

Determinants of Financial Statement Fraud: Fraud Pentagon Perspective in Manufacturing Companies

Sendi Angsari Harman^a, Yustrida Bernawati^{b*}, ^{a,b}Department of Accountancy, Faculty of Economics and Business, Universitas Airlangga, Email: ^{b*}yustrida-b@feb.unair.ac.id

This research aims to get empirical evidence relating to the results of fraud determinant supported fraud pentagon such as (1) pressure consists of financial stability, external pressure, and financial targets; (2) opportunity consists of ineffective monitoring and nature of industry; (3) rationalisation; (4) competence; and (5) arrogance toward financial statement fraud. The sampling technique used was purposive sampling with the final sample of 103 manufacturing companies listed in Indonesia Stock Exchange during the period 2013-2017. Data analysis used was multiple linear regression analysis. The findings showed that financial stability, external pressure, ineffective monitoring, nature of industry, competence, arrogance, and a frequent number of CEO's picture have no impact on financial statement fraud, whereas financial targets have a significant impact on the negative direction on financial statement fraud, and rationalisation has a positive effect on financial statement fraud.

Keywords: *Arrogance, Competence, Fraud, Fraud pentagon, Modified Jones model.*

Introduction

The concerns about the magnitude of losses caused by several cases of fraudulent financial reporting, especially in the manufacturing sector are still quite challenging to uncover (ACFE Indonesia, 2016). Financial fraud itself has been extensively studied beforehand (Sihombing, Erlina, Rujiman, & Muda, 2019; Astutik, Harymawan, & Nasih, 2018). More specific research on financial reporting fraud based on the fraud triangle theory and the development of the theory of diamond fraud and pentagon fraud has also been conducted. Research conducted by Aprilia (2017), Rukmana (2018), and Akbar (2017). Aprilia (2017) found that the pressure element indicator, namely, financial stability, also the opportunity element indicator, i.e., ineffective monitoring, has a significant positive effect on financial statement fraud, whereas Akbar (2017) found that only pressure had a significant effect on financial

statement fraud. Rukmana (2018) show that pressure, opportunity, competence, and arrogance have a positive effect on financial statement fraud. It can be seen from three studies above that there are inconsistencies in the literature so that the author feels the need to re-examine the influence of fraud determinants found in the pentagon fraud, which is the development of the fraud triangle on financial statement fraud. Based on the background description above, this study aims to examine more deeply in order to obtain empirical evidence related to the relationship between determinants of fraud contained in pentagon fraud and financial reporting fraud in the manufacturing sector in Indonesia.

The Association of Certified Fraud Examiners (2018) found that fraudulent financial reporting is quite common in various sectors, so it can be concluded that fraudulent financial reporting is no longer a foreign matter to the public. What is quite alarming is that the occurrence of fraudulent financial reporting often involves an audit firm. For instance, in the case of British Telecom and Price Waterhouse Cooper (PwC), which occurred in 2017, a giant British company experienced accounting fraud in one of its business lines in Italy. This scandal also affected its public accountant, PwC. PwC failed to detect this accounting fraud. Consequently, British Telecom immediately replaced PwC with Klynveld Peat Marwick Goerdeler (KPMG). This accounting fraud was successfully detected by the whistleblower, followed by forensic accounting by KPMG. The British Telecom business line in Italy inflated profits through the extension of fake contracts and invoices and fake transactions with vendors. As for the stimulus of accounting fraud, this is the urge to get a bonus (bonus). As a result of this case, British Telecom had to reduce £530 million and cut its 2017 cash flow projection by £500 million to pay for undeclared debts. British Telecom also suffered losses from paying income tax on profits that were not available. The Serious Fraud Office (SFO), which is a British antifraud, then imposed a £129 million fine on ex-British Telecom executives for the alleged fraud (Warta Ekonomi, 2017).

It can be concluded that financial reporting fraud occurs due to various factors. In the cases above, financial reporting fraud occurs because of pressure, both from external and internal. Financial reporting fraud tends to occur in the case of corporate earnings management, even to the point where top management is involved. Financial reporting fraud can also occur because public accountants fail to detect fraud risks. Financial reporting fraud indeed often occurs in various sectors, including the manufacturing sector. This is supported by the results of the Association of Certified Fraud Examiners (ACFE) survey in 2018, which showed that the manufacturing sector ranked second with the most fraud cases compared to other sectors, with 201 cases and with an average loss of \$240,000. Further comparisons with other sectors can be seen in Figure 1.

