International Journal of Business and Applied Social Science

E-ISSN: 2469-6501
VOL: 9, ISSUE: 10
October/2023
DOI: http://dx.doi.org/10.33642/ijbass.v9n10p1

Determinants of Hexagon's Financial Statement Fraud in Consumer Goods Sector Manufacturing Companies Listed on the Indonesia Stock Exchange: Empirical Study on Consumption Sector Manufacturing Companies Listed on the Indonesia Stock Exchange 2019-2021

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ABSTRACT

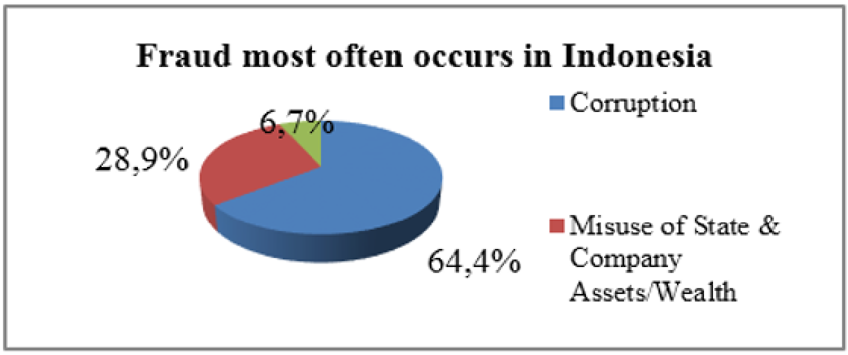
The purpose of this study is to find out the analysis of hexagon fraud in detecting the potential for financial statement fraud in consumer goods sub-sector manufacturing companies listed on the Indonesia Stock Exchange in 2019-2021. This study uses a quantitative method with secondary data. The sample was selected using a purposive sampling technique, with the criteria being consumer goods sub-sector manufacturing companies listed on the Indonesia Stock Exchange in 2019-2021 which reported their financial statements. The number of samples in this study was 23 sample companies and proceed data was 69. The results of the study show that the Opportunity and Capability variables have a significant effect on the potential for fraudulent financial reporting. While Pressure, Rationalization, Arrogance, and Collusion do not affect financial statement fraud.

KEYWORDS: Fraud Detection, Fraud Hexagon, F-Score, Financial statement fraud

INTRODUCTION

Financial statements are reports made by the company in a certain period to convey the financial condition, performance, and results of the company's operational activities, addressed to users of financial statements.

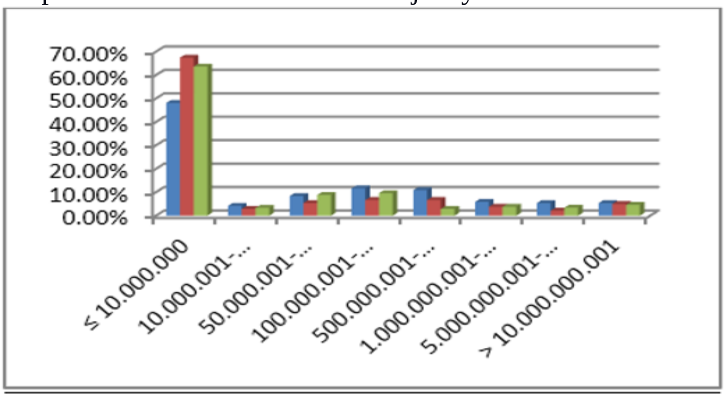
Based on the picture of the survey results conducted by ACFE Indonesia Chapter 239 respondents showed that the most fraud that occurred in Indonesia was Corruption with a percentage of 64.4% chosen by 154 respondents. The next type of fraud is Misuse of State and Company Assets with a percentage of 28.9% or selected by 69 respondents, while Financial Statement Fraud is 6.7% or selected by 16 respondents. (Association of Certified Fraud Examiners, 2018).



Source: Indonesian fraud survey by ACFE 2019

Figure 1. Graph the most common fraud in Indonesia

According to a survey conducted by ACFE Indonesia, it also shows that the biggest losses due to fraud come from corruption. Fraud in the form of corruption is the most common for losses below Rp. 10 million. impressively, both fraud in the form of corruption, financial statement fraud, and misuse of assets, the majority of cases are below Rp. 10 million.



