

Financial Statement Fraud Perspective of Fraud Diamond Theory: Empirical Study on Consumer Cyclicals Sector Companies in Indonesia

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ABSTRACT

The purpose of this study is to examine the potential for financial statement fraud using fraud diamond theory factors such as stimulus (financial targets and external pressure), opportunity (ineffective monitoring), rationalization (auditor switching), and capacity (change in director and CEO duality). The sample of this research is consumer cyclical sector companies listed on the Indonesia Stock Exchange in 2020 - 2023, with a total sample of 492. The results of this study indicate that the variables of financial targets, external pressure, ineffective monitoring, and CEO duality have a significant effect on financial statement fraud. Still, the variables of auditor switching and change in director have no significant effect on financial statement fraud. A company needs to have a system to prevent fraudulent financial reporting with steps the company must set accurate and realistic financial targets, manage both internal and external pressures, create a review, detection, and monitoring policy system on human resources (HR), and avoid CEO dualism.

Keywords:

Financial Statement Fraud, Fraud Diamond Theory, Stimulus, Opportunity, Rationalization, Capacity.

1. INTRODUCTION

Financial statement is one of the major resources used by stakeholders to make choices, particularly on investments. Nevertheless, financial statement is frequently manipulated to preserve company going concern (Biduri & Tjahjadi, 2024), which may eventually have detrimental effects on businesses, investors, and stakeholders at large (du Toit, 2024; Nejad et al., 2024; Ramzan & Lokanan, 2025). Almost 20 years after the Enron scandal, instances of financial statement fraud continue to occur in the absence of an effective deterrent mechanism (Soltani et al., 2023). As a result, research into the causes of financial statement fraud remains extremely relevant and vital. This research is driven by several factors. First, despite the fact that financial statement fraud is the least common sort of fraud, it has a significant influence on a country's economy (ACFE, 2024). Second, this unethical practice will have a greater impact in developing countries. Especially in developing nations like Indonesia, where internal controls and governance processes are seen as inadequate (Jaswadi et al.,



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2024), as evidenced by the instance of financial statement fraud by Garuda Indonesia, one of Indonesia's main airlines and state-owned enterprises (Aviantara, 2023; Jaswadi et al., 2024)

This study therefore aims to identify and test the triggers of financial statement fraud from the perspective of the fraud diamond theory in the consumer cyclicals sector. Previous academics have undertaken extensive study on financial reporting fraud, and this field is still evolving. Several classical research studies have attempted to investigate the impact of audit quality and corporate governance procedures on financial statement fraud (Mandal & Amilan, 2025; Md Nasir & Hashim, 2021; Nejad et al., 2024). Other scholars have attempted to forecast financial statement fraud using more recent factors such as economic complexity and green economy (Ahmadi et al., 2024), blockholder control (Smaili et al., 2022), and management entrenchment (Seifzadeh et al., 2022). There are also initiatives to reduce the prevalence of financial statement fraud by using fraud detection techniques that use new models (An & Suh, 2020; Riskiyadi, 2025) or are enhanced by technology such as AI (Riskiyadi, 2024). The phenomenon of financial statement fraud originates in fraud, which must eventually be examined through the lens of fraud theory, both in terms of theoretical basis and variable emergence.

Consequently, this study revisits the problem of financial statement fraud through the lens of fraud theory, namely the fraud diamond theory. According to Wolfe & Hermanson (2004), fraud is driven by four factors: pressure, opportunity, rationalization, and capability. The incidence of financial statement fraud, which is caused by the company's financial issues (An & Suh, 2020), is also thought to be explained by this theory. This leads to the concealment of the actual financial state in order to mislead stakeholders (Maniatis, 2022). Because of its capacity to forecast financial statement fraud, particularly in developing nations, the fraud diamond theory is regarded as a relevant theoretical foundation (Demetriades & Owusu-Agyei, 2022; Khamainy et al., 2022; Omukaga, 2021). According to this theory, six variables can explain financial statement fraud: pressure (financial target and external pressure), opportunity (ineffective monitoring), rationalization (auditor switching), and capability (change in auditor and CEO duality). The factors listed above are based on the research of (2022), Khamainy et al. (2022), Omukaga (2021), and Seifzadeh et al. (2022).

Findings from earlier research remain mixed, especially regarding the factors of financial targets, external pressure, inefficient monitoring, auditor switching, and changes in directors (Demetriades & Owusu-Agyei, 2022; Khamainy et al., 2022; Omukaga, 2021). The CEO duality variable may also be incorporated into the fraud diamond model, particularly for the capability aspect, according to the study by Seifzadeh et al. (2022). This study fills the gap in prior research by combining six variables into four fraud diamond models. These elements are then examined to yield new findings that bolster the empirical

data from earlier studies. Earlier research looked at a number of distinct company objects. Omukaga (2021) and Seifzadeh et al. (2022) investigated all companies listed on the stock exchange, with the exception of financial sector companies; Demetriades & Owusu-Agyei (2022) concentrated on Toshiba; Khamainy et al. (2022) on manufacturing sector companies; and Biduri & Tjahjadi (2024) on Islamic banking companies. By investigating consumer cyclical sector firms, this study hopes to give a new viewpoint on financial statement fraud.

