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64 # Determinants of Financial Statement Fraud: An Empirical Analysis Based on the Fraud Star Theory in Indonesia

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interrogates determinants underpinning financial statement fraud through the analytical prism of Fraud Star Theory, with particular emphasis on issuers operating
34 of . Employing a purposive sampling design, the investigation encompasses 71 eligible firms and yields 213 firm-year observations over the 2021–2023 observation horizon. Hypothesis verification is undertaken through panel-data estimation facilitated by EViews 12, enabling an empirical assessment of the extent to which the constituent dimensions of Fraud Star Theory are associated with
26 fraudulent financial reporting. The empirical evidence indicates that exerts statistically association with implying disturbances or fluctuations in a firm's financial equilibrium may heighten managerial susceptibility to fraudulent reporting practices. Conversely, auditor succession, directorial turnover, and corporate integrity exhibit statistically significant inverse relationships with fraudulent financial reporting, signifying their potential function as constraining mechanisms against opportunistic reporting behaviour. In contrast, financial targets and ineffective monitoring fail to demonstrate statistically discernible effects on fraudulent financial reporting within the observed sector. Subsequent scholarship is encouraged to transcend the present analytical framework by juxtaposing alternative fraud theories and extending empirical inquiry toward other manifestations of occupational fraud, particularly asset misappropriation and corruption.

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INTRODUCTION

In recent years, instances of corporate misconduct have shown an upward trend among companies listed on the Indonesia Stock Exchange (IDX), with fraudulent financial reporting representing one of the most concerning forms. Accounting fraud refers to the intentional distortion or manipulation of financial information through the improper application of accounting standards or principles, which may ultimately lead to financial statements that provide materially inaccurate or misleading information (Jimenez Serrano et al., 2025;Zainal et al., 2021). According to the Association of Certified Fraud Examiners (ACFE, 2019), corporate fraud remains a pervasive issue within the Indonesian economy, ranking 85th out of 180 countries, accounting for 69.9% of corruption, with losses totalling IDR 373.65 billion. This was followed by asset misappropriation at 20.9% with losses totalling IDR 257.52 billion, and financial statement fraud at 9.2% with losses totalling IDR 242.26 billion. Furthermore, the ACFE (2022) categorises occupational fraud into three main classifications, which encompass the misappropriation of organizational assets, corrupt practices, and fraudulent manipulation of financial reporting.

Suddenly, the increasing on financial reporting scandas in Indonesia proofed by moving on fraudulent financial reporting in the non-cyclical consumption sector on IDX listed. A prominent case involves PT Tiga Pilar Sejahtera Food Tbk (AISA), which faced severe financial distress following the discontinuation of its "IBU" products. This turmoil led to financial difficulties and the cessation of operations for three subsidiaries on 1 December 2017. In 2017, AISA's rice sales revenue decreased dramatically to IDR 2.49 trillion, representing a significant decrease of approximately 39% compared to the IDR 4.10 trillion reported in 2016. This drastic decline was primarily attributed to the "adulterated rice" (*Oplosan*) incident that surfaced in late 2017. Furthermore, during this period, the company failed to generate revenue from the agribusiness division, specifically crude palm oil, fresh fruit bunches, and palm kernels. This stands in contrast to 2016, when the agribusiness sector contributed IDR 36.9 billion to the company's total revenue (Wareza, 2019). Subsequently, the company's management faced criminal sanctions from the Bekasi District Court and complied with the court's decision.

The development of fraud theory reflects continuous efforts to better explain the factors that drive fraudulent behavior within organizations. Donald Cressey was among the first scholars to develop a conceptual explanation of fraudulent behavior through the theory of Fraud Triangle. As research progressed, this model was extended by David T. This theory recommended about moving on fraudulent are seems to increasing when there are three fundamental conditions coexist, which is financial or another form pressure, chance to done fraud, and rationalization done by individual to argument their acts (Rasheed et al., 2023). Wolfe and Dana R. Hermanson through the Fraud Diamond Theory, which introduced an additional element, namely capability, emphasizing that individuals must equipped skills that needed, position, and driver to implement acts on fraudulent with success ways (Ozcelik, 2020). Subsequently, Georgios L. Vousinas proposed the Fraud Hexagon Theory, expanding the model by incorporating two additional elements—ego or arrogance and collusion—thereby providing complicated and completed definition of fraud in modern way inside organizational setting where misconduct may involve multiple actors and leadership characteristics (Saikhu et al., 2025). More recent developments have led to the urgency of theory in fraud star, which further enriches the framework by incorporating the dimension of integrity or individual ethical values as a critical factor influencing whether individuals engage in or refrain from fraudulent behavior (Monteverde, 2021). Overall, the evolution of fraud theory demonstrates a shift from a relatively simple individual-centered perspective toward a more comprehensive framework that integrates capability, social interaction, and ethical integrity in explaining fraudulent activities within organizations (Amar et al., 2022; Gkegkas et al., 2025; Soltani et al., 2023).

Building on this case, the criminal sanctions imposed on AISA's management highlight the urgent need for robust mechanisms to detect fraudulent financial reporting at an early stage. The timely identification of fraud on company reporting focusing on financial is a fundamental concern for safeguarding stakeholders' interests and preserving the reliability of information disclosed in capital markets. Accordingly, this research using fraud star theory to become the principals framework on theoretical to scanning the drivers which pushing the happening of fraud in financial statement. The framework extends the conceptual development of earlier fraud theories, building upon the Fraud Triangle proposed by Donald Cressey and subsequently expanded through the Fraud Diamond framework formulated by David T. Wolfe and Dana R. Hermanson, by incorporating additional dimensions that capture behavioral and ethical aspects influencing fraudulent behavior. Rather than viewing fraudulent conduct through a limited set of contributing factors, the Fraud Star framework adopts a broader explanatory approach by considering five interrelated conditions: pressure, opportunity, rationalization, capability, and integrity. The inclusion of these dimensions allows the framework to capture both the circumstances that facilitate fraudulent behaviour and the individual characteristics that may influence an entity's propensity to engage in such misconduct. Despite its conceptual advantages, empirical studies applying the Fraud Star framework remain relatively limited and show inconsistent findings. Several studies suggest that pressure and opportunity are the dominant factors influencing fraudulent financial reporting, whereas other studies highlight the importance of managerial capability and ethical integrity in facilitating or preventing fraudulent behavior. In addition, empirical evidence focusing on the Consumer Non-Cyclical sector remains scarce, particularly in the context of the post-pandemic economic environment during the 2021–2023 period. This gap indicates the need for further empirical investigation to better understand how the dimensions of the Fraud Star framework operate within specific industrial contexts.

Against this backdrop, the present investigation seeks to identify and empirically assess the factors associated with fraudulent financial reporting by operationalizing the five constituent dimensions of the Fraud Star framework through their respective measurement proxies. The study offers two principal forms of scholarly contribution. The first concerns the contextual expansion of Fraud Star Theory by applying its framework to firms classified within the Consumer Non-Cyclicals sector of the Indonesia Stock Exchange over the 2021– 2023 observation period, an empirical setting that remains relatively underexplored in existing scholarship. The second contribution pertains to the operationalization of the integrity construct. Unlike prior studies that have frequently represented integrity through relatively limited indicators, this research employs a more nuanced proxy intended to capture managerial integrity more comprehensively within the Fraud Star perspective. Through these contributions, the study is expected to enrich the empirical discourse surrounding financial statement fraud and enhance the analytical utility of fraud-risk assessment frameworks. Beyond its theoretical relevance, the evidence generated may also assist regulatory authorities, auditing professionals, and corporate governance stakeholders in formulating more robust approaches to identifying and mitigating the early indications of fraudulent financial reporting.

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[illegible] talks about connection on principals and agents, when principals give trust [illegible] some decisions about the company and give responsibility on daily operational to swap function from principals. The theoretical foundation was established by Jensen and Meckling (1976) and subsequently discussed by Puspitha and Yasa (2018), highlighting the possibility of divergent interests between the two parties because agents may not consistently pursue outcomes that are aligned with the objectives of principals. Within a corporate environment, shareholders represent the principals, while managers function as agents who are entrusted with the authority to utilize company resources and oversee its operational activities. Nevertheless, variations in goals, attitudes toward risk, and the distribution of information can generate agency conflicts. Managers, for instance, may be inclined to pursue individual interests, including higher remuneration, employment stability, or professional reputation, rather than focusing exclusively on enhancing shareholder wealth (Lopes et al., 2025a). The potential for such conflicts becomes more pronounced under conditions of information asymmetry, as managers generally have greater access to and understanding of the company's internal performance and financial circumstances than external stakeholders. Within the content of company reporting focusing on financial, suggestion from agency theory is managers should be given incentives so they wouldn't done fraud which is manipulated financial reporting into favourable performance outcimes and achieve the targets on financial, escape from negative reactions from market, also guarding their positions within the organization. Such behaviour may arise when managers attempt to meet financial targets, avoid negative market reactions, or protect their positions within the organisation. Consequently, mechanisms such as corporate governance structures, external audits, and monitoring by boards of directors are introduced to mitigate agency conflicts and reduce opportunistic managerial behaviour (Al-Faryan, 2024; Biduri & Tjahjadi, 2024; Devi, 2024). Effective monitoring and control systems are therefore essential to align managerial actions with shareholder interests and to make sure the real and reliability of report from company focus on financial. In this regard, agency theory provides an important theoretical foundation for understanding the motivations underlying financial statement fraud, particularly in situations where managerial incentives, performance pressures, and weak monitoring mechanisms interact to create opportunities for opportunistic reporting behaviour.