Source: Indonesian fraud survey by ACFE 2019

Figure 2. Fraud Survey Graph in Indonesia

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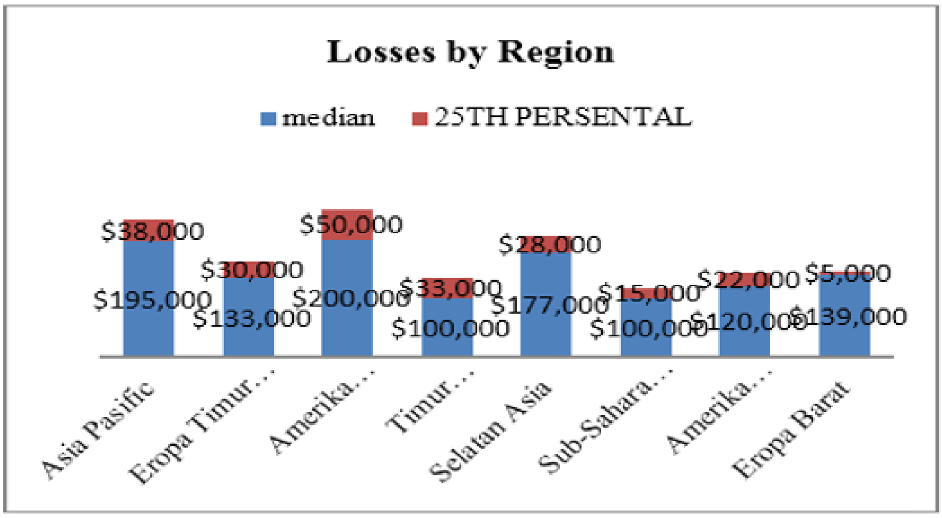
The CFE Certified Fraud Examiner Association is proud to present the 2020 edition of the Report to the Nations, our 11th study into the impact of job fraud on organizations worldwide.



Source: Report to the Nation's 2020 ACFE

Figure 3. Loss graph by region

The number of cases of financial statement fraud in the manufacturing industry is 13.8%. The second largest industry is oil and gas, at 12.2%. The frequency of cases of financial reporting fraud in the construction sector is 11.6%, the transportation and warehousing sector is 10.4%, the banking and financial sector is 10.2%, and the education sector is 10%. Industries with less than 10% case frequency: health sector 8%, social services 7.5%, services 6.7%, retail 6.5%, government and government 5%, insurance 3.2% Association of Certified Fraud Examiners (ACFE, 2016) states that industrial manufacturing has more fraud in its financial statements than any other industry.

According to a 1953 investigation by Crecy, the cause of the prisoners' abuse of trust was financial problems, which exerted pressure, opportunity, and breach of trust (rationalization). In 2004 Wolfe and Hermanson came up with a theory that was developed from research conducted by Donald R. Cressy. The three causes of fraud investigated earlier were capability. Then in 2011, the theory of fraud was redeveloped by Horwart. A new element added is arrogance. Through this theory, Vousinas, 2019 will add another new element as one of the causes or motives of someone committing fraud.

The existence of this theory is the latest form of theory development where the theory contains elements including pressure, opportunity, rationalization of fraudulent actions (rationalization), the perpetrator has the ability (capability), the perpetrator also has arrogance (arrogance) and the last culprit colludes (collusion).

Based on this background, to avoid deviations and focus on research problems, this study is limited to discussing Hexagon Fraud which consists of six factors in the form of stimulus pressure, opportunity, rationalization, capability, arrogance, and collusion in manufacturing companies listed on the Indonesia Stock Exchange.

Based on the background that has been outlined. So the formulation of the problem in this study is as follows:

1. Does Pressure affect the potential for financial statement fraud in the Consumer Goods Sub-Sector Manufacturing Company listed on the Indonesia Stock Exchange?

2. Does Opportunity affect the potential for fraud in the financial statements of the Manufacturing Company in the consumer goods sub-sector listed on the Indonesia Stock Exchange?

3. Does Rationalization affect the potential for financial statement fraud in the Consumer Goods sub-sector Manufacturing Company listed on the Indonesia Stock Exchange?

4. Does Capability affect the potential for financial statement fraud in the Consumer Goods Sub-Sector Manufacturing Company listed on the Indonesia Stock Exchange?

