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Diamond Fraud Dimension Analysis in Detecting Financial Statement Fraud in Companies Manufacturers Listed on the Indonesia Stock Exchange

Septhea Dwi Pratiwi[1], Imam Ghozali[2]
[1,2,]Universitas Diponegoro, Semarang, Indonesia
septheathia@gmail.com

Abstract

The aim of this research is to analyze and give the empirical evidence of the influence between fraud dimensions such as Pressure, Opportunity, rationalization, and Capability against Financial Statement Fraud. The population of this research is the manufacturing company listed on the Indonesian stock exchange in the period of 2017-2019. The researcher used purposive sampling as the method of choosing the sample with 302 data selections. For the data analysis, the researcher used multiple linear regression. The result of this research proved that financial stability has influenced to the financial statement fraud. The variable of external pressure has not been influenced to the financial statement fraud. Then the variable of financial targets has been influenced with the financial statement fraud. The variable of nature of industry has influenced to the financial statement fraud. Next, the variable of monitoring effectiveness has not been influenced to the financial statement fraud. The variable related party transaction has not been influenced to the financial statement fraud. The variable of auditor change has not been influenced to the financial statement fraud. The variable director change has not been influenced to the financial statement fraud.

Keywords
fraud diamond; pressure, opportunity; rationalization; capability; financial statement fraud

I. Introduction

Manipulation report finance is one form action fraud. " Term fraud is something intentional action done by a individual or more , in management or responsible party answer on governance , employees , and parties third involving use trick trick for get one profit by no fair or violate law " (AIPI, 2013). The Association of Certified Fraud Examiners (ACFE), states that fraud is all effort for trick or beguile the other party with destination for get benefit private .

Based on in the Report to the Nation conducted by The Association of Certified Fraud Examiners (ACFE) in 2018 shows that case fraud biggest that is abuse assets (Asset Misappropriation) of 89%, case corruption (Corruption) by 38% and cases of fraud report financial statement fraud by 10%. However based on total losses suffered by the company , cases fraud report finance actually the biggest result in loss that is of $800,000. The results of the survey explain that fraud report finance is one type fraud that results in most material loss .

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Besides that fact show that fraud is a something problem to be Becomes attention many party . This thing because perpetrator act fraud report finance is dominated by managers level on or people who have authority more on the company so that they easy for do manipulation or cheating . Fraud this known with the term "White Collar Crime" or " Crime " Collar White (Aulia, 2018).

There are many report fraud case finance in the world, including cases of ENRON, WORLDCOM, and TOSHIBA. In 2011 , when company experience loss , ENRON inflated profit that causes holder share lost US$75 billion . In the same year inflated asset worth US$11 billion done by company US telecommunications Worldcom , which caused investors experience loss reached US$ 80 billion. In 2015, the case fraud by Toshiba company worth US$1.22 Billion which caused share toshiba decline and experience loss reached US $ 8 billion .

A number of report fraud case financial services in Indonesia, including PT Garuda Indonesia which became the focus authority finance and public in 2018. Garuda Indonesia Group recorded profit net US$ 809.85 thousand or equivalent with Rp 11.33 billion . Compared to with year previous (US$216.5 million loss), figure this increase enough significant. However , Report finance the rated no in accordance with PSAK because Garuda Indonesia justifies there is a debt of PT. Mahata Aero Technology used as income , which affects position PT Garuda's finances when company experience losses in 2017. However In fact , PT Garuda Indonesia has not yet accept payment from PT. Mahata Aero Technology.

"The rise" case scandal accounting that happened show that increase action fraud accounting in the world causes various party speculate that management has do fraud on report finance ” (Skousen et al., 2009). There is a number of theory that explains method analysis for detect report finance that contains fraud, including the Fraud Triangle introduced by Cressey (1953). According to Cressey (1953) in Skousen, Smith, and Wright (2009), there are 3 factors that cause somebody do cheating, namely Pressure (Pressure), Opportunity (Opportunity), and Rationalization (Rationalization).

