et al. (2021), who also state that dual positions have a significant impact on increasing the risk of financial statement fraud because this situation creates weaknesses in internal control and corporate supervision.

CONCLUSION

Fundamental Finding : This study concludes that several elements of the fraud pentagon—specifically pressure (proxied by financial stability), opportunity (audit quality), rationalization (auditor change), competence (directors change), and arrogance (dualism position)—have a significant influence on financial statement fraud in food and beverage manufacturing companies listed on the IDX. In contrast, the frequent appearance of the CEO's picture, as a proxy for arrogance, showed no significant effect. **Implication :** These findings emphasize the critical need for companies to strengthen internal controls and governance mechanisms, particularly in managing leadership roles and audit quality, to mitigate fraudulent financial reporting. **Limitation :** The study is limited to a single industrial sector and relies solely on secondary quantitative data, which may not capture the full complexity of organizational behavior related to fraud. **Future Research :** Future studies are encouraged to expand the scope across different sectors, incorporate diverse proxies for each fraud pentagon element, explore the role of moderating variables, and employ qualitative approaches such as interviews or case studies to provide a more nuanced and holistic understanding of financial statement fraud.

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