ISSN: 2338-8412 e-ISSN : 2716-4411

Ekombis Review – Jurnal Ilmiah Ekonomi dan Bisnis
Available online at : https://jurnal.unived.ac.id/index.php/er/index
DOI: https://doi.org/10.37676/ekombis.v12i1

The Effect of the Fraud Pentagon on Fraudulent Financial Statements and Their Impact on Funding Decisions

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How to Cite :
Fadhilah, K, H, N. Hatmoko, D, Z, M. Riany, M. Alawiyah, T, U. Mujahidi, K. (2024). The Effect of the Fraud Pentagon on Fraudulent Financial Statements and Their Impact on Funding Decisions, 12(1). doi: https://doi.org/10.37676/ekombis.v12i1

ARTICLE HISTORY
Received [23 October 2023]
Revised [15 December 2023]
Accepted [30 December 2023]

KEYWORDS
fraud pentagon; fraudulent financial statement; Funding.

Abstract

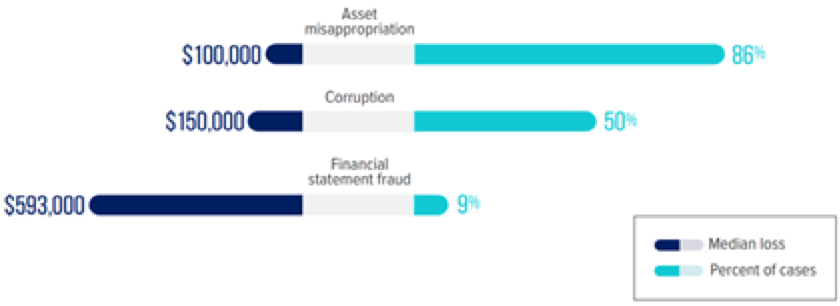
The purpose of this study is to test whether financial targets, ineffective monitoring, change in auditors, change in directors, frequent number of CEO's pictures affect fraudulent financial statements and their impact on funding decisions in all non-financial companies listed on the Indonesia Stock Exchange (IDX) and sanctioned by OJK for violating regulation No. VIII.G.7 from 2010 to 2021. The data used in this study are secondary data derived from financial reports published by the company. A total of 54 companies became the population in the study. The sample selection in this study used a purposive sampling technique with certain criteria and 9 companies were selected as research samples. The data analysis technique in this study is using panel data regression with the help of Eviews software version 12. The results of this study indicate that simultaneously financial targets, ineffective monitoring, change in auditors, change in directors and frequent number of CEO's pictures have no effect on fraudulent financial statements in all companies listed on the Indonesia Stock Exchange (IDX) from 2010 to 2021. Furthermore, fraudulent financial statements affect funding decisions. Partially, financial targets, changes in directors, and frequent numbers of CEO's pictures have no significant effect on fraudulent financial statements. Meanwhile, change in auditor and ineffective monitoring have a negative and significant effect on fraudulent financial statements in all companies listed on the Indonesia Stock Exchange (IDX) from 2010 to 2021.

INTRODUCTION

Financial reports aim as a source of information about the company's financial performance, financial position and cash flow and are useful later for readers of financial statements in terms of making decisions as well as evidence of the entity's accountability for the use of resources managed by them (IAI, 2009). A financial report is a written report that can show the activities and financial condition of a company which consists of four main components (Darmawan, 2020). A financial report is a structural presentation issued by a corporate entity based on the results of the company's work, and aims to provide information to users of financial statements such as stakeholders (Riandani & Rahmawati, 2019). Therefore, financial reports must be presented in a relevant, reliable and accountable manner in order to comply with the objectives of submitting financial reports properly. Given the importance of a financial report, in becoming a reference for users of financial statements in considering decisions, the high quality of financial reports needs to be considered from possible indications of fraud in the financial statements. If it is revealed that there is fraud in the company in financial reporting, of course it will affect and cause people to think that the performance of a company is seen as bad because it has manipulated in favor of the company.Fraud is a phenomenon that cannot be avoided, even the cases are always there every year. Fraud can threaten the economy of a country (ACFE Chapter Indonesia, 2019). The Association of Certified Fraud Examiners (ACFE, 2019) defines fraud as an act that is deliberately consciously carried out only for a specific purpose and this action is an unlawful act. Fraudulent actions can include manipulating or disclosing false reports to others that can harm certain parties. Fraud can threaten the sustainability of a country's economy. Meanwhile, according to SAS number 99 of 2002 defines fraud as a deliberate and conscious fraudulent act which results in a misstated report so that it will have an impact on decision making.

The Association of Certified Fraud Examiners (ACFE) in 2022 found 2,110 cases of fraud that occurred in 133 countries with 23 main industry categories. The losses caused by this fraud reached 3.6 billion dollars, with an average loss per case of $1,783,000 (ACFE, 2022). At the top is asset misappropriation with 86% of cases that fall into this category, then the second level is corruption with a presentation of 50% of the number of cases that occur from various countries, and finally fraud on financial statements which only reaches 9% of cases that have occurred in various countries. Although the percentage of financial statement fraud is the smallest, the losses caused by this financial statement fraud cause the highest losses among the three, reaching a loss of $593,000 while asset misuse and corruption only cost $100,000 and $150,000 (ACFE, 2022).

Figure 1. 1 Loss Rate Due to Fraud



Source: ACFE (2022)

In Indonesia, this fraud case often occurs every year. Based on the results of the Indonesian Fraud Survey (SFI) (2019), the total loss caused by this fraud reached Rp.873,430,000,000 and the average loss per case was Rp.7,248,879,668. The number of cases successfully handled by the Indonesian ACFE chapter reached 239 cases, and the most common cases in this survey were corruption cases with a total of 167 cases, then the second level of the most common cases was in the case of misuse of state and corporate assets or wealth with a total of 50 cases. Finally followed by fraud cases in financial statements with only 22 cases. However, in terms of losses due to fraud on financial statements, it caused a considerable loss of Rp.242,260,000,000 from only 22 cases (ACFE Chapter Indonesia, 2019).

Figure 2. Fraud that often occurs

Source: Indonesia Fraud Survey (2019)

In Indonesia, the problem of fraudulent financial statements continues to occur every year, making government agencies have to intervene to follow up on actions taken by companies that commit these acts. The Financial Services Authority (OJK) has the task of regulating and monitoring every company's economic activities (Andriani et al., 2022). According to Indonesian Law No.21 (2011), the function of the Financial Services Authority (OJK) is to organize a system of regulating and monitoring every activity in the entire financial services industry. Because the OJK must always be effective in enforcing the law, strict law enforcement is carried out in preventing violations committed by companies in the capital market. OJK itself has issued regulations that have previously been carried out by Bapepam-LK (Capital Market Supervisory Agency and Financial Institutions) regarding the presentation of reporting and disclosure of financial statements of issuers or public companies, namely listed in regulation no VIII.G.7 (Andriani et al., 2022). This regulation stipulates the content and requirements for the presentation of financial statements that must be submitted by public companies, both for the purposes of the public and the Capital Market Supervisory Agency (Bapepam). Regulation no VIII.G.7 provides guidelines for the content, structure and requirements in the presentation and disclosure of financial statements that have been regulated by PSAK.