One factors that become motivation individual for do fraud is pressure. “Action of cheating occur when perpetrator feel get pressure from herself alone or any other person/ entity ” (Cressey, 1953). “Pressure includes almost all aspects , including style life , need economy , and all aspect other like affairs financial and non- financial . Consequence weak company internal control , lack of surveillance and abuse authority , Opportunity becomes other factors occur fraud report finance. At the same time Rationalization will allow previous individual no want to do fraud then do action fraud report finance” (Wahyuningtyas , 2016). However theory this developed and then introduced by Wolfe and Hermanson (2004).

Another Fraud Diamond element is Rationalization proxied by Change in auditor. The external auditor is a supervisory procedure established to control the actions of management when rationalizing to commit frauulent acts, especially financial statement fraud. The last Fraud Diamond element is Capability proxied by Change in Director. Wolfe and Hermanson (2004) capability is one of the fraud risk factors behind the occurrence of fraud and concludes that changes in directors may indicate fraud. Because changes in directors do not always have a good impact on the company.

Research conducted by Handoko & Natasya (2019), and Wahyuningtyas (2016) found that financial stability as measured by the asset change ratio (ACHANGE) has a significant positive effect on financial statement fraud. Loebbecke, Eining and Willingham (1989) in Skousen et al (2008) say that when the value of asset growth in a company is below the industry average, it will encourage management to manipulate asset values.

When the company's financial stability is threatened, management will be under pressure and will try as much as possible to stabilize the company's finances by manipulating assets. The increase in the value of the company's shares, the higher the company value, the higher it will be (Katharina, 2021). In the current economic development, manufacturing companies are required to be able to compete in the industrial world (Afiezan, 2020). The existence of the company can grow and be sustainable and the company gets a positive image from the wider community (Saleh, 2019). However, the results of this study are not in line with research conducted by Omukaga (2019), Putra (2019), and Sunardi (2018). There is no relationship between changes in the assets of a company with fraudulent acts of financial statements.

In addition, the measurement of financial statement fraud uses earning management, this is different from previous studies, which used the measurement of F-Score, M-Score and Z-score. . Scoot (2015: 445) states that Earning Management is the selection of accounting policies by a manager, or activities that affect earnings, so as to achieve some specific goals of reported earnings company (Omukaga, 2019).

II. Review of Literature

2.1 Agency Theory (Agency Theory)

Agency theory explains how principals can contract with agents to perform certain tasks. Agency theory arises when there is an employment relationship agreement between company managers and company owners. Managers have an obligation to provide information to company owners because managers are considered to have a better understanding of the company and its circumstances. However, sometimes managers do not report the actual state of the company; this can be done for the benefit of the manager and cover up weaknesses in the manager's work (Ardiansyah, 2014).

2.2 Fraud

Albrecht et al (2011) in his book entitled "Fraud Examination" states that fraud is a general term and includes a variety of ways that human intelligence can do, through one individual to gain an advantage over another through misrepresentation or misrepresentation. There are no definite and uniform rules to serve as the basis for defining fraud because fraud includes surprise, deception, cunning, and other ways in which other people are cheated. The Association of Certified Fraud Examiners or ACFE (2016) made a chart that describes a fraud scheme in the world of work called the fraud tree or fraud tree.

In the chart ACFE divides fraud into three, namely *Corruption* , *Asset Misappropriation* and *Financial Statement Fraud* .

2.3 Financial Statement Fraud

Rezaee and Riley (2009) define financial statement fraud as follows *"Financial statement fraud is a deliberate attempt by corporations to deceive or mislead users of published financial statements, especially investors and creditors, by preparing and disseminating materially misstated financial statements".*

That is, financial statement fraud is a deliberate attempt by companies to deceive and mislead users of financial statements, especially investors and creditors, by presenting and manipulating the material values of financial statements. The fraud is carried out by individuals, groups, or companies to obtain certain benefits. According to ACFE (2016), the reason for fraud in financial statements is to present financial statements that look better than the actual situation. There are 2 modus operandi carried out by perpetrators to manipulate financial statements.

