

Detection of fraudulent financial reporting through the Crowe's Fraud Pentagon Theory in primary consumer goods indexed

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Abstract

The purpose of this study was to determine the fraud pentagon in detecting fraudulent financial statements. The data was collected by using the documentation method, while the data analysis used was descriptive analysis, classical assumption test, and hypothesis testing. The population in this study were companies IDX Industrial Classification Food and Beverage Sub-Sector listed on the Indonesia Stock Exchange (BEI) 2016-2019. The sample in this study was 11 companies selected by the purposive sampling method. Based on the multiple linear regression analysis, the results show that opportunity, rationalization, and arrogance have significant positive effect on fraud detection in Primary Consumer Goods Indexed. This means that rationalization, opportunity, and arrogance can detect fraudulent financial statements. However, the pressure and competence variables have a significance value below 5%. This means that the two variables do not have a significant effect on the detection of fraudulent financial reporting in companies indexed by primary consumer goods in the food and beverage sub-sector.

Keywords: pressure, opportunity, competence, rationalization, arrogance, fraud

Introduction

As the most important part of the entity, there are times when management covers up the truth that occurs in the financial statements. This is due to the company's ability to look good, namely by fraudulent financial reporting. Companies sometimes show performance results that are not in accordance with the actual situation. This happens because the company wants to be seen as good by all

parties. This good view is what encourages companies to manipulate information in a special section that will be published. The occurrence of fraud is also sometimes caused by a good relationship between management and investors.

Shareholders give trust to management to manage their shares, so that management tries to manage the company as best as possible and sometimes even has to use fraudulent or inappropriate methods. One form of fraud

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in financial reporting was at PT Tiga Pilar Sejahtera in 2017. The fraud was suspected of having an overstatement of 4 trillion in 2017 which was carried out on its inventory, trade receivables and fixed assets accounts. The existence of such profit inflation cannot be explained in the disclosure of each account so that there is an irrelevance between the accounts (Kontan.co.id, 2019).

The Association of Certified Fraud Examiners (ACFE, 2019) classifies occupational fraud into 3 categories, namely asset misappropriation, corruption (Corruption), and financial statement fraud (Financial Statements Fraud). Of the three categories, financial statement fraud has a lower frequency of cases (13% of cases) than asset misuse and corruption. However, if viewed from the perspective of the losses incurred, fraudulent financial statements were able to cause greater losses (\$ 700.00) than losses due to asset misuse and corruption. So even though the number of cases of fraudulent financial statements was less, the amount of losses incurred was still greater than the misuse of assets and corruption. The Association of Certified Fraud Examiners also conducts a survey of cases of fraud that occur in various sectors of the company. Based on the survey, it was found that the manufacturing industry was one of the companies most disadvantaged due to fraud.

The theory of identification related to the factors that drive the occurrence of fraud continues to experience developments in the financial sector. Initially, this theory was put forward by Donald R. Cressey regarding the fraud theory in 1953. This fraud theory is called the fraud triangle, a theory consisting of three factors, namely pressure, opportunity and rationalization which have an influence on fraud (Cressey, 1953). The theory developed in 2004 was coined by David T. Wofe and Dana R. Hermanson by adding one factor, namely the ability to have an influence on fraud, this theory is called fraud diamond (Zaki, 2017). In 2009 it experienced another

development and was developed again in 2012, the latest fraud theory was put forward by Jonathan Marks who added the arrogance factor as the influence of fraud, this theory is called The Crowe's Fraud Pentagon (figure 1).



Figure 1. Crowe's Fraud Pentagon Theory

The first indicator is pressure. Pressure is an impetus or motivation for an entity to commit fraud on financial statements. Based on research conducted by Agustina and Pratomo (2019), pressure has a significant negative effect in detecting fraudulent financial statements. This means that the higher the pressure, the lower the level of cheating. It is different from Septriani and Handayani (2018) which state that external pressure has a significant positive effect on the detection of financial statement fraud. The relationship between pressure and fraudulent financial statements as proxied by external pressure with the measurement of the leverage ratio can be concluded that the higher the leverage, the lower the company's ability to pay off its debts. This will put pressure on management to commit fraudulent financial statements so that the leverage ratio looks good and third parties are willing to provide loans to the company (Fimanaya & Syafruddin, 2014).