One of the cases of fraudulent financial reporting in Indonesia is the case experienced by PT Garuda Indonesia (Riany et al., 2021). This fraud case occurred because PT Garuda Indonesia Tbk reported its performance in the financial year 2018 on the IDX. The company with the code GIAA in its report recorded a net profit of $ 809,000 where this net profit is very far if we look at the loss in 2017 which was worth $ 216.58 (Andriyana & Trisaningsih, 2022). This became a debate between two Garuda Indonesia commissioners who considered that the financial statements examined by the auditor were not in accordance with PSAK. In addition, PT Garuda Indonesia (Persero) Tbk in 2018 was considered to have committed fraudulent misstatement by recognizing revenue from a cooperation contract with Mahata Aero Technology as Wi-Fi services on unpaid aircraft, the revenue recognized by PT Garuda Indonesia was $ 239,940,000 (Riany et al., 2021). This became the center of attention of the OJK, on June 28, 2019 an examination was carried out by the OJK regarding the case of the Presentation of the Annual Financial Statements (LKT) of PT Garuda Indonesia (Persero) and gave sanctions for this case. Garuda Indonesia was given sanctions in the form of a written order to correct the annual financial statements as of December 31, 2018 and conduct a public expose.

Apart from PT Garuda Indonesia, another similar case is the case of PT Hanson Internasional Tbk, which manipulated its financial statements in 2016 (Indiraswari & Izzalqurny, 2021). PT Hanson Internasional Tbk was found to have falsified financial accounts in 2016 by the Financial Services Authority (OJK). The investigation findings revealed fraud in the sale of ready-to-build land plots (KaSiBa) worth IDR 732 billion, which led to overstatement of PT Hanson

International Tbk's 2016 revenue. In addition, PT Hanson failed to disclose the Sale and Purchase Agreement (PPJB) to the auditor, which caused the company's 2016 revenue to be overstated by Rp. 613 billion. (Rizki & Rahayuningsih, 2021).

In 2017 a new case occurred in the food and beverage industry, namely the case of PT Tiga Pilar Sejahtera Food Tbk (AISA). PT Tiga Pilar Sejahtera Tbk has manipulated financial statements by inflating accounts receivable, inventory, and fixed assets by Rp 4 trillion and sales of Rp 622 billion and EBITDA of 329 billion. In addition, there is a flow of funds amounting to Rp 1.78 trillion such as disbursement of funds to the old management (Isalati et al., 2022).From this case, as an auditor, he should be able to detect and indicate as early as possible the existence of fraud on financial statements. In detecting fraud in financial statements, it can use several theories that have been previously put forward by experts. This is very important to do so that readers of financial statements can give high trust and integrity to companies that do not commit fraud (Widiastika, 2021).

Under certain conditions, fraud cases on financial statements can occur. The first theory that can prevent fraud is the fraud triangle theory which was first coined by Cressey in 1953. Where in this fraud triangle theory consists of financial needs that cannot be shared with others as a pressure factor. The second factor explains the emergence of opportunity (opportunity). The third factor explains the rationalization (rationalization) (Tjahjono et al., 2013). In December 2004, Wolfe and Hermanson introduced a new factor to complete the fraud triangle theory, namely the capability factor. Wolfe and Hermanson consider that capability is an important element when someone commits fraud. This model was then named the fraud diamond (Tjahjono et al., 2013). The latest development of fraud was found by Crowe (2011) by adding one element, namely arrogance, as a completion of the previous theory developed by Wolfe and Hermanson, namely the fraud pentagon. So the fraud pentagon has five elements in indicating fraud in financial statements, namely pressure, opportunity, behavior (rationalization), capability and finally arrogance (Abdurrachman & Suhartono, 2020)

The first factor of this fraud pentagon theory is the pressure factor or Pressure which is the cause of someone being encouraged to commit fraud. Pressure encourages individuals to commit fraud for urgent financial needs or just for greed (Khuluqi & Napisah, 2022). The Indonesian Fraud Survey shows that the cause of pressure is financial pressure such as a luxurious and above-average lifestyle (ACFE, 2019). According to ISA 240 (2009) When management is under pressure to meet objectives both inside and outside the organization, there may be an incentive or pressure to engage in misleading financial reporting, expected (and possibly unrealistic) income or financial results, especially due to the consequences for management for failing to meet financial reports. In this study, researchers only focused on financial target variables with Return On Asset (ROA) as a proxy. ROA is considered to be able to detect fraudulent financial reporting because ROA can be used as a measure of the company in generating profits that can be compared to its profit development from year to year (Sasongko & Wijayantika, 2019). Fadhilah (2022) told financial target is a financial target that must be achieved in the form of profit which is the target of a company in a certain period. The reason a company commits fraud is because of a financial target that only wants to get a bonus for the results of performance.

The second element is opportunity, where this opportunity becomes an opportunity for fraud. A good opportunity will pave the way in committing fraud. International Standards on Auditing (ISA) 240, (2009) states that opportunities occur when someone thinks internal control can be controlled, for example because they are in a position of trust or realize certain internal control weaknesses, there may be a perceived potential for fraud to occur. Ineffective monitoring is a situation of weak control systems in an organization or company (Khuluqi & Napisah, 2022). However, the focus of this study is only on using the ineffective monitoring variable as measured by BDOUT, namely the ratio of independent commissioners. The existence of an independent board of commissioners in a company is a factor that can improve the quality of control in the company (Andriani et al., 2022). The results of research by (Agusputri & Sofie, 2019) and (Septriani

& Handayani, 2018) show that ineffective monitoring has an effect on detecting fraud in financial statements.

The third element is behavior (rationalization). Opportunity is the entrance to fraud, while pressure and rationalization will encourage a company to commit fraud (Septriani & Handayani, 2018). Rationalization is an important factor fraud can occur, when the perpetrator looks for reasons to justify his actions (Khuluqi & Napisah, 2022). This study only focuses on using the Change in Auditor proxy. In a company, if there is a frequent change of auditors, it can be an indication of fraud which can be used as an attempt to eliminate traces of fraud that have previously been indicated by the previous auditor in a company (Sasongko & Wijayantika, 2019). So that the indication of fraud will be higher in the company that commits the fraud itself. The results of research conducted by Randa & Dwita (2020) are in line with this analysis where Change of Auditor affects fraudulent financial reporting. However, it is different from the results of research by Agusputri (2019) where Change in Auditor has a negative effect on fraudulent financial reporting.

Cappability is the fourth element that is very important as an element that can detect fraud in financial statements. The capability of a person can be a factor that will encourage someone to commit fraud (ACFE Chapter Indonesia, 2019). The position of CEO, directors and division heads can be a determining factor for fraud (T. P. Sari & Lestari, 2020). The results of the Fraud Indonesia Survey (2019) show that positions as superiors (Directors) / Owners have a fairly high percentage of 29.4%. Change in Directors was chosen in this study because Change in Directors is able to indicate fraud. The change of directors is usually related to fraud in the company that recognizes fraud. The more the company continues to change directors, the higher the indication of fraud (T. P. Sari & Lestari, 2020). This is in line with the results of research by Sasongko & Wijayantika (2019) that change of directors affects Fraudulent Financial reporting.

