International Journal of Economics, Business and Accounting Research (IJEBAR)
Peer Reviewed – International Journal
Vol-6, Issue-4, 2022 (IJEBAR)
E-ISSN: 2614-1280 P-ISSN 2622-4771
https://jurnal.stie-aas.ac.id/index.php/IJEBAR

PERSPECTIVE OF CROWE'S FRAUD PENTAGON IN DETECTING FRAUDULENT FINANCIAL STATEMENT
(Case Studies on Manufacturing Companies Listed on the IDX for 2019-2021)

Muhammad Fauzan Zakiy,[1)] Hadi Pramono,[2)] Sri Wahyuni,[3)] Nur Isna Inayati[4)]
Muhammadiyah Purwokerto University[1,2,3,4]
E-mail: fauzanzakiyy@gmail.com [1)] pramono.hadi.75@gmail.com [2)]

Abstract: This study aims to examine the possibility of fraud in financial statements using the pentagon fraud perspective. The pentagon fraud theory is a development of the diamond fraud and triangle fraud theories. The pentagon fraud theory adds arrogance to the four existing elements, namely pressure, opportunity, rationalization, and ability or competence. The population used in this research is 30 manufacturing companies listed on the Indonesia Stock Exchange (IDX) for 2019-2021. The samples obtained using the purposive sampling technique were 71 samples. Data were analyzed using descriptive statistical tests, classic assumption tests and hypothesis testing using multiple linear regression methods. The results of this study indicate that external pressure, financial targets, and institutional ownership have a positive effect, and effective monitoring negatively influences fraudulent financial reporting. In contrast, financial stability, nature of the industry, changes in auditors, changes of directors and frequency of the CEO's picture do not significantly affect financial statement fraud.

Keywords: *Fraud pentagon, Fraudulent financial statement, Fraud, Beneish M-Score*

1. Introduction

Financial reports are a company's critical tool for communicating with internal and external parties, such as corporate leaders and managers, creditors, and investors. The financial reports offer information on the company's condition throughout the reporting period that will be utilized to inform future decisions (Fadhlurrahman, 2021). Thus, financial reports must be pertinent, comparable, error-free, simple to comprehend, consistent, impartial, and timely. In reporting the company's state, managers frequently misappropriate funds or commit fraud by exploiting the company's shortcomings, such as inadequate internal controls, to achieve specific aims (Anwar, 2022)

Intentional manipulation of financial reports by company internal or external parties for their personal or other parties' gain is known as fraudulent financial statements (ACFE, 2016). Manufacturing firm fraud cases have injured organizations or enterprises with a median loss of $240,000 and 212 cases of fraud that occurred, making it rank 2 (two) among other industries in the number of cases in 2018, according to the 2018 ACFE survey through Report to the Nation (ACFE, 2018) For this reason, researchers look at examples in Indonesian manufacturing firms between 2019 and 2021.

Fraud scandals are a common occurrence in both national and international businesses. The Enron case in the United States in October 2001, which hurt practically the entire sector, was the most devastating scandal in the history of global fraud (Karim, 2021). Losses of US $ 32 billion

to investors and US $1 billion to Enron workers had a tremendous impact on the accounting profession at the time. Therefore, the Sarbanes-Oxley regulation was enacted in the US to stop other instances of fraud. In October 2002, the AICPA released a statement known as Statement of Auditing Standard (SAS) No. 99, addressing Consideration of Fraud in a Financial Statement Audit (Casabona, 2003).

In 2018, there were also instances of fraud in Indonesia. PT Garuda Indonesia, the subject of the airline scandal, violated financial accounting writing rules and committed revenue recognition fraud in its financial statements in 2018. Inversely proportionate to their loss of US$ 216.5 million in 2017, PT Garuda Indonesia reported revenues of US$809,846 in 2018. This case has led to criticism among the accounting community in Indonesia (Mintara & Hapsari, 2021).

A qualified auditor is required to examine the financial accounts and determine whether the company has prepared financial reports following accounting standards or not in order to prevent fraud scandals from occurring again. The board of directors, clients, and investors might use the information in the auditor's judgment to make decisions. Consequently, the audit report may impact a company's future (Handoyo & Hasanah, 2017).

Theoretical approaches to fraud detection have advanced significantly. Auditors must be familiar with the fundamentals of fraud since they evaluate financial accounts. The fraud triangle theory, which consists of pressure, opportunity, and rationalization, was first introduced by Cressey (1953) in his paper "Other People's Money: A Study in the Social Psychology of Embezzlement." It states that three elements are thought to encourage someone to commit fraud. In 2004, Wolfe and Hermanson brought a new aspect to this theory: capability/competence or a person's ability. Wolfe & Hermanson (2004) believe that people who commit fraud can do so; hence, they devised the diamond theory. Crowe Horwath updated the diamond fraud in 2011 by introducing an arrogant aspect. According to Horwath (2011), a person's arrogance may motivate them to commit fraud. As a result, the five elements that make up the fraud pentagon theory are as follows: pressure, opportunity, rationalization, capability or competence, and arrogance.

The results of 2 (two) variables that influenced fraud in financial statements—namely, change in audit and financial targets—were shown in the earlier study by Mintara & Hapsari (2021), which used Discretionary Accrual as the dependent variable. Another study, conducted by Bawekes et al. (2018), using "restatement of financial statements" as the dependent variable, demonstrated the influence of two variables: frequency of CEO photographs and financial stability. This research differs from the previous one since it focuses on the population of manufacturing companies in the years 2019 to 2021 and applies the M-Score model to calculate the dependent variable. The results of this research are external pressure, financial targets, monitoring effectiveness, and institutional ownership influence fraudulent financial statements.

Literature Review

Agency Theory

Agency theory describes a type of interaction between a company's owner (principal) and manager (agents) in a contract approved by both sides (Jensen et al., 1976). The agent and the principal frequently have competing interests in these contracts. As investors, business owners expect a profit from firms operated by agents. On the other hand, agents are concerned with maximizing their commissions following the quality of their work (Bawekes et al., 2018).