Figure 1: Most Common Fraud Schemes in Industry

INDUSTRY	Cases	Billing	Cash larceny	Cash on hand	Check and payment tampering	Corruption	Expense reimbursements	Financial statement fraud	Noncash	Payroll	Register disbursements	Skimming
Banking and financial services	338	11%	14%	23%	12%	36%	7%	8%	11%	2%	3%	9%
Manufacturing	201	27%	8%	15%	12%	51%	18%	10%	28%	5%	3%	7%
Government and public administration	184	15%	11%	11%	9%	50%	11%	5%	22%	7%	2%	11%
Health care	149	26%	7%	13%	13%	36%	16%	11%	19%	17%	1%	12%
Retail	104	20%	10%	19%	9%	28%	8%	12%	34%	5%	13%	13%
Education	96	23%	19%	19%	6%	38%	18%	6%	19%	6%	0%	14%
Insurance	87	20%	9%	3%	18%	45%	8%	7%	11%	3%	1%	11%
Energy	86	20%	2%	10%	12%	53%	10%	3%	27%	7%	2%	10%
Construction	83	37%	12%	8%	19%	42%	23%	16%	23%	14%	1%	13%
Transportation and warehousing	79	25%	8%	8%	9%	46%	15%	8%	28%	3%	3%	13%
Food service and hospitality	75	17%	16%	20%	11%	29%	12%	12%	24%	7%	0%	23%
Technology	62	26%	5%	10%	8%	42%	21%	16%	32%	8%	0%	6%
Religious, charitable, or social services	58	40%	9%	22%	19%	34%	29%	10%	19%	22%	3%	17%
Services (professional)	54	26%	17%	15%	26%	17%	30%	13%	13%	15%	0%	15%
Arts, entertainment, and recreation	50	14%	20%	36%	6%	32%	12%	8%	18%	4%	8%	28%

Source : Association of Certified Fraud Examiners (2018)

Furthermore, the results of the survey by the Association of Certified Fraud Examiners showed an increase when compared to the survey in 2016. In 2016, the manufacturing sector ranked third with a total of 192 cases of fraud and an average loss of \$194,000. In Indonesia alone, fraudulence in financial reporting in the manufacturing sector is still difficult to detect. This can be seen from the results of the 2016 Indonesian Associate of Certified Fraud Examiners survey. There were only seven cases of financial reporting fraud in the manufacturing sector. However, the level of loss due to these cases is very high. Four of the seven cases caused losses of more than 10 billion rupiahs.

One theory that is often used to analyse triggering factors of fraud is the fraud triangle theory that was first coined by Donald R. Cressey (1953). Cressey (1953) revealed that fraudulent financial reporting is always caused by three things, specifically pressure, opportunity, and

rationalisation. This theory was first developed by Wolfe and Hermanson in 2004. Wolfe and Hermanson (2004) revealed that in addition to the three things mentioned above, there is one more factor that has a significant influence on financial reporting fraud, namely, capability. The development of this theory is then called fraud diamond theory.

Furthermore, in 2011 Jonathan Marks also developed the triangle theory of fraud by adding elements of arrogance and competence. The theory put forward by Marks (2011) is then called Crowe's fraud pentagon theory. The fraud determinant contained in the pentagon fraud, which will also be used as an independent variable in this study, namely: pressures, opportunities, rationalisation, competence, and arrogance. Therefore, this study examines the relationship between determinants of fraud contained in pentagon fraud and financial statement fraud.

This study used the population of all manufacturing companies listed on the Indonesia Stock Exchange (IDX) in the period 2013-2017. The data were obtained from the official website of the Indonesia Stock Exchange www.idx.co.id. To examine the relationship between the determinants of fraud contained in the pentagon fraud with financial statement fraud, this research used multiple linear regression analysis as a data analysis technique with the help of SPSS 21 software.

The findings indicate that financial stability is proxied by asset change ratio (ACHANGE), external pressure is proxied by a leverage ratio (LEV); opportunity consisting of ineffective monitoring is proxied by the ratio of independent commissioners (BDOUT); nature of the industry is proxied by the ratio of changes in receivables (RECEIVABLE); competence is proxied by the change in director (DCHANGE); and the arrogance is proxied by politician CEO (POLCEO) and the frequent number of CEO's picture (CEOPICT) unrelated to financial statement fraud. Financial targets that are proxied by return on assets (ROA) are significantly negatively associated with financial statement fraud, and rationalisation, which is proxied by the change in auditor (AUDCHANGE) is positively associated with financial statement fraud.