The last element is arrogance, which describes the arrogance of having a higher position. This high level of arrogance can lead to farud (Sasongko & Wijayantika, 2019). Arrogance measurement can be done by looking at how many pictures of the CEO are contained in the annual report or annual report. Because the CEO has a higher position, the level of arrogance must be reflected in the CEO's attitude (Khuluqi & Napisah, 2022). Research conducted by (Andriani et al., 2022) which states that the frequent number of CEO's pictures affects fraudulent financial reporting. However, this is not in line with research conducted by (Agusputri & Sofie, 2019) which states that the frequent number of CEO's pictures has no effect on fraudulent financial reporting.The occurrence of financial fraud in a company will destroy the company's reputation (Yuan & Zhang, 2014). Funding policy is a policy on how the company should look for funding sources that will be used to finance investment and how to manage the funding sources themselves (Bahrun & Firmansyah, 2020). A company must want large funds for its investment so that the company does various ways to obtain these funds. One of them could be that the company committed fraud on the financial statements in order to obtain financing. Funding decisions are closely related to the source of funds. The occurrence of information asymmetry between investors and managers can encourage companies to commit fraud. Where if fraud occurs in a company, it will increase the perception of asymmetry between investors and management which causes the company to experience greater difficulty in obtaining funding (Yuan & Zhang, 2014).

LITERATURE REVIEW

Definition of Agency Theory

Agency theory was first introduced by Jensen and Meckling in 1976. According to agency theory, a company can be seen as a loosely defined contractual relationship between two parties of shareholders and company operations. As investors or owners, principals have access and desire to know more about the state of the company. Conversely, as real actors in carrying out the company's operational activities, agents certainly have access to a variety of information related to company operations and overall performance (Riany et al., 2021). According to (Supriyono, 2018) Agency theory is a concept that can explain the relationship between the principal (contract giver) and the agent (contract recipient), the principal contracts the agent to work for the principal's interests or goals so that the principal authorizes decision making to the agent to achieve these goals. This agency objective is expected to create goal alignment between the principal and the agent. However, there is a relationship between the two, there is still the possibility of differences in achieving these goals which creates conflict between the two. The principal assumes that the agent can make good decisions for the principal's benefit. But in reality, principals and agents have the desire to maximize their own satisfaction, therefore principals have reason not to trust all agent actions that are in accordance with the principal.

Agency Theory Concepts

Conflicts of interest between principals (shareholders) and agents (management) encourage agency problems that can affect the quality of reported earnings. Often the information reported does not match the actual state of the company. So that there is information asymmetry between the principal and the agent such as fraudulent financial reporting, when the agent does not state that the company is losing money, the agent will look for ways to keep the company profitable (Kusumawati et al., 2021). That way the agent will take advantage of opportunities with the conditions that occur and take advantage that causes losses to other parties. Agents will try many ways such as manipulating financial statements and changing information that will mislead readers of financial statements in making financial decisions that will benefit themselves so that the company's financial condition looks good to the principal.

Planned Behavior Theory

Definition Planned Behavior Theory

Fishbein and Ajzen in 1975 through the theory of planned behavior (TPB) is a development of the Theory of Reasoned Action (TRA), which claims that a person's behavior is strongly influenced by their own interests or desires. (Nadhim & Novianti, 2018). Theory of Reasoned Action (TRA) explains that there are two reasons for the intention to take an action, namely attitude (Attitude toward Behavior) and subjective norms (Subjective Norm). In 1991 Ajzen added one factor, namely Perceived Behavioral Control (Gumelar & Shauki, 2020).

Attitude toward behavior is an attitude that refers to a person's good and bad thoughts towards a behavior, combining the beliefs of an individual towards behavioral beliefs (benefits and disadvantages of engaging in an action) (Nadhim & Novianti, 2018). Subjective Norm is defined as a person's opinion about whether other people's beliefs will influence their interest in engaging in a behavior or not. (Ajzen, 1991). Then finally, Perceived Behavior Control can be interpreted as a person's ability based on past experience in performing behavior, (Nadhim & Novianti, 2018).

Concept Planned Behavior Theory

The link between Planned Behavior theory and financial statement fraud is from these 3 factors. There is a high intention to commit financial statement fraud, there are attitudes that encourage someone to commit financial statement fraud, and get support from key individuals who can persuade someone to commit fraud because they believe it is simple and there are no obstacles to cheating financial statements. (Gumelar & Shauki, 2020).

Definition Fraud

Fraud according to the Association of Certified Fraud Examiners (ACFE 2019) is an unlawful act committed intentionally for a specific purpose (manipulating or disclosing false reports to others) for personal pleasure that can unconsciously harm other parties. Fraud can threaten the sustainability of a country's economy. Meanwhile, according to SAS No.99 (2002) Fraud is defined as fraudulent acts committed so as to produce material misstatements in financial statements that will have an impact on decision making.

Concept Fraud

Fraud is very detrimental to other parties and only benefits one party who commits fraud. Ineffective supervision and preventive measures can trigger fraud. Effective supervision and internal control can be a way to prevent fraud. There are so many reasons that can be used as a basis by the perpetrator when carrying out his actions, perhaps for personal or group reasons. The Association of Certified Fraud Examiners (ACFE) divides fraud into 3 parts known as the fraud tree, namely corruption, misuse of assets, and fraud in financial statements.

Fraudulent Financial Statement

Definition Fraudulent Financial Statement

Fraudulent financial statements are efforts made by presenting financial reports better than they actually are (Farmashinta & Yudowati, 2019). Meanwhile, according to International Standards on Auditing (ISA) 240, (2009) fraudulent financial reporting involves intentional misstatements misleading those who read financial statements, there may be omissions of numbers or disclosures. This can be caused by management's efforts to manage profits to trick users of financial statements by influencing their perceptions of the entity's performance and profitability.

According to International Standards on Auditing (ISA) 240, (2009) fraudulent financial reporting can be done with the following things:

a) Manipulation, falsification or alteration of accounting records / supporting documents that are the source of preparation of financial statements.
b) Errors in recording that are deliberately omitted from events, transactions, or other important information in the financial statements
c) Intentional misapplication of accounting principles related to the amount, classification, manner of presentation, or disclosure.

Concept Fraudulent financial statement

There are two forms of financial statement fraud, namely first presenting financial statements better than the actual situation (overstatement) and the second is presenting financial statements worse than the actual situation (understatement) (Farmashinta & Yudowati, 2019). The purpose of presenting excessive financial statements is to cover up the lack of performance results in a certain period that are still below the company's target, and intends to cover up failures so that investors remain interested when they see the financial statements are good. Fraudulent financial statements are carried out by increasing the value of assets and revenue recognition and conversely lowering the liability value of operating costs and production costs. However, there are some people who commit fraud on financial statements only for their own interests. Although ACFE revealed that fraud cases on financial statements are only a small number of cases compared to other cases, the losses due to fraud on financial statements cause considerable losses even though only 22 cases have occurred in Indonesia (ACFE Chapt).From the description above, it can be concluded that fraudulent financial statement is an act that is deliberately carried out in the form of manipulation of financial record data with the aim of deceiving users of financial statements such as stakeholders for personal gain and pouring it into financial statements that can result in incorrect decisions.