Employing a purposive sampling screening process, this study obtains 492 observations from consumer cyclical sector companies over a four-year period spanning from 2020 to 2023. The collected data is subjected to logistic regression analysis, yielding several noteworthy findings. The results reveal that only three fraud diamond factors (pressure, opportunity, and capability) significantly and positively influence financial statement fraud: financial targets, external pressure, ineffective monitoring, and CEO duality. Conversely, auditor switching and change in director do not exhibit a significant effect on financial statement fraud. This study makes two primary contributions to the existing literature. First, it provides empirical evidence of the application of fraud diamond theory in a rarely studied sector, namely consumer cyclical sector companies, thereby enriching the empirical findings related to financial statement fraud in this understudied domain. Second, the research findings highlight several factors that consumer cyclical sector companies should consider in their efforts to prevent financial statement fraud. Companies need to mitigate the pressure stemming from excessively high management targets, strengthen internal control and corporate governance mechanisms, and carefully evaluate the assignment of directors to other companies (CEO duality).

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Fraud Diamond Theory

Fraud diamond theory represents an advancement of the fraud triangle theory proposed by Wolfe & Hermanson (2004), which introduced an additional element: capability. This enhancement aims to explain that large-scale fraud is not solely triggered by pressure, opportunity, and rationalization, but also requires individuals who possess the necessary skills, authority, and strategic positioning to execute fraudulent schemes (Khamainy et al., 2022). According to Wolfe & Hermanson (2004), individuals with high intelligence, key positions, and confidence that their actions will remain undetected possess significant potential for committing fraud. The Association of Certified Fraud Examiners report also demonstrates that the majority of fraud cases are perpetrated by senior management who have extensive access and control over organizational resources (ACFE, 2024).

The fraud diamond theory comprises four fundamental elements: pressure, opportunity, rationalization, and capability. Pressure represents internal or external motivations, such

as financial demands, lifestyle pressures, or performance target requirements (Abdullahi & Mansor, 2015). Opportunity emerges from weaknesses in internal controls and inadequate oversight mechanisms (Lastanti, 2020). Rationalization refers to perpetrators' attempts to morally justify their actions despite ethical contradictions (Christian et al., 2019). Meanwhile, capability encompasses aspects such as intelligence, risk-taking propensity, manipulation abilities, and capacity to manage pressure effectively. Through these four elements, the fraud diamond provides a more comprehensive analytical framework for understanding the underlying causes of fraudulent behavior, particularly in the context of financial reporting fraud. This theory has been utilized in previous studies to explain the effects of the fraud diamond model on the occurrence of financial reporting fraud (Demetriades & Owusu-Agyei, 2022; Khamainy et al., 2022; Omukaga, 2021).

Financial Target on Financial Statement Fraud

One of the primary drivers that motivates individuals, particularly managers, to engage in financial statement fraud is the presence of pressure (Oktarina, 2021; Omukaga, 2021). This pressure can manifest as financial or non-financial problems that cannot be shared with others and often stems from demands to achieve specific targets (Hasnan et al., 2008; Skousen et al., 2009). In the context of financial reporting, pressure typically arises from managers' obligations to meet financial targets established by internal parties such as the board of directors or shareholders (Omar & Din, 2010; Demetriades & Owusu-Agyei, 2022). This pressure can be either real or perceived; however, both forms can drive individuals to commit fraud when they feel unable to achieve targets through legitimate means (Abdullahi & Mansor, 2015). The achievement of profit targets often becomes a significant form of pressure, particularly when companies operate under unstable financial conditions (Khamainy et al., 2022).

Corporate financial targets, such as return on assets (ROA), frequently serve as primary benchmarks for evaluating managerial performance and form the basis for incentive or bonus compensation (Skousen et al., 2009). When actual achievement falls short of these targets, managers may be motivated to manipulate financial reports to present performance that appears aligned with capital owners' or board of directors' expectations (Hidayah & Saptarini, 2020). This pressure is further intensified by unstable economic conditions, intense industry competition (Khamainy et al., 2022), and personal motivations to maintain reputation or position (Vousinas, 2019). Several studies, including Demetriades & Owusu-Agyei (2022) and Omukaga (2021), demonstrate that financial target achievement has a positive and significant effect on the potential occurrence of financial reporting fraud. Based on this discussion, the hypothesis proposed in this study is:

H1: Financial target has a significant effect on financial statement fraud.