Fraud Triangle Theory

(Cressey, 1953) explained that fraud triangle identifies pressure, opportunity, and rationalisation as core fraud drivers, while (Wolfe & Hermanson, 2004) extend this model by adding capability. These models assume that opportunity is constrained by internal control systems and external oversight. In Indonesia, however, ineffective monitoring, limited audit independence, and regulatory tolerance may expand opportunities beyond those predicted by classical models. Consequently, fraud elements that are theoretically distinct may interact differently under weak enforcement conditions, reducing the explanatory.

Fraud Diamond Theory

The Fraud Diamond framework emerged as a further development of the Fraud Triangle model, incorporating an additional dimension known as capability. Introduced by Wolfe and Hermanson (2004), this expanded framework argues that fraudulent acts are not solely driven by pressure, opportunity, and rationalization, but also depend on the perpetrator's ability to initiate, implement, and conceal the fraudulent scheme. Thus, the model comprises four interconnected dimensions: pressure, opportunity, rationalization, and capability. Nevertheless, the use of the Fraud Diamond framework is often treated as a universal assumption, implicitly assuming that internal controls, legal sanctions, and monitoring mechanisms function effectively across institutional settings. In emerging markets such as Indonesia, differences in institutional enforcement—including uneven regulatory oversight, limited auditor independence, and variable governance quality—may alter the role of capability in facilitating fraud. Under weaker enforcement conditions, individuals with authority and access may exploit governance gaps more easily, thereby amplifying the influence of capability beyond what is predicted by the original model. Therefore, the explanatory power of the fraud diamond theory in Indonesia should be understood as context-dependent rather than universal, requiring empirical examination that accounts for institutional enforcement differences.

Fraud Star Theory

Fraud Star Theory integrates earlier fraud models by incorporating integrity as a constraint on fraudulent behaviour that operates through both moral and governance-based mechanisms (Siahaan, Umar, & Purba, 2019). Integrity is commonly defined as ethical commitment and professional competence (Eksandy & Sari, 2022), reflecting an individual's internalised moral values. However, (Bakri et al., 2015) emphasise that integrity is also shaped by external enforcement mechanisms, such as rewards and punishments, which discipline behaviour within organisational settings. Accordingly, this study conceptualises integrity not as a purely individual moral trait, but as an institutionalised ethical control embedded within corporate governance structures.

This conceptualisation underpins the measurement logic adopted in this study. Direct observation of individual moral values is empirically infeasible in archival research; therefore, integrity is operationalised through observable organisational mechanisms that translate ethical expectations into enforceable behavioural constraints. Reward–punishment systems serve as formal instruments through which organisations codify ethical standards, incentivise compliant behaviour, and sanction misconduct. In this sense, the presence and consistency of reward–punishment mechanisms indicate the extent to which integrity is not merely espoused, but actively enforced within the organisation. This distinction is particularly important in emerging markets such as Indonesia, where institutional enforcement varies substantially across firms and sectors. In contexts characterised by weak regulatory oversight, limited sanction severity, and symbolic governance compliance, internal moral restraint alone may be insufficient to deter fraudulent behaviour. Under such conditions, integrity becomes meaningful only when ethical norms are supported by credible and consistently applied enforcement mechanisms. Thus, the use of reward–punishment systems in this study captures the effectiveness of integrity as an organisational control, rather than attempting to proxy personal morality directly.

Empirical studies applying Fraud Star Theory have demonstrated that its elements do not exert uniform effects. (Siahaan, Umar, & Purba, 2019) found that pressure, opportunity, and rationalisation significantly influenced asset misappropriation, whereas integrity and capability were not significant. In contrast, (Faruqi et al., 2024) reported that rationalisation and capability were significant predictors, while pressure, opportunity, and integrity were not. Rather than interpreting these findings as universal contradictions, this study argues that they reflect differences in how integrity is operationalised and enforced, an issue that prior studies did not explicitly address. When reward–punishment mechanisms are weak or symbolic, integrity—as an institutional constraint—may fail to exert a deterrent effect, thereby yielding insignificant empirical results.

Accordingly, this study does not treat Fraud Star Theory as a linear, additive, or universally valid model. Instead, fraud determinants are conceptualised as context-sensitive mechanisms whose effectiveness depends on enforcement credibility and governance quality. Within this framework, integrity functions as a governance-based control whose explanatory power varies with the strength and consistency of organisational enforcement structures.The Fraud Star Theory integrates (Cressey, 1953) Fraud Triangle and (Wolfe & Hermanson, 2004) Fraud Diamond, identifying five elements—pressure, opportunity, rationalisation, competency, and integrity—that describe conditions under which fraud may occur (Siahaan, Umar, & Purba, 2019). These elements are not assumed to have equal explanatory power across institutional settings. In Indonesia, where monitoring effectiveness and enforcement credibility differ across firms, opportunity and capability may dominate in weakly governed environments, whereas integrity becomes salient only when ethical standards are supported by credible reward–punishment mechanisms. Pressure captures the incentive to commit fraud and is operationalised through financial targets and financial stability (Skousen et al., 2009). Opportunity reflects structural conditions that allow fraud to occur, such as ineffective monitoring (Permata Sari & Kurniawan Nugroho, 2020), which are more pronounced in environments with weaker oversight. Rationalisation explains how management justifies misconduct (Apriliana & Agustina, 2017), while capability reflects the authority and skill needed to execute and conceal fraud (Marks & Melville, 2012; Wolfe & Hermanson, 2004). Integrity functions as a constraining mechanism, but its effectiveness depends on the credibility of enforcement mechanisms that translate ethical values into actual behavioural constraints (Bakri et al., 2015; Eksandy & Sari, 2022).

By explicitly incorporating institutional enforcement differences in Indonesia, this study re-examines the relative importance of Fraud Star elements in explaining financial statement fraud. The inconsistent findings reported by (Faruqi et al., 2024; Siahaan, Umar, & Purba, 2019) are interpreted not as empirical failure, but as evidence of theoretical boundary conditions that prior studies did not explicitly address. This perspective made the study move far from the universal application of theory in the fraud with explaining that the effectiveness of determinants on fraud lean on the environmental around the institutional where the company operating. By modelling enforcement strength as a contextual boundary condition, this study refines Fraud Star Theory and demonstrates that its elements do not function as universal or equally predictive mechanisms, but rather as context-dependent drivers whose explanatory power varies with governance quality and enforcement credibility in emerging market settings.

Financial Statement Fraud

Financial statement fraud, as defined by the American Institute of Certified Public Accountants (AICPA), refers to wilful acts or omissions, misstatements of material facts, or misleading accounting data that could influence users' economic decisions (Permata Sari & Kurniawan Nugroho, 2020). Fundamentally, fraud involves deliberate misappropriation of resources and manipulation of information to conceal misconduct. In most fraud studies, these definitions are implicitly treated as universally applicable across institutional settings. However, in emerging markets such as Indonesia, differences in regulatory enforcement, legal sanctions, and governance effectiveness may alter how fraud manifests and persists. Weak enforcement intensity, delayed legal processes, and symbolic compliance may reduce the deterrent effect of formal rules, allowing financial statement fraud to continue despite the presence of regulatory frameworks.

To identify fraud, prior literature has applied various behavioural and governance-based theories. This study employs Fraud Star Theory, which expands the Fraud Triangle (Cressey, 1953) and Fraud Diamond (Wolfe & Hermanson, 2004) by incorporating integrity as a fifth element (Siahaan, Umar, & Purba, 2019). While these theories were developed in contexts characterised by strong enforcement and effective monitoring, their application in Indonesia cannot be treated as a universal assumption. In Indonesia, institutional enforcement is often uneven across sectors and firms, potentially weakening the constraining role of integrity and amplifying opportunities for fraud through weak monitoring structures.

Financial Targets and Financial Statement Fraud

Performance-based financial targets are commonly designed to align managerial actions with shareholder interests by encouraging managers to achieve predetermined performance benchmarks. However, when these targets are strongly associated with short-term financial outcomes and compensation schemes, they may intensify agency conflicts by shifting managerial focus toward personal incentives rather than the quality and transparency of financial reporting (Yesiariani & Rahayu, 2017). From the perspective of agency theory, managers possess informational advantages and discretion over financial reporting, which can create opportunities for opportunistic behaviour when organisational performance expectations become difficult to achieve. Under conditions of high performance pressure, managers may engage in earnings manipulation or fraud on company reporting in financial to maintain the appearance of meeting organisational goals and market expectations.