Fraud Pentagon Theory

Definition Fraud Pentagon Theory

The fraud pentagon theory proposed by Crowe Horwart in 2011 is a perfection for previous fraud theories that have been developed by Cressey in 1953, namely the fraud triangle and fraud diamond proposed by Wolfe & Hermanson in 2004 by adding one element, namely capability (Widiastika, 2021).

Konsep Fraud Pentagon Theory

Fraud continues to develop from year to year, fraud theory was first proposed by Cressey in 1953 which is widely known as the fraud triangle theory. The indicators in this fraud triangle are pressure, opportunity and rationalization. This fraud triangle consists of financial needs that cannot be shared with others as a pressure factor. The second factor explains the emergence of opportunity. The third factor explains about rationalization (Tjahjono, 2013) Then in 2004 Wolfe and Hermanson introduced a new factor to complete the fraud triangle theory, namely the capability factor. Wolfe and Hermanson consider that capability is an important element when someone commits fraud. This model was then named the fraud diamond (Tjahjono, 2013). The latest development of fraud was found by Crowe (2011) by adding one element, namely arrogance as a refinement of the previous theory developed by Wolfe and Hermanson, namely the fraud pentagon. So the fraud pentagon has five element indicators that can indicate fraud in financial statements, namely pressure, opportunity, behavior (rationalization), capability, and finally arrogance (Abdurrachman & Suhartono, 2020).

The Fraud Pentagon was chosen in this study because it is a theoretical approach.

Figure 2 Fraud Pentagon

(Sources: Playing Offense in a High-risk Environment (2011))

Pressure is the cause of someone being encouraged to commit fraud (Khuluqi & Napisah, 2022). Pressure encourages individuals to commit fraud for urgent financial needs or simply for greed (Khuluqi & Napisah, 2022). Fraud is more likely to occur when someone has an intensive (pressure) to commit fraud (Horwath, 2010). The Indonesian Fraud Survey shows that the cause of pressure is financial pressure such as a luxurious and above-average lifestyle (ACFE, 2019: 59). Pressure on money needs is a problem that cannot be shared with others or called a non-shareable problem (Cressey, 1953).SAS No.99 (2002) states that there are 4 things that cause pressure, namely financial stability, external pressure, personal financial needs and financial targets.

Financial Target

This study focuses on financial targets where financial targets are financial pressures on management or operations personnel (Khuluqi & Napisah, 2022). According to (Sasongko & Wijayantika, 2019) financial targets are financial targets that must be achieved in the form of company profits that must be achieved within a certain period. Including the calculation of bonuses received by employees (AICPA, 2002). Return On Asset (ROA) is one of the ways to measure financial targets, Return On Asset (ROA) is used to assess the level of profit obtained by the company (Kusumawati et al., 2021). The high ROA targeted by the company, the more vulnerable management will be in manipulating profits that lead to fraud (Sasongko & Wijayantika, 2019).

Opportunity

Opportunity is a situation or situation where someone is given the opportunity to commit fraud (Kusumawati et al., 2021). This opportunity that arises usually occurs due to a weak control system. According to Horwath, (2010) Someone is more likely to commit fraud if they are under pressure to do so, there are loose rules that allow them to do so, and they can justify their actions. The weakness of a control in the company will trigger fraud (T. P. Sari & Lestari, 2020). Inadequate monitoring, including monitoring of interim financial reports (where external reporting is required) provides opportunities and opportunities for perpetrators of fraud (AICPA, 2002). The opportunities according to SAS No.99 (2002) are the nature of the industry, ineffective monitoring and organizational structure.

Ineffective Monitoring

In this study, ineffective monitoring is the main focus. Where ineffective monitoring is an internal control and supervision system in a company that is not running effectively (Riandani & Rahmawati, 2019). Due to management's perception that internal control is not closely monitored, ineffective internal control will certainly create the possibility of fraudulent financial statements, because management feels that it is not closely monitored so that the opportunity to commit fraud is wide open (Agusputri & Sofie, 2019). The proxy that will be used in this study is using BDOUT, namely the ratio of independent commissioners. The existence of an independent board of commissioners in a company is a factor that can improve the quality of control in the company (Andriani et al., 2022).

Rasionalization

Rationalization is an attitude that reflects the perpetrator of fraud justifying his actions (AICPA, 2002). Rationalization is the attitude of someone who justifies his actions even though these actions are not true (Riandani & Rahmawati, 2019). Meanwhile, according to Ramadhan (2020) rationalization is the justification for the acts of Fraud committed because they feel that they do not get a decent salary and think that they are not stealing but borrowing. According to SAS No.99 (2002) rationalization behavior is not susceptible to being known by auditors. However, an auditor must be aware of identifying the risk of material misstatement arising from farud. Such auditors are aware of the following behaviors or attitudes of a person who has access to assets that are vulnerable to misuse:

- Ignoring the need to monitor or mitigate the associated risks associated with misallocation of assets.
- Ignoring internal controls over asset misappropriation.
- Behavior that indicates displeasure or dissatisfaction with the company.
- Changes in behavior or lifestyle that may indicate assets have been misappropriated.

It can be seen that rationalization needs the attention of auditors, control in identifying fraud must pay more attention by auditors so that misuse of assets does not occur. Rationalization can also be seen from whether or not a company changes auditors frequently

(Randa & Dwita, 2020). According to SAS No.99 (2002), the proxies for rationalization are auditor opinion, change in auditor, and total accruals.

Change in Auditor

Change in Auditor is a company's attempt to change its Auditor to cover up traces of fraud that occur. Change in Auditor is the focus of this study. The frequent change of auditors can be considered as a form of eliminating traces of fraud found by the previous auditor (Sasongko & Wijayantika, 2019). Measurement of auditor turnover using dummy variables 1 = for auditor changes in the previous 2 years of fraud and 0 = no auditor changes (Skousen et al., 2008).

Capability

According to Horwath (2011) competence or capability is the capacity of employees to circumvent internal controls, design sophisticated concealment techniques, manipulate circumstances for their own financial gain, and then sell these services to others. The capability that a person has is one of the factors that will encourage fraud (ACFE Chapter Indonesia, 2019). Capability is an act of a person's efforts in carrying out internal control in order to gain benefits for himself (Khuluqi & Napisah, 2022). The board of directors is considered to have great ability in a company because of its significant and high position in the decision-making process. (Riandani & Rahmawati, 2019). People who have capability have important characteristics according to Wolfe & Hermanson (2004), namely as follows:

1. The position and function of a person in an entity can provide the capability to create fraud opportunities that cannot be done by others.
2. Good fraudsters are smart enough to understand internal controls and utilize them to abuse their position of power and benefit greatly.
3. The right people can get away with fraud easily because they have a big ego and a lot of confidence that they will never get caught.
4. People who succeed in committing fraud can force others to do so as well or simply hide their fraud.
5. People who successfully lie and are effectively consistent, will turn a blind eye to what has been done to avoid their actions being detected.

Therefore, capability can be seen by whether or not a company changes its board of directors every year. Changing directors may indicate fraud in the company (Septriani & Handayani, 2018).

