



The Effect Of The Fraud Pentagon On Fraudulent Financial Statements And Their Impact On Investment Decisions

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ABSTRACT

The purpose of this study is to test whether financial targets, ineffective monitoring, change in auditor, change in director, frequent number of CEO's pictures affect fraudulent financial statements and their impact on investment 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 target, ineffective monitoring, change in auditor, change in director and frequent number of CEO's picture have no effect on fraudulent financial statements. Furthermore, fraudulent financial statements have no effect on investment decisions. Partially financial targets, change in director, and frequent number of CEO's picture 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.

INTRODUCTION

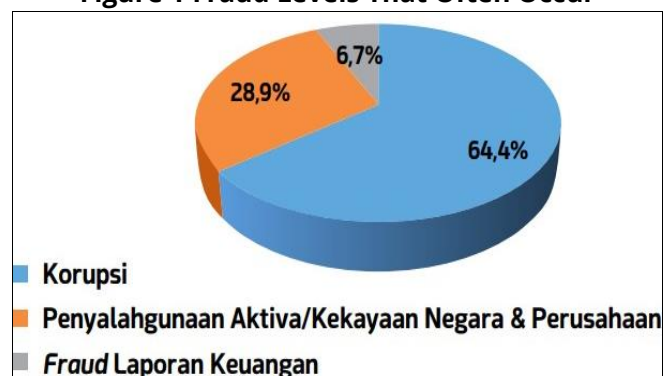
A financial report is a written report that can show the activities and financial condition of a company which consists of four main components (Darmawan, 2020). A financial report is a structural presentation issued by a corporate entity based on the results of the company's work, and aims to provide 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 statements needs to be considered from the possibility of 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 considered bad because it has manipulated in order to present perfect financial reports.

Fraud is a phenomenon that cannot be avoided, even the cases are always there every year. Fraud can threaten a country's economy (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.

Based on the results of the Indonesian Fraud Survey (SFI) 2019, with the number losses caused by 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 cases of misuse of state and company 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 1 Fraud Levels That Often Occur



Source: Indonesia Fraud Survey (2019)

The Financial Services Authority (OJK) has the task of regulating and monitoring every company's economic activity (Andriani et al., 2022). OJK has issued regulations that have been previously carried out by Bapepam-LK (Capital Market and Financial Institutions Supervisory Agency) regarding the presentation of reporting and disclosure of financial statements of issuers or public companies which is stated in regulation no VIII.G.7 which provides guidelines for the content, structure and requirements in the presentation and disclosure of financial statements that have been regulated by PSAK (Andriani et al., 2022).

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). PT Garuda Indonesia (Persero) Tbk in 2018 is 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 is \$ 239,940,000 (Riany et al., 2021).

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). The

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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 fraudulent financial statement cases 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 of IDR 4 trillion and sales of IDR 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).

Financial reporting has an important role in improving corporate investment decisions by facilitating better capital allocation (Siregar & Nuryanah, 2019). In making an investment, surely a management will try to do everything possible in order to obtain funds that will be used as investment. One of the actions taken by the company can be done by showing the good ability of a company to generate profits by pouring it into financial reports which contain important information that is useful for investors to be used as a way to make decisions. In the financial statements, this information can be in the form of information about the level of profitability, company growth, funding decisions, investment decisions, company size and so on. So it is very possible for companies to commit fraud in order to attract investors in obtaining financing to carry out investment policies. Financial statement fraud will have an impact on the company's investment policy, because fraud in financial statements will lead to wrong decisions, especially investment decisions. This can lead to information asymmetry between insiders and outside investors (Yuan & Zhang, 2014).

Based on these cases, auditors should be able to improve and track early indications of fraud occurrence on financial statements. To detect the presence of fraud in financial statements, you can use the theories that have been put forward by experts such as fraud triangle, fraud diamond and fraud pentagon. In this study, the fraud pentagon is used in testing its effect on the potential for fraudulent financial statements and the impact of fraudulent financial statements on investment decisions.

LITERATURE REVIEW

Agency Theory

The theory proposed by Michael C. Jensen and William H. Meckling in 1976 can be seen as a contractual relationship between principals and agents. Investors or owners as principals have access and desire to know more about the state of the company. Conversely, company managers as agents who carry out company operations have access to various information related to company operations and overall company performance (Riany et al., 2021). 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 a possibility of differences in achieving these goals, which creates a 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 a desire to maximize their own satisfaction, therefore the principal has reason to not trust all agent actions that are in accordance with the principal's interests.