Apart from pressure, there are opportunities. Opportunities or opportunities often occur because of the weakness of the internal control system in

detecting the emergence of fraud. Opportunities also occur due to the inability to assess the quality of performance and weak sanctions that lead to fraud. On the other hand, conditions that are conducive to committing a crime to appear (Karyono, 2013). Priantara (2013) states, basically what creates an increased opportunity to commit fraud are two factors, namely the internal control system in weak companies and bad good corporate governance. Negligent management attitudes resulting in failure to discipline employees, apathy, perpetrators of fraud do not receive strict sanctions or allow perpetrators, inability to assess the quality of performance due to the absence of measurement tools, audit committee supervision that is less independent is weak and unprofessional. The regulations and systems created are only used as decoration because the company is unable to implement them. Based on Agustina and Pratomo (2019) research get a result that a significant positive between opportunities on fraud.

Rationalization is the attitude of a person who feels that what he is doing is the right thing to do. This attitude is also known as an attitude of self-righteousness. Rationalism refers to facts. The purpose is to maintain a good name and maintain his identity as a confidant, the perpetrator will justify the actions he has done. The perpetrators consider that what they have done is not an act of fraud or fraud but is their right, in fact, they feel that they have contributed because they have done a lot for the organization (Priantara, 2013). Based on the results of research by Ulfah et al. (2017), it is stated that rationalization has an effect on the detection of financial statements.

Ability or competence is a person's expertise to underestimate external control, design and develop strategies, to hide things for the sake of personal gain. Fraud cases will never occur without the existence of people who have the right skills, especially for fraud cases that are worth billions.

Pressure and rationalization encourage someone to commit cheating. But must have the ability to understand opportunities which are opportunities for profit According to research conducted by Siddiq et al. (2017), competence does not have a significant effect on fraudulent financial reporting.

The last factor is arrogance. The nature of arrogance according to the Big Indonesian Dictionary is arrogant, arrogant, arrogant, has a feeling of superiority which is manifested in an attitude that likes to force one's own will. Arrogance arises because of the selfish nature, arrogance will be greater if the trait arises too large. Zaki (2017) found that arrogance has no significant effect in detecting fraudulent financial statements. In addition, research conducted by Norbarani and Rahardjo (2012) which states that arrogance has a significant effect in detecting fraudulent financial reporting.

Previous research still shows mixed results and further development is needed to find other results. The difference between this study and existing research is that it lies in the sample of companies selected. In this study, companies indexed by the primary consumer goods sector, food and beverage sub-sector, were listed on the Indonesia Stock Exchange in 2016-2019. The samples were chosen because food and beverages are basic needs and affect public confidence about their quality so that there is no fraud in the company. The purpose of this study is to determine whether the pentagon theory consisting of pressure, opportunity, competence, rationalization, arrogance can detect fraudulent financial reporting.

Agency Theory

Jensen and Meckling (1976) explain agency theory is a contractual relationship involving two or more parties. The two parties are the agent and principal. An agent is a party (management) who is trusted, given the authority and

responsibility from the shareholders to control the company in order to achieve the wishes of the shareholders. The principal parties, in this case, are shareholders (Kurnia & Anis, 2017). This theory is a business reference and a basic foundation in the company. This agency theory describes the relationship or correlation between the agent (management) and the principal in the cooperation agreement or nexus of contract (Siddiq et al., 2017).

According to this theory, the correlation or relationship between the principal (shareholder) and the agent (management) is difficult to materialize because of a conflict of interest. This conflict of interest causes distrust of each other because the agent will prioritize his personal interests and underestimate the interests of the principal. Conditions like these are what provide a great opportunity for agents to cheat. This fraud arises because of the human nature of self-interest, has limited thinking regarding future understanding, and will always avoid risk (risk-averse). Factors related to self-interest are pressure, ability and arrogance, while factors related to risk-averse are opportunity and rationalization (Aprilia, 2017).

Morally, the performance of a company in increasing profits for shareholders is the responsibility of management, management also has an interest in prospering itself (Ijudien, 2018). This condition causes an imbalance of information or asymmetrical information so that this is a great opportunity for management to commit fraud, by manipulating the information presented in the financial statements.