Change in Directors

Change in Directors, namely the change of directors made by the company. Change in directors was chosen in this study because Change in Directors is able to indicate fraud. The change of directors is usually related to fraud in the company that recognizes fraud. The more frequent the change of directors, the higher the indication of fraud (T. P. Sari & Lestari, 2020).

Arogansi (Arrogance)

Arrogance according to (Horwath, 2010) is an attitude of superiotas and rights or greed of someone who believes that the internal control system does not apply to him. Arrogance or excessive arrogance is an attitude of superiotas and rights and needs to be checked and directed. (Marks, 2011) states that 70% fraud is a combination of pressure and arrogance. Arrogance describes the nature of pride because it has a higher position. This high level of arrogance can lead to farud (Sasongko & Wijayantika, 2019).

Frequent Number of CEO's Picture

Frequent Number of CEO's Picture can be measured by looking at how many CEO photos are contained in the annual report. Because the CEO has a higher position, the level of arrogance must be reflected in the CEO's attitude (Khuluqi & Napisah, 2022). The more photos of the CEO in the annual report, the more it shows that the CEO wants to show his power to everyone who reads the company's financial statements (Agusputri & Sofie, 2019).

Funding Decisions

Definition of Funding Decision

Funding decisions are decisions that affect how a business will raise funds to finance investment and how to control the distribution of funding sources (Bahrun & Firmansyah, 2020). Funding decisions according to (Fitriawati, 2021) are the choice of sources of funds that will be used by the company as a source of funds for investments owned by the company. Funding decisions are closely related to the source of funds.

Concept of Funding Decision

Funding decisions are the responsibility of financial managers in finding the funds the company needs for investment and operations. When a company needs funds, the company can attract the attention of investors to invest money in the company itself (Jessilia & Purwaningsih, 2020). In order to get funds so that the company can invest, of course the company will look for ways to steal the attention of investors to invest in the company. Because of this, the company may commit fraud by showing large profits and pouring them into the financial statements, this is done so that the attention of investors to invest is directed (C. N. A. Putri & Diantini, 2022). This causes information asymmetry between investors and companies. The occurrence of information asymmetry between investors and managers can encourage companies to commit fraud. Where if fraud occurs in a company, it will increase the perception of asymmetry between investors and management which causes the company to experience greater difficulty in obtaining funding. The occurrence of financial fraud in a company will destroy the company's reputation. (Yuan & Zhang, 2014).

METHODS

Research Methods Used

The method used in this research is to use descriptive research methods with a quantitative approach. This descriptive method involves collecting data to test hypotheses and answer questions about issues or topics. Quantitative research is research based on data collection and data analysis in the form of numbers (numeric) to explain, predict the phenomenon being studied. Quantitative research according to (Sugiyono, 2013) is research whose data is in the form of numbers with analysis techniques using statistics.

DISCUSSION

Research Sample

The research sample in this study are all companies listed on the IDX and are companies that are sanctioned by OJK regulation VIII.G.7 in 2010-2021. A total of 9 companies were selected in this study.

Tabel 1 Purposive Sampling

NO	SAMPLE CRITERIA	AMOUNT
1	Non-financial companies listed on the Indonesia Stock Exchange and subject to sanction VIII.G.7 by OJK for the period 2010-2021	54
2	The company does not publish annual reports and complete financial reports on the IDX Website and the company's official website, and is not expressed in (Rp)	(29)
3	Incomplete companies according to variables	(2)
4	Companies that are delisted in the period 2010-2021	(14)
Number of Companies		**9**
Year of Observation		**12**
Total Sample		**108**

Source: Data processed 2023

Descriptive Statistical Analysis

Descriptive statistical analysis presented data on the minimum, maximum and mean values of the variable indications of financial statement fraud, namely pressure, opportunity, rationalization, capability and arrogance in all companies listed on the IDX and subject to OJK sanctions regulation No. VIII.G.7 of 2010 to 2021 as many as 108 observations.

Table 2 Descriptive statistical results of research variables

	Y	X1	X2	X3	X4	X5
Mean	0.092593	0.090324	0.396667	0.490741	0.250000	3.361111
Median	0.000000	0.039000	0.330000	0.000000	0.000000	3.000000
Maximum	1.000000	1.072000	0.750000	1.000000	1.000000	10.00000
Minimum	0.000000	0.002000	0.250000	0.000000	0.000000	0.000000
Std. Dev.	0.291212	0.150781	0.117696	0.502245	0.435031	2.252551
Skewness	2.811057	3.848754	1.069492	0.037043	1.154701	0.964250
Kurtosis	8.902041	20.94990	3.378910	1.001372	2.333333	3.700275
Jarque-Bera	298.9901	1716.527	21.23472	18.00001	26.00000	18.94272
Probability	0.000000	0.000000	0.000024	0.000123	0.000002	0.000077
Sum	10.00000	9.755000	42.84000	53.00000	27.00000	363.0000
Sum Sq. Dev.	9.074074	2.432650	1.482200	26.99074	20.25000	542.9167
Observations	108	108	108	108	108	108

Source: Data processed 2023

1). Fraudulent Financial Statement

From the results of the output data above, it can be seen that the descriptive statistical results of the variable for Y or Fraudulent financial statement obtained a minimum value of 0 and a maximum value of 1 with an average indication of financial statement fraud in all companies listed on the Indonesia Stock Exchange (IDX) from 2010 to 2021 of 0.10 which indicates that the level of financial statement fraud is low with a standard deviation of 0.3047.

2). Financial Target

From the data above, the descriptive statistical results of financial targets as measured by ROA have a minimum value of 0.002 and a maximum value of 1.072, with an average value of 0.09 and Std. Devnya of 0.1507 which shows that companies listed on the IDX in 11 years are less able to generate profits. This can indicate that some sample companies have high financial targets. The minimum value is owned by the company PT Bakhrie and Brother Tbk in 2021. While the maximum value is owned by PT Bakhrie and Brother Tbk in 2013.

3). Ineffective Monitoring

From the output results above, the descriptive statistical test shows that the variable X2 ineffective monitoring as measured by BDOUT or the ratio of independent commissioners has a minimum value of 0.25, namely PT Bakhrie and Brother, PT Mitra Energi Persada, PT Mnc

Land and PT Island Concepts Indonesia. The maximum value of 0.75 is owned by the company PT Lippo Karawaci Tbk. For the average value, it shows a value of 0.3966 and a standard deviation of 0.1176, which indicates that companies listed on the IDX from 2010 to 2021 do not have the opportunity to commit fraud or open up opportunities for fraud.

4). Change in Auditor

Rationalization or rationalization as measured using auditor switching (AUDCHANGE) has a minimum value of 0 and a maximum value of 1 with an average value of 0.4907 and a Standard Devision value of 0.5022 in all non-financial companies listed on the IDX from 2010 to 2021. This shows that 49% of the sample companies changed their auditors (value 1.00) and the remaining 51% of the sample companies did not change their auditors (value 0.00).

5). Change in Directors

Capability or ability as measured by looking at the change of directors or DCHANGE in the descriptive statistical output results shows a minimum value of 0 and a maximum value of 1 with an average value of 0.2613 which means that 26% of sample companies have a change of directors (value 1.00) and the remaining 74% of companies do not change directors (value 0.00) in all non-financial companies listed on the IDX from 2010 to 2021. The standard deviation value is 0.4350 This shows that all companies listed on the IDX tend not to change their directors.