2.4 Fraud Triangle Theory

Cressey (1953) in Skousen et al (2008) introduced a fraud triangle that can be used to detect potential fraud. The three elements that cause fraud can be explained through the image below

Figure 1. *Fraud Triangle*

Research Hypothesis
1. H1: Financial Stability affects financial statement fraud
2. H2: External Pressure Affects Financial Security Fraud
3. H3 : Financial Target Affects Financial Statement Fraud
4. H4 : Nature of Industry Affects Financial Statement Fraud
5. H5: Monitoring Effectiveness has an effect on Financial Statement fraud
6. H6 : Related Party Transaction Affects Financial Statement Fraud
7. H7: Auditor Change Affects Financial Statement Fraud
8. H8: Director Change has an effect on financial statement fraud

III. Research Methods

This study uses quantitative descriptive analysis with explanatory research (Kuncoro, 2007). Explanatory Research is research that explains the relationship between research variables and hypothesis testing that has been formulated previously (Singarimbun and Effend, 1995:5). Meanwhile, according to Umar, 1999:36 "Explanatory Research is research that aims to analyze the relationships between one variable and another variable and how one variable affects other variables".

This study aims to analyze the dimensions of Diamond's fraud on financial statement fraud. Research with a quantitative approach emphasizes the analysis on numerical data that is processed by statistical methods.

This research was conducted at the Indonesia Stock Exchange (IDX) which provides financial statement information on its official website at www.idx.co.id. Research time is the period of time used for research starting from the preparation of research proposal plans to duplicating research results reports. Research on the problems that have been formulated in advance is then made a time span to make it technically easier.

Data collection techniques refer to the method used to obtain data. Data collection that can be used is to combine time series data and cross place data. The source of data used in this research is through the literature, which is done by looking for references from books, journals, and articles. This research is quantitative, and the data used is secondary data. The secondary data was collected using the documentation method, by collecting research-related data from financial reports (financial reports) accessed through www.idx.co.id

IV. Results and Discussion

4.1 Results

a. Statistical data descriptive of research variables could seen in the following table 1 this:

Table 1. Statistics Descriptive

	N	Minimum	Maximum	mean	Std. Deviation
Financial Statement Fraud	302	-1.1147	.1207	-.594214	.2281705
Financial Stability	302	-.8958	2.6402	.134452	.3018342
External Pressure	302	.0080	7.3678	.526491	.5836709
Financial Target	302	-.4014	.9482	.102420	.2046055
Nature of Industry	302	-.7352	2.0208	.062570	.2707866
Monitoring Effectiveness	302	.1667	1.0000	.431289	.1304614
Related Party Transaction	302	-2.3873	.4600	-.012556	.1643560
Auditor Change	302	0	1	.45	.499
Director Change	302	0	1	.41	.492
Valid N (listwise)	302				

Source : Processed data 2021

b. Assumption Test Classic

Table 2. One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		302
Normal Parameters [a,b]	mean	.0000000
	Std. Deviation	.19485410
Most Extreme Differences	Absolute	.047
	Positive	.047
	negative	-.044
Test Statistics		.047
asymp . Sig. (2-tailed)		.200 [c,d]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.
Source : Processed data 2021

1. Multicollinearity Test

Table 3. Coefficients [a]

Model		Collinearity Statistics Tolerance	Collinearity Statistics VIF
1	(Constant)		
	Financial Stability	.471	2,124

External Pressure	.826	1,210
Financial Target	.545	1,836
Nature of Industry	.657	1.522
Monitoring Effectiveness	.844	1.184
Related Party Transaction	.981	1.020
Auditor Change	.960	1.042
Director Change	.938	1.067