Recent empirical studies provide evidence that aggressive financial targets may increase the likelihood of financial misreporting. Research by Amar et al., (2022); Gkegkas et al., (2025); Narsa et al., (2023) indicates that companies facing strong market performance expectations are more likely to manipulate financial reporting in order to avoid negative reactions from investors and analysts. Similarly, studies conducted by Dyck et al., (2024) highlight that financial incentives and performance pressures are important drivers of corporate misconduct and financial misrepresentation. More recent literature also suggests that the presence of ambitious financial targets may increase the probability of earnings management, particularly when organisational governance mechanisms are weak or monitoring effectiveness is limited. Empirical evidence further indicates that performance pressure arising from profitability targets may motivate managers to manipulate accounting information in order to maintain financial credibility and organisational reputation in capital markets (Farooq et al., 2025; Ramzan & Lokanan, 2024).

Despite the growing body of literature linking performance pressure to fraudulent reporting, many studies primarily focus on statistical relationships while providing limited explanation of the behavioural mechanisms through which financial targets translate into fraud risk (Soltani et al., 2023). Within the Fraud Star framework, financial targets can be interpreted as a form of pressure that motivates managers to conceal underperformance and maintain favourable financial perceptions among stakeholders. When performance expectations are high and organisational outcomes fail to meet these expectations, managers may face reputational, contractual, and financial consequences, Such circumstances can place additional pressure on managers to present financial outcomes in accordance with expected performance levels, potentially creating incentives to alter or misrepresent accounting information. Accordingly, demanding financial performance objectives may constitute one of the conditions that heighten the propensity for fraudulent financial reporting. On the basis of this argument, the following hypothesis is formulated:

H1: Financial targets have a positive effect on financial statement fraud.

Financial Stability and Financial Statement Fraud

Financial stability reflects a firm's capacity to sustain operational and financial performance amid economic uncertainty and business shocks (Ballouk et al., 2024). From the agency perspective, deterioration in a company's financial condition can create divergent interests between shareholders and management. While shareholders generally expect the firm to sustain favourable financial performance, managers may face increasing demands to demonstrate satisfactory results despite adverse financial circumstances. This discrepancy can create managerial pressure and increase the potential for actions aimed at presenting the company's performance more favourably than its actual condition. When firms experience deteriorating financial conditions, managers may face pressure related to job security, compensation incentives, and reputational concerns. Under such circumstances, information asymmetry between managers and investors provides an opportunity for managers to obscure unfavourable financial conditions through strategic reporting behaviour. Empirical studies have shown that financial instability can create incentives for opportunistic financial reporting, particularly when firms attempt to maintain market confidence during periods of declining performance. For example, Habib Ahsan and Ranasinghe Tharanga find that financial distress and unstable performance increase the likelihood of earnings manipulation as managers attempt to avoid negative investor reactions. Similarly, Dyck et al., (2024) argue that deteriorating financial conditions often increase incentives for corporate misconduct, including financial misrepresentation.

Recent empirical research reinforces the view that financial instability can constitute a significant form of pressure that encourages fraudulent financial reporting. Companies facing deteriorating financial conditions or fluctuations in their performance may have stronger incentives to alter or misrepresent accounting information in an effort to preserve their legitimacy and safeguard the credibility of management. Consistent with this perspective, Soltani et al. (2023) found that financially decreasing performance of the companies which is linked to the greater likelihood of report on financial about fraud, as management may experience heightened pressure to portray the firm's financial position and performance in a more favourable manner. Likewise, research by (Ramzan & Lokanan, 2025; Wahyuandari, 2025) highlights that firms facing financial instability often adopt aggressive reporting strategies to maintain investor confidence and avoid regulatory scrutiny. Other empirical evidence indicates that unstable financial conditions can motivate managers to conceal declining performance through accounting manipulation, particularly when monitoring mechanisms and governance structures are weak. However, inconsistent empirical findings in prior studies suggest that financial instability does not automatically or mechanically result in fraudulent reporting. Instead, instability acts as a survival-oriented pressure mechanism that increases fraud risk when managers perceive limited legitimate options to restore performance and when governance oversight fails to constrain opportunistic behaviour.

Within the Fraud Star framework, financial stability represents a form of organisational pressure that may motivate managers to manipulate financial information in order to conceal deteriorating conditions from stakeholders. When organisational performance declines, managers may engage in fraudulent reporting as a rational response to agency conflicts because such actions can temporarily mask poor performance and mitigate potential sanctions from investors and boards of directors. Accordingly, deterioration in a firm's financial condition may create stronger managerial pressure to maintain a favourable appearance of corporate performance. In an environment characterised by information asymmetry, such pressure may encourage managers to obscure unfavourable financial circumstances through misleading reporting practices, thereby elevating the potential for financial statement fraud. On the basis of this theoretical argument, the following hypothesis is formulated:

H2: Financial stability has a positive effect on financial statement fraud.

Ineffective Monitoring and Financial Statement Fraud

Ineffective monitoring reflects deficiencies in internal control systems and board oversight that weaken the detection and deterrence of opportunistic managerial behaviour (Putri & Qintharah, 2023). From the perspective of agency theory, monitoring represents an essential component of corporate governance that aims to minimize information asymmetry and limit the extent of managerial opportunism. The implementation of effective oversight mechanisms, including diligent board supervision, independent audit committees, and well-established internal control systems, can strengthen organizational control and enhance the likelihood of identifying and addressing managerial actions that deviate from the interests of stakeholders. However, when monitoring mechanisms are weak or ineffective, managers may gain greater discretion in financial reporting decisions, thereby increasing the likelihood of opportunistic behaviour. In such conditions, the agency conflict between shareholders and managers becomes more pronounced because principals have limited capacity to observe or verify managerial actions. Consequently, ineffective monitoring reduces the expected cost of fraudulent behaviour and Such circumstances may create incentives for management to present financial information selectively or alter reported figures in pursuit of managerial or corporate objectives. In contrast, an effective governance structure can serve as a preventive mechanism by increasing managerial accountability and strengthening oversight over corporate activities. Consistent with this perspective, Aivazet al. (2024) and Lopes et al. (2025) provide empirical evidence that robust governance arrangements and effective monitoring practices can reduce the exposure of firms to fraudulent financial reporting by enhancing the scrutiny of managerial actions and decision-making processes.Empirical studies in recent years have consistently highlighted the importance of monitoring mechanisms in mitigating financial reporting fraud. Research by Mahdi Sahi et al., (2022); Roshanpoor et al., (2024) demonstrates that firms with weak governance and monitoring frameworks exhibit higher levels of financial misreporting due to reduced accountability and limited oversight of managerial actions. Similarly, studies by (Xanthopoulou et al., 2024) show that ineffective board monitoring and weak internal control environments significantly increase the likelihood of earnings manipulation and fraudulent reporting. Other empirical evidence also indicates that companies with less independent boards and weaker audit committee effectiveness tend to exhibit a higher risk of financial statement fraud because oversight functions are unable to effectively constrain managerial opportunism. These findings suggest that ineffective monitoring does not merely coexist with fraud risk but also facilitates the translation of performance pressure and managerial incentives into fraudulent financial reporting behaviour.

Furthermore, recent literature emphasises that monitoring effectiveness is not solely determined by the presence of governance structures but also by the extent to which these structures function substantively rather than symbolically. Research highlights that formal governance mechanisms may fail to prevent fraud if they lack enforcement capability, expertise, or independence. As a result, ineffective monitoring can create an organisational environment in which opportunistic managerial behaviour becomes more feasible because the perceived probability of detection and punishment remains low. Within the Fraud Star framework, ineffective monitoring represents an opportunity dimension that allows managers to exploit informational advantages and manipulate financial reporting when governance oversight is weak. Therefore, ineffective monitoring is expected to increase the likelihood of financial statement fraud by lowering the perceived risk of detection and sanction associated with fraudulent reporting behaviour. Based on this reasoning, the following hypothesis is proposed:

H3: Ineffective monitoring has a positive effect on financial statement fraud.

Change in Auditor and Financial Statement Fraud

Auditor rotation is implemented as means of preserving auditor independence and minimizing potential threats arising from an excessively long-standing relationship between auditors and their clients (Qintharah, 2020). Within the framework of agency theory, external auditors play a vital oversight role by helping to address information asymmetry between principals and agents and by improving the reliability and credibility of corporate financial information. A high-quality external audit can increase the likelihood that material misstatements or irregularities will be identified, thereby limiting opportunities for managers to engage in self-serving behaviour. Nevertheless, extended auditor–client relationships may give rise to familiarity threats, which can diminish professional scepticism and potentially compromise audit quality. Consequently, mandatory auditor rotation has been adopted in various jurisdictions as a mechanism for maintaining auditor objectivity and independence. In Indonesia, the requirement for auditor rotation is governed by Financial Services Authority Regulation No. 13/POJK.03/2017, which is intended to safeguard auditor independence while supporting the reliability of financial reporting. Previous empirical evidence also indicates that effective external audit mechanisms may contribute substantially to lowering the likelihood of fraudulent financial reporting. (Amar et al., 2022; Wei et al., 2022).