6). Frequent Number of CEO's Picture

Arrogance or arrogance as measured by the Frequent Number of CEO's Picture displayed in the annual report shows a minimum value of 0 and a maximum value of 10 with an average value of 4,000 for all non-financial companies listed on the IDX from 2010 to 2021. The company that has the most CEO photos in the annual report is PT MNC land Tbk which may indicate fraudulent financial statements. As well as companies that do not display CEO photos in annual reports, namely PT Bhuwanatala Indah Permai Tbk, PT International Concepts Indonesia Tbk and PT Elang Mahkota Teknologi Tbk.

Panel Data Regression Model Estimation

Chow Test

The chow test is conducted to choose between which best estimate to choose between CEM and FEM. The provisions are if the cross section chi-square> alpa or 0.05 then H0 is accepted or reject H1

H0: Choose CEM

H1: Choose FEM

Table 3 Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	0.349192	(8,94)	0.9440
Cross-section Chi-square	3.162826	8	0.9237

Source: Data processed, 2023

Based on the chow test above, it shows that the Cross Section Chi-square value is 0.9237> 0.05, which means that H1 is rejected and H0 is accepted, which means that the selected model estimation is the CEM Model (Common Effect Model).

Hausman Test

The Hausmant test is carried out to test in determining the model estimation between REM and FEM which is most appropriate to use. The provisions are if Prob> alpa or 0.05 then H0 is accepted or reject H1

H0: Choose REM

H1: Choose FEM

Table 4. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	2.750400	5	0.7384

Sumber: Output Eviews

Lagrange Multiplier Test

The Lagrange Multiplier test is conducted to test the estimation model between REM and CEM to choose which model is the right one to use in this study. With the provisions that if Breusch-Pagan> 0.05 then H0 is accepted and vice versa

H0: Choose CEM

H1: Choose REM

Table 5. Lagrange Multiplier Test Results

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	3.005880	0.810804	3.816684
	(0.0830)	(0.3679)	(0.0507)

Source: Data Processed, 2023

Based on the results of the Eviews 12 output on the Lagrange Multiplier Test, it can be seen that the Breush-Pagan Cross-section value shows a value of 0.0830> 0.05, so H0 is accepted. So the selected estimation model is the CEM model.

Hasil Regresi Common Effect Model (CEM)

Based on the chow test and Hausman test, the appropriate panel data regression model used in this study is the Common Effect Model (CEM). The following is the regression result of testing the Common Effect Model (CEM) model:

Table 6. Regression Results of CEM Model

Periods included: 12

Cross-sections included: 9

Total panel (balanced) observations: 108

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.302500	0.116488	2.596832	0.0108
X1	-0.111181	0.187725	-0.592254	0.5550
X2	-0.436807	0.239363	-1.824868	0.0709
X3	-0.136296	0.057758	-2.359767	0.0202
X4	0.095501	0.065976	1.447520	0.1508
X5	0.004883	0.012465	0.391754	0.6961
Root MSE	0.276088	R-squared		0.092773
Mean dependent var	0.092593	Adjusted R-squared		0.048301
S.D. dependent var	0.291212	S.E. of regression		0.284092
Akaike info criterion	0.374916	Sum squared resid		8.232245
Schwarz criterion	0.523923	Log likelihood		-14.24545
Hannan-Quinn criter.	0.435333	F-statistic		2.086104
Durbin-Watson stat	2.142224	Prob(F-statistic)		0.073137

Sumber: Output Eviews

Based on Table 4.6 shows the results of the common effect model selection, the regression model equation between the dependent variable (fraudulent financial statement) and the independent variables (financial target, ineffective monitoring, change in auditor, change in director, frequent number of CEO's picture) is obtained as follows:

FFS = 0.356879 - 0.078661 ROA - 0.505869 BDOUT - 0.152495 AUDCHANGE + 0.068493 DCHANGE + 0.001602 CEO PICTURE

Notes:

FFS = Fraudulent Financial Statement

ROA = Return On Assets

BDOUT = Total board of commissioners ratio

AUDCHANGE = Auditor turnover

DCHANGE = Director turnover

CEO Picture = Number of CEO pictures

Classical Assumption Test

Multicollinearity Test

The multicollinearity test is used to determine whether the independent variables in the regression model have a high level of correlation or not. The relationship between the independent and dependent variables is disrupted if the independent variables have a high correlation (Duli, 2019). Variance Inflation Factor (VIF) is a statistical tool that is often used to test for multicollinearity. There is no multicollinearity if the correlation value between independent variables <0.90 can be seen in the table below which shows the multicollinearity test.

Table 7. Multicollinearity Test

	X1	X2	X3	X4	X5
X1	1.000000	-0.171010	0.111048	-0.070348	0.108067
X2	-0.171010	1.000000	-0.077997	-0.118644	-0.075791
X3	0.111048	-0.077997	1.000000	0.245951	0.180592
X4	-0.070348	-0.118644	0.245951	1.000000	0.021459
X5	0.108067	-0.075791	0.180592	0.021459	1.000000

Source: Data processed, 2023

Based on the multicollinearity test results in table 4.6, it shows that each variable is not <0.90 so it can be concluded that there is no multicollinearity.

Heteroscedasticity Test

The heteroscedasticity test is a test conducted to see if there is an inequality of variance from the residual value of one observation to another. A good model should not have heteroscedasticity (Duli, 2019). The provisions are if the Prob. Chi-Square> 0.05 then there is no heteroscedasticity.

Table 8. Heteroscedasticity Test

F-statistic	1.388892	Prob. F(18,89)	0.1570
Obs*R-squared	23.68425	Prob. Chi-Square(18)	0.1656
Scaled explained SS	70.27216	Prob. Chi-Square(18)	0.0000

Sumber Output Eviews 12:

Based on the results of the Heteroscedasticity test, it shows that the value of Prob. Chi-Squrae value of 0.1656> 0.05 means that this study is free from heteroscedasticity.

Hypothesis Test

Test Coefficient of Determination (R2)

The Coefficient of Determination is carried out to measure how far the ability of the independent variable is in explaining the variation in the dependent variable.

Table 9. Test Results of the Coefficient of Determination (R2)

Root MSE	0.276088	R-squared	0.092773
Mean dependent var	0.092593	Adjusted R-squared	0.048301
S.D. dependent var	0.291212	S.E. of regression	0.284092
Akaike info criterion	0.374916	Sum squared resid	8.232245
Schwarz criterion	0.523923	Log likelihood	-14.24545
Hannan-Quinn criter.	0.435333	F-statistic	2.086104
Durbin-Watson stat	2.142224	Prob(F-statistic)	0.073137

Sumber: Output Eviews

From the results of the R2 Determination Coefficient Test, it shows that the R-squared value is 0.048301, which is equivalent to 9%. This shows that 4.8% of the independent variables affect the dependent variable and the remaining 95.2% is influenced by other variables not mentioned in this study.