Fraudulent Financial Reporting

According to the Association of Certified Fraud Examiners (ACFE, 2016), financial statement fraud is an act of misleading and deceiving users of financial statements by providing information about the condition of financial statements that

are deliberately blamed in its presentation by deleting a number of numbers in the financial statements.

The cause of a person or group cheating on financial statements is to influence investors to buy shares or sell their shares at a higher price, the partnership shows earnings per share (EPS) for the purpose of increasing bonuses to management, To hide the inadequacy of obtaining operational cash flow or cash arising from good company operational activities, and To maintain the image of management who is a reliable executive when leading the company if expectations are not in sync with facts.

Pressure on Fraudulent Financial Reporting

Pressure is an error or motivation for an entity to manipulate financial statements that arise when the entity's financial prospects experience a decline or instability occurs, this is the impact of the entity's operations or economic and industrial conditions (Hery, 2016). In research, the measurement used for factor pressure is external pressure or external pressure. External pressure is pressure from outside the company excessive so that the management is influenced to fulfill the wishes and expectations of third parties (Hanifa & Laksito, 2015).

According to the AICPA (American Institute of Certified Public Accountants (AICPA, 2002) managers are under pressure to commit fraud because the probability of the company is threatened in industrial, economic or other situations. The threat of the company's economic condition, the management will try to cover this condition by seeking debt which results in an increase in the leverage ratio. Companies with a high level of leverage are due to too much debt compared to their assets, so that the company is expected to carry out earning management because the company is threatened with not being able to pay its obligations or

debts on time (Rachmania et al., 2017). When a company has a lot of debt, it causes a high burden and even the company is threatened with bankruptcy, then the potential for fraud will appear in financial reports because the company needs high profits to convince creditors that the company will be able to pay it. Zaki (2017), Rachmania et al. (2017), Kusuma et al. (2017), Septriani and Handayani (2018) and Sariutami and Nurbaiti (2018) stated that the pressure factor in the form of external pressure using the leverage ratio proxy has a positive effect on fraudulent financial statements.

H1: Pressure has a positive significant effect to fraudulent financial reporting

Opportunity on Fraudulent Financial Reporting

Opportunities arise because of the weakness of the internal control system in detecting and preventing the occurrence of fraud, the opportunity also occurs because of the inability to assess the quality of performance and the weak sanctions that lead to fraud. On the other hand, conditions that are conducive to committing a crime to appear (Karyono, 2013). In this study, the measurement used for the opportunity factor is the number of members of the independent audit committee. According to the AICPA or the American Institute of Certified Public Accountants (2002), effective monitoring is a condition when the company's internal control system is ineffective so that the opportunity to commit financial statement fraud arises. Public Company Accounting Oversight Board (2017) says that the opportunity arises because of the role of the audit committee with ineffective supervision. The audit committee and the board of directors that did not supervise effectively during the financial reporting process resulted in a wide open opportunity for management to commit fraud. Fraud will often occur in companies that have few independent audit committee members. The research results

from Septriani and Handayani (2018) and Kamarudin et al. (2014) show that the opportunity factor using a proxy for the number of independent audit committee members has a significant positive effect on fraudulent financial reporting

H2: opportunities has a positive significant effect to fraudulent financial reporting

Razionalitasion on Fraudulent Financial Reporting

Rationalization is the attitude of a person who feels that what he is doing is not a wrong act. To maintain a good name and maintain his identity as a confidant, the perpetrator will justify the actions he has done (Rini & Achmad, 2012). In this study, the measurement used for the rationalization factor or rationalization is the audit opinion. An audit opinion is an opinion or statement by an auditor issued by an independent KAP from the results of the examination or audit that has been carried out (Fimanaya & Syafruddin, 2014).

The auditor will provide an opinion on the company he has audited in accordance with what happened to the company. One of the audit opinions given is unqualified with explanatory language. Unqualified audit opinion with explanatory language is a tolerant form of an auditor on earnings management or findings when the auditor conducts the audit process by writing explanatory paragraphs (Fimanaya & Syafruddin, 2014). This makes management think that the mistakes it makes are not wrong, because they are tolerated by the auditors through explanatory language in the audit opinion (Arisandi & Verawaty, 2017). The research results of Ulfah et al. (2017) state that audit opinion has a significant effect on fraudulent financial reporting.