Recent literature also indicates that auditor changes may enhance audit quality by introducing a fresh perspective and greater professional scepticism in the audit process. Newly appointed auditors tend to conduct more rigorous examinations because they are not influenced by prior relationships with management (Khamainy et al., 2021a; Yarana, 2023). Although auditor changes are sometimes associated with auditor shopping, this interpretation is less relevant in regulated environments where rotation is mandatory. In such contexts, auditor changes are more likely to reflect regulatory compliance or efforts to improve audit quality rather than attempts to conceal financial misreporting. From an agency theory perspective, the appointment of a new auditor increases scrutiny and raises the expected cost of opportunistic managerial behaviour, thereby reducing the likelihood of fraudulent financial reporting. Within the Fraud Star framework, auditor change can therefore function as a governance mechanism that strengthens external monitoring and limits opportunities for financial statement fraud (Mahdi Sahi et al., 2022; Roshanpoor et al., 2024; Yarana, 2023; Yousefi Nejad et al., 2024). Based on this reasoning, the following hypothesis is proposed:

H4: Change in the auditor has a negative effect on financial statement fraud.

Change in Director and Financial Statement Fraud

Capability refers to the authority, expertise, and strategic position required to execute and conceal fraudulent activities (Wolfe & Hermanson, 2004) . From an agency theory perspective, directors play a crucial role in mitigating agency conflicts by overseeing managerial actions and ensuring that corporate decisions align with shareholder interests. Therefore, changes in directors do not necessarily indicate an increased risk of fraud; instead, they often represent governance interventions aimed at improving organisational performance and strengthening oversight mechanisms. Leadership changes are frequently implemented to enhance organisational quality, restructure governance, or appoint individuals with stronger professional expertise, which can ultimately improve internal control systems and financial reporting quality (Alifa & Rahmawati, 2022; Navila Rahma & Permata Sari, 2023; Permata Sari & Kurniawan Nugroho, 2020). Empirical evidence also suggests that governance renewal through leadership restructuring may enhance transparency and strengthen monitoring practices, thereby reducing the likelihood of opportunistic managerial behaviour (Sari et al., 2022; Wei et al., 2022).

Recent studies further indicate that newly appointed directors often introduce stronger oversight and new governance perspectives that increase managerial accountability. Such changes may improve internal supervision and reduce managerial discretion in financial reporting) (Burkhardt et al., 2020; Khamainy et al., 2021b; Sihombing & Eirene Panggulu, 2022). Although leadership transitions may temporarily create greater managerial discretion, this risk largely depends on the strength of corporate governance mechanisms. When director changes are motivated by governance improvement, new leadership can function as a corrective governance mechanism that strengthens internal controls and raises the expected cost of misconduct. Empirical research also shows that stronger board oversight and leadership restructuring are associated with lower levels of financial misreporting. Within the Fraud Star framework, director change can therefore be interpreted as a governance-enhancing mechanism that reduces managerial opportunism and limits opportunities for fraudulent financial reporting. Accordingly, the following hypothesis is proposed:

H5: Change in the director has a negative effect on financial statement fraud.

Integrity and Financial Statement Fraud

Agency theory stated that the different wishes on pprincipals and agents increasing because of there is misinformation and needs on incentives from agents, creating opportunities for opportunistic behaviour. In organisational contexts, integrity functions not only as an individual ethical attribute but also as a governance mechanism that increases the expected cost of misconduct (Siahaan, Umar, & Purba, 2019). Integrity becomes effective when ethical standards are translated into enforceable organisational practices that discipline managerial actions and reduce opportunistic behaviour. Prior studies indicate that organisations with strong ethical governance frameworks and integrity-based cultures tend to exhibit higher financial reporting quality and lower levels of financial misreporting (Wei et al., 2022). In such environments, ethical values are embedded within governance structures that guide managerial decision-making and enhance organisational accountability.

In this study, integrity is operationalised through reward–punishment systems that institutionalise ethical expectations by linking compliant behaviour to incentives and misconduct to sanctions. From an agency theory perspective, such mechanisms reduce managerial discretion by altering the cost–benefit considerations associated with opportunistic behaviour (Adetunji Paul Adejumo & Chinonso Peter Ogburie, 2025; Nindito et al., 2024). When reward and punishment systems are consistently enforced, managers face higher expected penalties for misreporting, thereby reducing incentives to exploit informational advantages or performance pressure. Prior research indicates that organizations characterized by a strong ethical environment and effective governance enforcement tend to have a lower propensity to commit fraudulent financial reporting (Hernandez Aros et al., 2026; Jaswadi et al., 2022; Wibowo & Putra, 2023). Nevertheless, the mere presence of integrity as a formal or symbolic value may have limited effectiveness in preventing fraudulent practices when it is not supported by consistent implementation and enforcement.

Accordingly, when integrity is embedded within organizational governance through clear reward and sanction mechanisms, it is expected to strengthen ethical accountability and consequently decrease the possibility of financial statement fraud. On the basis of this argument, the following hypothesis is formulated:

H6: Integrity has a negative effect on financial statement fraud.

METHODS

A quantitative methodology is adopted in this research to empirically investigate how the dimensions of Fraud Star Theory are associated with the occurrence of financial statement fraud. The analysis relies on secondary archival information obtained from documented corporate and financial records.Quantitative methods are appropriate for testing theoretically derived hypotheses through statistical inference across firms and time (Sugiyono, 2016). The study relies on audited annual financial statements and annual reports obtained from the Indonesia Stock Exchange and official company websites to ensure data reliability and consistency. All variables are operationally defined to enhance measurement clarity and replicability.

Table 1. Definitions of Variables Operational

Variable	Definition Operational	Indicator	Scale
		Dependent Variable	
Financial Statement Fraud	Financial statement fraud is the presentation of financial statements that contain material misstatements that harm users of financial statements. (Achmad, Ghozali, & Pamungkas, 2022a)	The proxy in this study uses the F-Score Model. F-Score Model calculation = Accrual Quality + Financial Performance. Then you can determine it using the results of the F-Score. If the F-score value > 1, the company is indicated to have committed financial statement fraud. If F-score < 1, then there is no indication of financial statement fraud.	Ratio
		Independent Variables	
Financial Target	A financial target is a specific goal related to a company's financial performance, such as revenue, profit, or growth, that is set by management and used to guide decision-making and measure progress (Yesiariani & Rahayu, 2017b)	$FT = \frac{\text{Profit After Tax}}{\text{Total Asset}}$	Ratio
Financial Stability	Financial stability denotes the capacity of an individual, organization, or financial system to absorb and withstand economic disturbances while maintaining its operational continuity and functional effectiveness. (Jao et al., 2020)	$FS = \frac{\text{Total Asset (t)} - \text{Total Asset (t} - 1)}{\text{Total Asset (t)}}$	Ratio

Ineffective Monitoring	A business condition is when there is poor internal control (Himawan & Karjono, 2019)	$INF = \frac{\text{Total Independent Commissioner}}{\text{Total Board of Commisioner}}$	Ratio
Change in Auditor	Change in auditor refers to a company's auditor being replaced, which can be viewed as a means of eradicating indications of fraud discovered by the prior auditor (Tessa, 2016)	A code of 1 (one) is assigned to indicate a change in the Public Accounting Firm during the research period of 2021-2023, while a code of 0 (zero) is used to indicate the absence of such a change.	Nominal
Change in Director	The replacement of the old board of directors with a new one is referred to as a change in directors, which aims to enhance the performance of the previous management. (Kurniawan & Maju Simatupang, 2024)	In the 2021-2023 timeframe, a change in directors is assigned a code of 1, whereas a code of 0 is assigned if there is no change in directors within the company during that period.	Nominal
Integrity	Integrity is a quality, characteristic, or condition where a person shows quality, hard work, and adequate competence in everything he did. (Siahaan, Umar, & Br, 2019).	The integrity measurement uses a dummy variable, namely, if there is a company that has a Reward and Punishment System for employees during the 2021-2023 period, it is given code 1 (one). If the company does not have a Reward and Punishment System for employees during the 2021-2023 period, it is coded 0 (zero).	Nominal

Financial statement fraud is measured through the Fraud F-Score model, which provides an indication of the likelihood or level of fraud risk within a company. Rather than identifying fraud as a simple occurrence or non-occurrence, the F-Score represents a continuous measure that reflects differences in the degree of potential fraudulent reporting. Accordingly, this study employs the F-Score as a continuous dependent variable to assess variations in the intensity of financial statement fraud risk across firms, instead of applying a binary classification that distinguishes only between fraudulent and non-fraudulent companies. This specification is methodologically appropriate because the research objective is to explain how governance and behavioural factors incrementally increase or decrease fraud risk. Dichotomising the F-Score would obscure meaningful variation in misstatement risk and reduce statistical power. Accordingly, the continuous treatment of the F-Score aligns with its conceptual role as a probabilistic risk metric rather than a definitive fraud label.

Meanwhile, Integrity is conceptualised as an organisational governance mechanism that constrains opportunistic behaviour rather than as an individual moral trait (Siahaan, Umar, & Purba, 2019). Given the limitations of archival data, integrity is operationalised as institutionalised ethical enforcement reflected in reward–punishment systems. From an agency theory perspective, these mechanisms increase the expected cost of misconduct by linking ethical compliance to incentives and violations to sanctions, thereby reducing managerial discretion under information asymmetry. This operationalisation captures the effectiveness of ethical enforcement and ensures alignment between the theoretical construct of integrity and its empirical measurement.