Simultaneous Test

The purpose of this F test is to determine a parameter interpretation together, which means how much influence the independent variable has on the dependent variable. The steps in testing are as follows; (Riyanto & Hatmawan, 2020)

- If F count ≥ F table or sig ≤ 0.05 then H0 is rejected
- If F count < F table or sig > 0.05 then H0 is accepted, or
- If Prob(F-statistic) < 0.05 then there is an influence
- If Prob(F-statistic) > 0.05 then there is no effect

Table 10. Simultaneous Test (F Test) 1st Data

Root MSE	0.276088	R-squared	0.092773
Mean dependent var	0.092593	Adjusted R-squared	0.048301
S.D. dependent var	0.291212	S.E. of regression	0.284092
Akaike info criterion	0.374916	Sum squared resid	8.232245
Schwarz criterion	0.523923	Log likelihood	-14.24545
Hannan-Quinn criter.	0.435333	F-statistic	2.086104
Durbin-Watson stat	2.142224	Prob(F-statistic)	0.073137

Sumber: Output Eviews

Based on table 4.12 in the second data test, namely to test whether Fraudulent Financial statements as measured by fraud pentagon jointly affect Funding decisions in all companies listed on the IDX and get OJK sanctions from 2010 to 2021. From the results of the Eviws output, it can be seen that the R-Squared value is 0.129. This means that the independent variable is able to explain the dependent variable by 12.9 percent, while the rest can be explained by other variables. For the Prob (F-statistic) value, which is 0.0135 <0.05, which indicates that Fraudulent Financial statements as measured by fraud pentagon have a joint effect on Funding decisions.

Partial Test (T Test)

Partial test or t test is conducted to test the significant partial influence between the independent variable on the dependent variable. The provision is if the prob value <0.05 then the independent variable affects the dependent variable.

Table 13 Partial Test (T Test)

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Prob.
C	0.302500	0.116488	2.596832	0.0108	0.0054
X1	-0.111181	0.187725	-0.592254	0.5550	0.2775
X2	-0.436807	0.239363	-1.824868	0.0709	0.0354
X3	-0.136296	0.057758	-2.359767	0.0202	0.0101
X4	0.095501	0.065976	1.447520	0.1508	0.0754
X5	0.004883	0.012465	0.391754	0.6961	0.3480

Sumber: Data diolah 2023

Based on the T test results in table 4.13, it shows that:

a) Financial target with ROA indicator has a Prob value of 0.2775> 0.05. So it can be concluded that H1 is rejected, meaning that financial targets as measured using ROA have no significant effect on Fraudulent Financial Statement.
b) Ineffective Monitoring as measured by BDOUT or the ratio of independent commissioners has a Prob value of 0.0354 <0.05. So it can be concluded that H2 is rejected, meaning that ineffective monitoring as measured using BDOUT has a negative and significant effect on Fraudulent Financial Statement.
c) Change in Auditor as measured by auditor switching (Audchange) has a prob value of 0.0101 <0.05, it can be concluded that H3 is rejected. This means that Change in Auditor as measured by AUDCHANGE has a negative and significant effect on Fraudulent Financial Statement.
d) Change in Director as measured by DCHANGE or change of directors has a prob value of 0.0754> 0.05 so that it can be concluded that H4 is rejected, which means that Change in Directors as measured by change of directors has no significant effect on Fraudulent Financial Statement.
e) Frequent Number of CEO's Picture as measured by the number of CEO photos in the annual report has a prob value of 0.3480> 0.05, it can be concluded that H5 is rejected. This means that Frequent Number of CEO's Picture as measured by the number of CEO photos has no significant effect on Fraudulent Financial Statement.

Discussion

The Effect of Financial Target on Fraudulent Financial Statement

The first hypothesis is that financial targets have a positive and significant effect on fraudulent financial statements. After conducting the t test, it can be seen in table 4.13 which shows the first hypothesis, namely the financial target as measured by using ROA, has a coefficient value of 0.07 and a probability value of 0.2775 > 0.05. So it can be interpreted that financial targets have no effect on financial statement fraud in all companies listed on the IDX from 2010 to 2021. So it can be concluded that H1 is rejected.

In this study, financial targets have no influence on financial statement fraud. The increase in ROA in management does not always make management manipulate its financial statements. An increase in ROA may indicate that the company can properly manage its corporate profits, not indicating fraud. There is no effect of ROA on Fraudulent Financial Statement because managers still consider the amount of financial targets reasonable and affordable. Management does not find it difficult to achieve financial targets, so management is not tempted to commit financial statement fraud (Fadhilah & Rukoyah, 2022).

Financial targets are proxied by ROA because ROA is used in seeing the level of profit in the activities carried out by a company for its business in one period (Fadhilah & Rukoyah, 2022). Return On Asset (ROA) is a widely used performance measure to assess how efficiently assets have been used (Skousen et al., 2008). High profits can also increase investor confidence in the company. So that management is not interested in committing financial statement fraud. The results of this study are in line with research conducted by (Sasongko & Wijayantika, 2019) and (Fadhilah & Rukoyah, 2022) which shows that financial targets have no effect on fraudulent financial reporting.

The Effect of Ineffective Monitoring on Fraudulent Financial Statement

The second hypothesis is that ineffective monitoring has a positive and significant effect on fraudulent financial statements. The test results of Ineffective Monitoring proxied by BDOUT show a probability value of 0.0354> 0.05 with a coefficient value of -0.4368. So it can be concluded that Ineffective Monitoring has a negative and significant effect on Fraudulent Financial Statement H2 is rejected. The more the number of independent commissioners in the company, the less likely the company is to commit financial statement fraud.

The large number of independent commissioners in the company will further increase the effectiveness of company supervision which results in a decrease in the opportunity for financial statement fraud committed by company management. This can happen because the independent commissioners selected are in accordance with the criteria for appointing independent commissioners that apply in the Financial Services Authority Regulation Number 33 / POJK.04 / 2014 concerning Directors and Board of Commissioners of Issuers or Public Companies.

This can affect the monitoring mechanism or procedure in the company. Through OJK, monitoring is carried out by BI every year, so monitoring of banks at this time is very good, it aims to minimize ineffectiveness in supervision. This is also not in accordance with agency theory which states that there is an imbalance of information between the principal and the agent in the company.

The Effect of Change in Auditor on Fraudulent Financial Statement

The third hypothesis is that change in auditor has a positive and significant effect on fraudulent financial statements. Based on the results of the t test, change in auditor has a significant effect but the direction is negative on fraudulent financial statements in all companies listed on the Indonesia Stock Exchange (IDX) from 2010 to 2020, it can be seen that the coefficient value is -0.1524 with a significance value of 0.0101 < 0.05. So it can be concluded that H3 is rejected. Change in auditor has a significant influence and negative direction on Fraudulent Financial Statement in all companies listed on the IDX that are sanctioned by the Financial Services Authority (OJK) for violating regulation no. VIII.G.7 from 2010 to 2021.

Based on the research results, auditor change is a factor in reducing fraudulent financial statements. This is because the change of auditors results in new auditors needing time to understand the company's financial condition, making it difficult for someone to commit financial statement fraud. Meanwhile, the old auditor will make it easier for someone to commit financial statement fraud because he really understands the company's financial condition (Agusputri & Sofie, 2019).