Source : Processed Data , 2021

2. Autocorrelation Test

Table 4. Model Summary [b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.520 [a]	.271	.251	.1974963	1,898

a. Predictors: (Constant), Director Change , Related Party Transaction, External Pressure , Auditor Change , Monitoring Effectiveness , Nature of Industry , Financial Target, Financial Stability

b. Dependent Variable: Financial Statement Fraud

Source : Processed Data , 2021

3. Heteroscodesticity Test

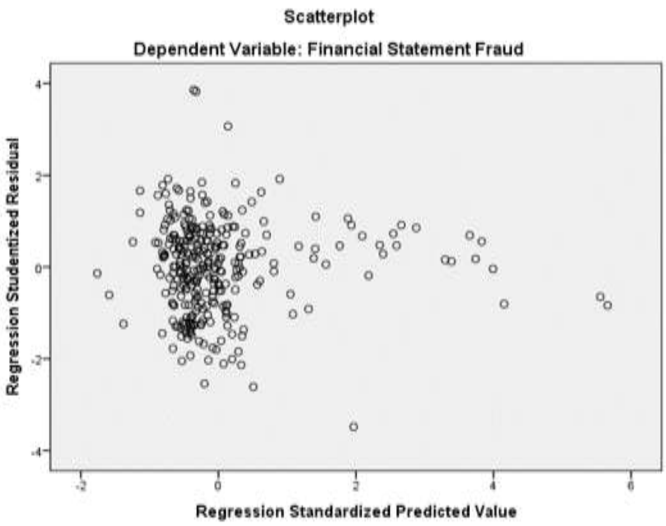

Figure 1. *Heteroscedasticity Test Scatterplot Graph*

4. Analysis Multiple Linear Regression

Table 5. Coefficients [a]

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	-.770	.042		-18,110	.000
Financial Stability	.117	.055	.155	2.135	.034

External Pressure	.019	.021	.050	.907	.365
Financial Target	.223	.075	.200	2,961	.003
Nature of Industry	.137	.052	.163	2,651	.008
Monitoring Effectiveness	.282	.095	.161	2,965	.003
Related Party Transaction	-.006	.070	-.004	-.079	.937
Auditor Change	-.013	.023	-.028	-.554	.580
Director Change	.005	.024	.012	.229	.819

a. Dependent Variable: Financial Statement Fraud

Source: Processed Data 2021

4.2 Discussion

Ttable value in study this showed with df = nk-1= 302-4=8-1=293 with level significance 0.05 then obtained table is 1.9680. Following this is results testing each hypothesis as well as the discussion.

a. Effect of Financial Stability on Financial Statement Fraud

Proxied Financial Stability with ratio change in total assets take effect against financial statement fraud. Research results in line with results research (Natasya, Handoko , 2019) which states that financial stability has an effect in detect occurrence of Financial Statement Fraud. However no support research (Omukaga , 2019) which states that Proxied financial stability with change in total assets no take effect on Fraud Financial Statements. Management accept pressure on condition where investors want stability finance or high profitability so that Thing this could trigger happening manipulation to composing report finance . Every happening change asset , will raise risk happening cheating , change total assets ratio will Becomes pressure for management company in condition an economy that doesn't stable . In accordance with theory in chapter 2, When financial stability is threatened by circumstances economy , industry, and situation operating entity , manager face pressure for perform financial statement fraud. This thing because no the existence of " good internal control" from management company. So that possibility manipulation report finance happen. Implementation of internal control by management and shareholders which stock not enough appropriate in company asset management will enlarge chance perpetrator fraud in do manipulation (Faidah , Suwarti , 2018).

b. Influence External Pressure on Fraud Financial Statements

Proxied external pressure variable with no leverage take effect to Financial Statement Fraud. Research results this in line with results research (Putra, 2019) which states that pressure proxied external with no leverage take effect to Financial Statement Fraud. However no in line with results research (Omukaga , 2019) and (Tarmizi , 2018) which states that external pressure has an effect on Fraud Financial Statements.