This research contributes to the literature regarding the relationship between pentagon fraud and financial statement fraud. This study also provides empirical evidence for management regarding factors related to financial statement fraud. Managers can use these results as a basis for consideration in anticipating fraud by using the right strategy.

The structure of this paper is as follows: part 2 is a literature review and hypothesis development; part 3 is the description of the sample and research variables; part 4 is the results and discussion; part 5 is the conclusion of this research.

Literature Review

Theoretical Framework

Theory of Planned Behaviour (TPB) is a development of the theory of reasoned action (Auliandri, Thoyib, Rohman, Rofiq, 2018). Several previous studies linked TPB with consumer behaviour (Asnawi, Sukoco, Fanani, 2018). Theory of planned behaviour states that the instructions to be able to understand behaviour are intentions formed by attitudes towards behaviour, subjective norms, and control over behaviour. As contained in the theory of reasoned action, which is a central factor in the theory of planned behaviour, is also the intention (intention) of individuals to conduct behaviour. The intention is assumed to capture the motivational factors that influence behaviour. It also indicates how hard a person wants to try the efforts that have been planned to execute it into behaviour or action (Ajzen, 1991).

Theory of Planned Behaviour shows that intention is the best guide to understanding individual and organisational behaviour. Management can form a strategic plan, but the plan will be challenging to execute. Management is vulnerable to being influenced by fraud that can trigger further problems so that the management sometimes attempts to cover it up intentionally (Sitorus, 2009). Cohen et al. (2011), in their research entitled "Corporate Fraud and Managers' Behaviour: Evidence from the Press" found that the fraud triangle integrated with TPB is a useful framework for analysing unethical behaviour committed by managers related to corporate frauds. The link between the Theory of Planned Behaviour and Pentagon Fraud is the development of the Fraud Triangle.

Factors that cause fraud – also called determinants of fraud – have been widely studied by experts. The theory that is often used by researchers in the studies related to fraud detection is the fraud triangle theory and its development, such as the diamond fraud theory and the pentagon's fraud.

Hypotheses Development

Pressure and Financial Statement Fraud

Based on SAS No.99, there are a number of pressure conditions that cause fraud, i.e., financial stability, external pressures, individual financial needs, and financial targets. This study used financial stability, external pressure, and financial targets as indicators to test the pressure elements.

Statement on Auditing Standards No. 99 issued by the American Institute of Certified Public Accountants in 2002 showed that pressures that trigger managers in conducting financial statement fraud can arise when financial stability or profitability is threatened by various conditions, e.g., economic conditions, industry, and the situation of operating entities.

Financial stability is a condition that shows that the company is in a stable financial condition (Skousen et al., 2009). The pressure faced by management often refers to proper asset management with the aim of generating high profits and returns for investors (Tiffani & Marfuah, 2015). This shows that the growth of company assets can be a tool for management in conducting financial statement fraud. Skousen et al. (2009) used a proxy of financial stability with a ratio of changes in total assets. Skousen et al. (2009) found that changes in total assets (ACHANGE) are positively related to financial statement fraud, which means that the greater the change in total assets, the higher the indication of fraud in the financial statements.

External pressures are defined as excessive pressure faced by management in meeting the expectations or requirements of third parties (Tiffani & Marfuah, 2015). SAS No. 99 also explains that when there is excessive pressure from external parties, the risk of fraud to the financial statements can increase. This is supported by the opinion of Skousen et al. (2009), which states that the need for companies to obtain additional debt or sources of financing from external parties in order to continue to have competitiveness often creates pressure for company management. Skousen et al. (2009) found that the ratio of total debt to total assets (LEV) has a positive relationship with financial statement fraud.

According to SAS No.99 (AICPA, 2002), the financial target is a risk of excessive pressure faced by management in achieving financial targets set by directors or management, including the goals of receiving bonuses from sales or profits. Skousen et al. (2009) stated that return on assets is often used in assessing the quality of work of managers and in determining wages and wage increases. The higher the ROA targeted by the company, the management's vulnerability will increase in earnings manipulation – which is a form of fraud (Tiffani & Marfuah, 2015). This shows that financial targets have a positive relationship with financial statement fraud. Based on the description, the following hypotheses are proposed:

H1: Financial stability positively affects financial statement fraud.