Fraudulent Financial Statement

International Standards on Auditing (ISA) 240, (2009) Fraudulent financial reporting involves intentional misstatements that mislead those who read the financial statements, there may be omissions of figures or disclosures. This can be caused by management's attempt to manage earnings to deceive users of financial statements by influencing their perception of the entity's performance and profitability.

There are two forms of financial statement fraud, the first is 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 good financial reports. 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.

Pentagon Fraud Pressure

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). In this study, researchers made financial targets with Return on Assets (ROA) as a proxy for pressure. 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 the development of profits from year to year (Sasongko & Wijyantika, 2019). 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 their performance (Sasongko & Wijyantika, 2019); (Tarjo et al., 2021); (Kusumawati et al., 2021).

Companies with large ROA are more likely to commit fraud, companies may manipulate earnings to meet analysts' forecasts such as the previous year's profit (Jao et al., 2021). The higher the pressure, the more the occurrence of financial statement fraud increases (Agusputri & Sofie, 2021). Based on the explanation above, then H1: Financial targets affect fraudulent financial statements

Opportunity

The second element is opportunity, International Standards on Auditing (ISA) 240, (2009) states that opportunities occur when someone thinks internal control can be controlled. Ineffective monitoring is a situation of weak control systems within an organization or company (Khuluqi & Napisah, 2022). In this study, ineffective monitoring is measured by BDOU, 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 smaller the ratio of the independent board of commissioners in the company, the less effective the supervision in the company so that the higher the occurrence of fraud (Aprilia, 2017). Based on this explanation, then H2: Ineffective Monitoring affects fraudulent financial statements

Rationalization

Rationalization, an important factor in fraud can occur when the perpetrator looks for reasons to justify his actions (Khuluqi & Napisah, 2022). Rationalization in this study uses the proxy change in auditor, which can be indicated to eliminate traces of fraud that have been indicated by the previous auditor so that this can be an indication of fraud. (Sasongko & Wijyantika, 2019). (Randa & Dwita, 2020). Any increase in the frequency of auditor changes will result in more false financial statements. (Farmashinta & Yudowati, 2019). This is also supported by research (Farmashinta & Yudowati, 2019) the results of his research show that partially change in auditor has a positive and significant effect on fraudulent financial statements. Based on this, then H3: Change in Auditor affects fraudulent financial statements

Capability

The capability of a person is one of the factors that will encourage fraud. (ACFE Chapter 3036 | Meutia Riany, Parassela Pangestu Primadiva, Muhammad Zulvan Dwi Hatmoko, Nur Hidayah Kusumaningrum Fadhilah, Khairul Mujahidi ; The Effect Of The Fraud Pentagon ...

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). The ability proxied by the change of authority of the old director to the new director can be interpreted as an attempt by the company to replace a less competent director who can improve company performance because he is considered to have better abilities than the previous director (Sasongko & Wijyantika, 2019). Based on this, then H4: Change of Directors affects fraudulent financial statements

Arrogance

Marks (2011) stated that 70% of fraud is a combination of pressure and arrogance. In this study, arrogance is measured by the frequent number of CEO's picture. 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 financial statements of a company (Agusputri & Sofie, 2019). A CEO usually wants to show how powerful he is with the position he has in a company This high level of arrogance can lead to farud (Sasongko & Wijyantika, 2019). The increasing frequency of CEO photos in the annual report will further show the arrogance of the CEO who wants to show his power to everyone reading the company's financial statements (Agusputri & Sofie, 2019). Based on this, then H5: Frequent number of CEO's picture affects Fraudulent Financial Statements.

Investment Decision

Financial statement fraud will have an impact on the company's investment, because fraud in financial statements will lead to wrong decisions, especially investment decisions. High financial reporting quality will prevent information asymmetry that will cause management to commit fraud (Angela & Aryancana, 2017). This is in line with the results of research by Yuan & Zhang (2014) which states that fraudulent financial statements affect investment policy. Fraudulent financial statements in this study use the fraud pentagon which has been proxied in the previous explanation, so that based on this H6: Fraudulent Financial Statatement simultaneously affects investment decisions.

METHODS

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. The data used in this study is secondary data in the form of annual reports obtained from the official IDX website and also the official website of the Company which is the sample in the study.