Population and Sample

The population comprises Consumer Non-Cyclicals sector firms listed on the Indonesia Stock Exchange during the 2021–2023 period. Purposive sampling is employed to ensure that only firms with complete and comparable financial disclosures are included (Sugiyono, 2016). Based on these criteria, 71 firms are selected, generating a balanced panel of firm-year observations over three years. Although fraud research is often constrained by limited observable cases, the adequacy of the sample in this study is supported by the panel structure of the data, which increases the effective number of observations by exploiting both cross-sectional and temporal variation. Panel datasets are widely recognised as enhancing statistical power and estimation efficiency compared to purely cross-sectional designs, particularly when examining governance and behavioural variables that evolve over time. Accordingly, the study relies on firm-year observations rather than raw firm counts to ensure sufficient analytical power.

Table 2. Sample Collection Criteria

No	Explanation	Total
1	Consumer Non-Cyclicals sector companies listed on the Indonesia Stock Exchange in 2021 – 2023.	111
2	Companies that do not disclose audited yearly financial statements on the Indonesian Stock Exchange in Rupiah currency.	(2)
3	Companies that lack complete data regarding the study's variables from publications during the 2021-2023 timeframe.	(38)
4	During the research period, the company experienced delisting from the IDX	(0)
	Total Sample	71
	Total Sample for Three Years (71 x 3)	213

The Consumer Non-Cyclicals sector is selected based on theoretical relevance rather than data availability. Firms in this sector operate in relatively stable demand conditions and are less exposed to macroeconomic cycles compared to cyclical industries. As a result, fluctuations in reported financial performance are less likely to be driven by external demand shocks and more likely to reflect internal governance quality, managerial incentives, and monitoring effectiveness. This sectoral focus allows the study to isolate fraud determinants proposed by Fraud Star Theory—particularly pressure, opportunity, and integrity—while minimizing confounding effects from extreme business cycle volatility.

Data Analysis Technique

The research applies panel-data regression estimation through EViews 12, integrating observations across firms and periods. This methodological approach enables the analysis to account for firm-specific characteristics that may remain unobserved while simultaneously examining changes in governance practices and financial conditions over time (Mohd Ghazali et al., 2023). The panel design is theoretically justified because fraud risk is inherently dynamic. Determinants such as financial pressure, monitoring effectiveness, leadership changes, and integrity mechanisms evolve over time rather than remaining static. Panel regression enables the study to distinguish persistent firm traits from time-varying fraud determinants, thereby strengthening causal inference compared to cross-sectional models. Panel data regression is utilized to empirically assess whether financial targets, financial stability, ineffective monitoring, auditor changes, director changes, and organizational integrity are associated with variations in financial statement fraud. Several independent variables—such as auditor change and director

change—are modelled as dummy variables, reflecting discrete governance events. The inclusion of dummy variables in linear panel regression is methodologically appropriate, as they capture structural and institutional shifts that are inherently binary. Linear panel models allow for direct interpretation of marginal effects while accommodating both continuous and categorical
31 predictors. With the regression equation as follows:

$$\mathbf{FFS} = \alpha + \beta 1\mathbf{FT} + \beta 2\mathbf{FS} + \beta 3\mathbf{INF} - \beta 4\mathbf{AUCHANGE} - \beta 5\mathbf{DCHANGE} - \beta 6\mathbf{INT} + \boldsymbol{\varepsilon}$$

Note:

8 FFS	: Financial Statement Fraud occurs if the F-Score value> 1, and if the F-score < 1 then there is no financial statement fraud.
α	: Constant
β1-β8	: Independent variable regression coefficient
10 FT	: Financial Target
FS	: Financial Stability
INF	: Ineffective monitoring
AUCHANGE	: Change in Auditor
DCHANGE	: Change in Director
INT	: Integrity
ε	: Error term (combined element)

This study employs panel data analysis, which combines observations across firms and periods. Prior to conducting the estimation, an appropriate panel regression model must be
3 determined among the available alternatives, called it the Common Effect Model (CEM), Fixed Effect Model (FEM) and Random Effect Model (REM). According to Iqbal and Ahmad (2021),
29 the CEM shows the best using approach on basic models to estimate the panel data with poolong
115 cross-sectional and time-series observations into a single dataset. This model applies the Ordinary Least Squares (OLS) method in estimating the regression parameters and is generally accompanied by the assessment of the relevant classical assumptions. In contrast, the FEM recognizes that individual entities, such as companies, may possess distinct characteristics reflected in different intercept values, while assuming that the slope coefficients remain constant across entities. The technique used in the FEM is Least Squares Dummy Variable (LSDV). LSDV is included in Ordinary Least Squares (OLS) to test classical assumptions. Random Effect model (REM) is a model that assumes each company has different intercepts, where intercepts are included in random or statistical variables. The model utilises the Generalized Least Squares (GLS) method to handle coincident autocorrelation and correlation between observations for each variable.

9 A series of specification tests is conducted to identify the panel data model that provides the most appropriate estimation for this study. As explained by Badawi (2018), the model selection procedure consists of three sequential tests. The determination of the most appropriate panel-data specification is carried out through a sequential model-selection procedure. Model selection in
2 panel regression is carried out through a sequential testing procedure to identify the specification
9 that best represents the structure of the observed data. The Chow test is first applied to determine whether the pooled Common Effect Model or the Fixed Effect Model should be retained.
55 Subsequently, the Hausman procedure is used to assess the appropriateness of the Fixed Effect Model relative to the Random Effect Model. As an additional model-selection procedure, the
63 Lagrange Multiplier test compares the Random Effect Model with the Common Effect Model. The LM test decision is evaluated using a chi-square statistical framework, in which the associated

degrees of freedom correspond to the number of explanatory variables included in the estimated model.

This study provides an incremental methodological contribution by integrating Fraud Star Theory with panel-based fraud-risk modelling in an emerging market context. Unlike prior studies that apply fraud determinants as static or universally additive predictors, this research explicitly models fraud risk as a continuous outcome that evolves over time, while incorporating governance dynamics and institutional enforcement variation. The combined use of a continuous F-Score, panel data design, and governance-based proxies enables a more nuanced examination of fraud risk intensity rather than binary fraud occurrence, thereby extending the methodological application of Fraud Star Theory. Model fit is evaluated using the adjusted R-squared statistic. Joint significance of th independent variables is assessed using the F-test, while individual parameter significance is evaluated using t-tests at a 5% significance level (Apriliana & Agustina, 2017; Kuncoro, 2004). These tests collectively assess both the explanatory power and robustness of the estimated model.

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

The research incorporates six explanatory variables, namely financial targets, financial stability, ineffective monitoring, auditor changes, director changes, and integrity, while financial statement fraud serves as the dependent variable. To characterise the distribution and underlying properties of the observed data, descriptive statistical analysis is conducted using indicators such as the mean, minimum and maximum values, total observations, range, variance, and standard deviation. The dataset consists of 213 firm-year observations drawn from companies operating in the Consumer Non-Cyclicals sector. The descriptive results reveal substantial dispersion in financial statement fraud (FFS), as evidenced by a standard deviation exceeding its mean. This pattern indicates that fraud risk varies considerably across firms rather than being distributed uniformly. Such variation may reflect differences in firm-specific governance arrangements and organisational characteristics that influence the susceptibility to fraudulent financial reporting. The complete descriptive statistical results are presented in the following table:

[illegible]cs

	FFS	FT	FS	INF	AUCHANGE	DCHANGE	INT
Mean	0.087746	5.092441	4.188638	0.404930	0.093897	0.413146	0.892019
Maximum	5.510000	96.08000	62.77000	0.830000	1.000000	1.000000	1.000000
Minimum	-3.160000	-51.75000	-59.09000	0.170000	0.000000	0.000000	0.000000
Std. Dev	0.810758	15.15294	15.68849	0.108596	0.292372	0.493558	0.311088
Observations	213	213	213	213	213	213	213

Based on Table 3, the descriptive statistics indicate considerable variation in financial statement fraud and several explanatory variables across the sampled firms, reflecting heterogeneous organisational conditions within the sector. The wide dispersion of financial targets and financial stability suggests differing levels of financial pressure and organisational performance among firms, which may influence managerial behaviour in financial reporting. In contrast, ineffective monitoring shows relatively low variability, indicating that most firms possess similar formal governance structures, implying that differences in fraud risk are more likely related to the effectiveness of monitoring rather than its structural presence. Governance-related variables also reveal that auditor changes occur in a relatively small proportion of firms, suggesting a tendency to maintain auditor continuity, while director changes are more frequent, reflecting governance renewal through leadership restructuring. Meanwhile, most firms report implementing reward–punishment systems as part of their ethical governance framework; however, the persistence of fraud variation despite the widespread adoption of such mechanisms suggests that governance practices may differ in their effectiveness across organisations. Overall, these findings indicate that fraud risk is shaped by differences in organisational conditions and governance effectiveness rather than merely by the existence of formal governance structures.