H2: External pressure positively affects financial statement fraud.

H3: Financial target positively affects financial statement fraud.

Opportunity and Financial Statement Fraud

Statement on Auditing Standards No. 99 (SAS No. 99) indicates that the opportunity for financial statement fraud can occur in three situations, namely, industrial conditions, ineffective supervision, and organisational structure. This study used ineffective monitoring and the nature of the industry as indicators to test the opportunity element.

Ineffective monitoring is a condition that refers to the weakness or ineffectiveness of company supervision in monitoring company performance (Aprilia, 2017). SAS No.99 states that the ineffectiveness of this supervision is a result of the dominance of management by one person or small group without compensation control and ineffective supervision of the process of making financial statements and internal controls. Skousen et al. (2009) revealed that companies with a small independent board of commissioners tend to commit fraud. Therefore, ineffective monitoring is proxied by the ratio of the independent board of commissioners. The smaller the ratio of independent boards of commissioners in a company, the less effective the supervision,, thus the more triggers the occurrence of financial statement fraud.

The nature of the industry is an ideal condition of a company in the industry. In the financial statements, there are certain accounts whose balance amounts are estimated explicitly by the company; for example, uncollectible accounts receivable. Summers and Sweeney (1998) explained that subjective judgments are needed in estimating uncollectible accounts (Skousen et al., 2009). They also stated that accounts that require estimation would be the focus of managers who have the intention to commit financial statement fraud. Therefore, this study used the growth rate of receivables as a proxy for the nature of the industry. Based on the description, the following hypotheses are proposed:

H4: Ineffective monitoring positively affects financial statement fraud.

H5: Nature of industry positively affects financial statement fraud.

Rationalisation and Financial Statement Fraud

According to SAS No. 99, rationalisation in the companies can be measured by the auditor turnover cycle, audit opinion, and the state of total accruals divided by total assets. This study used a change in auditor as an indicator to test the elements of rationalisation.

Based on SAS No. 99, the relationship between management and auditors is a rationalisation of management. Rationalisation is a character or set of ethics contained in the management or employees of a company that triggers them to justify their fraud (Arens, 2017). There are several conditions related to opportunities that cause someone to commit fraud, e.g., auditor change and audit opinion (Skousen et al., 2008). Companies that manipulate financial statements tend to change auditors more frequently. This is done with the aim of reducing the detection of fraud by the auditor. Audit failures in detecting manipulation of financial statements usually increase shortly after the change of auditors. Therefore, rationalisation is proxied by a change in auditor (Skousen et al., 2009). The more frequent auditor changes occur, the higher the probability of financial statement fraud is. Based on the description, the following hypotheses are proposed:

H6: Change in auditors as a proxy of rationalisation positively affects financial statement fraud.

Competence and Financial Statement Fraud

According to Marks (2012), in Aprilia (2017), competence or capability means the ability of employees to penetrate the company's internal control, develop sophisticated embezzlement strategies, and be able to control social situations that can benefit him by influencing others to work with him. Wolfe and Hermanson (2004) explained the characteristics related to the ability elements (capability) in the actions of perpetrators of fraud, namely: position/function, brains, confidence or ego, coercion skills, effective lying, immunity to stress. Wolfe and Hermanson (2004) stated that one's position or position could be the background of fraud in the financial statements, also concluded that the change of directors did not always bring a positive impact on the company.

Changes in directors can indicate fraud. The more frequent frequency of changes of directors in a company can increase the indication of manipulation in financial statements. Based on the description, the following hypotheses are proposed:

H7: The change in directors as a proxy of competence positively affects financial statement fraud.

Arrogance and Financial Statement Fraud

Arrogance is the nature of a lack of conscience, which is an attitude of superiority or the presence of arrogance in someone who believes that internal control cannot be enforced personally (Aprilia, 2017). Simon et al. (2015) used CEO politicians as indicators to examine the effect of arrogance on fraudulent financial reporting. This measurement of CEO politicians is still very rarely done in Indonesia. A CEO who is also a politician or who has a history as a politician will have an extensive network to help the company's business run smoothly. This can cause an arrogant nature in the CEO. This trait triggers a person to justify all means to cover up his cheating. In addition, arrogant nature can make the CEO feel he is one of the people who have a significant influence on the company. Such thinking can be a significant trigger for financial statement fraud.

