



A Literature Review on Financial Statement Fraud in the Perspective of Fraud Hexagon Theory: Evidence from the Financial Industry

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ARTICLE INFO

Article history:

Received: 15 November 2025

Revised: 20 Januari 2026

Accepted: 25 Januari 2026

Keywords:

Fraud Hexagon

Fraudulent Financial Reporting

Banking

Financial Industry

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ABSTRACT

This study aims to analyze the potential for fraudulent financial reporting in the financial industry, particularly in banking institutions and insurance companies such as Jiwarayana, using the Fraud Hexagon framework which consists of stimulus, opportunity, rationalization, capability, ego, and collusion as the driving factors of fraud. Fraudulent financial reporting poses considerable risks to investors, creditors, and other stakeholders, especially under economic pressure that encourages management to manipulate financial statements to maintain favorable performance. Previous studies indicate that stimulus, capability, ego, and collusion significantly influence fraudulent financial reporting, while opportunity and rationalization show no substantial effect in the financial industry context. These findings highlight the necessity of strengthening corporate governance, internal control systems, and the audit committee's supervisory function to reduce the risk of fraud within the financial sector.

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INTRODUCTION

To be truly functional, financial statements must meet essential quality standards: they must be easy to understand, reliable, relevant, and comparable (Rahmawati et al., 2024). Basically, these reports serve as the main communication bridge between the company and information users (investors, creditors, etc.), presenting financial data as well as operational performance. Ideally, this report transparently shows the improvement in the company's performance over time. However, the reality is sometimes different; there are times when financial statements are deliberately prepared only to give an excessive positive impression to various parties (Fatimah & Wardani, 2023).

This condition opens a gap for fraud or cheating. Fraud is a broad concept, often difficult to recognize due to its dynamic and layered nature. The Association of Certified Fraud Examiners (ACFE) defines Fraud as a deliberate act of breaking the law for personal gain, which has typical characteristics such as cunning, dishonesty, and deceit (Handoko et al., 2020).

In general, the 2019 ACFE survey identified three main categories of fraud: misuse of assets (Asset Misappropriations), corruption (Corruption), and financial statement fraud (Lionardi & Suhartono, 2022).

Fraud in financial statements has a very serious impact, especially because it can undermine public trust in the reliability of the information presented by the company. Therefore, auditors (both internal and external) play a crucial role in detecting and preventing these reckless practices. From the corporate side, management can take preventive measures, including implementing appropriate accounting policies, establishing adequate internal controls, and implementing good corporate governance (Handoko et al., 2020).

As attention to fraud cases has increased, various theoretical models have been developed to understand the driving factors. Classical theory Fraud Triangle (Cressey, 1953) states Fraud occurs due to the confluence of three elements: Pressure, Opportunity, and Rationalization. This model was later developed by (Wolfe & Hermanson, 2004) to become Fraud Diamond by adding the Capability element. The theory developed again into Fraud Pentagon with the addition of elements of Competence and Arrogance (Crowe et al., 2011), to the Fraud Hexagon which includes Stimulus (Pressure), Capabilities, Collusion, Opportunities, Rationalization, and Ego (Rahmawati et al., 2024).

In the context of research to detect potential Fraud Financial Statements, Elements Fraud Hexagon can be functioned as an independent variable. (Handoko et al., 2020) and (Lionardi & Suhartono, 2022) provide examples of how these variables are measured or proximated:

- Stimulus/Pressure: Proxied with financial targets.
- Capabilities: Proxied by change of directors.
- Collusion: Proxied with political connections.
- Opportunity: Proxied by industrial nature.
- Rationalization: Proxied by the change of auditors.
- Ego: Proxied with the dual position of CEO.