External Pressure on Financial Statement Fraud

External pressure represents excessive demands to meet specific expectations from third parties outside the organization (Khamainy et al., 2022), which can serve as a catalyst for financial statement fraud. This pressure emerges from high expectations of creditors, investors, regulators, and the public for companies to consistently demonstrate strong performance and maintain trustworthiness (Permatasari, 2021). One common form of external pressure is the company's need to obtain loans or maintain creditor confidence, which requires financial statement stability (Skousen et al., 2009). When management fails to meet these requirements, they may be motivated to manipulate financial information to appear compliant with external expectations (Achmad et al., 2022). Such pressure renders management vulnerable to manipulative actions, thereby increasing the risk of financial statement fraud (Safiq & Seles, 2019; Omukaga, 2021).

External pressure in the context of financial statement is often manifested through high corporate debt burdens, reflecting creditor demands to maintain financial performance stability. When companies face substantial debt obligations that are not supported by adequate financial performance, management may be incentivized to present financial statements that appear more favorable than actual conditions to preserve external confidence (Fitriastuti & Umami, 2021). This pressure potentially creates incentives for managers to manipulate reports, particularly in debt and revenue recognition, to maintain the appearance of financial health (Bawekes et al., 2018; Yuniasih et al., 2020). Previous empirical research by Akbar (2017), Biduri & Tjahjadi (2024), Dewi & Anisykurlillah (2021) found that external pressure has a positive influence on financial statement fraud. Based on this theoretical framework and empirical evidence, the hypothesis in this study is:

H2: External pressure has a significant effect on financial statement fraud.

Ineffective Monitoring on Financial Statement Fraud

Monitoring represents one of the fundamental mechanisms through which companies mitigate the occurrence of fraud (Khamainy et al., 2022). Conversely, ineffective monitoring can create significant opportunities for financial statement fraud to occur. Opportunity constitutes a key element that enables individuals to commit fraud when corporate monitoring mechanisms are weak or fail to function properly (Rahmawati & Susilawati, 2019). This condition is frequently attributed to the inadequate role of boards of commissioners and audit committees in controlling the financial reporting process and internal control systems (Omukaga, 2021). When monitoring functions operate suboptimally, the risk of manipulative actions by management increases, as perpetrators perceive a low likelihood of detection or sanctions (Murphy & Dacin, 2011). Low proportions of independent commissioners, infrequent meeting frequencies, and management dominance in decision-making serve as indicators of weak monitoring (Achmad et al.,

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2022), ultimately creating opportunities for managers to present financial reports that do not reflect actual conditions. Previous research by Biduri & Tjahjadi (2024) and Demetriades & Owusu-Agyei (2022) also demonstrates that weak monitoring positively influences the increased likelihood of financial statement fraud. Therefore, the hypothesis in this study is:

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

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Auditor Switching on Financial Statement Fraud

As independent parties responsible for examining and providing opinions on the fairness of financial statements (Biduri & Tjahjadi, 2024), auditors serve as supervisors and early detectors of potential fraud (Solichin et al., 2022). Consequently, auditors are positioned to identify companies that are suspected of engaging in fraudulent activities. Companies involved in fraudulent practices tend to switch auditors to eliminate traces of audit findings and facilitate subsequent fraudulent activities (Achmad et al., 2023). The presence of new auditors, who have not yet fully comprehended the company's operational conditions, creates opportunities for companies to engage in fraudulent behavior (Ozcelik, 2020). Furthermore, empirical evidence from Nguyen et al. (2025) demonstrates that the frequency of auditor switching can increase the likelihood of fraud occurrence. Therefore, auditor switching is considered a proxy for the rationalization element within the fraud diamond theory framework and is hypothesized to have a positive influence on financial statement fraud occurrence. Based on this theoretical framework and empirical evidence, the hypothesis in this study is:

H4: Auditor switching has a significant effect on financial statement fraud.

Change in Director on Financial Statement Fraud

Director turnover represents one of the factors that potentially influences financial statement fraud (Sari et al., 2022). One reason companies replace directors is that the incumbent director is considered highly competent and possesses a deeper understanding of potential fraud risks, thereby enabling stricter detection of fraud indicators (Demetriades & Owusu-Agyei, 2022). With the appointment of a new director, oversight tends to weaken as the incoming director has not yet fully comprehended the internal control system and business processes of the company. This adaptation and adjustment process creates organizational instability (Achmad et al., 2022), consequently reducing the effectiveness of control and supervision over financial statement presentation. Furthermore, director turnover may be exploited to conceal fraud traces from previous periods (Situngkir & Triyanto, 2020). Former management involved in manipulative practices endeavors to ensure that their replacement is not an overly critical individual who understands existing fraud indicators. During this leadership transition, opportunities to perpetuate fraudulent

activities increase due to internal control weaknesses and the new director's limited understanding of the company. Therefore, director changes are hypothesized to positively influence financial statement fraud. Therefore, the hypothesis in this study is:

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

CEO Duality on Financial Statement Fraud

CEO duality occurs when an individual simultaneously serves as both Chief Executive Officer (CEO) and chairman of the board of directors (Rechner & Dalton, 1991). This condition centralizes corporate leadership and oversight in a single individual, significantly weakening the checks and balances mechanisms and independent oversight within the organization (Manry et al., 2023). When executive authority and oversight functions are concentrated in one person, decision-making tends to be more oriented toward personal interests and internal stakeholders (Lizares, 2022), rather than serving broader corporate interests. Furthermore, the reduced oversight from the board of directors provides CEOs with greater discretion to manipulate financial statement figures and conceal fraudulent activities (Demetriades & Owusu-Agyei, 2022). This assertion is reinforced by empirical evidence documenting earnings management practices (Baker et al., 2019; Tessema et al., 2024) and declining earnings quality associated with CEO duality (Alves, 2023). Given the excessive concentration of control and weakened oversight mechanisms, CEO duality is hypothesized to positively influence the likelihood of financial reporting fraud. Therefore, the hypothesis in this study is:

H6: CEO duality has a significant effect on financial statement fraud.

3. RESEARCH METHODS

Sample and Data Collection

This study employs a sample of consumer cyclical sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2020–2023. This sector was selected due to its business characteristics that are highly sensitive to economic cycles, including consumer purchasing power, seasonal trends, and macroeconomic conditions. High demand fluctuations create performance pressures on companies, particularly during economic downturns, which may incentivize management to engage in opportunistic behavior, including financial statement manipulation. Additionally, this sector is characterized by intense competition and aggressive growth targets, resulting in relatively high fraud risk, particularly concerning revenue and asset misstatement. Data were collected using purposive sampling based on the criteria outlined in Table 1. This research utilizes secondary data obtained from annual reports published on the IDX or the respective companies' official websites.

Table 1. Sample Selection Criteria

No	Criteria	Total
1	Consumer cyclicals sector companies listed on Indonesia Stock Exchange.	163
2	Consumer cyclicals sector companies that did not publish consecutive annual reports from 2020–2023.	(15)
3	Annual reports published between 2020 and 2023 with incomplete research variable data.	(25)
Final Sample		123
Total Observation (4 years)		492

Source: Data Processed, 2024

Operational Definition of Variables

This study employs two types of variables: dependent and independent variables. The dependent variable is Financial Statement Fraud (Y), measured using the F-Score based on the model developed by Skousen et al. (2009). The independent variables comprise six indicators: Financial Target (X1), External Pressure (X2), Ineffective Monitoring (X3), Auditor Switching (X4), Change in Director (X5), and CEO Duality (X6).

Dependent Variable

Financial statement fraud refers to intentional acts of falsifying or manipulating financial information with the purpose of misleading financial statement users. In this study, financial statement fraud serves as the dependent variable and is measured using the F-Score model developed by Skousen et al. (2009), which represents an enhancement of the previously established Beneish M-Score model. This model encompasses two primary components: accrual quality proxied through RSST Accrual and financial performance indicators. The resulting F-Score values are subsequently classified into a dummy variable, where a value of 1 indicates the presence of financial reporting fraud, and a value of 0 indicates the absence of fraudulent activity (non-fraud). The implementation of this binary classification enables the application of logistic regression analysis methods, as the dependent variable exhibits a dichotomous nature.

F-Score = Accrual Quality + Financial Performance

RSST Accrual= $(\Delta WC + \Delta NCO + \Delta FIN) / (\text{Average Total Asset})$

Description:

WC (Working Capital) = Current Assets – Current Liability

NCO (Non-Current Operating Accrual) = (Total Assets – Current Assets – Long Term investment) – (Total Liabilities – Current Liabilities – Long Term Debt)

FIN (Financial Accrual) = Total Investment – Total Liabilities

Financial Performance = Change in Receivable + Chang in Inventories + Change in Cash Sales + Change in Earning

Description:

Change in receivable= $(\text{Receivable}(t) - \text{Receivable}(t-1)) / (\text{Average total assets})$

Change in inventory= $(\text{Inventory}(t) - \text{Inventory}(t-1)) / (\text{Average total assets})$

Change in cash sales= $(\text{Sales}(t) - \text{Sales}(t-1)) / \text{Sales}(t) - (\text{Receivable}(t) - \text{Receivable}(t-1)) / (\text{Receivable}(t))$

Change in earnings= $(\text{Earnings}(t)) / (\text{Average total assets}(t)) - (\text{Earnings}(t-1)) / (\text{Average total assets}(t-1))$

This model predicts that firms will engage in financial statement fraud if the F-score value exceeds 1, conversely, firms with F-score values below 1 are not predicted to engage in fraudulent financial reporting.