Simon et al. (2015) also explained that the frequency with which CEO images appear in the company's annual report could be a measure of arrogance. If the CEO has quite a lot of images in the company's annual report, it can be judged that the CEO wants to be known by the wider community. This indicates the arrogant or arrogant nature of the CEO (Aprilia, 2017). This research continues testing the relationship between CEO politicians and the

frequency with which CEO images appear with financial reporting fraud. Companies in Indonesia are affected by changes in political stability and government effectiveness (Nuradi, Badaruddin, Rujiman & Lufti, 2017; Harymawan & Nowland, 2016). This is because politics, as an art of bargaining, has gained substantial momentum after the victory of president Joko Widodo in Indonesia in 2014 (Sanjaya, 2016). Based on the description, the following hypotheses are proposed:

H8: CEO politicians positively affect financial statement fraud.

H9: The frequent number of CEO's picture positively affects financial statement fraud.

Research Design

Sample and Data Source

The population in this study are all manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2013-2017. The sampling technique was done by purposive sampling. In this research, the data were all secondary data collected from www.idx.co.id as well as the company's official website. Total observations in this study are 515 observations from 103 manufacturing companies.

Operational Definition and Variable Measurement

The dependent variable used in this study is financial statement fraud (FSFRAUD), which is measured using earnings management calculated by the Modified Jones formula. The independent variable is fraud pentagon, namely, pressure consisting of three indicators, i.e., financial stability (ACHANGE), external pressure (LEV), financial target (ROA); opportunity consisting of two indicators namely ineffective monitoring (BDOUT), and nature of industry (RECEIVABLE); rationalisation (AUDCHANGE); competence (DCHANGE); and arrogance which consists of two indicators namely CEO politician (POLCEO), and a frequent number of CEO's picture (CEOPICT). The variable definition table can be seen in Table 1.

Table 1: Variable Definition

Variable	Definition
Dependent:	
FSFRAUD	Modified Jones Model
Independent:	
Achange	Changes in total assets divided by total assets in year t
Lev	Total liabilities debt divided by total assets
Roa	Net income before extraordinary items in year t-1 divided by total assets in year t-1

Bdout	The number of Independent commissioners divided by the total number of commissioners
Receivable	Receivables are divided by sales in year t minus receivables divided by sales in year t-1
Audchange	dummy variable, 1 if the company changed the Public Accounting Firm during the 2013-2017 period and 0 if it did not
Dcnhage	Dummy variable, 1 if the company changed directors during the 2013-2017 period and 0 if it did not
Polceo	Dummy variable, 1 if the company has a CEO who has or has served as a politician and 0 if not (Simon et al., 2015)
Ceopict	Number of CEO photos appearing in a company's annual report

Methodology

This study used multiple linear regression analysis as a data analysis technique. Before conducting multiple linear regression analysis tests, descriptive statistics, and standard assumption tests were done using SPSS software. The following models were used in this study:

$$|DACCit| = \beta_0 + \beta_1ACHANGE + \beta_2LEV + \beta_3ROA + \beta_4BDOUT + \beta_5RECEIVABLE + \beta_6AUDCHANGE + \beta_7DCHANGE + \beta_8POLCEO + \beta_9CEOPICT + \epsilon_i$$

Results and Discussion

Descriptive Statistics

Before conducting a descriptive statistical analysis, the outliers were removed as it can disrupt the research results. Based on the results of the study, the minimum, maximum, and average values of each variable that were sampled during the years 2013-2017 are shown in Table 2.

Table 2: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Fsfraud	483	.0006	.6832	.078995	.0696884
Achange	483	-10.8551	.9999	.094666	.5526534
Lev	483	.0372	.9895	.471926	.1977808
Roa	483	-.1915	.6571	.050619	.0920958
Bdout	483	.20	1.00	.4052	.11360
Receivable	483	-3.8467	2.4810	.007424	.2500261
Ceopict	483	0	21	3.06	3.081
Valid N (listwise)	483				

Financial Stability and Financial Statement Fraud

The results obtained a coefficient of determination (R^2) of 0.018 based on Table 3, which shows that the contribution of the independent variable is an indicator of the element of pentagon fraud in this study that is equal to 0.18% related to the financial statement of fraud. Hypothesis testing of financial stability, which is proxied by the ratio of changes in assets, has the aim to prove the relationship between financial and financial statement fraud. The results of multiple linear regression analysis in Table 3 show the value of the financial stability regression coefficient of -0.069 with a significance level of 0.571. The significance level is above 0.05, which means financial stability is not significantly related to financial statement fraud. Hence, H1 is not supported.