Because there is a conflict of interest between the principal and the agent in this study, managers may commit fraud when preparing financial statements. The principal's lack of control of managers' performance lends credence to this. It creates several openings for fraud that managers can take advantage of to further their objectives (Mintara dan Hapsari, 2021).

Fraud

Fraud is a behaviour committed purposefully by firm owners or management to attain particular objectives. Fraud committed by companies can serve a variety of purposes. The most typical strategy is to enhance the company's financial reporting to entice potential investors to invest in the business (Amarakamini & Suryani, 2019).

The Associated Certified Fraud Examiner (ACFE, 2016) defines fraud as deception or error perpetrated by a person or organization with the knowledge that the action would cause harm to the organization or other parties. Based on this knowledge, fraud is generally understood to be an intentional mistake, both internal and external mistake that violates the law and causes harm to others to accomplish specified aims (Anggraeni & Efendi, 2022).

The three primary types of fraud are misusing assets, corruption, and fraudulent financial statements. The Fraud Tree consists of these three branches, which are as follows: (1) Corruption; according to ACFE, corruption is broken down into conflicts of interest, bribes, unlawful gifts, and extortion. Because it involves multiple people with interests rather than just one, corruption is one of the most challenging types of fraud to identify (Abidin, 2018). (2) Misuse of assets is a fraud that targets the company's resources, including cash, inventory, and other expenditures. Asset misuse is a type of fraud that is simple to detect because it is concrete and straightforward to measure, claims Aprilyanti (2021). (3) Financial statement fraud; the auditor must analyze the report during a specific period per the company's financial reporting system. An auditor review is performed to ensure that the financial statements are correct and that no significant issues affect the audit conclusion. Whether or not an activity was done intentionally differentiates error from fraud (Anggraeni & Efendi, 2022).

Fraudulent Financial Statement

A fraudulent financial statement is a method of intentionally creating a mistake while preparing or preparing corporate financial statements in order to deceive stakeholders. This act can take the form of either omitting information or providing false information. In order to make financial reports appear better, managers frequently construct financial reports that exaggerate earnings or assets based on actual data while understating the number of liabilities or debts (Fabiolla et al., 2021).

Fraud Pentagon

Fraud is based on the idea that Cressey put forward in 1953. According to the theory known as the "Fraud Triangle," three things can cause an individual to commit fraud: pressure, opportunity, and rationalization. The three factors are described in various situations, according to Skousen et al. (2008), Various factors indicate pressure, including external pressure, unstable financial conditions, pressure from managers or leaders, and the need to achieve targets. The opportunity element comes next, requiring less-than-ideal company conditions and insufficient monitoring or oversight. The final component is the justification or rationalization of the fraudulent activity through supporting arguments (Gusti et al., 2018).

Wolfe and Hermanson transformed the fraud triangle idea into the diamond theory in 2004. According to Wolfe & Hermanson (2004), there is one extra component, Capability, in addition to the four criteria of fraud they identified. The ability component in this theory demonstrates that fraud can be committed by individuals with the capacity or power to conduct fraud (Prayoga & Sudarmaji, 2019).

Image 1. Crowe's Fraud Pentagon

Crowe Horwath (2011) developed a theory that complements the fraud triangle theory and the fraud diamond theory to widen the scope of existing theories. The Fraud Pentagon idea is created by adding 1 (one) new element, arrogance. One who holds a high position in a company, like a director or CEO, is more likely to exhibit arrogance because they believe that internal policies and rules do not apply to them, which encourages fraud in the organization (Yuliana et al., 2022).

Financial Stability and Fraudulent Financial Statement

Pressure is the first component of pentagon fraud. Due to the need to stabilize the company's finances, the instability of a business might increase the likelihood of fraud. In this manner, financial stability serves as a standard against which the organization's financial success can be measured; this is accomplished through the development of financial stabilization. A solid company's financial situation allows it to address immediate and future needs. Because of this, managers will resort to various strategies to guarantee the business's continuity (Bawekes et al., 2018; Kurnia & Anis, 2017). The relationship between financial stability and agency theory is based on the principal and agent's interests. An agent will be commended by the principal and given a salary bonus if they can keep the business financially secure in uncertain times. Therefore, agents will use various methods, including manipulation, to stabilize the company's financial status. This is further assisted by the principal's need for more monitoring of the performance of managers or agents in establishing a solid financial state.

Wahyuni & Setyo's research (2017) shows that financial stability utilizing proxies for changes in assets can positively affect financial statement fraud because changes in the level of high asset ratios enhance the likelihood of someone committing fraud. In other words, for a corporation that is constant at the level of changes in its assets, the possibility of fraudulent practices in financial statements is low. Using this reasoning, the researcher draws the following conclusion about the hypothesis:

H1: Financial Stability positively influence Fraudulent Financial Statement

External Pressure and Fraudulent Financial Statement

There are occasions when managers are pressured to fulfil their commitments by external parties (Skousen et al., 2008). Based on agency theory, firm managers can manipulate debt levels to reduce leverage by taking advantage of principals' lax oversight. When the level of leverage is high, the manager will almost certainly take action to lower the value of this ratio. For instance, the manager may manipulate the financial statements of the debt section in order to achieve this goal. This is done to show creditors that the business can handle debt repayment effectively, making them more likely to offer the business credit services (Vivianita & Indudewi, 2018).

Therefore, if a corporation has a high leverage ratio, there is a greater chance that the company may engage in fraudulent activity (Bawekes et al., 2018; Kurnia & Anis, 2017).