The financial industry, which includes banking and insurance, inherently has risks Fraud (cheating) high. The sector not only manages public funds on a massive scale, but also operates under strict regulatory scrutiny. In recent years, the financial industry in Indonesia has been faced with a number of cases of financial report fraud that have had a major impact, one of which is the case of PT Asuransi Jiwasraya which caused state losses of more than Rp16.8 trillion and resulted in a decline in public trust in the financial sector. The case shows the practice of asset value engineering, manipulation of investment performance reports, and collusion between internal and external parties of the company. In addition, some banks are also known to practice window dressing in financial reporting to maintain the company's performance image in the eyes of investors and regulators. This phenomenon confirms that fraud risks in the financial sector are systemic and can occur even though there are strict supervisory tools. To dissect the triggering factors for this cheating, the model Fraud Hexagon used as the main analytical framework. This model is a development of Fraud Triangle (pressure, opportunity, rationalization), by adding three crucial dimensions: ability (capability) actors, ego (arrogance of management), and collusion (collusion).

Previous research has provided several insights: elements of stimulus, capability, ego, and collusion have often been shown to have a significant effect on financial statement fraud. On the other hand, the findings for the elements of opportunity and rationalization tend to be inconsistent, especially in the financial sector. Other studies also corroborate that factors such as aggressive financial targets, board changes, and dual leadership positions can increase the chances of fraud by creating excessive pressure and concentration of power at the top management level.

This is where the research gap lies which is crucial. Most studies on Fraud Hexagon So far it tends to focus on the manufacturing or mining sector. Very few studies have specifically delved into the context of the financial industry. In fact, this sector has unique characteristics related to governance, risk exposure, and market pressures that are clearly different. Therefore, this study is important to enrich the empirical understanding of how the six elements Fraud Hexagon interact with and influence financial statement fraud in the specific context of banking and insurance companies.

Specifically, the purpose of this study is to analyze the influence of the elements Fraud Hexagon (stimulus, opportunity, rationalization, capability, ego, and collusion) on the potential for fraud in financial statements in financial sector companies. It is hoped that the results of this research can make a practical contribution to strengthening corporate governance, increasing audit effectiveness, and developing risk monitoring policies Fraud which is more adaptive in this vital sector

THEORITICAL REVIEW

The Concept of Financial Statement Fraud

Fraudulent *financial reporting* is an act of deliberate manipulation of financial statements to mislead report users, such as investors, creditors, or shareholders (Muhammad Iqbal & Espa, 2024). According to the *Association of Certified Fraud Examiners (ACFE, 2020)*, this type of fraud is classified as the most detrimental with the largest average loss compared to other forms of *fraud*. This phenomenon occurs due to the impulse to show good performance, maintain management reputation, or maintain investor trust.

Agency Theory

The theory of agency is based on the relationship between the principal and the agent. According to Jensen and Meckling (1976), agency relationships are related to one or more parties who act as principals who assign and entrust decision-making authority to the agent. The principal expects the agent to be able to fulfill his or her roles and responsibilities well so that the organization's goals can be achieved.

According to Eisenhardt (1989), agency theory focuses on resolving conflicts that arise due to differences in goals between principals and agents and information asymmetry. When agents have access to more complete and accurate

information than principals, this can encourage the emergence of opportunistic behaviors such as manipulation of financial statements to display better performance than reality.

According to Achmad et al. (2022), information asymmetry can lead to the potential for fraud because management, as a party that knows the company's condition as a whole, can use the information for personal interests. In practice, the emergence of information asymmetry in agency relationships is one of the main causes of fraud, especially in financial statements.

Fraud

According to *the Association of Certified Fraud Examiners (ACFE, 2002)*, fraud is an act of misrepresentation that is deliberately committed for personal gain, either through the presentation of misleading financial information or the omission of relevant accounting data. Fraudulent financial reporting is categorized as the most complex form of fraud because it involves top management and has a direct impact on public trust. ACFE (2022) classifies fraud into three main categories, namely: Asset Misappropriation, Financial Statement Fraud, Corruption.

According to (Rahmawati et al., 2024), fraud in financial statements is often carried out to maintain a company's reputation or meet profit targets. The driving factors include internal and external pressures, opportunities due to weak supervision, and management rationalization that considers that these actions do not directly harm other parties.