Classical Assumption Testing

Prior to interpreting the regression estimates, the model is subjected to a series of diagnostic examinations to establish whether the underlying assumptions of multiple linear regression have been adequately fulfilled. These assumptions encompass the normal distribution of residuals, linearity of the relationships, constant error variance, and the absence of strong correlations among explanatory variables. Such diagnostic procedures are necessary because departures from these conditions may compromise the consistency of the estimated coefficients and consequently affect the validity of statistical inference. Accordingly, this study evaluates the regression model through normality, multicollinearity, heteroscedasticity, and autocorrelation tests. Th diagnostic outcomes indicate that the model conforms to the principal assumptions required for regression estimation, as evidenced by normally distributed residuals, no indication of multicollinearity, homoscedastic error variance, and the absence of autocorrelation. On this basis, the resulting regression coefficients are considered sufficiently dependable and appropriate for subsequent hypothesis testing.

Panel Data Model Selection

The Chow test is done to examine is the models are CEM or FEM provides more appropriate specification for analysis on data panel. The decision is based on the significance level associated with the Cross-Section F statistic. A probability value above 0.05 indicates that the Common Effect Model should be selected, whereas a probability value below 0.05 suggests that the Fixed Effect Model is more suitable. The findings obtained from the Chow test are presented in Table 7.

Table 7. The Result of the Chow Test

Redundant Fixed Effects Tests			
Equation: Untitled			
Test cross-section fixed effects			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.565009	(70,136)	0.0134
Cross-section Chi-square	125.850663	70	0.0000

Note: Prob Value > 0,05 = REM, Prob Value < 0,05 = FEM

Table 7 shows saome indicator that Cross Section F Statistics has a probability value of 0.0134. If the value is below the 5% significance threshold, it will rejected the null hypothesis, while other hypothesis is supported. So, it could be said that FEM is the choosen model than the CEM to estimate the regression on this study data panel.

Once the Chow procedure establishes Following the identification of the Fixed Effect Model through the preceding Chow test, a Hausman specification test was subsequently conducted to establish whether the Fixed Effect Model or the Random Effect Model would provide the more appropriate estimation approach. The decision is based on the probability associated with the Hausman statistic. A probability value greater than 0.05 favours the Random Effect Model, whereas a probability value below 0.05 indicates that the Fixed Effect Model should be maintained. The findings obtained from this test are reported in Table 8.

Table 8. The result of the Hausman Test

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	18.992248	6	0.0042

Note: Prob Value > 0,05 = REM, Prob Value < 0,05 = FEM

The Chow test produces a significance level of 0.0042, which falls below the established threshold of 0.05 (5%). This result leads to the rejection of the null hypothesis (H0) and the acceptance of the alternative hypothesis (H1), indicating that the Fixed Effect Model (FEM) is the most appropriate specification for the analysis.

Given that both the Chow and Hausman procedures consistently indicate the Fixed Effect Model as the most appropriate specification, the subsequent Lagrange Multiplier test was not considered necessary. This is because the LM procedure is primarily intended to determine whether the Common Effect Model or Random Effect Model should be selected. Since the preceding tests had already provided sufficient evidence to retain the Fixed Effect Model, conducting an additional LM test would not alter the final model selection.

The use of panel regression enables the analysis to account for differences among firms while simultaneously observing changes occurring throughout the study period. Results obtained from the Chow and Hausman procedures support the adoption of the Fixed Effect Model, implying that characteristics specific to individual firms have an important role in explaining variations in financial statement fraud. From a theoretical perspective, this result is plausible because fraudulent reporting may be influenced by organizational attributes, including governance arrangements, managerial behaviour, and corporate culture, which tend to persist across periods. By incorporating firm-specific effects into the estimation process, the model is better positioned to isolate and explain differences in fraud risk among the companies under investigation.

Panel Data Regression Equation

The suitable regression model is the FEM, and the EViews 12 software was used to conduct the FEM panel data regression. Table 9 displays the results of the regression.

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.789751	0.208501	3.787753
FT	-0.011021	0.002298	-4.796123
FS	0.011633	0.001345	8.647154
INF	-0.460402	0.299057	-1.539510
AUCHANGE	-0.243601	0.067270	-3.621239
DCHANGE	-0.158653	0.047194	-3.361721
INT	-0.470566	0.182472	-2.578838

Based on Table 9, the equations in this study are as follows:

$$\boldsymbol{FFS = 0.789751 - 0.011021\,FT + 0.011633\,FS - 0.460402\,INF - 0.243601\,AUCHANGE - 0.158653\,DCHANGE - 0.470566\,INT + \varepsilon}$$

The panel regression estimated through the Fixed Effect Model (FEM) yields an intercept of 0.789751. This value denotes the estimated magnitude of financial statement fraud when all predictor variables incorporated in the model are assigned a value of zero. Hence, in the absence of contributions from the explanatory variables, the model predicts a financial statement fraud value of 0.789751. With respect to financial targets (FT), the estimated coefficient is -0.011021. The negative sign signifies an inverse association between FT and financial statement fraud. Assuming the remaining explanatory factors are unchanged, an additional one-unit increase in FT corresponds to a decrease of 0.011021 units in financial statement fraud. Conversely, a one-unit reduction in FT would be accompanied by an increase of the same magnitude. Financial stability (FS) produces a coefficient of 0.011633, reflecting a positive direction of association with financial statement fraud. Accordingly, when other variables are held constant, a one-unit increment in FS is predicted to raise the financial statement fraud measure by 0.011633 units. A decrease in FS would, conversely, be associated with a reduction in the dependent variable. The estimated coefficient for ineffective monitoring (INF) is -0.460402. This negative coefficient indicates that higher values of INF are associated with lower levels of financial statement fraud within the model. Specifically, ceteris paribus, increasing INF by one unit corresponds to a 0.460402-unit decline in financial statement fraud, whereas a one-unit decrease in INF implies an increase of 0.460402 units. Auditor change (AUCHANGE) also demonstrates an inverse relationship with financial statement fraud, as reflected by its coefficient of -0.243601. When the other variables remain constant, a one-unit increase in AUCHANGE is associated with a 0.243601-unit reduction in the dependent variable. Conversely, a one-unit decrease in AUCHANGE corresponds to an increase of 0.243601 units in financial statement fraud. The coefficient obtained for director change (DCHANGE) is -0.158653, indicating a negative direction of the relationship. Under the ceteris paribus assumption, a one-unit increase in DCHANGE is associated with a 0.158653-unit decrease in financial statement fraud. In the opposite circumstance, a one-unit decline in DCHANGE would correspond to an increase of 0.158653 units in the dependent variable. Finally, the integrity (INT) variable records the largest negative coefficient among the variables considered, amounting to -0.470566. This result indicates that improvements in integrity are accompanied by a reduction in financial statement fraud. More specifically, holding all other factors constant, a one-unit increase in INT is estimated to lower financial statement fraud by 0.470566 units, whereas a comparable decrease in INT would result in an increase of 0.470566 units in the predicted fraud measure.

Determination Coefficient (R2)

To evaluate the explanatory capacity of the regression model, this study considers the adjusted coefficient of determination (Adjusted R-squared). This measure is particularly appropriate for models incorporating multiple explanatory variables because it reflects the proportion of variation in the dependent variable that can be explained by the predictors while accounting for the number of variables included in the model. The coefficient of determination results obtained from the analysis are presented in Table 10.

Table 10. The result of the Fixed Effect Model Test

Root MSE	0.560634	R-squared	0.789533
Mean dependent var	0.251359	Adjusted R-squared	0.671919
S.D. dependent var	1.579936	S.E. of regression	0.701616
Sum squared resid	66.94803	F-statistic	6.712921
Durbin-Watson stat	2.745588	Prob(F-statistic)	0.000000

As presented in Table 10, the regression analysis produces an Adjusted R-squared value of 0.671919. This result indicates that the combination of financial target, financial stability, ineffective monitoring, auditor changes, director changes, and integrity explains approximately 67.19% of the variation in financial statement fraud. Meanwhile, the remaining 32.81% of the variation is likely influenced by other factors that are not incorporated into the panel regression model examined in this study.

Model Feasibility Test

The joint explanatory power of the regression model was examined using the F-test to establish whether the independent variables, when considered simultaneously, have a significant association with financial statement fraud. As shown in Table 10, the model produces a Prob. (F-statistic) of 0.000000, which is considerably lower than the 0.05 significance criterion. Moreover, the calculated F-statistic reaches 6.712921, exceeding the critical F- table value of 2.05. Accordingly, the null hypothesis is rejected, while the alternative hypothesis is accepted. The results therefore confirm that financial targets, financial stability, ineffective monitoring, auditor changes, director changes, and integrity collectively provide a statistically significant explanation of financial statement fraud. These findings further indicate that the estimated regression specification possesses adequate explanatory validity and can consequently be utilized as the basis for subsequent hypothesis testing.

t Test

The t-test was conducted to determine the individual significance and the extent of influence of each independent variable on the dependent variable, with results summarised in Table 11.