The financial stability that is proxied by the ratio of changes in assets cannot be used as a reference to determine that a company is fraudulent. The size of the change in the company's assets does not necessarily encourage management to commit fraud. This can be caused by a significant change in the number of assets, which will undoubtedly cause the company to be of concern to the public, and will also increase the confidence of the community, the government, investors, and creditors who have hopes of getting high rates of return, especially when companies experience a large increase in the number of assets. This will encourage companies to improve their performance and be more careful in their financial reporting so that the presentation of financial statements becomes more accurate. The company will maintain its credibility by not doing any misappropriation on financial reporting.

This result is supported by research conducted by Ulfah et al. (2017), who found that financial stability had no significant effect on financial statement fraud. The cause is that when the company's financial condition is unstable or decreased, managers will not necessarily manipulate financial statements in order to improve the prospects of the company because it will worsen the financial condition in the future. This result is also supported by research conducted by Arie and Basuki (2016), who found that financial stability had no significant effect on financial statement fraud in the banking sector. The cause is that if the company experiences an increase in its assets, it is caused by the development of assets and funds from third parties, and credit has increased in the observation period.

Table 3: Results of R^2

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.190 ^a	.036	.018	1.0804490

Table 4: The Results of Multiple Linear Regression Test

Model	Unstandardised Coefficients		Standardised Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-2.568	.218		-11.756	.000
Achange	-.069	.121	-.035	-.567	.571
Lev	-.274	.272	-.050	-1.008	.314
Roa	-1.302	.573	-.110	-2.272	.024
Bdout	-.452	.447	-.047	-1.012	.312
Receivable	-.038	.266	-.009	-.141	.888
Audchange	.337	.139	.111	2.417	.016
Dchange	-.034	.101	-.015	-.332	.740
Polceo	-.560	.637	-.040	-.879	.380
Ceopict	-.015	.016	-.043	-.925	.356

External Pressure and Financial Statement Fraud

Based on Table 4, it can be seen that the external pressure regression coefficient is -2727 with a significance value of 0.314 . The significance value is greater than the 0.05 significance level, so it can be concluded that external pressure is not significantly related to financial statement fraud. Hence, H2 is not supported. External pressure or pressure that comes from outside the company can arise when an external party (shareholders) requires a high rate of return so the company must increase capital to increase production and can meet the expectations of external parties. In general, companies will seek loan funds from other parties to be able to fulfil this.

The results of this study found that the external pressure which is proxied by the leverage ratio cannot be a reference to see the occurrence of financial statement fraud on the company. The absence of a relationship between these variables is because the company has an alternative besides obtaining a loan of funds to be able to increase its capital, namely by issuing shares. In this way, companies can increase capital and reduce the amount of debt. The results of this study are consistent with research conducted by Anissya et al. (2016) who found leverage has no effect on financial statement fraud because the company has the capability to pay its debt, the value of leverage is lower, so it does not cause excessive pressure that can encourage management to commit financial reporting fraud.

The results of this study are also in line with research conducted by Martantya (2013) stating that external pressure proxied by leverage has no significant effect on financial statement fraud. The reason is that the tendency of companies to commit fraud with low leverage characteristics is more likely due to the current creditor no longer considering the amount of

leverage. However, there are other considerations such as high trust or good relationships between the company and creditors.

Financial Target and Financial Statement Fraud

Based on Table 4, it can be seen that the target financial regression coefficient number is -1,302 with a significance value of 0.024. This shows that the financial target has a negative relationship with financial statement fraud because the significance value is smaller than the 0.05 significance level, and the regression coefficient shows a negative value. Hence, H3 is not supported.

The results also show that financial targets measured using the previous year's ROA, which are assumed to be financial targets for the next period are significantly negatively related to financial statement fraud. This means that the higher the financial target (ROA), the lower the intensity of the company to conduct financial statement fraud. The high financial targets set indicate the company's performance in good condition in the previous year, also indicates that the company has been wise in using its assets for profit. So the company will try to maintain and even increase its profitability. Then the company will not cheat. Conversely, low financial targets can cause excessive pressure in management to improve the company's financial performance in the current year. This can trigger management to conduct financial statement fraud.