H3: Rationalization has a positive significant effect to fraudulent financial reporting

Competence on Fraudulent Financial Reporting

Competence is a person's expertise to underestimate internal control, design and develop strategies to hide something and pay attention to social conditions so that their personal interests are met (Horwarth, 2012). In this study, the measurement used for the ability factor or competence is the change of directors. Change of directors is a change or handover of authority by the old board of directors to the new board of directors. Generally, changes or changes in the board of directors have political nuances and the interests of certain parties which cause differences of interest or conflict of interest (Kurnia & Anis, 2017).

According to Wolfe and Hermanson (2004) there will be no fraud without the right person with the right ability to commit fraud in more detail. The change of directors is a factor that encourages fraudulent financial statements because this change is considered to be able to demonstrate the ability to carry out stress management (stress period) which opens opportunities for fraud (Agustina & Pratomo, 2019). Management will make ways to improve the performance results of the previous directors by changing the company's organizational structure or

accepting new directors who are believed to have better abilities than the previous directors. The change of directors is considered to reduce the effectiveness of management performance because it takes a long time to adapt to the work culture of the new directors (Septriani & Handayani, 2018). Research by Siddiq et al. (2017) and Saputra (2016) and Pardosi et al. (2015) explains that the ability factor which is proxied by the change of directors has a significant positive effect on financial statement fraud.

H4: competence has a positive significant effect to fraudulent financial reporting

Arrogance on Fraudulent Financial Reporting

Arrogance is a quality of superiority and a lack of conscience or arrogance in a person who thinks that the internal control system that is created does not apply personally. Arrogance or arrogance arises because of selfishness, arrogance will be even greater if these traits arise too large (Aprilia, 2017). The measurement used for arrogance is the frequency of appearance of CEO photos.

A frequent number of CEO's pictures is the number of photos of the

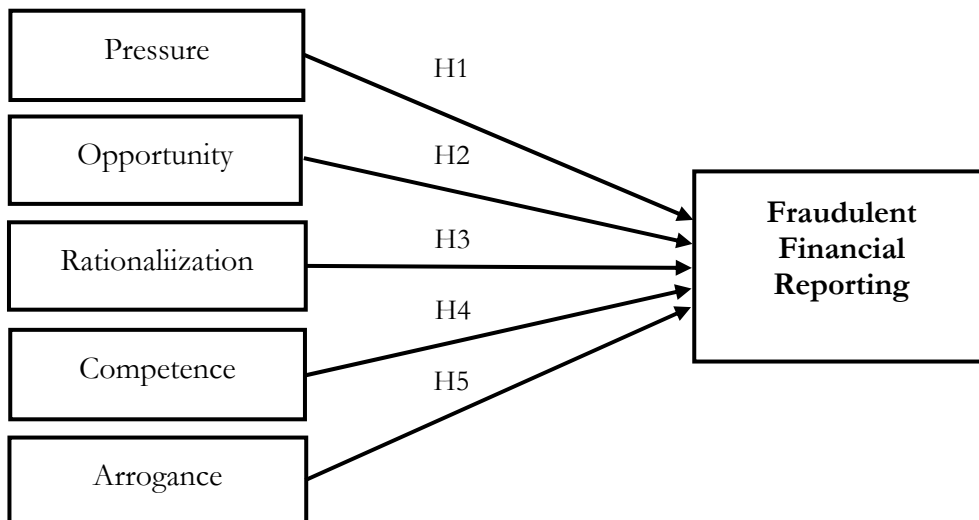


Figure 2. Research Model

CEO that are listed in the annual report or the company's financial report, which includes many photos of the CEO, which can represent the amount of arrogance the CEO has. A high level of arrogance results in fraud or fraud because the CEO considers that internal control in the company will not limit it because of his position or status and allows the CEO to do everything he can to maintain his position or position. Arisandi and Verawaty (2017) and Tessa and Harto (2016) state that the frequency of appearance of CEO photos has a significant positive effect on financial statement fraud.

H5: Arrogance has a positive significant effect to fraudulent financial reporting.

Based on the above framework of thought, a picture frame of mind can be drawn in figure 2.

Methods

This study applies a quantitative approach in compiling research, hypotheses, data, data analysis including its conclusions until the writing applies aspects of measurement, calculation, formula, and numerical certainty. Judging from the underlying view of causal possibility, this approach provides a separation between simultaneous real temporal causes that start before ending in the appearance of their effects.