Changing auditors in a company also causes differences in auditors in auditing financial statements, making it difficult for someone to commit financial statement fraud. The difficulty caused by the change of auditors makes someone reluctant to commit financial statement fraud (Isalati et al., 2022). The results of this study are in line with research (Agusputri & Sofie, 2019) and (Isalati et al., 2022) which state that change in auditor has a negative effect on fraudulent financial statements.

The Effect of Change in Director on Fraudulent Financial Statement

The fourth hypothesis is that Change in Director has a positive and significant effect on fraudulent financial statements. Based on the results of panel data regression testing in the t test, namely change in director has no effect on fraudulent financial statements. It can be seen in the coefficient value of 0.0684 and the significance value is 0.0754> 0.05. So it can be concluded that H4 is rejected, change in director has no effect on fraudulent financial statements in all companies listed on the IDX and received sanctions from the Financial Services Authority (OJK) for violating regulation no. VIII.G.7 from 2010 to 2021.

The results of this study prove that change in director has no effect on fraudulent financial statements, this is because the existence of a board of directors in management is only a regulatory requirement to comply with good management. It is also possible that the company is satisfied with the performance of its directors and there are no problems from shareholders that encourage changing directors (Fadhilah & Rukoyah, 2022). The change of directors does not always indicate the existence of fraudulent financial statements, because the performance of the board of directors is supervised by the board of commissioners. So that if the performance of the directors is not good, there can be a change with new directors who are considered more capable of leading the company (Farmashinta & Yudowati, 2019). The higher the ability of the directors, the higher the level of prudence in work. So that the possibility of management manipulating financial statements will also be smaller (Farmashinta & Yudowati, 2019). This is in line with research conducted (Farmashinta & Yudowati, 2019) and (Andriani et al., 2022) which state that changes in directors proxied by dummy variables have no effect on fraudulent financial statements.

Effect of Frequent Number of CEO's Picture on Fraudulent Financial Statement

The fifth hypothesis is that Arronace, which is proxied by the number of CEO photos displayed in the annual report, has no effect on Fraudulent Financial Statement. It can be seen in table 4.13 where X5 has a coefficient of 0.004 and a significance value of 0.3480> 0.05. Which means that the large number of CEO photos displayed in the company's annual report cannot indicate the level of arrogance of the company's CEO. So it can be concluded that H5 is rejected.

The CEO photo in the company's annual report aims to introduce the CEO of the company to the public and stakeholders who have an interest. And many CEO photos in the annual report are photos of the results of activities carried out by the company. In addition, there are still companies that do not display CEO photos in their annual reports so that the number of CEO photos in the annual report cannot show the arrogance of a CEO (Agusputri & Sofie, 2019). According to (Horwath, 2011) the possibility that CEO arrogance will do everything possible to maintain its position can be seen from the number of CEO photos displayed in the company's annual report is not proven in this study. This is in line with the results of research from (Sasongko & Wijayantika, 2019), (Agusputri & Sofie, 2019) and (Farmashinta & Yudowati, 2019) which state that Arrogance proxied by the number of CEO photos displayed in the company's annual report has no significant effect on fraudulent financial reporting.

The Effect of Fraudulent Financial Statement on Funding Decisions

The sixth hypothesis is the effect of fraudulent financial statements on funding decisions using fraud pentagon as a proxy. Can be seen in table 4.12 based on the results of the simultaneous test or F test. From the results of the Eviws output, it can be seen that the R-Squared value is 0.129. This means that the independent variable is able to explain the dependent variable by 12.9 percent, while the rest can be explained by other variables. For the Prob (F-statistic) value of 0.0135 <0.05 which indicates that Fraudulent Financial statements as measured by fraud pentagon have a joint effect on Funding decisions. So it can be concluded that H7 is accepted.

The sixth hypothesis is the effect of fraudulent financial statements on Funding decisions using fraud pentagon as a proxy. Can be seen in table 4.12 based on the results of the simultaneous test or F test. From the results of the Eviws output, it can be seen that the R-Squared value is 0.129. This means that the independent variable is able to explain the dependent variable by 12.9 percent, while the rest can be explained by other variables. For the Prob (F-statistic) value of 0.0135 <0.05 which indicates that Fraudulent Financial statements as measured by fraud pentagon have a joint effect on Funding decisions. So it can be concluded that H7 is accepted.

The effect of financial statement fraud on funding decisions can be caused because the occurrence of indications of financial statement fraud can increase the occurrence of information asymmetry arising from the disclosure of fraudulent corporate financial statements which can lead to decreased financing. The occurrence of fraudulent disclosure of financial statements in the company creates information asymmetry between investors and managers, the company will also experience greater difficulty in obtaining external funding. An increase in fraudulent financial statements can damage the company's reputation and can increase the perceived information asymmetry between stakeholders and managers, which causes difficulties in obtaining external funds. The occurrence of fraudulent financial statements will certainly affect funding decision making due to inaccurate financial information resulting in wrong decisions that can harm the company in seeking funding. This is in line with the results of research (Yuan & Zhang, 2014) which states that disclosure of fraudulent financial statements affects funding decisions.

The effect of Fraud pentagon simultaneously on Fraudulent Financial Statement

Based on the output results in table 4.10, it shows that the Prob (F-statistic) value is 0.07> 0.05 so it can be concluded that together the variables of pressure, opportunity, rationalization, capability, arrogance have no effect on fraudulent financial statements. So it can be concluded that H7 is rejected.

Conclusion

Based on the tests that have been carried out regarding "The Effect of the Fraud Pentagon on Fraudulent Financial Statement and its Impact on Funding Decisions". Then it can be concluded as follows:

1. Financial Target is not able to detect the existence of Fraudulent Financial Statement in all companies affected by OJK sanctions on regulation No.VIII.G.7.
2. Ineffective Monitoring has a negative and significant effect on Fraudulent Financial Statement in all companies affected by OJK sanctions on regulation No.VIII.G.7.
3. Change in Auditor has a negative and significant effect on Fraudulent Financial Statement in all companies affected by OJK sanctions on regulation No.VIII.G.7.
4. Change in Directors is not able to detect Fraudulent Financial Statement in all companies affected by OJK sanctions on regulation No.VIII.G.7.
5. Frequent Number Of CEO's Picture is not able to detect the existence of Fraudulent Financial Statement in all companies affected by OJK sanctions on regulation No.VIII.G.7.
6. Fraudulent Financial Statements simultaneously have influence Against the Financing Decision on All Companies subject to OJK sanctions under Regulation No.VIII.G.7.
7. Pentagon fraud simultaneously has no influence on fraudulent financial statements.

Suggestion

From the results of this study, further research is expected to be even better in shaping the detection model of fraudulent financial statements, by incorporating some considerations as follows:

1. Future researchers are expected to add other proxy variables such as financial stability, nature of industry, audit turnover, and others in analyzing the influence of Pentagon fraud on fraudulent financial reporting in order to get better results and detect the presence of fraudulent financial statements.
2. For later, researchers are likely to add more company samples and years of observation.
3. Further research is likely to use other analytical techniques different from this research, such as logistic regression analysis.

4. For later research, it is expected that researchers can replace the frequent proxy number of the CEO’s picture with another proxy, like Political Connection CEO, so that can produce better research.

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