Pressure external is condition management face excessive pressure for fulfil requirements and expectations from party third . On - site management under pressure no only attempted fulfil total high profit in accordance expectation party third , will but exceed condition that . When management accept excessive pressure for fulfil condition or hopes party third will causing emergence cheating - cheating inside company . Research results this prove that external pressure is not influence management in do cheating . This thing caused because company Manufacturers listed on the Indonesia Stock Exchange for the period 2017 to 2019 have high leverage However could controlled by party management company with method set limitation maximum loan . With thereby management company could predict how much big ability company in pay the debt , so no will experience the pressures and opportunities that drive it for do fraud to report finance .

c. The Effect of Financial Targets on Fraud Financial Statements

Research results this prove that Proxied Financial Target variable with return on assets (ROA) influential to Financial Statement Fraud. Research results this in line with results research (Nurrahmasari, 2020) which states that the Return on Assets at the company could detect financial statement fraud occurred . However results study this no in line with research conducted by (Omukaga, 2019) and (Natasya, 2019).

In table 4.1 it is explained regarding the statistical descriptive variable financial targets, where the average percentage ROA level i.e. by 10.2%. Percentage ROA level belongs to low because low profit generated in the company sample research . Condition like this could give demands to management for achieve the minimum profit target same with acquisition year before . So , party management will excited for do fraud report finance .

Return on assets (ROA) used as proxy financial targets in study this show how much efficient assets has work or how much big level return from assets owned company as size performance operational (Skousen et al., 2009). Good operational performance seen from big small the profit generated . Management sued for do performance best in accordance with abilities possessed . Management will try for make performance company always increase from year before . This thing make existence pressure for management in operate all his job . in one side management must increase performance company and ensure that company have condition good finance . On the other hand, management must also operate his job in accordance with regulations that have been set . because of that , at the moment acquisition profit company low , management will manage profit in order to achieve the target that has been determined so that company will get good rating from investors.

d. The Influence of Nature of Industry on Fraud Financial Statements

Condition Proxy industry with Change stock take effect to Fraud Financial Statement Detection . This result support research conducted by Omukaga (2019) and Nurrahmasari (2020), which shows that the nature of the industry being proxied with ratio Stock take effect against financial statement fraud. However results different from the research conducted by Putra (2019) which showed that that the nature of the industry being proxied with Stock show no existence influence against financial statement fraud.

Condition industry is risk for existing company in field dependent industry to estimation supplies. Evaluation stock contain more risk of misstatement big for company . Stock goods or inventory is one of the assets the number of smooth enough big and always turn by keep going continuously as well as experience a change in a company , especially company industry. For company industry nor company manufacturing , inventory this considered enough important, because error in determine supplies , will bother smoothness operational company. Accountant must extra careful especially when deal with recording and appraisal on supplies. An error occurred in recording and appraisal on stock will fatal, both on the balance sheet nor report profit loss. From result study could known that stock take effect to fraud report finance. This thing occur because lack of internal control within quite company fine, so company no capable handle separation Duty Among storage physical stock with holder notes accountancy for supplies. So with thereby party management have chance for do cheat because no existence separation task .

e. Effect of Monitoring Effectiveness on Fraud Financial Statements

Based on the results of the significance test that have been conducted for Monitoring Effectiveness variable with BDOUT proxy , obtained beta value 0.282 and level significant more small from 0.05 that is of 0.003. Could concluded that Monitoring Effectiveness has an effect positive significant to Financial Statement Fraud. From result that, then hypothesis the fifth that states that monitoring effectiveness has an effect negative significant against Financial Statement Fraud rejected . The proportion of the board of commissioners consisting of from member from outside company enough play a role in influence policy management . because that there is a board of commissioners independent could give contribution to report quality finance or avoid from fraud report finance.

The existence and number of the board of commissioners independent supervising management considered as things that are mandatory by some indicated company do Financial statement fraud. However from results study this could concluded that the proportion of the board of commissioners independent no play a role active in supervise policy management because many at least number of commissioners no could reduce happening cheating. Amount the number of the board of commissioners can also be Becomes opportunity or chance for commit fraudulent acts .