Table 1. Variable Operationalization

Variables	Variables type	Indicator	Scale
<i>Fraud (y)</i> Fraudulent behavior that has an impact on some misinformation to investors so that they make wrong decisions. (Sasongko & Wijyantika, 2019)	Dependent	FRAUD = fraud company (1), and companies that do not commit fraud = 0	Nominal
<i>Investment Decision (y)</i> Company capital investment that can determine the composition of	Dependent	$Investment = \alpha + LnAsset_{t-1} + Leverage_{t-1} + ROA + Tangibility_{t-1} + STDROA + MTB_{t-1} + CFO_t + \varepsilon_t$	Ratio

the company in achieving its goals (Yuan& Zhang, 2014)			
Funding Decision (y) Decisions about how the company seeks funds to finance investment and how to manage the composition of funding sources. (Yuan & Zhang, 2014)	Dependent	Financing = $\alpha + \ln \text{Asset}_{t-1} + \text{Leverage}_{t-1} + \text{ROA}_{t-1} + \text{Tangibility}_{t-1} + \text{STDROA}_{t-1} + \text{MTB}_{t-1} + \varepsilon_t$	Ratio
Financial Targets Financial pressure (Skousen et al., 2008)	Independent	ROA = Net Profit After Tax / Total Asset	Ratio
Ineffective monitoring Supervision that does not work well (Septriani & Handayani, 2018)	Independent	BDOU = Number of Independent Board of Commissioners / Total Number of Board of Commissioners	Ratio
Change in auditor Auditor turnover (Skousen et al., 2008)	Independent	AUDCHANGE = Auditor change (1), and (0) for no auditor change.	Nominal
Change in directors Change of directors Prakoso & Setiyorini, 2021)	Independent	DCHANGE = There is a change in the board of directors (1), and (0) there is no change in the board of directors.	Nominal
Frequent number of CEO's picture Total CEO Photos (Agusputri & Sofie, 2019)	Independent	CEOPIC = Total CEO photos contained in the company's annual report.	Ratio

Sampling technique

The sample selection in this study used purposive sampling method with judgment sampling technique by setting several criteria such as: (1) The sample of companies is all non-financial companies listed on the Indonesia Stock Exchange from 2010 to 2021; (2) The sample of companies is a company listed on the Indonesia Stock Exchange (IDX) and sanctioned by OJK cases from 2010 to 2021; (3) The sample of companies is a company that has violated OJK regulation number VIII.G.7; (4) The sample of companies that published a complete annual report during the period 2010 to 2021; (5) The sample of companies stated in Rp in the company's financial statements during the period 2010 to 2021. Based on the predetermined criteria, the sample of this study amounted to 108.

RESULTS

Tabel 2 Descriptive statistic results

	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: processed data (2023)

Descriptive statistical results show that the level of fraudulent financial reporting is low with a standard deviation of 0.3047. The pressure variable which is proxied by financial targets through the calculation of ROA shows that during these 11 years the sample companies have made less profit. The results of the descriptive test on ineffective monitoring show that companies listed on the IDX from 2010 to 2021 did not have the opportunity to commit fraud or open up opportunities for fraud. Change in auditor that 49% of sample companies changed their auditors (value 1.00) and the remaining 51% of sample companies did not change their auditors (value 0.00). Testing on Change in directors shows that all companies listed on the IDX tend not to change their directors.

Based on the results of testing Arrogance or arrogance as measured by Frequent Number of CEO's, the company that has the most CEO photos in the annual report is PT MNC land Tbk, companies that do not display CEO photos in the annual report are PT Bhuwanatala Indah Permai Tbk, PT International Concepts Indonesia Tbk and PT Elang Mahkota Teknologi Tbk. data (2023)

Chow Test

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: output Spss

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

Tabel 4. Hausman Test Results

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

Source: processed data (2023)

Based on the Hausman Test in table 3 which shows the Prob value of $0.7384 > 0.05$, which means H_1 is rejected and H_0 is accepted. So according to the Hausman test, the right estimation model to use is the REM model. Then it is necessary to do the Lagrange Multiplier test.

Lagrange Multiplier test

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: processed data (2023)

Common Effect Model (CEM) Regression Results

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

Source: processed data (2023)

Based on the CEM results of the common effect model selection results, 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:

$$\text{FFS} = 0.356879 - 0.078661 \text{ ROA} - 0.505869 \text{ BDOU} - 0.152495 \text{ AUDCHANGE} + 0.068493 \text{ DCHANGE} + 0.001602 \text{ CEO PICTURE}$$

Description:

- FFS = Fraudulent Financial Statement
- ROA = Return on Assets
- BDOU = Total board of commissioners ratio
- AUDCHANGE = Auditor turnover
- DCHANGE = Director Change
- CEO Picture = Number of CEO pictures

Classical Assumption 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: processed data (2023)

Based on the multicollinearity test results in table 6, it shows that each variable is not <0.90 so it can be concluded that there is no multicollinearity.