Theory Fraud Hexagon

Research conducted by Vousinas (2019) introduced *Fraud Hexagon Theory* as a development of the previous model, namely *the Fraud Triangle* (Cressey, 1953), *Fraud Diamond* (Wolfe & Hermanson, 2004), and *Fraud Pentagon* (Crowe, 2011). This theory was born from the need to explain the factors that cause *fraud* more comprehensively in the context of modern organizations that are increasingly complex.

The Fraud Hexagon model adds two new elements, namely Ego and Collusion, to the previous four elements, so that this theory includes six main dimensions of the causes of fraud, namely Stimulus (Pressure), Opportunity, Rationalization, Capability, Ego, and Collusion. The six elements interact with each other and form a complex causal system, where an increase in one of the elements can increase the likelihood of financial statement fraud.

1. Stimulus (Pressure)

Stimulus or *pressure* is a pressure factor that encourages individuals or management to commit fraud. This pressure can come from high financial performance targets, shareholder demands, economic pressures, or personal needs to maintain the company's position and reputation.

According to (Rahmawati et al., 2024), excessive pressure often causes management to make unethical decisions such as manipulating financial

statements to show good performance. The pressure is not only financial, but also psychological, such as the fear of losing investor trust or the desire to maintain the company's image.

In the financial industry, pressure tends to be greater because companies must maintain public trust, comply with the provisions of regulators such as the Financial Services Authority (OJK), and maintain financial stability. Therefore, the higher the level of pressure felt, the greater the potential for financial statement fraud.

2. Opportunity

Opportunity is a condition that allows a person to cheat without being easily detected. This factor arises due to weak internal control systems, ineffective supervision, or lack of independence of internal audit functions.

According to Vousinas (2019), opportunity is an important element because without opportunities, the perpetrator will not be able to execute fraudulent intentions. Opportunities can arise from weak supervisory policies, low quality of internal audits, or weak *corporate governance systems*.

In the context of the financial sector, the opportunity is relatively smaller due to the existence of regulations and strict supervision from the OJK, external auditors, and audit committees. However, if the supervision is formality or not carried out effectively, the opportunity to commit fraud remains wide open.

3. Rationalization

Rationalization is a moral justification carried out by the perpetrator to convince himself that his actions are not wrong or ethically acceptable. Offenders usually try to justify fraud for specific reasons, such as to "save the company" or "maintain organizational stability."

According to (Handoko et al., 2020), rationalization is an important element because it explains how individuals can ignore moral and ethical values when faced with pressure and opportunity. Rationalization is often an internal factor that arises before and after the act of fraud is committed.

In empirical research, this variable is difficult to measure directly because it is psychological. Therefore, some researchers use indirect indicators such as auditor turnover or audit frequency as proxies to describe the level of management rationalization of financial reporting practices.

4. Capability

Capability describes an individual's ability to carry out fraudulent acts effectively. This element shows that even if a person has pressure, opportunity, and rationalization, fraud will not occur without adequate ability to do so.

According to Tessa and Harto (2016), individuals with strategic positions in the organization, such as finance directors or top management, have extensive access to information and financial reporting systems so they have great potential to manipulate. These capabilities include technical skills, an understanding of accounting systems, and structural power that allows actors to manage the financial reporting process according to their interests.

In cases like Jiwasurya, the management's capabilities can be seen from their ability to manipulate the value of the investment and compile financial

statements that seem normal. Therefore, the higher a person's ability and access to the financial system, the higher the potential for fraud.

5. Ego

Ego reflects an individual's arrogance and sense of superiority, which often leads them to believe they have absolute control over the organization. Individuals with a high ego tend to assume that their actions will go unnoticed or that they are immune to legal consequences and internal supervision. Tuggle et al. (2010) explain that when the same person holds both the position of chief executive officer and chairperson of the board, the board's ability to effectively monitor management decreases. This dual role concentrates authority in one person, weakening the independence and objectivity of internal oversight. A heightened ego under such conditions may drive management to manipulate financial statements in order to maintain a positive image or reputation in the eyes of the public and investors. Over time, this behavior undermines good corporate governance, as decisions are made based on personal interests rather than the overall welfare of the organization.