Independent Variables

Financial Target represent specific profit objectives that a business entity must achieve through its operational processes (Bawekes et al., 2018). Following Skousen et al. (2009), financial targets are measured using Return on Assets (ROA):

$\text{ROA} = (\text{Profit before Tax}) / (\text{Total Assets})$

External Pressure refers to the pressure experienced by management to meet third-party demands and expectations. Consistent with Skousen & Twedt (2009), external pressure is measured using the leverage ratio:

$\text{LEV} = (\text{Total Liability}) / (\text{Total Assets})$

Ineffective Monitoring represents a condition characterized by the absence of effective oversight mechanisms within a company's governance structure. Ineffective monitoring is proxied by the proportion of independent commissioners relative to the total number of commissioners:

$\text{Ineffective Monitoring} = \text{Number of Independent Commissioners} / \text{Total Number of Commissioners}$

Auditor Switching refers to the transition of auditors and public accounting firms conducting audits for a particular company (Widharma & Susilowati, 2020). Auditor changes represent a significant factor that may influence audit report outcomes and quality.

Change in Director involves the replacement of board members, which may be undertaken to conceal fraudulent activities conducted by previous directors (Omukaga, 2021). This raise concerns regarding whether directorial changes aim to enhance corporate performance or to cover up fraudulent conduct.

CEO Duality signifies the lack of separation between decision-making control and decision management functions (Fama & Jensen, 1983). From the fraud diamond theory perspective, CEO duality presents adverse implications as it may impede commissioners' ability to effectively monitor and evaluate the board of directors' performance.

The following equation represents the hypothesis testing model developed in this study:

$$Y_{it} = \alpha + \beta_1 \text{Fintar}_i + \beta_2 \text{Expressi}_i + \beta_3 \text{InMoni}_i + \beta_4 \text{AuSwiti}_i + \beta_5 \text{ChaDiri}_i + \beta_6 \text{CEODuali}_i + \varepsilon$$

Where:

Y = Financial statement fraud for firm i in year t

Fintar = Financial target for firm i in year t

Expres = External pressure for firm i in year t

InMon = Ineffective monitoring for firm i in year t

AuSwit = Auditor switching for firm i in year t

ChaDir = Change in director for firm i in year t

CEODual = CEO duality for firm i in year t

This study utilizes panel data regression analysis and logistic regression analysis to examine the relationship between the dependent and independent variables. The analytical approach employs quantitative methods implemented through statistical software (SPSS). The panel data and logistic regression methodology is particularly appropriate for this research as it accommodates both cross-sectional heterogeneity across firms, temporal dynamics within individual firms, and accounted for independent dummy variable, thereby providing more robust estimates than traditional cross-sectional or time-series analyses alone.

4. RESULTS AND DISCUSSION

The initial phase of the research findings analysis involves conducting preliminary data exploration through descriptive statistics to examine the central tendency and distributional characteristics of the research data. The descriptive statistical analysis presented in Table 2 reveals the following findings:

Table 2. Descriptive Statistic

	N	Mini- mum	Maxi- mum	Mean		Std. Deviation
	Sta- tistic	Statis- tic	Statis- tic	Statis- tic	Std. Error	Statistic
FinTar	492	-9.498	4.776	-.08202	.034916	.774469
ExPres	492	.001	117.384	1.77628	.419524	9.305493
InMon	492	.333	7.000	.86802	.031867	.706848
			Frequ- ency	Percent		
AuSwit	492	0	394	80.1		
		1	98	19.9		
ChaDir	492	0	460	93.5		
		1	32	6.5		
CEO- Dual	492	0	304	61.8		
		1	188	38.2		
Valid N (listwise)	492					

Source: Data Processed, 2024

Financial Target, proxied by ROA, demonstrates a minimum value of -9.498 and a maximum value of 4.776. These findings indicate that some sample firms experienced losses, while the maximum profitability reached 477.6%. The mean value of -0.08202 reveals that, on average, firms incurred losses of 8.20%. This suggests that consumer cyclical sector companies in Indonesia, on average, experienced negative profitability during the observation period. External Pressure, proxied by leverage, exhibits a minimum value of 0.001 and a maximum value of 117.384. These results demonstrate substantial variation in external pressure among sample firms. A considerable number of sample firms experienced external pressure above the mean of 1.777, with some firms experiencing financial distress where total liabilities exceeded total assets. The lowest external pressure was recorded at 0.1%, while the highest external pressure reached 11,738.4%.

Ineffective Monitoring, representing an opportunity proxy measured by the ratio of independent commissioners to total commissioners, shows a minimum value of 0.333 and a maximum value of 7. These findings indicate considerable variation in the ratio of independent commissioners to total commissioners across sample firms, with a mean of 0.868. This ratio approaches unity, suggesting a relatively balanced proportion between independent commissioners and total board members. Auditor Switching, serving as a rationalization proxy, demonstrates minimum and maximum values of 0 and 1, respectively. This indicates that some sample firms did not engage in auditor switching during the observation period. The mean value of 0.20 reveals that 20% of sample firms implemented auditor changes, while the remaining 80% maintained their existing audit relationships.