5. Does Arrogance affect the potential for financial statement fraud in the Consumer Goods sub-sector Manufacturing Company listed on the Indonesia Stock Exchange?

6. Does Collusion affect the potential for financial statement fraud in the Consumer Goods sub-sector of Manufacturing Companies listed on the Indonesia Stock Exchange?

LITERATURE REVIEW

Agency Theory

Agency theory is often defined as a working relationship between two parties in an entity where one acts as principal and the other acts as agent. In general, principals and agents have different interests. Jensen & Meckling (1976) explain that this relationship can cause information to become unbalanced known as information asymmetry. This happens because there is information that is hidden by management for the benefit of shareholders (principals) when making decisions. There is also unbalanced information between principals and agents which can

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lead to financial statement fraud. This is due to an opportunity that can be taken advantage of by agents who are less known by the principal so that financial statement fraud can occur. Not only that, financial statement fraud can occur due to excessive requests from principals related to targets that must be achieved, making agents commit fraud actions Budiyanto and Puspawati (2020).

Financial Statement Fraud

Financial statement fraud is a deliberate act that involves misrepresenting financial information and misleading users of financial information in decision-making. The presentation of financial statements that show stakeholder fraud can affect decision-making because it can reduce financial integrity.

Hexagon's Fraud Theory

Hexagon's fraud model is a theory advocated by Georgias L. Vousinas in 2019. This theory is a refinement of previous theories that can explain why people cheat. By adding a new element that makes the sixth element collusion. Fraud cases over the past few decades have shown that collusion is a central element of many complex and dangerous scams and is a white-collar crime. The term collusion refers to an agreement between two or more people in which one party acts maliciously against the other party and to the detriment of the rights of the other party.

Research Model Framework

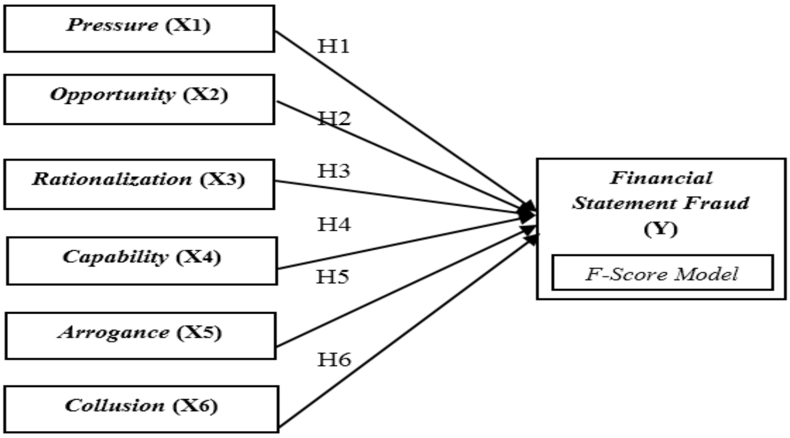

Figure 4 Research Model Framework

1. The Effect of Pressure on Financial Statement Fraud

The pressure proxied by financial stability is the company's image or level of financial stability. Users of financial statements are more likely to trust companies with stable financial charts. Research conducted by Carolin et al., (2022) states that Financial stability pressure affects detecting financial statement fraud when the growth value of company assets is lower than average, management will be motivated to manipulate asset values, thus making the company more viable in the eyes of the public. Septriani & Handayani, (2018) stated that Financial stability pressure has an effect on detecting financial statement fraud, company instability occurs because it does not have control over assets owned by management, causing changes in total assets that are too high or too low over a certain period. And affects the tendency of profit management by the company.

H1: Pressure affects the potential for financial statement fraud.

2. The Effect of Opportunity on Financial Statement Fraud

Opportunity or opportunity is an opportunity for someone to cheat. The perpetrators believe that the fraud committed will not be told. Syifani, (2021) stated that the opportunity to influence financial statement fraud. The nature of industry is what a company should look like. This interpretation can be understood by looking at the company's accounts receivable. Receivable accounts are inseparable from non-recoverable reserves, which are inherently judgmental. This can create opportunities for financial statement fraud. Yusnita and Utami (2021) stated that the opportunity to influence financial statement fraud. Cheating can happen because there is a chance of someone cheating in the company. Opportunity is defined as a situation without accountability or control that the perpetrator can use to deceive the organization.