External pressure, as measured by leverage, has a favourable impact on fraudulent financial statements, as demonstrated by Ghandur et al. (2019), Mintara & Hapsari (2021), and Yesiariani & Rahayu (2017). Using this reasoning, the researcher draws the following conclusion about the hypothesis:

H2: External Pressure positively influence Fraudulent Financial Statement

Financial Target and Fraudulent Financial Statement

Companies have targets, such as maximizing profits. However, if the profit objective is excessively high, it could put management under pressure. To meet these financial goals, agents must perform at their highest level as firm managers (Agusputri & Sofie, 2019). When the firm suffers losses or falls and cannot meet the objective for profits, the potential for managers to manipulate their income to meet the target becomes even more enormous. By proxy, ROA (Return on Assets) is a method used to analyze operating performance and illustrate how effectively a company uses its assets (Skousen et al., 2008). As a result, managers are more likely to manipulate financial accounts the higher ROA. The relationship between financial targets and agency theory is based on the interests of managers who are not directly aligned with principals. For the company's performance to be deemed satisfactory, the principal desires that the profit goal be met. On the other hand, the manager is looking for a salary bonus in exchange for his performance in meeting the profit goal that the company set. Due to this disparity in interests, managers are more likely to engage in fraudulent behaviour.

According to the findings of research conducted by Noble (2019), financial targets can positively affect fraudulent financial statements. Using this reasoning, the researcher draws the following conclusion about the hypothesis:

H3: Financial Target positively influence Fraudulent Financial Statement

Institutional Ownership and Fraudulent Financial Statement

The high amount of shares held by institutions in the company is another type of pressure that may push managers to engage in fraudulent activity. Due to a sense of accountability for the shares they manage from both individuals and institutions, managers in charge of the company's performance will face intense pressure. Because institutional ownership is far higher than individual ownership, management makes an effort to use window dressing to stop institutional investors from losing their shares (Bawekes et al., 2018). Institutional ownership can be measured using OSHIP by distributing institutional shares in proportion to a company's total number of outstanding shares. This research was conducted by Skousen et al. (2008). Thus, the higher the OSHIP, the greater the likelihood that financial statements contain fraudulent activity.

According to research by Ghandur et al. (2019) and Apriliana & Agustina (2017), institutional ownership positively affects fraudulent financial statements. Using this reasoning, the researcher draws the following conclusion about the hypothesis:

H4: Institutional Ownership positively influence Fraudulent Financial Statement

Nature of Industry and Fraudulent Financial Statement

The nature of the industry provides the optimal business environment (Yesiariani & Rahayu, 2017). Accounts such as uncollectible accounts receivable and goods inventory accounts are already estimated in the financial statements (Bawekes et al., 2018; Kurnia & Anis, 2017). According to Summers & Sweeney (1998), inventories and accounts receivable must be

evaluated using subjective judgment when determining the total amount of uncollectible debt. On the other hand, since the evaluation has to be carried out subjectively, there is a possibility that management will utilize this account in order to conduct fraud. Using RECEIVABLE, as in the study by Skousen et al. (2008), it is feasible to measure the amount of company sales receivables.

Mintara dan Hapsari (2021) research shows that the nature of the industry positively influences fraudulent financial statements. Using this reasoning, the researcher draws the following conclusion about the hypothesis:
H5: Nature of Industry positively influence Fraudulent Financial Statement.

Effective Monitoring and Fraudulent Financial Statement

Ineffective monitoring might increase the likelihood of financial statement fraud (Bawekes et al., 2018; Kurnia & Anis, 2017). When there is insufficient oversight, managers will have greater leeway to conduct fraud since they will believe that others will not be aware of their actions. This will make them feel more confident in getting away with it. Because internal managers dominate the company's supervisory system, ineffective supervision can happen. Because of this, the independent board of commissioners and the board of directors must play the role of supervisors to lessen the likelihood of fraudulent activity (Skousen et al., 2008).

Effective monitoring negatively influences fraudulent financial statements, as proven by Apriliana & Agustina (2017) and Yesiariani & Rahayu (2017). Using this reasoning, the researcher draws the following conclusion about the hypothesis:
H6: Effective Monitoring negatively influence Fraudulent Financial Statement

Change in Auditor and Fraudulent Financial Statement

The function of auditors as supervisors is a crucial component of financial statements. When a new auditor comes in, the company has to readjust its processes to accommodate the new one. At that point, the business has justifications for engaging in fraud. Managers will take advantage of circumstances beyond the auditor's oversight and control to make purposeful errors (Bawekes et al., 2018; Kurnia & Anis, 2017). In the first two years of an auditor's career, 36 per cent of fraudulent financial acts occur, according to Loebbecke et al. (1989), Summers & Sweeney (1998), and Skousen et al. (2008).

Novitasari & Chariri's (2018) study demonstrates that changes in auditors positively influence fraudulent financial statements. Using this reasoning, the researcher draws the following conclusion about the hypothesis:
H7: Change in Auditor positively influence Fraudulent Financial Statement

Change of Director and Fraudulent Financial Statement

Wolfe and Hermanson added that capability is a component of the Fraud Diamond Theory. Six characteristics are listed by Wolfe & Hermanson (2004) as being present in fraudsters: (1) positioning, (2) intelligence, confidence/ego, (4) coercion skills, (5) stress management, and (6) deceit. The position on the board of directors is ideal in considering these factors. There is a strong possibility that politics within the corporation, which can result in diverging interests, was a driving factor in the decision to replace directors. Changes to the board of directors can result in stressful times and raise the risk of fraud, according to Wolfe & Hermanson (2004). Another reason corporations change their directors is that doing so can be a method of covering up fraud committed by the company by replacing directors suspected to be aware of the fraud with new directors.