Change in Director, representing a capability proxy, exhibits minimum and maximum values of 0 and 1, respectively. This suggests that some sample firms did not experience director changes during the study period. The mean value of 0.07 indicates that 7% of sample firms underwent director changes, while 93% maintained their existing director composition. CEO Duality, serving as a capability proxy, shows minimum and maximum values of 0 and 1, respectively. This indicates variation in dual leadership roles among sample firms. The mean value of 0.38 reveals that 38% of sample firms exhibited CEO duality arrangements, while 62% maintained separate CEO and chairman positions.

Model Adequacy Assessment

Table 3 demonstrates that the significance value of the Hosmer and Lemeshow Test in step 1 is 0.785 (> 0.05), thereby accepting the null hypothesis (H_0). This indicates that the model is acceptable and hypothesis testing can proceed, as there is no significant difference between the model and the observed values.

Table 3. Hosmer and Lemeshow Test Results

Step	Chi-square	df	Sig.
1	5.765	6	0.785

Source: Data Processed, 2024

Table 4. Result of t Test (Variables in the Equation)

	B	S.E.	Wald	df	Sig.
FinTar	0.928	2.937	2.342	1	0.042
ExPres	0.627	3.973	3.263	1	0.002
InMon	1.162	3.163	3.924	1	0.001
AuSwit	1.827	1.836	1.347	1	0.237
ChaDir	0.847	1.735	1.267	1	0.342
CEODual	1.273	4.937	4.342	1	0.000
Constant	5.382	1.963	1.435	1	0.253

a. Dependent Variable: Financial Statement Fraud (Y)

Source: Data Processed, 2024

Table 5. F-Test Results (Omnibus Test)

		Chi-square	df	Sig.
Step 1	Step	65.634	6	0.0142
	Block	65.634	6	0.0142
	Model	65.634	6	0.0142

Source: Data Processed, 2024

Table 6. Model Summary: Cox and Snell's R Square and Nagelkerke's R Square

Step	-2 Log likelihood	Cox & Snell R square	Nagelkerke R square
1	79.252	0.256	0.286

Source: Data Processed, 2024

Logistic Regression Analysis Results

Based on Table 4, the t-test results indicate that four variables demonstrate significance values of $p < 0.05$, suggesting a statistically significant influence on financial statement fraud. These variables include financial target, external pressure, ineffective monitoring, and CEO duality. Conversely, the remaining variables—auditor switching and change in director—exhibit significance values of $p > 0.05$, indicating no statistically significant effect on financial statement fraud.

The results presented in Table 5 reveal that the F-test yields a significance value of 0.0142 ($p < 0.05$), demonstrating that the independent variables collectively have a statistically significant effect on financial statement fraud. This finding suggests that the overall model is significant and that the independent variables, when considered together, provide meaningful explanatory power for predicting financial statement fraud.

The results presented in Table 6 demonstrate that the model exhibits substantial explanatory power, with an R^2 value of 0.79252. This indicates that the independent variables collectively account for 79.25% of the total variation in the dependent variable, while the unexplained variance of 20.75% is attributable to omitted variables and other unobserved factors not incorporated in the model.

The Effect of Financial Target on Financial Statement Fraud

Based on the research findings, there is a positive correlation between financial targets, as proxied by return on assets (ROA), and indications of financial statement fraud among consumer cyclical sector companies listed on the Indonesia Stock Exchange during the period 2020-2023. The minimum ROA of -9.498 indicates the presence of companies experiencing significant losses, while the maximum value of 4.776 reflects exceptional financial performance. However, the mean ROA of -0.08202 suggests that, on average, sample companies experienced losses of approximately 8.20%. This reflects substantial profitability pressures within the sector, which theoretically may trigger manipulative behaviors.

Within the framework of fraud diamond theory developed by Wolfe & Hermanson (2004), stringent financial targets can create pressure on managers to meet performance expectations established by principals or shareholders. This pressure, under certain conditions, may be exacerbated by the presence of opportunity, rationalization, and capability of fraudulent actors, which constitute the four primary elements of the theory. Financial targets represent a tangible form of pressure, as managers are compelled to achieve specific profitability levels within a reporting period, thereby incentivizing potential financial statement manipulation to create perceptions of favorable performance. These findings are consistent with previous research conducted by Akbar (2017), Biduri & Tjahjadi (2024), and Hidayah & Saptarini (2020), which consistently demonstrate that financial targets exert a significant positive influence on the propensity for financial reporting fraud.

The Effect of External Pressure on Financial Statement Fraud

The hypothesis analysis results demonstrate a statistically significant relationship between external pressure, proxied by leverage ratio, and indications of financial statement fraud among consumer cyclical sector companies listed on the Indonesia Stock Exchange during the period 2020 to 2023. The leverage ratio in the research sample exhibits a minimum value of 0.001 and a maximum of 117.384, with a mean value of 1.77628. This substantial variation indicates significant differences in financing structures across companies, where the majority of firms maintain leverage ratios exceeding 1, signifying that total liabilities surpass total assets. This condition reflects capital structure deficiencies, directly manifesting high financial distress that may trigger incentives for financial statement manipulation.