H2: Opportunity affects the potential for financial statement fraud.

3. The Effect of Rationalization on Financial Statement Fraud

Rationalization is a state in which the impostor does not feel uncomfortable with what he has done. The perpetrator feels that he is not a bad person, under the pretext of achieving a common goal. Skousen et al (2008) suggest that audit failure can occur during the auditor turnover period.

Research conducted by Sari & Lestari, (2020). The element states that Rationalization affects fraudulent financial statements. This is because fraud is done to be reasonable and done for a specific purpose. In addition, the concept of accrual also allows management to manipulate financial statements. Lionardi &; Suhartono (2022) stated that Rationalization affects financial report fraud because the company's subjective judgments and decisions are reflected in company accruals.

H3: Rationalization affects the potential for financial statement fraud.

4. The Effect of Capability on Financial Statement Fraud

Capability or the ability to know the nature of a person. If there is an opportunity to commit fraud, it is certainly under

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pressure and will open the door for perpetrators who can do so. In Putriasih et al (2016) stated that capability affects financial statement fraud, considering Wolfe and Hermanson's statement that changing directors creates periods of stress and can increase the risk of someone committing fraud. With restructuring that is considered more competent, because the change of directors is the reason to improve the company's performance. However, the removal of directors can reduce the effectiveness of the company, as new directors may need to adjust their corporate culture. Research conducted by Lionardi & and Suhartono (2022) states that capability affects financial statement fraud, stating that if a new director can abuse his ability to make even worse mistakes, a change of director will be made to improve the performance of the previous director.

H4: Capability affects the potential for financial statement fraud

5. The Effect of Arrogance on Financial Statement Fraud

Arrogance or ego is an attitude that drives a person to realize what he wants, no matter how he uses it. Research conducted by Tessa and Harto (2016), who believe arrogance affects financial statement fraud said that the CEO will make every effort to maintain the position and position he currently holds, and to ensure that external parties can assess the performance of the company under his leadership. Sari and Nugroho (2020), believe that arrogance affects financial statement fraud. And proving that the CEO's picture is a factor that supports arrogance and has a significant positive influence, this is due to the CEO's belief that his status and position do not conform with the company's internal control.

H5: Arrogance affects the potential for financial statement fraud.

6. The Effect of Collusion on Financial Statement Fraud

Collusion is an agreement between two or more parties that deceives the other party. Of course, collusion does everything possible for personal gain, so it is also against the law. That is, there is an increased risk of fraud if there is collusion. Therefore, a higher level of collusion affects the tendency of fraud that can occur.

Research conducted by Budiyanto & and Puspawati (2020) states that collusion affects financial statement fraud. Companies that run government projects usually earn large profits and can give a positive image to stakeholders. When governments and companies collaborate to achieve a specific goal, this can encourage companies to keep trying to collaborate with the next government project. Sari &; Nugroho (2020) stated that collusion has an effect on financial statement fraud, Project cooperation between companies and the government is usually fraudulent in large projects because it seeks to attract the interests of the government that cooperates with companies by presenting financial statements unfairly.

H6: Collusion affects the potential for financial statement fraud.

RESEARCH METHODS

In this study, the data used are financial statements contained in the Indonesia Stock Exchange for the period 2019 to 2021.

The independent variables in this study include:

1. Pressure (X 1)

Pressure variables in this study are proxied using financial stability. Financial stability is a condition that shows that the company's financial position is stable.

A CHANGE $= \dfrac{(\text{Total Assets }(t) - \text{Total Assets }(t-1))}{Total\ Assets\ (t-1)}$

2. Opportunity **(X 2)**

The opportunity variable in this study was proxied using the nature of the industry. Where the nature of the industry is the ideal image of the company. This interpretation can be seen from the company's receivables.

Receivable $= \dfrac{(Receivable\ (t)}{Sales(t)} - \dfrac{Receivable\ (t-1)}{Sales(t-1)}$

3. Rationalization **(X 3)**

According to Albrecht et al. (2018), Rationalization or rationalization is an act of breaking the rules such as defending yourself about something wrong and assuming that cheating is common around it.