According to Mintara & Hapsari (2021), Noble (2019), and Haqq & Budiwitjaksono (2020) study demonstrates that a change of director positively influences fraudulent financial statements. Using this reasoning, the researcher draws the following conclusion about the hypothesis:
H8: Change of Directors positively influence Fraudulent Financial Statement

Frequent CEO's Picture and Fraudulent Financial Statement

The frequency of CEO photographs refers to the number of CEO photographs displayed or published in the company's annual report. CEOs with superiority or arrogance typically have many pictures of themselves. CEOs will attempt to assert their position and authority by demonstrating their superiority. This variable corresponds to the arrogant aspect proposed by Horwath (2011). Because of their arrogance and sense of superiority, CEOs often believe they are excluded from any regulations or policies established by the organization. Therefore, fraud may happen if a CEO has a high level of arrogance. Horwath (2011) believes that a CEO will use all means necessary to keep his position, including manipulative tactics like a fraud.

According to studies by Fabiolla et al. (2021), Aprilyanti (2021), and Bawekes et al. (2018), frequent CEO pictures positively influence fraudulent financial statements. Using this reasoning, the researcher draws the following conclusion about the hypothesis:
H9: Frequent CEO's Picture positively influence Fraudulent Financial Statement

2. Research Method

This study makes use of secondary data types and quantitative approaches. The company's annual report is an example of the sort of secondary data utilized, and it is available for download on the website of either the company itself or the Indonesian Stock Exchange (IDX). Purposive sampling with the following criteria is the sampling strategy used in this study: (1) companies listed on the Indonesia Stock Exchange for the period 2019 – 2021 respectively, (2) the company submits a complete annual report for the period 2019 – 2021, (3) the company provides complete data as needed for this research, (4) The unit of currency used is IDR, (5) the company has at least one indication of fraud during 3 (three) years of observation. This study can make use of 71 samples.

The Beneish M-Score arithmetic model is utilized in this study to analyze the dependent variable, fraudulent financial statements (FRAUD). The Beneish M-Score is an analytical method introduced by researcher Prof. M. Beneish in 1999 in his article titled "The Detection of Earning Manipulations," which displays data by assessing eight ratios used to detect financial statement fraud. It is possible to conclude that the report contains fraud if the Beneish M-Score calculation results are -2.22 or above. If it is less than -2.22, the report is probably free of fraud (Beneish, 1999). The formula:

$$\begin{aligned} \text{M} - \text{Score} = {} & -4{,}84 + 0{,}920(\text{DSRI}) + 0{,}528(\text{GMI}) + 0{,}404(\text{AQI}) + 0{,}892(\text{SGI}) \\ & + 0{,}115(\text{DEPI}) - 0{,}172(\text{SGAI}) - 0{,}327(\text{LVGI}) + 4{,}697(\text{TATA}) \end{aligned}$$

Table 1
M-Score Measurement

DSRI	$=\frac{(\text{Net receivables t} / \text{sales t})}{(\text{Net receivables t}-1 / \text{sales t}-1)}$
GMI	$=\frac{[((\text{Sales t}-1)-(\text{COGS t}-1)) / \text{sales t}-1)]}{((\text{Sales t}-\text{COGS t}) / \text{sales t})}$
AQI	$=\frac{(\text{TA t}-(\text{CA t}-\text{PPE t}) / \text{TA t})}{(\text{TA t}-1-(\text{CA t}-1+\text{PPE t}-1) / \text{TA t}-1)}$
SGI	$=\frac{(\text{Sales t})}{(\text{Sales t}-1)}$
DEPI	$=\frac{(\text{Depreciation t}-1) / (\text{PPE t}-1)+\text{Depreciation t}-1)}{(\text{Depreciation t}) / (\text{PPE t})+\text{Depreciation t})}$
SGAI	$=\frac{(\text{SG\&E t} / \text{Sales t})}{(\text{SG\&E t}-1 / \text{Sales t}-1)}$
LVGI	$=\frac{[(\text{Current Liabilities t}+\text{Long term debt t}) / \text{TA t})]}{[(\text{Current Liabilities t}-1+\text{Long term debt t}-1) / \text{TA t}-1)]}$
TATA	$=\frac{(\text{Net Income from Operation t}-\text{Cash flow from operation t})}{(\text{Total Asset t})}$

Source: (Beneish, 1999)

In the fraud pentagon, this study makes use of nine independent factors. The independent variables are measured in the following table:

Table 2
Independent Variable Measurement

Element	Variabel	Formula	Source
Pressure	Financial Stability (ACHANGE)	(total asset$_t$ – total asset $_{t-1}$)/total asset$_t$	Bawekes et al., (2018)
	External Pressure (LEV)	Total liability / Total asset	Ghandur et al., (2019)
	Financial Target (ROA)	Income AT $_{t-1}$ / Total asset $_{t-1}$	Apriliana & Agustina, (2017)
	Institutional Ownership (OSHIP)	Institution Share / Total Outstanding stock	Ghandur et al., (2019)
Opportunity	Nature of Industry (RECEIVABLE)	(Receivables $_t$ / Sales $_t$) – (Receivables $_{t-1}$ – Sales$_{t-1}$)	Aulia Haqq & Budiwitjaksono, (2020)
	Effective Monitoring (IND)	Number of independent commissioners / Total number of commissioners	Mintara & Hapsari, (2021)
Rationalization	Change in Auditor	Binary variable with 1 for companies that change auditors and 0 for vice	Novitasari & Chariri,

	(AUDCHANGE)	versa	(2018)
Capability	Change of Director (DCHANGE)	Binary variable with 1 for companies that change directors and 0 otherwise	Novitasari & Chariri, (2018)
Arrogance	Frequent of CEO's Picture (CEOPICT)	Number of CEO photos in the annual report	Bawekes et al., (2018)

Analysis technique in this research, multiple linear regression models are utilized to assess hypotheses. Multiple linear regression analysis (Ghozali, 2016) aims to determine the degree of influence between the independent factors and the dependent variable. The researcher will do a classic assumption test that includes an autocorrelation test, normality, heteroscedasticity, and multicollinearity. The research's multiple linear regression model is as follows:

$$FRAUD=\alpha+\beta1ACHANGE+\beta2LEV+\beta3ROA+\beta4OSHIP+\beta5RECEIVABLES-\beta6IND+\beta7AUDCHANGE+\beta8DCHANGE+\beta9CEOPICT+\epsilon$$

3. Results and Discussion

3.1. Results

Only 71 out of the 87 samples from the 29 manufacturing organizations analyzed were outlier-free, while every sample passed the classic assumption test, which includes the multicollinearity, autocorrelation, and heteroscedasticity tests. The following general description of the independent and dependent variables was tested using descriptive statistical tests.