Within the framework of fraud diamond theory, external pressure in the form of elevated debt burden represents a manifestation of the pressure element-circumstances that compel management to engage in fraudulent activities to preserve corporate performance image and maintain favorable relationships with creditors. Companies with high leverage typically face greater default risk, providing managers with strong incentives to present financial statements that appear more favorable than

actual conditions. This may be accomplished through financial information manipulation to satisfy debt covenants or maintain investor and lender confidence. These findings align with prior research conducted by Skousen & Twedt (2009), Akbar (2017), Hidayah & Saptarini (2020), Lastanti (2020), and Dewi & Anisykurlillah (2021), which confirm that external pressure from debt financing structures exerts a significant positive influence on the propensity for financial statement fraud.

The Effect of Ineffective Monitoring on Financial Statement Fraud

The ineffective monitoring variable in this study is proxied by the proportion of independent commissioners to the total number of boards of commissioner's members. The minimum value of 0.333 and maximum value of 7.000, with a mean value of 0.86802, indicates that the majority of companies have independent commissioners. Nevertheless, the mean value below 1 and significant variation suggest that board oversight may not be optimal across all sample companies. This compositional imbalance can affect the effectiveness of the monitoring function that should be performed by the board of commissioners.

The findings of this study indicate that ineffective monitoring by the board of commissioners has a significant influence on the propensity for financial statement fraud. Within the framework of fraud diamond theory, weak oversight creates greater opportunities for management to engage in financial statement manipulation. Independent commissioners should play a crucial role in maintaining sound governance by providing objective oversight of directors' activities. When their proportion or role is suboptimal, the company's internal control system becomes vulnerable and provides opportunities for fraudulent activities. These results are consistent with the findings of Oktaviani & Wenny (2023), Biduri & Tjahjadi (2024) and Omukaga (2021), who found that higher ratios of independent commissioners reduce the likelihood of fraud occurrence. This is because the presence of strong independent commissioner's functions as an effective monitoring mechanism over managerial behavior.

The Effect of Auditor Switching on Financial Statement Fraud

The research findings indicate that auditor switching does not significantly influence financial statement fraud, leading to the rejection of H4, which hypothesized a significant relationship between auditor switching and financial statement fraud. These findings are consistent with Khamainy et al. (2022) and Omukaga (2021), who concluded that auditor switching does not play a significant role in preventing or facilitating fraudulent practices. However, these results contradict the fraud diamond theory and findings from Biduri & Tjahjadi (2024) and Hidayah & Saptarini (2020), which argue that auditor switching represents a form of rationalization employed by management to avoid fraud detection.

In the Indonesian context, auditor switching practices are primarily driven by contract completion, cost efficiency considerations, or compliance with mandatory auditor rotation regulations (Hidayah & Saptarini, 2020), rather than serving as a mechanism for fraud concealment. The sample data reveal that 80.1% of companies did not engage in auditor switching during the observation period, while only 19.9% implemented such changes. This low incidence of auditor switching suggests that rotation practices have not yet become commonplace, thereby weakening the relevance of the rationalization dimension within the fraud diamond theory framework. Consequently, these findings reject the assumption that auditor switching is directly associated with the occurrence of financial statement fraud. The limited prevalence of auditor switching in the Indonesian market context appears to diminish its utility as an indicator of potential fraudulent behavior, challenging theoretical expectations derived from the fraud diamond model.

The Effect of Change in Director on Financial Statement Fraud

Based on the hypothesis testing, the findings of this study indicate that management turnover does not exert a significant influence on financial statement fraud. Consequently, H5, which posited that management turnover affects financial reporting fraud, is rejected. These results are consistent with the findings of Achmad et al. (2022), Khamainy et al. (2022), and Situngkir & Triyanto (2020), but are inconsistent with fraud diamond theory and the study by Biduri & Tjahjadi (2024). Khamainy et al. (2022) demonstrate that management turnover is primarily driven by performance improvement initiatives, organizational renewal, or administrative considerations, rather than serving as a mechanism to conceal fraudulent activities. Within the Indonesian context, the data reveal that only 6.5% of sample companies experienced management turnover during the observation period, reflecting a relatively high level of managerial stability. This phenomenon undermines the assumptions of fraud diamond theory, particularly the rationalization dimension, which posits that perpetrators tend to seek justification for fraudulent behavior, including through leadership changes to eliminate fraud traces. Conversely, in practice, management turnover more frequently occurs due to resignations, mortality, or management restructuring aimed at supporting corporate sustainability (Yesiariani & Rahayu, 2016). Therefore, these findings suggest that fraud diamond theory does not fully apply within the context of management structures in Indonesia.