6. Collusion

Collusion or collusion is cooperation between two or more parties, both from inside and outside the company, to cover up or launch fraudulent acts. This form of collusion can involve management, auditors, consultants, and regulators.

According to Pradnyani and Aneswari (2020), collusion is an important element in *Fraud Hexagon* because it explains that fraud in the modern era is rarely committed by one person, but is the result of systematic cooperation. Collusion strengthens the perpetrator's ability to hide evidence, pressure independent auditors, or manipulate public opinion.

Hexagon Fraud Elements and Their Indicators

Based on the results of previous research:

Element	Meaning	General Proxies of Research	Empirical Results
Stimulus (Tekanan)	Financial/non-financial pressures that encourage management to manipulate (Vousinas, 2019)	Financial target, ROA, leverage	Has a positive effect on fraud (Shaleh, 2025; Inscription, 2024; Dewi & Luthan, 2023; Rahmawati et al., 2024)
Capability (kemampuan)	An individual's ability to take advantage of the situation to commit fraud without detection	Change of directors, CEO education	(Muhammad Iqbal & Espa, 2024; Dewi & Luthan, 2023;

			Tessa and Harto, 2016)
Collusion (Kolusi)	There is cooperation between internal/external parties to cover up fraud	Political connections, government projects	(Muhammad Iqbal & Espa, 2024; Sari et al., 2024)
Opportunity (Peluang)	Weaknesses in internal supervision or control systems	Ineffective monitoring, industrial nature	(Inscription, 2024; Vousinas, 2019)
Rationalization (Rasionalisasi)	Moral justification for fraudulent acts	Auditor turnover	(Inscription, 2024; Dewi & Luthan, 2023 Handoko et al, 2020)
Ego (Ego/Keangkuhan)	The arrogant or greedy nature of high-ranking company officials	CEO duality, attendance photo CEO	(Dewi & Luthan, 2023; Tuggle et al., 2010)

RESEARCH METHODS

This study employs a literature study (library research) using a qualitative descriptive approach. The purpose of this method is not to test hypotheses empirically but to understand and interpret the theoretical and conceptual frameworks found in previous studies. The literature study approach enables the researcher to explore and synthesize existing academic works in order to comprehend how the *Fraud Hexagon Theory* has been applied to analyze financial statement fraud, especially in financial institutions.

The data used in this study are secondary data collected from national and international journal articles published between 2019 and 2025. The main sources include studies by (Dewi & Luthan, 2023) on the financial industry listed on the Indonesia Stock Exchange (IDX), (Shaleh & Thamrin, 2025) on the manufacturing sector, (Prasasti & Lastanti, 2024) on healthcare firms, and (Muhammad Iqbal & Espa, 2024) on the energy sector. Additional references, such as the study by (Sari et al., 2024), provide further insight into the application of the *Fraud Hexagon* among banking companies. Each of these studies was examined to identify patterns, similarities, and differences in the implementation of the theory and its implications for fraud prevention in corporate settings.

The analytical process was carried out in four stages. The first stage involved identifying key theoretical concepts, focusing on the six dimensions of the *Fraud Hexagon*. The second stage was classifying empirical findings based on the industrial sector. The third stage involved synthesizing the results to reveal the relationship between theory and practice. Finally, a thematic analysis was conducted to explore the ethical, psychological, and structural dimensions underlying financial statement fraud. This multi-layered approach provides not only methodological rigor but also a humanistic understanding of the phenomenon.

Through the literature study method, this research seeks to present a deeper comprehension of how human factors such as pressure, ego, and rationalization influence financial behavior within organizations. More importantly, it emphasizes that preventing fraud is not solely the responsibility of auditors or regulators, but a collective moral obligation shared by all economic actors. The insights gained from this study are expected to serve as both an ethical reflection and a conceptual foundation for future empirical research, promoting honesty, transparency, and accountability in financial reporting.