This study is consistent with Nauval's (2015) study, which found that financial targets have a significantly negative effect. According to Nauval (2015), a high level of ROA indicates the company has a good performance. Conversely, a low level of ROA indicates that the company has difficulty in making a profit. Nauval (2015) concluded that companies that tend to commit fraud have low ability in managing their assets to achieve profit, this can encourage management to manipulate financial statements so that the company's performance looks good.

Ineffective Monitoring and Financial Statement Fraud

Based on Table 4, it can be seen that the ineffective monitoring regression coefficient number is -0.452 with a significance value of 0.312. This shows that ineffective monitoring is not significantly related to financial statement fraud because the significance value is greater than the significance level of 0.05. Hence, H4 is not supported.

The existence of an independent commissioner in a company aims to supervise the company's performance. A large number of independent commissioners is expected to increase the effectiveness of supervision. Therefore, this study used the proportion of independent

commissioners (BDOUT) as a proxy for effective monitoring. This unrelated variable may be caused by the appointment of an independent board of commissioners by the company that may only be carried out to fulfil regulations, not intended to enforce good corporate governance (GCG) in the mechanism of efforts to prevent misstatement of financial reporting (Siregar and Utama, 2005). This causes the role and function of the independent commissioner in overseeing the performance of the company still not running optimally. In addition, the intervention from certain parties can also result in oversight carried out by the board of independent commissioners to be objective. Thus, the number of independent commissioners in a company is not a significant factor in increasing the company's operational oversight.

This research is consistent with research conducted by Martantya (2013) stating that ineffective monitoring has no significant effect on financial statement fraud. This may be due to the addition of the members of the independent board of commissioners, which is only possible to fulfil formal requirements, while stakeholders (controllers/founders) still dominate and play an important role so that the performance of the independent board of commissioners does not increase.

Nature of Industry and Financial Statement Fraud

Based on the results of hypothesis testing in Table 4, it can be seen that the nature of the industry regression coefficient is -0.038 with a significance value of 0.888. This shows that the nature of the industry does not have a significant relationship with financial statement fraud because the significance value is greater than the significance level of 0.05. Hence, H5 is not supported.

A high receivable ratio can be a gap for companies to commit fraud in estimating the allowance for uncollectible accounts as there is a subjective assessment in determining the account. A significant increase in trade receivables can indicate financial statement fraud. Nevertheless, in this study, researchers found an average receivable ratio of only 0.007424 or 0.7424%. That is, the average growth of accounts receivable manufacturing companies listed on the stock exchange during the observation period is in a reasonably stable condition. Therefore, in this study, the nature of the industry, which is measured by using receivable ratios, has not been proven to be related to financial statement fraud.

The results of this study are consistent with research conducted by Tiffani and Marfuah (2015), who found that the nature of the industry as measured by the ratio of changes in receivables do not significantly influence financial statement fraud. In this study, it was concluded that the companies included in the fraud sub-sample and non-fraud sub-sample

categories had industry characteristics that were not different; thus receivables could not be used as a detector for financial statement fraud.

Change in Auditor and Financial Statement Fraud

Based on the results of testing the hypothesis in Table 4, it can be seen that the change in auditor regression coefficient is 0.337 with a significance value of 0.016. This shows that change in auditor positively affects significantly to the financial statement fraud as the significance value is smaller than the significance level of 0.05. Hence, H6 is accepted.

Changing auditors in a company can increase the risk of audit failure. This is because the new independent auditor needs time to understand the company's condition in order to detect hidden fraud. Companies tend to change the position of independent auditors when they want to hide something that is not reasonable for the public to know.

The results of this study are consistent with research conducted by Ulfah et al. (2017), who found that auditor turnover had a significant effect on financial statement fraud. Auditor turnover is considered as a step to conceal traces of fraud discovered by the previous auditor. Furthermore, the company will replace its independent auditor with the auditor that has lower quality than the previous auditor does.

The results of this study are also in line with research conducted by Putriasih et al. (2016), who figured out that auditor turnover has a significant effect on financial statement fraud. According to Putriasih et al. (2016), a change of auditors in a company is considered as an effort to eliminate the trace of fraud (fraud trial). Consequently, by changing auditors, the company can use it to cover up the fraud that occurred.