The analysis method used in this research is a descriptive statistical analysis which is used to describe or describe data that can be seen from the standard deviation, the mean (mean), variance, minimum and maximum values. A good regression model is a regression model that uses the classical assumption test. The classic assumption test is carried out in 4 (four) ways, namely the normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test before testing the hypothesis. This study uses multiple linear regression analysis. Multiple linear regression analysis was used to determine

the effect of the independent variables on the dependent variable.

The population in this study is the primary consumer goods indexed company listed on the Indonesian stock exchange in the food and beverage sub-sector. Sample selection technique as in the below:

1. Primary consumer goods companies in the food and beverage sub-sector that are consistently listed on the Indonesia Stock Exchange for the 2016-2019 period.
2. Companies that consistently publish annual reports or annual reports on the company's official website and the official IDX website for the 2016-2019 period.
3. Companies whose financial statements are stated in Rupiah (IDR) and which have been audited for the 2016-2019 period consistently.
4. Food and beverage sub-sector manufacturing companies that were not delisted in 2016-2019.
5. Food and beverage sub-sector manufacturing companies that have complete data on the variables to be studied.

Based on the selection of the sample criteria above, a total of 44 companies were obtained from 2016-2019.

Fraudulent Financial Reporting

Financial statement fraud in this study was measured using the fraud score model formula. The F-Score is a measure that is claimed to be used in measuring the occurrence of material misstatements in financial statements (Akbar et al., 2017). The F-Score was suggested by (Dechow et al., 2011). There are two variable elements in the F-Score, namely accrual quality using the RSST proxy and financial performance using the formula below:

$$F \text{ score} = \text{Accrual Quality} + \text{Financial Performance}$$

Accrual quality is measured by

accrual RSST (Richard, Sloan, Soliman, and Tuna) explaining all non-cash and non-equity changes in the company's balance sheet as accruals and differentiating the characteristics of the reliability of working capital (WC), non current operating (NCO), and financial accrual (FIN) as well as elements of assets and liabilities. on the type of accrual (Sugiyono, 2013). The formula for the RSST Accrual is:

$$RSST\ ACCRUAL = \frac{(WC + NCO + FIN)}{Average\ Total\ Aset}$$

Where:

RSST : Richard, Sloan, Soliman, and Tuna Formula

WC : Working Capital

NCO : Non Current Operating

FIN : Financial Accrual

ATS : Average Total Aset

Financial Performance

$$= \text{Change in receivable} + \text{Change in inventories} + \text{Change in cash sales} + \text{Change in earnings}$$

Where:

Change in receivable =

Δ Receivable/Average Total Assets

Change in inventory =

Δ Inventory/Average Total Assets

Change in cash sales =

$(\Delta \text{ Sales/sales (t)}) - (\Delta \text{ Receivable/resceivable (t)})$

Change in earnings =

$(\text{Earnings (t)}/\text{Average Total Assets (t)}) -$

$(\text{Earnings (t-1)}/\text{Average Total Assets (t-1)})$

Pressure

External pressure in this study is measured using the leverage ratio formula. Leverage ratio is the ratio used to determine the company's ability to pay off all debts or liabilities with assets owned by the company (Sariutami & Nurbaiti, 2018).

Opportunities

opportunity in this study is measured using the number of audit committees (Prasetyo, 2014).

Competance

Competence in this research is measured by the proxy of audit opinion. measurements using dummy variables. There are 2 (two) types, namely if the company obtains an audit opinion in an explanatory language it will be coded 1 (one), and if the company obtains an audit opinion not in an explanatory language it will be coded 0 (zero).

Table 1. Operational Variables

Variables	Measurement	Reference
<i>Fraud (Y)</i>	F-Score = <i>Accrual Quality</i> + <i>Financial Performance</i>	Sugiyono (2013)
<i>Pressure (X1)</i>	Lev = Total Debt/Total Asset	Sariutami dan Nurbaiti (2018)
<i>Opportunity (X2)</i>	AC=Audit Committee Independent/Total Audit Committee	Prasetyo (2014)
<i>Competence (X3)</i>	Variabel dummy	Ulfah et al. (2017)
<i>Rasionalization (X4)</i>	Variabel dummy	Nasution et al. (2019)
<i>Arrogance (X5)</i>	Number of CEO Photo	Agustina dan Pratomo (2019)

Rationalization

Rationalization in this study is measured using a change of directors. measurements using dummy variables. There are 2 (two) types, namely if the company changes directors, it will be coded 1 (one), and if the company does not undergo a change of directors, it will be coded 0 (zero).