RESEARCH RESULTS AND DISCUSSION

The findings of this literature review reveal that financial statement fraud cannot merely be interpreted through quantitative indicators or statistical analysis, but must be understood as a form of human behavior influenced by moral, psychological, and structural factors. Based on the synthesis of five main academic sources, it becomes clear that the six elements of the *Fraud Hexagon* Theory Stimulus, Capability, Collusion, Opportunity, Rationalization, and Ego interact differently across various contexts, including the financial industry, depending on the organization's culture, leadership ethics, and governance strength.

The study by (Dewi & Luthan, 2023) provides valuable insights into how these factors operate within financial institutions. Their findings indicate that stimulus (pressure) and capability (managerial competence) significantly affect fraudulent behavior, yet the direction of this relationship tends to be negative. This suggests that when leaders possess strong professional ethics and adequate capability, they are more likely to resist the temptation of fraud. Within the financial industry where performance expectations and profit targets are high, ethical awareness and education serve as moral safeguards against manipulation.

In contrast, studies by (Shaleh & Thamrin, 2025) and (Prasasti & Lastanti, 2024) show that stimulus, opportunity, and rationalization have positive effects on financial statement fraud, particularly in sectors with weaker internal control and higher competition. When external pressures rise and monitoring is lax, individuals often rationalize unethical actions as necessary compromises for business survival. These findings reflect a common reality in the corporate world:

unethical behavior often emerges not because individuals are inherently dishonest, but because the system allows room for moral flexibility.

(Muhammad Iqbal & Espa, 2024), in his study of the energy sector, strengthens the humanistic perspective of the Fraud Hexagon Theory. He found that capability could actually suppress fraudulent behavior, implying that knowledge and skill are not always tools for manipulation but can serve as defenses for maintaining integrity. Similarly, collusion and ego emerge as situational variables. In organizations with weak governance, collusion between insiders and external stakeholders may facilitate fraud. However, companies with strong ethical leadership and transparent reporting can effectively minimize such risks (Sari et al., 2024). Furthermore, ego or managerial arrogance often acts as the emotional core of fraud arising when power is exercised without moral restraint (Dewi & Luthan, 2023).

From the synthesis of these studies, it can be understood that the Fraud Hexagon Theory provides a more holistic framework for analyzing the roots of financial statement fraud. It acknowledges that fraud is not only the result of greed but also of systemic pressure, institutional failure, and weakened ethical consciousness. Within the financial sector, where trust is the foundation of all transactions, the erosion of ethical values can have far-reaching consequences. Yet, literature also shows that fraud is preventable. Strengthening governance, promoting moral values, and prioritizing human well-being can collectively create an environment less conducive to fraud.

Viewed from a humanistic lens, financial statement fraud reflects the tension between ambition and conscience. Each manipulated report conceals a deeper struggle a desire for recognition, a fear of failure, and the weight of expectation. By understanding fraud through a literature-based and human-centered perspective, we can see it not only as an ethical breach but also as a symptom of moral imbalance within the structures of modern economic life.

CONCLUSION

This literature review concludes that the Fraud Hexagon Theory provides a comprehensive and human-centered framework for understanding the dynamics of financial statement fraud, particularly in the financial industry. The six core elements stimulus, capability, collusion, opportunity, rationalization, and ego operate in an interconnected manner, shaping managerial behavior and influencing ethical decision-making processes.

The reviewed studies consistently show that financial pressure, opportunity, and moral rationalization are among the strongest drivers of fraud. In contrast, managerial competence, ethical education, and strong corporate governance act as deterrent factors. Meanwhile, ego and collusion highlight the deeply human dimensions of fraud, where ambition and power can overshadow moral responsibility.

Therefore, preventing financial statement fraud requires more than technical control mechanisms it calls for an ethical awakening across

organizational levels. Building a culture of honesty, responsibility, and transparency becomes essential not only for compliance but also for restoring humanity within corporate and financial practices. Ultimately, this literature review affirms that integrity in financial reporting is both a professional standard and a moral duty that sustains public trust and human dignity in economic life.

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