The Effect of CEO Duality on Financial Statement Fraud

Based on the research data, the majority of firms in the sample, comprising 304 companies (61.8%), do not implement CEO duality structure, wherein the CEO does not concurrently hold the position of Chairman of the Board of Directors. Nevertheless, 188 companies (38.2%) still adopt this leadership structure, which potentially creates corporate governance challenges. CEO duality

establishes a concentration of power within a single individual, thereby rendering the oversight function of the board of directors ineffective. Under this structure, the CEO simultaneously monitors their own performance, preventing the supervisory role from being executed independently from policy implementation.

Theoretically, CEO duality enhances the opportunity component within the fraud diamond framework. When oversight and execution functions are controlled by a single individual, internal controls are weakened, creating greater opportunities for financial reporting fraud. This situation amplifies the likelihood of conflicts of interest, as the CEO possesses comprehensive authority to make strategic decisions and oversee their implementation without adequate control mechanisms. Consequently, elevated agency costs emerge, potentially resulting in diminished decision-making effectiveness, information manipulation, and abuse of authority for personal gain. These findings align with previous research by Khamainy et al. (2022) and Putra & Achmad (2024), which demonstrated that CEO duality significantly influences the increased risk of financial statement fraud.

5. CONCLUSIONS AND SUGGESTIONS

This study aims to examine the application of fraud diamond theory in consumer cyclical sector companies in Indonesia. By testing the effects of financial targets, external pressure, ineffective monitoring, auditor switching, changes in directors, and CEO duality on financial statement fraud, the researchers obtained several noteworthy findings. The results indicate that financial targets, external pressure, ineffective monitoring, and CEO duality significantly influence fraudulent financial reporting. However, the variables of auditor switching and changes in directors do not demonstrate significant effects on fraudulent financial reporting.

The findings of this study provide valuable insights for future researchers, consumer cyclical sector companies, and policymakers in conducting research and formulating strategic initiatives or policies. First, the research findings exhibit certain inconsistencies that present opportunities for future investigations to explore fraud concepts, particularly financial statement fraud, across different sectors while incorporating diverse variables. Second, consumer cyclical sector companies can develop mechanisms to mitigate the likelihood of financial statement fraud by reducing internal and external pressures, strengthening internal controls and corporate governance frameworks, and reviewing executive workloads and directorial dual appointments. This approach is intended to enable CEOs to focus their attention on a single organization, thereby enhancing their commitment and performance effectiveness.

This study has several limitations that warrant acknowledgment. First, the selection of proxies was constrained by secondary data availability, which may not comprehensively capture the complex multidimensional aspects of fraud. The data utilized were derived from financial statements and other publicly available sources, which may not fully reflect internal organizational conditions

such as managerial pressure, organizational ethics, or corporate culture. Second, the research sample was limited to the consumer cyclical sector, potentially limiting the generalizability of findings across all industries in Indonesia. Third, fraud measurement was conducted indicatively through the F-Score methodology rather than based on actual fraud incidents investigated or prosecuted by regulatory authorities.

Future research should consider several enhancements to address these limitations. First, researchers are encouraged to employ more diverse and comprehensive proxies, including variables such as organizational culture, pressure from majority shareholders, or the influence of compensation systems on fraudulent behavior. Second, future studies should expand the scope to encompass various industry sectors, including public enterprises and state-owned enterprises (SOEs), to examine whether fraud patterns differ across sectors. Third, empirical validation of the F-Score Model and Fraud Diamond framework accuracy is recommended by comparing model predictions against actual fraud cases that have been legally substantiated. Such validation would enhance the predictive reliability and practical applicability of these theoretical frameworks in fraud detection and prevention.

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Appendix 1. Operational Variable Definitions

Variable	Concept	Measurement	Scale
Financial Statement Fraud	Material misstatement in financial statement presentation.	F Score = Accrual Quality + Financial Performance (Skousen et al., 2009).	Ratio
Financial Target	Financial targets/objectives that must be achieved.		Ratio
External Pressure	Pressure experienced by the company (management) to obtain external funding sources in the form of debt and equity.	(Skousen et al., 2009)	Ratio
Ineffective Monitoring	Ineffective internal control systems within the company.	Number of Independent Commissioners/ Total Number of Commissioners	Ratio
Auditor Switching	Auditor changes as a means to conceal fraudulent financial reporting.	Dummy variable coded as 1 if auditor switching occurs, and 0 if no auditor switching occurs.	Nominal
Change in Director	Changes in board of directors within a company.	Dummy variable coded as 1 if director changes occur, and 0 if no director changes occur.	Nominal
CEO Duality	Multiple positions held by the CEO within the company.	Dummy variable coded as 1 if position duplication or affiliated relationships exist, and 0 if no position duplication or affiliated relationships exist. (Abubakar et al., 2020)	Nominal

Source: Data Processed, 2024