Table 3
Descriptive Test

Descriptive Statistic					
Variabel	**N**	**Min**	**Max**	**Mean**	**Std. Deviation**
FRAUD	71	-4.833	1.106	-2.192	0.774
ACHANGE	71	-0.402	0.626	0.085	0.155
LEV	71	0.067	1.162	0.487	0.230
ROA	71	-0.163	0.599	0.060	0.101
OSHIP	71	0.004	0.999	0.620	0.314
RECEIVABLE	71	-0.176	0.237	0.007	0.063
IND	71	0.250	1	0.427	0.155
AUDCHANGE	71	0	1	0.343	0.476
DCHANGE	71	0	1	0.629	0.489
CEOPICT	71	1	4	2.563	0.770

Source: Processed data, 2022

According to the following descriptive test table, the average or mean on the FRAUD variable is -2.192, indicating that more companies with fraud indicators exist among the 71 data evaluated, with a standard deviation of 0.774. The ACHANGE variable (X1) has a mean score of 0.085, or 8.5%, indicating that the company under study experienced a change in assets and a standard deviation of 0.155. The average score for the LEV variable (X2) is 0.487, or 48.7% of the

company's level of leverage, with a standard deviation of 0.230. The ROA variable (X3) received an average score of 0.060, representing 6% of the company's ROA, and a standard deviation score of 0.101. The average score for the OSHIP variable (X4) was 0.620, or 62% of the level of institutional shares in the company, with a standard deviation score of 0.314. The variable RECEIVABLE (X5) received a mean score of 0.007, or 0.7% of the company's receivables, and a standard deviation score of 0.063. The IND variable (X6) received an average score of 0.427, representing 42.7% of organizations with poor internal control and a standard deviation score of 0.155. AUDCHANGE variable (X7), the average score is 0.343, or 34.3% of firms that change auditors, with a standard deviation score of 0.476. DCHANGE variable (X8) received a mean score of 0.629, representing 62.9% of companies that change directors, and a standard deviation score of 0.489. The CEOPICT variable (X9) receives an average score of 2,563, indicating that, on average, the company includes two to three director images in its annual report, with a standard deviation of 0.770.

Table 4
F Test

ANOVA						
Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	20.188	9	2.243	6.265	0.000
	Residual	21.839	61	0.358		
	Total	42.027	70			

Source: Processed data, 2022

Following the F test results table, it is known that the calculated F value is 6,265 and has a significance of 0,000. Consequently, it is possible to determine the calculated F value > F Table (2.04). In conclusion, each of the independent factors (X1-X9) has an impact simultaneously on the dependent variable (FRAUD).

Table 5
Coefficient of Determination (R^2) Test

Model Summary					
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Erro of the Estimate**	**Durbin-Watson**
1	0.693	0.480	0.404	0.598345	2.001

Source: Processed data, 2022

According to the test results table for the determination coefficient, the R Square score is 0.480, indicating that 48% of the independent variables in this study influence the dependent variable. On the other hand, the remaining 52% were affected by the influence of other independent variables not examined in this study.

Table 6
Multiple Linear Regression

Variable		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Conclusion
		B	Std. Error	Beta			
	(Constant)	-2.529	0.426		-5.937	0.000	
X1	ACHANGE	-0.357	0.505	-0.071	-0.706	0.483	H1 rejected
X2	LEV	1.391	0.399	0.414	3.491	0.001	H2 supported
X3	ROA	4.579	0.861	0.599	5.321	0.000	H3 supported
X4	OSHIP	0.623	0.236	0.253	2.641	0.010	H4 supported
X5	RECEIVABLE	1.352	1.265	0.110	1.069	0.289	H5 rejected
X6	IND	-1.896	0.483	-0.381	-3.929	0.000	H6 supported
X7	AUDCHANGE	-0.010	0.170	-0.006	-0.060	0.952	H7 rejected
X8	DCHANGE	-0.011	0.161	-0.007	-0.069	0.945	H8 rejected
X9	CEOPICT	-0.063	0.99	-0.063	-0.639	0.525	H9 rejected

Source: Processed data, 2022

3.2. Discussion

Financial Stability (ACHANGE)

The significance level of ACHANGE, which represents the financial stability variable, is 0.483 > 0.05, and the coefficient score is -0.357, indicating that this variable has a negative and insignificant effect on fraudulent financial statements; hence, the first hypothesis (H1) cannot be accepted. Asset levels do not suddenly change due to corporate fraud or manipulation. Because changes in assets may be caused by a condition that cannot be anticipated in advance, managers are not under pressure to carry out their activities when the company's financial situation is unstable. As an illustration, the COVID-19 pandemic prompted several businesses to decrease their sales and even cease portions of their operational activities to preserve their financial stability. These findings contrast with the results of Bawekes's et al. (2018) study, which found that the presence of fraudulent financial statements was positively influenced by financial stability. However, these results strengthen the findings of Sasongko & Wijayantika (2019), which demonstrate that financial stability (ACHANGE) does not influence fraudulent financial statements.

External Pressure (LEV)

The significant level of leverage (LEV) for the External Pressure variable is 0.000 < 0.05, and a coefficient score of 1.391 is achieved; hence the second hypothesis (H2) is accepted based

on the table of findings from the hypothesis testing. This finding indicates that this variable positively and significantly influences fraudulent financial statements. When managers are under pressure from external sources, there is a significant increase in the likelihood that those managers may conduct fraud on the company's financial statements. This fraud happens due to the common desire among businesses to maintain a low level of leverage. As a result, managers will resort to whatever means necessary, including manipulation, to achieve this goal and present more attractive financial statements for their organizations (window dressing). This study's results correspond to those of Yesiariani & Rahayu (2017) and Ghandur et al. (2019), which found that external pressure (LEV) had a positive influence on fraudulent financial statements. In contrast, the results of Novitasari & Chariri (2018), who contends that fraudulent financial statements are not influenced by external pressure, contradict these results that show external pressure has an effect.