Change in Director and Financial Statement Fraud

Based on the results of hypothesis testing in Table 4, it can be seen that the change in director regression coefficient is -0.034 with a significance value of 0.740. This shows that change in director is not significantly related to financial statement fraud because the significance value is greater than the significance level of 0.05. Hence, H7 is not supported.

According to Wolfe and Hermanson (2004), fraudulence will not occur without the right person within the right ability to carry out every detail of fraud. Someone who has competent skills will certainly be trusted to hold an important position – one of which is to be trusted to be a member of the board of directors. Change of directors in a company can be caused by the intention to improve management performance. To be able to improve performance, companies need to recruit more competent directors than before. The higher the competency of directors, the quality of work will increase so that the possibility of fraud happening is

much lower. Therefore, the change of directors is not a significant factor in triggering the occurrence of financial statement fraud. According to Annisya et al. (2016), the change of directors has no significant effect on financial statement fraud, it can be due to supervision related to the performance of each director conducted by the board of commissioners.

The results of this study are consistent with research conducted by Aprilia (2017), who stated that the change of directors has no significant effect on financial statement fraud. This can be due to the supervision system implemented by the company is adequate and has been running effectively so that both the directors to be replaced and the directors who replace will not be able to change the policies in force.

CEO Politicians and Financial Statement Fraud

Based on the results of testing the hypothesis in Table 4, it can be seen that the number of CEO politicians' regression coefficients is -0.560 with a significance value of 0.380. This shows that CEO politicians do not have a significant relationship with financial statement fraud because the significance value is greater than the significance level of 0.05. Hence, H8 is rejected.

A CEO who serves or has served as a politician will certainly have broad connections. Such connections and power can trigger arrogance in a person that makes him feel the law does not apply to him. This person has a high chance of committing fraud. This study found that CEO politicians are not proven to be significantly related to financial statement fraud. Unrelated to this variable can be caused by the minimal number of CEOs who are or have served concurrently as politicians in manufacturing companies listed on the IDX during the observation period. The results of this study are consistent with research Aprilia (2017) and Junardi (2019), who found that CEO politicians have no significant effect on financial statement fraud. According to Junardi (2019), the effect of the variable is due to the Financial Services Authority (OJK) asserting that political party members cannot occupy the positions of commissioners and directors in the banking sector.

Frequent Number of CEO's Picture and Financial Statement Fraud

Based on the results of hypothesis testing in Table 4, it can be seen that the frequent number of coefficient regression coefficient number is -0.015 with a significance value of 0.356. This shows that the frequent number of CEO's picture is not significantly related to financial statement fraud because the significance value is greater than the significance level of 0.05. So H9 is not supported.

Arrogance is the attitude of superiority of someone who considers himself free from internal control and immune to applicable legal rules. One measuring element of arrogance is a frequent number of CEO's pictures. However, the level of arrogance is not absolute can be measured from the frequency of appearance of the photos. The high frequency of CEO photos appearing on company annual reports cannot be a trigger for financial statement fraud. This study is consistent with the Aprilia (2017), and Junardi (2019) indicating frequent numbers of CEO's pictures had no significant effect on financial statement fraud. According to Junardi (2019), the CEO's photo becomes essential to be included in the annual report with the aim of merely introducing the company's CEO to the broader community and especially to stakeholders.

Conclusion

This study aims to examine empirically the relationship between determinants of fraud – based on the perspective of fraud pentagon – with financial statement fraud on manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2013-2017. This study found that the elements of pentagon fraud are (1) a pressure that consists of financial stability, external pressure, and financial targets; (2) an opportunity that consists of ineffective monitoring and nature of industry; (3) rationalisation; (4) competence; and (5) an arrogance consisting of CEO politicians and frequent numbers of CEO's pictures dealing simultaneously with financial statement fraud. Based on the partial test results and the discussion, a number of conclusions can be drawn. First, financial stability, external pressure, ineffective monitoring, the nature of the industry, change in director, CEO politicians, and the frequent number of CEO's pictures are not significantly related to financial statement fraud. Second, financial targets are significantly related to negative direction with financial statement fraud. Finally, the change in auditors is positive.

This research has been planned and carried out in such a way. The coefficient of determination in this study is 0.018, which means that there are still other independent variables that can explain the dependent variable. Therefore, further research is recommended to use other variables that may have a relationship with financial statement fraud.

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