Research results this support research conducted by Aprilia (2017) which states that Monitoring Effectiveness has an effect against financial statement fraud. However results different found in research conducted by Omukaga (2019) and Natasya & Handoko (2019).

f. Effect of Related Party Transactions on Financial Statement Fraud

Research conducted by Jaunanda , et al (2020) The results of the significance test that have been conducted for Related Party Transaction proxy , obtained level significant more big from 0.05 that is of 0.937, so that could concluded that variable this no take effect significant to the financial statement fraud that occurred in company manufacturing in Indonesia. From result that , then hypothesis the sixth that states that the Related Party Transaction has an effect significant to Financial statement fraud rejected or hypothesis no supported by data. The company has policy certain for determine big balance based on estimation to accounts specific to the report finance like account accounts receivable not collectible and account supplies . Quantity balance accounts receivable has determined based on method used company like determine balance accounts receivable based on accounts receivable not collectible . Risk inherent so tall when party company do transaction with related parties because regulation as well as involvement from high management this could make subjective decisions , so that material misstatements can Becomes high . Research results support results study Rachmawati and Marsono (2014) who stated that that related party transactions are not affect financial statement fraud. However results study this leave behind with results research (Widiyarti , 2016) which states that related party transactions affect financial statement fraud.

g. Effect of Auditor Change on Financial Statement Fraud

Auditor Change does not take effect to Financial Statement Fraud. Research results this in accordance with study Omukaga (2019) and Wailan'an , (2019) which states that Auditor Change does not take effect to Financial Statement Fraud. However, no in line with study Mintara and Hapsari (2021) and Badera (2019) who stated that Auditor Change has an effect positive against Financial Statement Fraud. Auditor Change can occur mandatory or voluntarily . Auditor Change is mandatory change of auditors originating from regulation company that alone in period time certain. For example , company have regulation for change auditors every 2 years very or 3 years once. Meanwhile, voluntary Auditor Change is a change of auditors without existence rules that require change for done. That is, the auditor who performs resignation self on his unwillingness again for cooperate with company that or the auditor fired . From result study could known that Auditor Change does not take effect to Financial Statement Fraud. This thing occur because company replace the auditor no for remove audit trail or company do big mistake but company need more auditors independent and objective in conduct an audit (Wailan'an, 2019).

h. Effect of Director Change on Financial Statement Fraud

Director Change no take effect to Financial Statement Fraud. Research results this in accordance with study Mintara and Hapsari (2021) and Omukaga (2019) who stated that Director Change does not take effect to Financial Statement Fraud. However , different with results study Badera (2018) states that Substitution Directors take effect by Positive significant on Fraud Financial Statements. Directors is a company organ that is authorized and responsible answer full on management company for interest company . Directors could do fraud report finance with utilise ability , that is as holder position the highest in a company . Directors alone have rotation time in work and when directors no have limit rotation profession so trend directors in do fraud report finance the more big .

Research results this prove that Director Change does not influence occurrence of Financial Statement Fraud. Director Change is effort company for repair performance directors previously with do change arrangement directors or recruitment the new directors who are considered more competent from directors before. Temporary on the other hand change directors can Becomes effort company for get rid of directors who are considered find out the fraud committed company as well as change directors considered will need time adaptation so that performance Becomes not enough maximum.

V. Conclusion

Based on the results of research and discussion on manufacturing companies listed on the Indonesian stock exchange for the period 2017-2019 using the Pressure variable as proxied by Financial Stability, External pressure, Financial Targets, Opportunity Variable as proxied by Nature of industry, and Monitoring Effectiveness, the Rationalization variable. proxied by Related Party Transaction and Auditor Change, and Capabiliy Variable which is proxied by Director Change. Financial Statement Fraud as the dependent variable, it is concluded that Financial Stability has a significant effect on Financial Statement Fraud so that H1 is accepted. External pressure has no significant effect on Financial Statement Fraud, so H2 is rejected. Financial Targets have a significant effect on fraud financial statements, so H3 is accepted. Nature of industry has a significant effect on fraud Financial Statement Fraud, so H4 is accepted. Monitoring Effectiveness has a significant effect on Financial Statement Fraud, so H5 is rejected. Related Party Transaction has no significant effect on Financial Statement Fraud, so H6 is rejected. Auditor Change has no significant effect on Financial Statement Fraud, so H7 is rejected. Director Change has no significant effect on Financial Statement Fraud, so H8 is rejected.

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