Arrogance

Arrogance in this study is measured by the total photos of the CEO that appear in the company's annual report.

The following is an operational definition of the variable (table 1).

Results

Financial reporting fraud has a minimum value of -0.69701 obtained from PT. Delta Jakarta Tbk in 2018 and a maximum value of 1.61819 was obtained from PT. Delta Jakarta Tbk in 2017 and an average value of 0.4613 with a standard deviation of 0.33783 from a sample of 11 companies. Where the standard deviation in this study is smaller than the average value, which means the data is spread evenly.

Pressure variable has a minimum value of 0.14056 obtained from PT. Ultrajaya Milk Industry & Trading Company Tbk in 2018 and a maximum value of 0.65184 obtained from PT. Prasadha Aneka Niaga Tbk in 2018 and the mean or average value of 0.42914 with a standard deviation of 0.15875 from a sample of 11 companies. Where the standard deviation in this study is smaller than the average value, which means the data is spread evenly.

Opportunities has a minimum value of 0.33333 obtained from PT. Indofood CBP Sukses Makmur Tbk in 2015-2018 and PT. Indofood Sukses Makmur Tbk in 2015-2018, a maximum value of 0.66667 was obtained from all company samples for 2015-2018 except for PT. Indofood CBP Sukses Makmur Tbk in 2016-2019 and PT. Indofood Sukses Makmur Tbk in 2016-

2019, and the average value is 0.60606 with a standard deviation of 0.13005 from a sample of 11 companies. Where the standard deviation in this study is smaller than the average value, which means the data is spread evenly.

Competence measured by a dummy variable so that the minimum value of 0,000 is descriptive for companies that obtain a WTP (unqualified) audit opinion and a maximum value of 1,000 is descriptive for companies that obtain unqualified opinion with explanatory language. The average value (mean) of 0.27273 means that 27% of the sample of companies in this study obtained an audit opinion with an emphasis/explanatory language and a standard deviation of 0.450511 from a sample of 11 companies. Where the standard deviation in this study is greater than the average value, this means that the data is not evenly distributed.

The variable Rationalization measured by a dummy variable so that the minimum value of 0,000 is descriptive for companies that do not change directors and the maximum value of 1,000 is descriptive for companies that have made changes of directors. The average value (mean) is 0.06818, which means that 7% (rounded) of the sample of companies in this study changed directors during the study year and the standard deviation was 0.254972 from a sample of 11 companies. Where the standard deviation in this study is greater than the average value, it means that the data is not evenly distributed.

Arrogance has a minimum value of 0,000 obtained from PT. Mayora Indah Tbk in 2015 and a maximum value of 7,000 was obtained from PT. Sekar Bumi Tbk in 2018 and an average value of 3.13636 with a standard deviation of 1.650805 from a sample of 11 companies. Where the standard deviation in this study is smaller than the average value, which means the data is spread evenly.

Based on the classical assumption test, the following results are obtained in table 2.

Tabel 2. Classical Assumption

	Nor- mality	Multico- linearity	Het- eroskeda stisity	Auto- corelati on
X1	√	√	√	√
X2	√	√	√	√
X3	√	√	√	√
X4	√	√	√	√
X5	√	√	√	√
Y	√	√	√	√

Source: data analyzed, 2001

The results of table 2 show that all variables are free from the classical assumption test. this shows that hypothesis testing can be done.