Heteroscedasticity Test**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

Source: processed data (2023)

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

Test Coefficient of Determination (R)²**Table 9. Test Results of the Coefficient of Determination (R)²**

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

Source: processed data (2023)

From the results of the R Determination Coefficient Test² 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.

Partial Test**Table 10. Partial Test Results (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

Source: processed data (2023)

- a) Financial targets with ROA indicators have 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 BDOOUT 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 by BDOOUT has a negative and significant effect on Fraudulent Financial Statement.
- c) Change in Auditor as measured by auditor turnover (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

Simultaneous Test

Table 11. 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

Source: processed data (2023)

Based on the output results in table 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

Table 12. Simultaneous Test (F Test) 2nd Data

Weighted Statistics			
Root MSE	6.306239	R-squared	0.080822
Mean dependent var	13.64848	Adjusted R-squared	0.035764
S.D. dependent var	6.608312	S.E. of regression	6.489067
Sum squared resid	4295.015	F-statistic	1.793732
Durbin-Watson stat	1.527328	Prob(F-statistic)	0.120729

In the second data test, namely to test whether Fraudulent Financial statements as measured by fraud pentagon jointly affect investment 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 value of R-squared is 0.08. this means that the independent variable is able to explain the dependent variable by 0.08 percent, while the rest is explained by other variables. For the Prob (F-statistic) value, which is $0.1207 > 0.05$, which indicates that there is no joint influence of Fraudulent Financial statements as measured by fraud pentagon on investment decisions.

DISCUSSION

The Effect Of Financial Target On Fraudulent Financial Statement

Based on the test results, financial targets have no effect on fraudulent financial reporting. The increase in ROA does not always indicate that the company is indicating fraudulent financial reporting. An increase in ROA may indicate that the company can manage its company's profits well, not indicating fraud. (Fadhilah & Rukoyah, 2022). This research is in line with research conducted by (Sasongko & Wijyantika, 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 test results of Ineffective Monitoring proxied by BDOUT can be concluded that Ineffective Monitoring has a negative and significant effect on Fraudulent Financial Statement. The more the number of independent commissioners in the company, the less likely the company is to commit financial statement fraud. The results of this study are consistent with research conducted by (Utomo, 2018). independent commissioners who are selected in accordance with the applicable criteria for the appointment of independent commissioners according to the Financial Services Authority Regulation Number 33 / POJK.04 / 2014 concerning Directors and Board of Commissioners of Issuers or Public Companies can influence the monitoring mechanisms or procedures in the Company.

Change In Auditor To Fraudulent Financial Statement

Change in auditor has a significant negative effect on Fraudulent Financial Statement. Based on the results of the study, auditor change is a factor in reducing fraudulent financial statements. This is because the change of auditors results in the new auditor taking time to understand the company's financial condition, making it difficult for someone to commit financial statement fraud. 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 states that change in auditor has a negative effect on fraudulent financial statements.

The Effect Of Change In Director On Fraudulent Financial Statement

Change in director has no effect on fraudulent financial statements. The change of director 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 states that change in director has no effect on fraudulent financial statements.

The Effect Of Frequent Number Of Ceo's Picture On Fraudulent Financial Statement

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 the CEO's arrogance will do everything possible to maintain his 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 & Wijyantika, 2019), (Agusputri & Sofie, 2019) and (Farmashinta & Yudowati, 2019) which states 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 Investment Decision

The occurrence of financial statement fraud based on fraud pentagon in this study cannot affect investment decisions in the company. Wrong investment decision making is not necessarily caused by fraudulent financial statements. This can happen because the manager is wrong in analyzing and calculating, or because the strategy preparation is not mature in making investment decisions, so that fraudulent financial statements have no effect on investment decisions. This is in line with research (Balakrishnan & Core, 2013) which states that fraudulent financial reporting cannot affect investment decisions.

CONCLUSION AND SUGGESTION

Based on the results of this study it can be concluded that financial targets, change in auditors, frequent number of CEO's pictures are not able to detect fraudulent financial statements. Meanwhile, ineffective monitoring, change in auditor has a negative effect on fraudulent financial statements. Measurement of fraudulent financial statements using fraud pentagon in this study has no effect on investment decisions

Suggestion

According to the findings of this research, the researcher proposes two suggestions for future accounting researchers. First, it is necessary to update the proxies or measurements for each element of the fraud pentagon, especially for elements that have no influence in detecting fraudulent financial reporting. Second, it is necessary to use qualitative methods in measuring variables from the fraud pentagon elements to obtain more in-depth and accurate results.

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