Rationalization measurement in this study uses Change of Auditor (AUDCHANGE). Where the measurement uses dummy variables, by providing code 2 for companies that changed auditors during the 2019-2021 period and code 1 if companies did not change auditors during the 2019-2021 period.

4. Capability **(X 4)**

Capacity is the ability to develop concealment strategies beyond internal control, control social conditions, and sell to others for profit.

This study uses the Change of Directors to measure the Capability variable. The dummy variable is used for measurement, using code 2 if there is a change of directors in the 2019-2021 period and code 1 for companies that did not change directors in the 2019-2021 period

5. Arrogance **(X 5)**

Danuta, (2017) states that Arrogance or ego lacks conscience, superiority, and greed on the part of those who consider that internal control does not apply to them. This study used the number of CEO's Pictures taken as a measure of the variable Arrogance.

The measurement gives code 2 there is a photo of the company's CEO during the 2019-2021 period and code 1 if the company has no project cooperation with the government during 2019-2021.

6. Collusion **(X 6)**

According to Vousinas (2019), *Collusion* is a deceptive or compact agreement between two or more people for one party to act against the other party for some adverse purpose, such as defrauding the rights of third parties.

So this study uses dummy variables to measure collusion proxied by the presence or absence of government projects. The measurement provides code 2 if the company has cooperation with government projects during the 2019-2021 period and code

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1 if the company does not have project cooperation with the government during 2019-2021.

***7. Financial Statement Fraud* (Y)**

Detection of potential financial statement fraud using the F-Score model, so this study uses this theory. The F-Score model is the sum of two variables, namely the quality of accruals and the quality of financial performance (Skousen and Twedt 2009), which are formulated using the following equation:

F-Score = Accrual Quality + Financial Performance

Sampling in this study was carried out using *purposive sampling* techniques. The population in this study are manufacturing companies in the consumer goods sector listed on the Indonesia Stock Exchange (IDX) in 2019-2021. The criteria used in research sampling are as follows:

1. Manufacturing companies in Indonesia are listed on the IDX.
2. A manufacturing company in the consumer goods sector listed on the Indonesia Stock Exchange in 2019-2021.
3. Consumer goods sector manufacturing companies that present data with published research variables are incomplete for the years 2019-2021.

Based on the sample criteria, there are 23 companies listed on the Indonesia Stock Exchange for the 2019-2021 period, so the data used is 69.

RESULTS AND DISCUSSION

The statistical test t shows how much influence one independent variable has on independently explaining the variation of the dependent variable.

Table 1. T Statistics Test Results

Coefficients [a]						
Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	0.656	0.315		2,079	0.042
	F.S	0.087	0.361	0.030	0.241	0.810
	OP	-2,250	0.744	-0.337	-3,025	0.003
	R.A	-0.034	0.157	-0.028	-0.215	0.831
	CP	-0.259	0.137	-0.244	-1,888	0.044
	AR	0.055	0.091	0.077	0.600	0.551
	COL	0.056	0.183	0.038	0.308	0.759

Source: SPSS Data Processing Version 25

Based on Table 1, the results of the significance test and statistical calculations, the two independent variables can be explained as follows:

1. It can be seen from the results of the t-test from Table 1 that the independent variable Pressure shows a B value of 0.087 with a significant value of 0.810 which means 0.810>0.05 then H1 is not supported. In this case, it can be stated that the Pressure variable does not have a significant impact or has no effect on the possibility of financial statement fraud.
2. It can be seen from the results of the t-test from Table 1 independent variable opportunity shows a B value of -2.250 with a significant value of 0.003 which means 0.003<0.05 then H2 is supported. In this case, it can be stated that the opportunity variable has a significant negative impact or effect on the possibility of financial statement fraud.
3. It can be seen from the results of the t-test from Table 1 that independent variable rationalization shows a B value of -0.259 with a significant value of 0.831 which means 0.831>0.05 then H3 is not supported. In this case, it can be stated that the rationalization variable does not have a significant impact or has no effect on the possibility of financial statement fraud.
4. It can be seen from the t-test results from Table 1 that independent variables of capability show a B value of -0.259 with a significant value of 0.044 which means 0.044<0.05 then H4 is supported. In this case, it can be stated that the capability variable has a significant negative impact or has no effect on the possibility of financial statement fraud.
5. It can be seen from the results of the t-test from Table 1 that the independent variable arrogance shows a B value of 0.055 with a significant value of 0.551 which means 0.551>0.05 then H4 is not supported. In this case, it can be stated that the arrogance variable does not have a significant impact or has no effect on the possibility of financial statement fraud.
6. It can be seen from the t-test results from Table 1 that collusion independent variables show a B value of 0.056 with a significant value of 0.759 which means 0.759 > 0.05 then H4 is not supported. In this case, it can be stated that the variable collusion does not have a significant impact or has no effect on the possibility of financial statement fraud.