Table 11. The result of the Statistical test t

Variable			
C	0.789751	0.208501	3.787753
FT	-0.011021	0.002298	-4.796123
FS	0.011633	0.001345	8.647154
INF	-0.460402	0.299057	-1.539510
AUCHANGE	-0.243601	0.067270	-3.621239
DCHANGE	-0.158653	0.047194	-3.361721
INT	-0.470566	0.182472	-2.578838

The hypothesis testing results reveal that the proposed determinants do not exert uniform effects on fraudulent financial reporting. H1 is not empirically supported, as the financial target variable fails to reach statistical significance. Its probability value remains above the 5% criterion, while the estimated coefficient is negative, indicating that financial targets do not significantly explain variations in financial statement fraud. In contrast, H2 receives empirical support. Financial stability is found to be positively and significantly associated with fraudulent financial reporting. The statistical evidence is reflected in a probability value below 0.05 and a positive regression coefficient, suggesting that changes in a firm's financial stability are accompanied by corresponding changes in fraud risk.

The statistical evidence does not substantiate the third hypothesis concerning ineffective monitoring. Although the estimated coefficient is negative, the probability value remains The probability associated with ineffective monitoring remains higher than the 5% significance criterion, indicating that its observed relationship with financial statement fraud lacks statistical support. Consequently, the negative coefficient should not be interpreted as evidence of a meaningful effect of ineffective monitoring on fraudulent reporting. In contrast, the results for H4 reveal a statistically significant association between auditor changes and financial statement fraud. The probability value of 0.0004 falls well below the 0.05 threshold, while the calculated t-statistic of -3.621239 provides further evidence of a significant relationship between the two variables. The coefficient of -0.243601 indicates that the relationship operates in a negative direction. Thus, auditor turnover is statistically associated with a reduction in financial statement fraud. The analysis also supports the fifth hypothesis concerning changes in directors (DCHANGE). The statistical evidence provides support for the relationship between changes in directors and financial statement fraud. Specifically, the model produces a t-statistic of -3.361721 with a probability value of 0.0010, demonstrating that the effect is statistically significant. The estimated coefficient, which stands at -0.158653, points to an inverse association between director turnover and fraudulent financial reporting. In substantive terms, alterations in the composition of corporate leadership may help interrupt established organizational circumstances that otherwise create opportunities or conditions conducive to fraudulent behaviour.

Finally, the sixth hypothesis regarding integrity (INT) is also supported. The statistical evidence indicates that integrity has a significant relationship with financial statement fraud. Its probability value of 0.0110 falls below the 0.05 significance criterion, while the t-statistic of -2.578838 further confirms the statistical significance of the relationship. Moreover, the coefficient of -0.470566 indicates an inverse association, implying that stronger organizational integrity corresponds to a lower level of fraudulent financial reporting. This finding highlights integrity as a potentially important governance mechanism for constraining opportunistic and fraudulent behaviour within firms. Furthermore, the regression model records an explanatory capacity of approximately 67%, as reflected in the coefficient of determination. This result indicates that the variables incorporated into the model collectively account for a substantial proportion of the variation in financial statement fraud, demonstrating considerable explanatory capability within the governance-oriented research framework. This suggests that the selected Fraud Star components capture important determinants of fraudulent reporting. Beyond statistical significance, several variables demonstrate meaningful effect sizes. Integrity and ineffective monitoring show relatively large coefficients compared to other predictors, indicating that governance mechanisms play a substantial role in shaping fraud risk. These findings emphasise that practical relevance should be considered alongside statistical significance when evaluating fraud determinants.

DISCUSSION

The Effect of Financial Targets on Financial Statement Fraud

The findings derived from the panel regression analysis do not provide adequate statistical support for H1. Consequently, the first hypothesis is not accepted, demonstrating that financial targets are not significantly related to financial statement fraud among Consumer Non-Cyclicals companies listed on the Indonesia Stock Exchange during the 2021–2023 observation period. This result is consistent with previous empirical evidence reported by Apriliana and Agustina (2017) and Handoko et al. (2022), which similarly indicate that financial targets have limited explanatory power in accounting for fraudulent financial reporting.

Viewed through the agency theory framework, managerial incentives may encourage executives to portray the company's performance favourably to shareholders and other interested parties. However, the operationalization of financial targets through Return on Assets (ROA) in the present study does not appear to impose a level of performance pressure sufficient to stimulate fraudulent reporting behaviour. This may indicate that the profitability expectations reflected by ROA were not sufficiently coercive to induce managers to manipulate reported financial information.

When profitability objectives are established at realistic and attainable levels, managers are less likely to resort to accounting manipulation to meet those expectations. Accordingly, improvements in ROA may reflect genuine enhancements in operational efficiency and company performance rather than efforts to manipulate reported financial information.

The absence of a significant relationship between financial targets and financial statement fraud suggests that performance pressure alone is insufficient to induce fraudulent behaviour. While agency theory predicts that incentive-based contracts may motivate opportunism, the findings indicate that such incentives only become problematic when combined with enabling governance weaknesses (Ismail Khan & Muhammad Hapiz, 2022). This challenges the deterministic assumption embedded in many fraud models that pressure automatically escalates into misconduct (Achmad, Ghozali, Rahardian, et al., 2022). A plausible theoretical interpretation is that financial targets function as a disciplining mechanism when perceived as attainable, but transform into a fraud driver only under conditions of organisational strain. In the relatively stable non-cyclical consumer sector, predictable demand may buffer managerial pressure, thereby weakening the behavioural pathway from targets to manipulation (Herbenita et al., 2022a). This finding refines Fraud Star Theory by suggesting that pressure is conditional rather than universally predictive, reinforcing the need to examine interaction effects between incentive structures and governance quality. Substantively, the near-zero coefficient implies that increasing financial targets does not meaningfully alter fraud risk within this context, highlighting the limited practical relevance of pressure when organisational controls remain intact.

The Effect of Financial Stability on Financial Statement Fraud

Panel data regression results indicate that the second hypothesis (H2) is accepted, meaning financial stability had a positive impact on financial statement fraud in non-cyclical consumer sector companies listed on the IDX from 2021 to 2023. The positive effect of financial stability provides an important theoretical extension to agency-based fraud explanations. Rather than viewing fraud purely as a response to financial distress, the result suggests that managers may manipulate reporting to preserve the appearance of stability, particularly when market expectations are high (Nurulia et al., 2023). This supports the notion of reputation-driven opportunism, where managers prioritise continuity signals to avoid negative investor reactions. Fraud, therefore, may emerge not only from survival pressure but also from the strategic maintenance of organisational legitimacy (Yulianti & Wulandari, 2025). The magnitude of the coefficient indicates a meaningful increase in fraud risk as stability pressures intensify, underscoring its substantive importance beyond statistical significance. This helps reconcile prior contradictory findings by demonstrating that stability becomes hazardous when it evolves into a performance narrative that managers feel compelled to defend (Khamainy et al., 2021b). Accordingly, the study advances fraud theory by repositioning financial stability from a protective indicator to a potential reputational risk factor.

This finding is supported by (Alan Darmasaputra & Winda Mulia, 2025; Aulia & Zulaeha, 2024; Herbenita et al., 2022b), although it contradicts research by (Ozcelik, 2020; Permata Sari & Kurniawan Nugroho, 2020), which found no such effect. These results align with agency theory regarding the conflicting interests between stakeholders and agents; while investors seek high returns, management pursues high rewards for their performance. This pressure encourages management to maintain perceived financial stability at any cost, even by manipulating financial statements to mask poor performance, thereby confirming that financial stability can positively influence financial statement fraud.

The Effect of Ineffective Monitoring on Financial Statement Fraud

The evidence generated through the panel regression analysis does not lend support to H3. The findings indicate that ineffective monitoring does not exert a statistically significant influence on financial statement fraud among companies in the Consumer Non-Cyclicals sector listed on the Indonesia Stock Exchange during the 2021–2023 observation period. Contrary to theoretical expectations, ineffective monitoring does not significantly influence fraud risk. However, interpreting this result as evidence of governance irrelevance would be misleading. Instead, the finding points toward a critical distinction between formal governance structures and functional oversight (Nabila Musfi & Soemantri, 2024). Agency theory assumes that monitoring mitigates opportunism, yet this assumption depends heavily on enforcement quality. When supervisory mechanisms exist primarily to satisfy structural requirements, their behavioural impact may be limited (Anami et al., 2023). Thus, the insignificance observed here suggests that fraud opportunity is less about the presence of controls and more about their operational credibility.

This interpretation moves beyond speculative regulatory explanations and contributes to theory by introducing the concept of symbolic governance, where oversight mechanisms appear adequate but lack deterrent force. Consequently, opportunity should be reconceptualised not as a binary condition but as a continuum shaped by monitoring effectiveness. The minimal coefficient further indicates that variations in board oversight produce negligible changes in fraud probability, reinforcing the argument that governance quality outweighs governance form. This rejection is consistent with research by (Aulia & Zulaeha, 2024; Dwianto et al., 2024) which suggests that independent commissioners are often appointed merely to fulfill IDX regulations or formal provisions rather than as a functional necessity for good corporate governance. This aligns with agency theory, where an information asymmetry exists because managers possess deeper operational knowledge than principals. Furthermore, because the majority shareholders play a primary role in overseeing board performance, the presence of an independent board of commissioners does not serve as a definitive indicator for determining the level of financial statement fraud.