Financial Target (ROA)

The significance level of ROA representing the financial target variable is 0.001 < 0.05, and a coefficient score of 4.579 is obtained, indicating that this variable has a positive and significant influence on fraudulent financial statements, hence accepting the third hypothesis (H3). The level of ROA (return on assets) that the company can accomplish with this level of profit will utilize as the company's aim to obtain even higher levels of profit. Because the profit objective is excessively high, managers feel under pressure, which motivates them to manipulate the company's financial accounts. This outcome is aligned with agency theory, which holds that because managers and principals have different interests, managers will work to achieve the company's profit goals to receive salary bonuses by manipulating financial reports. The study's findings support those of Apriliana & Agustina (2017), which demonstrate that financial targets (ROA) have a positive influence on fraudulent financial statements. These findings contradict Sasongko & Wijayantika (2019) finding that financial targets do not influence fraudulent financial statements.

Institutional Ownership (OSHIP)

The significance level of OSHIP, reflecting the institutional ownership variable, is 0.010 < 0.05 and the coefficient score is 0.623, indicating that this variable has a positive and significant effect on fraudulent financial statements, thus supporting the fourth hypothesis (H4). Institutional ownership tends to have a more dominant position than individual ownership, which results in management feeling constant pressure to give attractive financial reports in the hopes that investors from these institutions will not pull their money out of their investments. Therefore, this forces managers to engage in "window dressing" of financial reports, which is easier to access thanks to lax supervision from principals who do not usually supervise performance management. This test's results corroborate Ghandur's et al. (2019) conclusion that institutional ownership positively influences fraudulent financial statements. However, these results contrast those of Bawekes et al. (2018) examined, who concluded that institutional ownership does not influence fraudulent financial statements.

Nature of Industry (RECEIVABLE)

The RECEIVABLE significance level, representing the nature of the industry variable, is 0.289 > 0.05, and the coefficient score is 1.352. This variable has a positive yet insignificant effect on fraudulent financial statements; hence the fifth hypothesis (H5) is not supported. The rate of change in the ratio of receivables, whether on a large or small scale, is not exploited as an

opportunity for managers to commit fraud. This is Because management tends to suppress the increase in cash compared to receivables. Consequently, managers do not have the opportunity to perpetrate fraud. This test's findings supported the results of Septriani & Desi Handayani (2018), Sasongko & Wijayantika (2019), and (Aulia Haqq & Budiwitjaksono (2020), who concluded that the nature of the industry did not influence the likelihood of fraudulent financial statements. In contrast, Mintara dan Hapsari (2021) found that the nature of industry positively affects fraudulent financial statements.

Effective Monitoring (IND)

The IND significance level, which represents the Effective monitoring variable, is 0.000 < 0.05, and a coefficient score of -1.896 is obtained, indicating that this variable has a negative and significant influence on fraudulent financial statements, thus supporting the sixth hypothesis (H6). Because the control provided by the independent board of commissioners can minimize the possibility for managers to perpetrate fraud, the independent board of commissioners plays a significant part in lowering the likelihood that the company will be victimized by fraudulent activity. This test's results support the findings of Septriani & Desi Handayani (2018) and Aulia Haqq & Budiwitjaksono (2020), which show that effective monitoring negatively influences fraudulent financial statements. In contrast, the findings of Wahyuni & Setyo (2017), which state that effective monitoring does not influence fraudulent financial statements, are not aligned with these findings.

Change in Auditor (AUDCHANGE)

AUDCHANGE, which represents the change in the auditor variable, has a significant level of 0.952 > 0.05, and a coefficient score of -0.010 is obtained. This finding indicates that this variable has a negative and insignificant influence on fraudulent financial statements, rejecting the seventh hypothesis (H7). Following the Otoritas Jasa Keuangan (OJK) regulation Number, 13/POJK.03/2017 in section VI clause 16 regarding corporations having to replace auditors if they have continually utilized the same audit service for three years, the company as a client may choose to replace a public accounting firm. Additionally, the company changed the public accounting firm because it was dissatisfied with the services that had previously been given. The client (company) thus decided to replace the accounting firm. This research supports the findings of Apriliana & Agustina (2017) and Sasongko & Wijayantika (2019) that a change in auditors does not influence the likelihood of fraudulent financial statements. These findings, however, are inconsistent with those of Novitasari & Chariri (2018), who claimed that changing auditors influences fraudulent financial statements.

Change of Directors (DCHANGE)

The significance level of the DCHANGE variable, which represents the change of directors, is 0.830 > 0.05, and the coefficient score is -0.011. This finding indicates that this variable has a negative and insignificant influence on fraudulent financial statements, rejecting the eighth hypothesis (H8). A company's change of directors does not prove that there was financial statement fraud. In order to improve the company's previous state, the board of directors was changed. In other words, changing directors means recruiting someone with a higher level of expertise to formulate policies and monitor the performance of managers in order to prevent the managers from committing fraud. This research supports the findings of Apriliana & Agustina (2017), Ghandur et al. (2019), and Prayoga & Sudarmaji (2019) that a change in the directors does not influence fraudulent financial statements. However, these findings contradict

Sasongko & Wijayantika's (2019) findings, which found that changing directors influences fraudulent financial statements.