Table 2. Determinant Coefficient Test Results

Model Summary [b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,352 [a]	0.124	0.054	0.247731	1,763
a. Predictors: (Constant), COL, OP, AR, CP, FS, RA					
b. Dependent Variable: F-SCORE					

Source: SPSS Data Processing Version 25

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Based on Table 2, the results of the coefficient of determination test, an Adjusted R-squared value of 0.054 (5.4%) was obtained. This means that the strength of the independent variable in this study affects the dependent variable by 5.4%, while the remaining 94.6% (1-0.054) is explained by variables other than the independent variable in the study.

Regression Model Discussion

Based on the research that has been done, the regression equation can be formulated as follows:

Y = 0.656 + 0.087 FC + (2.250) OP + (0.034) RA + (0.259) CP + 0.055 AR + 0.056 COL

Information:

Y = Profitability Ratio (ROA)

a = Coefficient

β1,2,3,4,5,6= Regression coefficient of each variable

X1= Pressure

X2= Opportunity

X3= Rationalization

X4= Capabilities

X5= Arrogance

X6= Collusion

e = Error

The results of the multiple linear regression analysis, the conclusions are obtained:

1. α: In the multiple regression equation model above, it can be seen that there is a positive constant value of 0.656. This shows α 65.6% reduction in the variable because the independent variable is assumed to be in a fixed state.
2. β1: The multiple regression model above shows that Pressure (X_1) is 0.087. This means that an increase in Pressure of 1% decreases the positive F-score (Y) for financial statement fraud by 0.087% or 8.7%, assuming the other variables are constant.
3. β2: The multiple regression model above shows that opportunity (X_2) is negative -2.250. This means that an increase in the opportunity of 1% decreases the F-score (Y) for financial statement fraud by 2.25% or 22.5%, assuming other variables are constant.
4. β3: The multiple regression model above shows that rationalization (X_3) is negative -0.034. This means that an increase in rationalization of 1% increases the F-score (Y) for financial statement fraud by 0.034% or 3.4%, assuming the other variables are constant.
5. β4: The multiple regression model above shows that capability (X_4) is positive 0.259. This means that an increase in the capability of 1% increases the F-score (Y) for financial statement fraud by 0.259% or 25.9%, assuming other variables are constant.
6. β5: The multiple regression model above shows that arrogance (X_5) is positive 0.055. This means that an increase in arrogance of 1% increases the F-score (Y) for financial statement fraud by 0.055% or 5.5%, assuming other variables are constant.
7. β6: The multiple regression model above shows that solution (X_6) is positive 0.056. This means that an increase in collusion of 1% decreases the F-score (Y) for financial statement fraud by 0.056% or 5.6%, assuming the other variables are constant.

Discussion

Based on the analysis, it can be stated that the discussion of this research is as follows:

1. The influence of pressure on fraudulent financial reports in consumer goods sub-sector companies on the Indonesia Stock Exchange (BEI) for the 2019-2021 period. The independent variable Pressure shows a B value of 0.087 with a significant value of 0.810 which means 0.810 > 0.05 then H1 is not supported. In this case, it can be stated that the Pressure variable does not have a significant impact or has no effect on the possibility of financial statement fraud so H1 is rejected.

2. The influence of opportunity on fraudulent financial reports in consumer goods sub-sector companies on the Indonesia Stock Exchange (BEI) for the 2019-2021 period. The independent variable opportunity shows a B value of -2.250 with a significant value of 0.003 which means 0.003 < 0.05 then H2 is supported. In this case, it can be stated that the opportunity variable in the form of the nature of the industry has a significant positive impact or affects the possibility of financial statement fraud so H2 is accepted.