The Effect of Change in Auditors on Financial Statement Fraud

The panel regression findings lend empirical support to H4, indicating that auditor turnover is significantly related to financial statement fraud in Consumer Non-Cyclicals companies listed on the Indonesia Stock Exchange during 2021–2023. The negative direction of this association suggests that replacing the external auditor may be accompanied by a lower propensity for fraudulent financial reporting. In practical terms, the replacement of an incumbent auditor appears to be associated with a lower propensity for financial statement manipulation, suggesting that auditor rotation may introduce a renewed level of scrutiny into the financial reporting process. From an agency-theoretical standpoint, such rotation can strengthen the monitoring function performed by external auditors by reducing information asymmetry and restricting managerial discretion that could otherwise facilitate opportunistic reporting behaviour, the finding reinforces the importance of external auditors as an independent monitoring mechanism for reducing information asymmetry and limiting managerial opportunistic behaviour. Auditor rotation appears to strengthen independence, disrupt informational familiarity, and elevate the perceived likelihood of detection (Yousefi Nejad et al., 2024). Importantly, the finding suggests that auditor change operates as a preventive governance signal rather than merely a regulatory outcome.

Firms that rotate auditors may be signalling commitment to reporting credibility, thereby discouraging managerial opportunism (Sari et al., 2022). The effect size indicates a non-trivial reduction in fraud risk, highlighting the practical relevance of external audit mechanisms. This helps clarify inconsistent prior evidence by suggesting that auditor rotation should be interpreted within a governance-strengthening framework rather than a suspicion-driven one. Theoretically, the result reinforces the importance of external monitoring in complementing internal controls, positioning auditor independence as a central pillar of fraud prevention.

These findings are consistent with research by (Dwianto et al., 2024; Sasongko & Wijayantika, 2019) which indicates a negative relationship between auditor changes and fraud. In this context, changing auditors serves to improve external audit performance and prevent fraudulent reporting rather than to evade detection. This aligns with agency theory, as stakeholders seek satisfactory performance while management works toward that goal. Furthermore, Financial Services Authority Regulation Number 13/POJK.03/2017 mandates a rotation of audit services every three consecutive years; consequently, regular auditor changes are associated with a lower incidence of financial statement fraud.

The Effect of Change in Directors on Financial Statement Fraud

Panel data regression results indicate that the fifth hypothesis (H5) is supported, meaning the change in director variable has a negative impact on financial statement fraud in non-cyclical consumer sector companies listed on the Indonesia Stock Exchange (IDX) from 2021 to 2023. Director turnover is found to reduce the likelihood of fraudulent reporting, offering a nuanced refinement to the capability dimension of Fraud Star Theory. While managerial capability is often framed as an enabler of fraud, the evidence suggests that leadership renewal can instead function as a corrective governance response (Sari et al., 2022). From an agency perspective, replacing directors represents an adaptive mechanism through which principals realign managerial incentives and restore oversight effectiveness (Achmad, Ghozali, & Pamungkas, 2022).

Capability, therefore, should not be treated as inherently risky; its influence depends on whether authority is exercised opportunistically or accountably. The substantive magnitude of the coefficient indicates that leadership restructuring meaningfully lowers fraud exposure, suggesting that governance dynamism may be more important than governance stability (Khamainy et al., 2021b). This finding challenges static interpretations of board effectiveness and reframes director change as a strategic governance intervention rather than a disruption. This study supports agency theory regarding the differing interests between principals and agents, where stakeholders (principals) replace incompetent directors with more capable individuals to protect their interests. Consistent with research by Alifa & Rahmawati (2022), Eksandy & Sari (2022), and (Septriani, 2018), director changes in this context are not intended to conceal existing fraud, but rather result from board supervision of management performance. These transitions allow for improved management quality and reduced fraudulent reporting through the recruitment of more competent leadership. Consequently, regular changes to more qualified directors tend to decrease the level of financial statement fraud within a company.

The Effect of Integrity on Financial Statement Fraud

The results of the study indicate that the sixth hypothesis (H6) is supported, confirming that integrity has a negative influence on financial statement fraud in non-cyclical consumer sector companies listed on the Indonesia Stock Exchange (IDX) from 2021 to 2023. Integrity demonstrates a significant and economically meaningful negative relationship with fraud, highlighting the critical role of ethical enforcement within corporate governance (Mayangsari & Santoso, 2024) . By operationalising integrity through reward–punishment systems, the study captures how ethical expectations are translated into enforceable organisational practices.

Agency theory traditionally emphasises monitoring; however, the findings suggest that normative controls may be equally influential in constraining opportunistic behaviour. When misconduct carries tangible consequences and ethical compliance is incentivised, the cost-benefit calculus underlying fraud shifts substantially (Lotfi et al., 2021). Among the examined variables, integrity exhibits one of the stronger deterrent effects, indicating that ethical infrastructure is not merely symbolic but behaviourally consequential. This supports an emerging view that fraud prevention requires both surveillance and value-based governance (Rahmawati et al., 2025). Theoretically, the study extends Fraud Star Theory by positioning integrity not simply as a moral attribute but as an institutional control mechanism with measurable behavioural impact.

The empirical findings may be situated within the agency perspective, which regards corporate relationships as a form of delegated stewardship: principals place managerial authority in the hands of agents, who are expected to exercise that authority in pursuit of the principals' interests. Within this arrangement, integrity emerges as a crucial behavioural safeguard, as strong ethical commitment can constrain self-serving managerial conduct and diminish the inclination to engage in fraudulent activities. This interpretation is reinforced by prior empirical evidence reported by Mawardi et al. (2020), Siahaan et al. (2019) and Umar et al. (2021), who found that individuals with stronger integrity are generally more capable of resisting external pressure and personal temptations that could encourage fraudulent behaviour. Although integrity remains difficult to measure accurately through standard indicators, the study concludes that as an employee's integrity increases, the likelihood of fraudulent activity decreases.

CONCLUSION

This research extends the existing body of fraud literature by questioning the view that the factors identified in Fraud Star Theory consistently serve as reliable predictors of fraudulent behaviour across different settings. The results suggest that the relationship between fraud-related factors and fraudulent conduct may vary according to the organizational context, particularly depending on how effectively corporate governance mechanisms are implemented and enforced. In particular, pressure-based incentives such as financial targets do not automatically lead to fraudulent reporting unless supported by enabling governance conditions, thereby extending agency theory from a purely incentive-driven perspective toward a governance-contingent framework. Furthermore, financial stability is reconceptualised as a reputational construct rather than solely an indicator of organisational strength, suggesting that managers may manipulate financial reporting to maintain the appearance of stability and sustain market confidence. The results also reveal that ineffective monitoring structures may function symbolically rather than substantively when oversight mechanisms are not actively enforced. In addition, managerial capability—proxied by changes in directors—may serve as a corrective governance mechanism rather than facilitating fraud. By operationalising integrity through reward–punishment systems, this study further reframes integrity from an abstract ethical concept into an observable institutional control, thereby strengthening the theoretical linkage between behavioural ethics and corporate governance within the Fraud Star framework.

Using a sample of 71 firms from the Consumer Non-Cyclicals sector listed on the Indonesia Stock Exchange during 2021–2023, the empirical analysis reveals a statistically significant positive association between financial stability and financial statement fraud. This result implies that shifts in a firm's financial condition may create stronger managerial incentives to maintain the appearance of favourable corporate performance, thereby increasing the potential for misleading financial reporting.

The findings further reveal that auditor replacement, changes in corporate directors, and organizational integrity are negatively and significantly related to financial statement fraud. Such relationships suggest that changes in oversight structures, leadership renewal, and the reinforcement of integrity within the organization may serve as mechanisms for constraining fraudulent behaviour. Conversely, financial targets and ineffective monitoring fail to demonstrate statistically significant relationships with financial statement fraud, indicating that these two factors do not sufficiently explain fraudulent reporting within the Consumer Non-Cyclicals sector during the period examined.

The findings carry important implications for regulators, external auditors, and investors in the Indonesian capital market. Greater attention should be directed toward strengthening corporate governance frameworks and establishing control mechanisms that promote ethical conduct. The findings underscore the importance of strengthening corporate integrity as part of a broader strategy for detecting and mitigating the potential for fraudulent financial reporting. However, the interpretation of these results should consider several limitations. The analysis focuses exclusively on one industry sector and encompasses a relatively short three-year period, thereby restricting the extent to which the conclusions can be generalized to other sectors or longer time horizons. Subsequent research may address these limitations by incorporating firms from a wider range of industries and employing a longer observation window. In addition, future investigations could examine moderating variables such as digital transformation, audit committee competence, and corporate governance quality. Incorporating these factors may provide deeper insight into how organizational and technological conditions shape the effectiveness of fraud prevention mechanisms among companies listed on the Indonesia Stock Exchange.

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