Frequent CEO's Picture (CEOPICT)

The frequent CEO's picture variable (CEOPICT), has a significant level of 0.232 > 0.05 and a coefficient score of -0.063, which indicates that it has a negative and insignificant effect on fraudulent financial statements. Thus, the ninth hypothesis (H9) is not supported. The purpose of including many photographs of the company's CEO in the annual report is not to display a sense of superiority of the CEO but rather to acquaint readers CEO's image. This study confirms the findings of Mintara & Hapsari (2021), Sasongko & Wijayantika (2019), and Agusputri & Sofie, (2019) that frequent CEO photos do not affect financial fraud. However, these results differ from those analyzed by Bawekes et al. (2018) who concluded that a frequent CEO picture influences fraudulent financial statements.

4. Conclusion

This study reaches the following results using 71 samples from the annual reports of manufacturing companies listed on the IDX. The linear regression approach was used to test the hypothesis, and the results are as follows: in the first element, pressure, there are three influential variables: external pressure (LEV), financial target (ROA), and institutional ownership (OSHIP). In contrast, financial stability (ACHANGE) has no influence. In addition, the second factor, opportunity, has one influential component, namely effective monitoring (IND), whereas the nature of the industry has no effect (RECEIVABLE). The third element—rationalization with the change in the auditor (AUDCHANGE) variable does not influence fraudulent financial statements. The fourth factor, competence with a variable change of directors (DCHANGE), has no effect. The fifth element is arrogance, with the variable frequency of the CEO's picture (CEOPICT) not influencing fraudulent financial statements. Therefore, out of the nine variables analyzed, four have an influence, and five do not.

This research has a few limitations, mainly because it uses variables from the Pentagon Fraud Study to examine the effects of fraudulent financial statements. The R Square (R2) acquisition value is only 0.480, which indicates that only 48% of the independent variables have the potential to influence the dependent variable, and the remaining 52% were not included in this research. With these limitations, it is advised that researchers adopt the Vousinas (2019) hexagon fraud theory, which includes components of collusion. In addition, it incorporates different measurements than the Beneish M-Score model to provide diversity and can be used as a basis for comparison in future studies.

Reference

Abdul Karim, M. M. (2021). Fraud Examination Of The Enron Corp Company. *Journal Of Finance And Investment Analysis*, 15–24. Https://Doi.Org/10.47260/Jfia/1042

Abidin, F. (2018). Analisis Persepsi Akademisi Dan Praktisi Terhadap Fraud Serta Peran Whistleblowing Sebagai Upaya Pencegahan Dan Pendeteksian Fraud. *Media Mahardhika*, *17*(1), 153–164.

Acfe Indonesia Chapter #111. (2016). Association Of Certified Fraud Examiners (Acfe). In Acfe (Ed.), *Auditor Essentials: Vol. Chapter #111* (Indonesia, Pp. 7–10). Auerbach Publications. Https://Doi.Org/10.1201/9781315178141-3

Agusputri, H., & Sofie, S. (2019). Faktor - Faktor Yang Berpengaruh Terhadap Fraudulent Financial Reporting Dengan Menggunakan Analisis Fraud Pentagon. *Jurnal Informasi, Perpajakan, Akuntansi, Dan Keuangan Publik*, *14*(2).

Amarakamini, N. P., & Suryani, E. (2019). Pengaruh Fraud Pentagon Terhadap Fraudulent Financial Statement Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia (Bei) Tahun 2016 Dan 2017. *Jurnal Akuntansi*, *7*(2), 125–136.

Anggraeni, S., & Efendi. (2022). *Pengaruh Tekanan Eksternal, Pengendalian Internal, Dan Pergantian Auditor Terhadap Kecurangan Laporan Keuangan (Studi Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia (Bei) Periode 2017 – 2021)*. Universitas Darma Persada Jakarta.

Anwar, A. (2022). *Dampak Faktor Internal Dan Moralitas Manajer Terhadap Kecenderungan Kecurangan Akuntansi*. Universitas Muhammadiyah Makassar.

Apriliana, S., & Agustina, L. (2017). The Analysis Of Fraudulent Financial Reporting Determinant Through Fraud Pentagon Approach. *Jda Jurnal Dinamika Akuntansi*, *9*(2), 154–165. Https://Doi.Org/10.15294/Jda.V9i2.4036

Aprilyanti, L. (2021). *The Influence Of Professional Skepticism And Auditor Independence On Fraud Detection (Empirical Study On Public Accounting Firm In Bandung)*. Universitas Komputer Indonesia.

Aulia Haqq, A. P. N., & Budiwitjaksono, G. S. (2020). Analisa Teori Fraud Pentagon Sebagai Pendeteksi Kecurangan Pada Laporan Keuangan. *Journal Of Economics, Business, & Accountancy Ventura*, *22*(3). Https://Doi.Org/10.14414/Jebav.V22i3.1788

Bawekes, H. F., Simanjuntak, A. M., & Christina Daat, S. (2018). Pengujian Teori Fraud Pentagon Terhadap Fraudulent Financial Reporting (Studi Empiris Pada Perusahaan Yang Terdaftar Di Bursa Efek Indonesia Tahun 2011-2015). In *Jurnal Akuntansi & Keuangan Daerah* (Vol. 13, Issue 1).

Beneish, M. D. (1999). *The Detection Of Earnings Manipulation*.

Casabona, P. A. (2003). Sas 99 - Consideration Of Fraud In A Financial Statement Audit: A Revision Of Statement On Auditing Standards 82. *Review Of Business, Spring*.

Cressey, D. R. (1953). *Other People's Money: A Study In The Social Psychology Of Embezzlement.* (Vol. 59). Montclair, N.J. Https://Doi.Org/10.1086/221475

Fadhlurrahman, A. N. (2021). Deteksi Fraud Financial Statement Menggunakan Model Fraud Pentagon Pada Perusahaan Yang Terdaftar Di Jii Tahun 2016-2018. *Jurnal Ilmiah Ekonomi Islam*, *7*(2). Https://Doi.Org/10.29040/Jiei.V7i2.2566

Ghandur, D., Sari, R. N., & Anggraini, L. (2019). Analisis Fraud Pentagon Dalam Mendeteksi Kecurangan Laporan Keuangan . *Jurnal Akuntansi*, *8*(1), 26–40.