3. The influence of Rationalization on fraudulent financial reports in consumer goods sub-sector companies on the Indonesia Stock Exchange (BEI) for the 2019-2021 period. The independent rationalization variable shows a B value of -0.259 with a significant value of 0.831 which means 0.831> 0.05 then H3 is not supported. In this case, it can be stated that the rationalization variable does not have a significant impact or has no effect on the possibility of financial statement fraud so H3 is rejected.

4. The influence of capability on fraudulent financial reports in consumer goods sub-sector companies on the Indonesia Stock Exchange (BEI) for the 2019-2021 period. The independent variable capability shows a B value of -0.259 with a significant value of 0.044 which means 0.044<0.05 then H4 is supported. In this case, it can be stated that the capability variable has a significant negative impact or has no effect on the possibility of financial statement fraud so H4 is accepted.

5. The influence of arrogance on fraudulent financial reports in consumer goods sub-sector companies on the Indonesia Stock Exchange (BEI) for the 2019-2021 period. The independent variable arrogance shows a B value of 0.055 with a significant value of 0.551 which means 0.551 > 0.05 then H4 is not supported. In this case, it can be stated that the arrogance variable does not have a significant impact or has no effect on the possibility of financial statement fraud so H5 is rejected.

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6. The influence of collusion on fraudulent financial reports in consumer goods sub-sector companies on the Indonesia Stock Exchange (BEI) for the 2019-2021 period. The independent variable solution shows a B value of -0.116 with a significant value of 0.399 which means 0.399 > 0.05 therefore H6 is not supported. In this case, it can be stated that the collusion variable does not have a significant positive impact or has no effect on the possibility of financial statement fraud so H6 is rejected.

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

Based on the analysis and discussion that has been carried out in this study, it can be concluded that:

1. The Pressure Variable is influential but does not have a significant impact on the likelihood of financial statement fraud. Where companies are required to maintain financial stability at all times. This pressure presents the possibility of financial reporting fraud by management
2. The opportunity variable in the form of the nature of the industry has a significant negative impact or effect on the possibility of reporting fraud. The turnover of bad debts increased due to an increase in receivables compared to the previous year. This is to enable management to report good performance to meet stakeholder expectations and generate profits
3. Rationalization variables proxied by the change of auditor do not have a significant impact or do not affect the possibility of financial statement fraud. The company uses professional and meticulous auditors. Therefore, auditors can have a good understanding of the company's management system as a whole and avoid making erroneous opinions.
4. The capability variable proxied by the change of directors has a significant positive impact or does not affect the possibility of financial statement fraud. Changes in company directors are usually done to improve company performance. Because the new directors are considered better than the previous directors.
5. The Arrogance variable proxied with the CEO's Picture has no significant impact or no effect on the likelihood of financial statement fraud. No matter how many photos of the CEO there are, the CEO's arrogance does not increase the likelihood of financial reporting fraud. This happens because the CEO photo in the company's annual report does not show arrogance, but rather the CEO's day-to-day attitude and actions.
6. The variable collusion has no significant impact or no effect on the possibility of financial statement fraud. The convenience provided by the government to business actors automatically increases their income, performance, and financial position, and prevents business actors from making false financial statements. Therefore, the existence of political ties between companies and the government reduces the possibility of financial statement fraud.

Recommendations

The discovery of the fact that financial statement fraud can occur in a company, makes companies more motivated to pay special attention to their companies to reduce the possibility of financial statement fraud. It is expected that future research by adding samples from manufacturing companies in the consumer goods subsector is expected to also add proxies for each variable of fraudulent hexagon. As a result, our research is more accurate, representative, and contextual.

It is recommended to improve the accuracy of the analysis of the company's financial statements, both financial and non-financial information used as a basis for investment decision-making. In contrast, investors are not tempted by profitable companies or companies with high asset values. Both of these are not good representations of the certainty of the company's good reputation and can also lead to the possibility of financial reporting fraud.

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International Journal of Business and Applied Social Science

E-ISSN: 2469-6501
VOL: 9, ISSUE: 10
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DOI: http://dx.doi.org/10.33642/ijbass.v9n10p1

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International Journal of Business and Applied Social Science

E-ISSN: 2469-6501
VOL: 9, ISSUE: 10
October/2023
DOI: http://dx.doi.org/10.33642/ijbass.v9n10p1

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