Tabel 3. Hypothesis Test

Model	T	Sig
<i>(Constant)</i>	-1,991	0.062
<i>Pressure</i>	-0,278	0,784
<i>Opportunity</i>	2,843	0,011
<i>Compentence</i>	0,446	0,661
<i>Rationalization</i>	3,780	0,001
<i>Arrogance</i>	2,097	0,040

Source: data analyzed, 2001

The multiple regression test results shown in Table 3 show that the pressure variable measured using the level of debt has a significance value of $0.784 > 0.05$. This means that H1 is rejected or pressure has no significant effect on fraud detection. Next, opportunity is measured based on the number of audit committees which has a significance value of $0.011 < 0.05$. The significance result shows that opportunity has a significant positive effect on the detection of fraudulent financial statements. The X3 variable is competence which is measured based on the audit opinion, the results are $0.661 > 0.05$. This shows that

competence does not have a significant effect on fraud detection. The rationalization variable has a significance of $0.001 < 0.05$, which means that X4 has a significant positive effect on fraud. The arrogance variable proxied using the number of photos of the CEO in the financial statements shows a significance level of $0.04 < 0.05$. This means that the variable x5 has a significant positive effect on fraud detection.

Discussion

The result of t-test calculation shows that the leverage significance value is 0.784 which is greater than 0.025, so H1 is rejected. This means that leverage has no effect on fraudulent financial statements. The company applied for a loan based on two reasons, namely unpredictable income or operational financing for development. The existence of an injection of funds from debt can certainly increase the company's operational funds. This increase can also be followed by an increase in sales and profits so that pressure on external parties is reduced and minimal fraud occurs. In line with research conducted by Fimanaya and Syafruddin (2014), Ulfah et al. (2017), Ijudien (2018), and Rahmanti (2013).

The opportunity variable has a significance value of 0.011 which is smaller than 0.05. The number of independent audit committees is a party outside the company who also works in other companies. This means that multiple responsibilities are likely to be ineffective in carrying out supervision. This ineffectiveness creates an opportunity to commit fraud. According to Septriani and Handayani (2018) independent commissioners are considered less effective and maximum in supervision, thus providing opportunities for management to commit fraud. This result is in line with the research of Nasution et al. (2019) which proves that the number of independent audit committees has a

significant positive effect on financial statement fraud.

Hypothesis 3 is rejected because the test results show a significance value above 0.05. The competence variable that is proxied uses audit opinion with explanatory language. The addition of emphasis and explanatory language in the audit opinion of companies indexed by primary consumer goods in the food and beverage sub-sector does not affect materiality in the financial statements and does not change the fairness of the financial statements. This means that the addition of explanatory language in the audit opinion does not affect the possibility of fraud in financial reporting. The results of this study are in line with Diany and Ratmono (2014).

The significance value of the rationalization variable which is measured using a change of directors of 0.001 is smaller than 0.05, so H4 is accepted. Wolfe and Hermanson (2004) argue that the change of directors is able to encourage fraudulent financial statements. This change is considered to be able to demonstrate the ability to perform stress management (stress period). During the stressful period, it is considered to be able to reduce the effectiveness of management performance because it takes time to adapt again to new leaders and a new work culture. Supporting research includes Siddiq et al. (2017), Saputra (2016), and Kurnia and Anis (2017).

Hypothesis 5 is accepted. Based on the t test, it was obtained a significance value of 0.04 which is smaller than 0.05. The arrogance variable that is seen based on the appearance of the CEO's photo indicates arrogance and superiority. The more photos that are displayed, the higher the arrogance. This can lead to cheating on financial statements because the CEO feels that the regulations made are not able to ensnare the mistakes he did. Arisandi and Veraway (2017), Tessa and Harto (2016) have proven that the appearance of CEO photos has an effect on fraudulent financial statements.

There are differences in results in

previous studies. The emergence of arrogance variables has a significant positive effect on the detection of fraudulent financial reporting in primary consumer goods companies in the food and beverage sub-sector.

This research is expected to be able to explain the theory that previously existed regarding fraud, diamond fraud, and Financial Statement Fraud to be reviewed rework or further development. In practice this research is expected to be an input for the government and or company in order to be able to see the potential for fraud that occurred in the financial statements as well as an external mechanism to encourage companies so as not to commit fraudulent financial statements by tighten regulations regarding the preparation of financial statements so that can produce good output.

Conclusion

The results of the above discussion can be concluded that the pressure and competence variables have no significant effect on fraud detection, while opportunity, rationalization, and arrogance have a significant positive effect on fraud detection in primary consumer companies in the food and beverage sub-sector listed on the Indonesia Stock Exchange in 2016-2019. Suggestions for further research are to add years of research and detect fraud on other depositors.

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