Ghozali, I. (2016). Aplikasi Analisis Multivariete Dengan Program Ibm Spss 23. *Badan Penerbit Universitas Diponegoro*.

Grace Fabiolla, R., Ari Andriyanto, W., & Julianto, W. (2021). *Pengaruh Fraud Pentagon Terhadap Fraudulent Financial Reporting* (Vol. 2).

Gusti, I., Oka, P., Utama, S., Ramantha, W., Dewa, I., & Badera, N. (2018). *Analisis Faktor-Faktor Dalam Perspektif Fraud Triangle Sebagai Prediktor Fraudulent Financial Reporting* (Vol. 7, Issue 1).

Handoyo, S., & Hasanah, N. (2017). Corporate Governance, Opini Going Concern, Subsequent Event Dan Audit Report Lag. *Jurnal Aplikasi Bisnis*, *17*(2).

Horwath, C. (2011). *Putting The Freud In Fraud: Why The Fraud Triangle Is No Longer Enough*.

Jensen, M. C., Meckling, W. H., Benston, G., Canes, M., Henderson, D., Leffler, K., Long, J., Smith, C., Thompson, R., Watts, R., & Zimmerman, J. (1976). Theory Of The Firm: Managerial Behavior, Agency Costs And Ownership Structure. In *Journal Of Financial Economics* (Issue 4). Harvard University Press. Http://Hupress.Harvard.Edu/Catalog/Jenthf.Html

Kurnia, & Anis. (2017). *Analisis Fraud Pentagon Dalam Mendeteksi Kecurangan Laporan Keuangan Dengan Menggunakan Fraud Score Model*. Trisakti Jakarta.

Loebbecke, J., Eining, M., & Willingham, J. (1989). Auditors Experience With Material Irregularities: Frequency, Nature, And Detestability. *Auditing: A Journal Of Practice & Theory*, *9*(Fall), 1–28.

Mintara Dan Hapsari. (2021). Pendeteksian Kecurangan Pelaporan Keuangan Melalui Fraud Pentagon Framework. *Jurnal Perspektif Akuntansi*, *4*, 35–58.

Noble, M. R. (2019). Fraud Diamond Analysis In Detecting Financial Statement Fraud. *The Indonesian Accounting Review*, *9*(2), 121. Https://Doi.Org/10.14414/Tiar.V9i2.1632

Novitasari, A. R., & Chariri, A. (2018). Analisis Faktor-Faktor Yang Mempengaruhi Financial Statement Fraud Dalam Perspektif Fraud Pentagon. *Diponegoro Journal Of Accounting*, *7*(4), 1–15. Http://Ejournal-S1.Undip.Ac.Id/Index.Php/Accounting

Prayoga, M. A., & Sudarmaji, E. (2019). Kecurangan Laporan Keuangan Dalam Perspektif Fraud Diamond Theory: Studi Empiris Pada Perusahaan Sub Sektor Transportasi Di Bursa Efek Indonesia. *Jurnal Bisnis Dan Akuntansi*, *21*(1), 89–102.

Sasongko, N., & Wijayantika, S. F. (2019). Faktor Resiko Fraud Terhadap Pelaksanaan Fraudulent Financial Reporting (Berdasarkan Pendekatan Crown's Fraud Pentagon Theory). *Jurnal Riset Akuntansi Dan Keuangan Indonesia*, *4*(1).

Septriani, Y., & Desi Handayani, Dan. (2018). *Mendeteksi Kecurangan Laporan Keuangan Dengan Analisis Fraud Pentagon* (Vol. 11, Issue 1). Http://Jurnal.Pcr.Ac.Id

Skousen, C. J., Smith, K. R., Wright, C. J., & Chasteen Chair, L. G. (2008). *Detecting And Predicting Financial Statement Fraud: The Effectiveness Of The Fraud Traingle And Sas No. 99*. Http://Ssrn.Com/Abstract=1295494electroniccopyavailableat:Http://Ssrn.Com/Abstract=1295494

Summers, S. L., & Sweeney, J. T. (1998). Fraudulently Misstated Financial Statements And Insider Trading: An Empirical Analysis. *The Accounting Review*, *73*(1), 131–146.

Vivianita, A., & Indudewi, D. (2018). Financial Statement Fraud Pada Perusahaan Pertambangan Yang Dipengaruhi Oleh Fraud Pentagon Theory (Studi Kasus Di Perusahaan Tambang Yang Terdaftar Di Bei Tahun 2014-2016). *Jurnal Dinamika Sosial Budaya*, *20*(1), 1–15.

Vousinas, G. L. (2019). Advancing Theory Of Fraud: The S.C.O.R.E. Model. *Journal Of Financial Crime*, *26*(1), 372–381. Https://Doi.Org/10.1108/Jfc-12-2017-0128

Wahyuni, & Setyo, G. (2017). *Fraud Triangle Sebagai Pendeteksi Kecurangan Laporan Keuangan: Vol. Xxi* (Issue 01).

Wolfe, D. T., & Hermanson, D. R. (2004). *The Fraud Diamond: Considering The Four Elements Of Fraud*. Https://Digitalcommons.Kennesaw.Edu/Facpubs

Yesiariani, M., & Rahayu, I. (2017). Deteksi Financial Statement Fraud: Pengujian Dengan Fraud Diamond. *Jurnal Akuntansi & Auditing Indonesia*, *21*(1), 49–60. Https://Doi.Org/10.20885/Jaai.Vol21.Iss1.Art5

Yuliana, Y., Hartono, A., Fernando, A., Meiden, C., Apriwenni, P., Nurlela, N., & Dema, Y. (2022). A Literature Study Of Financial Statement Fraud Detection. *International Journal Of Social Science*, *2*(3), 1745–1754. Https://Doi.Org/10.53625/Ijss.V2i3.3647