Fraud Pentagon in Detecting Fraudulent Financial Reporting

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It is mandatory for public companies to issue financial reports that have been audited by external auditors to be presented to the public as evidence and accountability regarding the company’s performance during the year. This study aims to find out whether elements of pentagon fraud – that is, pressure, opportunity, rationalisation, competence, and arrogance – which are then developed into nine variables – financial stability, financial targets, external pressures, ineffective supervision, change of external auditors, change of directors, auditor opinion, frequency of CEO photo appearance, and politician CEO – significantly influenced the incidence of fraudulent financial statements in the banking and financial sector companies listed on the Indonesia Stock Exchange (IDX) for the year 2014–16. This is a quantitative study that uses secondary data derived from the website www.idx.co.id. The results of the data analysis show that financial stability and the frequency of the appearance of CEO photos in the financial statements significantly influence the incidence of fraudulent financial reporting.

Keywords: Fraud pentagon, Fraudulent financial reporting, Pressure, Opportunity, Rationalisation, Competence, Arrogance.

Introduction

In companies that are being made public, the importance of financial statements has been highlighted by stakeholders, particularly shareholders. Good financial reporting, of course, is not free from various business risks. One of the most vulnerable areas is the risk of fraud. This risk is very difficult to avoid, and has spread to almost all companies in the world. Fraud causes major losses for the company, both material and financial. Most importantly, the company’s reputation will be tainted in the eyes of the public (Abri et al., 2019).

Fraud is cheating in the company’s financial statements; it can occur by manipulating the company's financial statements, resulting in a total different financial value for the company than the actual value. Fraud is a latent danger that threatens the world, with the results of a
A study by the Association of Certified Fraud Examiners (ACFE) Global showing that every year an average of 5 per cent of an organisation’s revenue falls victim to fraud (Association of Certified Fraud Examiners, 2016: 5). There are three categories of fraud: corruption; misuse of state and company assets; and fraudulent financial statements. Based on the results of a survey conducted by ACFE Indonesia, the most frequent form of fraud is corruption, which has a negative impact on stability and socioeconomic wellbeing (Widiastuti et al., 2019). Corruption is also considered the most detrimental act of fraud – both to the government and to the company. When corruption occurs, funds belonging to companies that should be included as company cash and increase company wealth actually go into the personal coffers of those who commit corruption, usually referred to as ‘corruptors’. This is the reason that corruption is the most detrimental act of fraud in Indonesia. The practice of cheating on a company’s financial statements is usually called fraudulent financial reporting. This is an attempt made deliberately by companies to deceive and mislead users of financial statements, especially investors and creditors, by presenting and manipulating the material value of financial statements (Sihombing and Rahardjo, 2014).

Companies cannot eliminate fraud, because fraud is caused by several factors that are quite complex. There are several theories that explain the causes of fraud. The first theory to emerge, coined by Donald R. Cressey, one of the founders of ACFE, was the fraud triangle. Cressey hypothesised the occurrence of fraud with fraud triangle theory in 1953, with three criteria that must be displayed, namely perceived pressure, opportunity and rationalisation (Skousen et al., 2009).

After the emergence of the fraud triangle theory, the diamond fraud theory emerged as a refinement of the previous theory. Diamond fraud was initiated by Wolfe and Hermanson (2004) with the addition of a component called capability, which had not previously been mentioned in the fraud triangle component. Wolfe and Hermanson also explained that someone who commits fraud has to have the ability to do so.

Fraud triangle theory was again refined by Crowe Howarth into fraud pentagon theory. In 2011, Crowe Howarth added two new elements: competence and arrogance. Competence is a person’s ability to manage the company’s internal control, so they can easily carry out fraud without it being noticed by other parties. Arrogance is a behaviour of superiority and greed of the perpetrators of crimes, who believe that the company’s policies and procedures do not apply to them (Danuta, 2017).

In pentagon fraud theory, several elements are used to detect fraud, including financial stability, financial targets, external pressure, a less effective level of supervision (ineffective monitoring)), change of directors, the influence of auditor opinion, CEO politicians or CEO...
activeness in the political world, and the frequency with which CEO images appear in the financial statements. This study aims to ascertain whether elements of pentagon fraud – pressure, opportunity, rationalisation, competence and arrogance – which are then developed into nine variables – financial stability, financial targets, external pressures, ineffective supervision, change of external auditors, change of directors, auditor’s opinion, frequency of appearance of CEO photos and CEO politicians – have a significant influence in detecting fraudulent financial statements in the banking and financial sector in the period 2014–16. The analysis of this study uses 120 samples of banking and financial sector companies listed on the Indonesia Stock Exchange (IDX) for the year 2014–16. A quantitative analytical method has been used to answer the research question by utilising data analysis. The results of this study prove that the elements of pentagon fraud, particularly financial stability, have a significant positive effect on fraudulent financial reporting. These results explain that where there is a high growth rate of company assets and the company’s finances remain stable, fraudulent financial reporting can be assumed to be occurring. Other elements of pentagon fraud, namely the ineffectiveness of supervisors and the replacement of external auditors, have no significant positive effect on fraudulent financial reporting.

This article will continue as follows. Section 2 contains an explanation of the development of research hypotheses; Section 3 contains explanations for variables and samples as well as research models; Section 4 presents empirical analysis and the results of hypothesis testing and the results of sensitivity tests; and Section 5 summarises and concludes the research, including suggestions for further research.

Literature Review

Agency theory explains the relationship between shareholders, who act as principals, and those in company management, who act as agents. Agency theory provides arguments for activities and actions between principal and agent (Mahadwartha and Ismiyanti, 2008). As explained by Jensen and Meckling (1967), an agency relationship is a contract in which one or more people (principals) govern others (agents) to perform services on behalf of the principal and to authorise the agent to make the best decision for the principal. The relationship between the principal and the agent can be made clear in that the principal or shareholder is a person who incurs expenses for the company to process the company’s operational activities, while the agent is a person who is authorised to manage the company’s operations and manage funds provided by the principal for the company’s sustainability and increase the value of the company (Putra et al., 2018).

The agent/management must be able to manage the company well so it can generate profits and carry out the company’s going concern goals. The company is expected to have the
ability to maintain its activities for the long term and not be liquidated in the short term (Triani et al., 2017). The relationship between principals and agents does not always work well – sometimes problems arise between the two. Jensen and Meckling (1976) state that agency problems can arise between agents and principals. The agency problem arises because principals and agents are economic individuals who have a tendency to be selfish and conflicts arise when several interests meet in one activity (Nasution, 2019). Conflicts of interest between agents and principals due to different objectives encourage information asymmetry. The difference in objectives occurs because each individual is motivated to make decisions that maximise their economic interests, compared with the economic interests of the company (Narsa and Supriyadi, 2019). Aprilia (2017) explains that the emergence of several different interests will tend to lead to fraud, as it is well known that fraud occurs due to several factors (fraud triangle) which have now developed into pentagon fraud.

Agency theory is a factor in the formation of traits that are described in detail in the fraud model. Aprilia (2017) explains that every illegal action is characterised by deception, concealment or breach of trust. This action does not depend on threats of violence or physical threats. Fraud is carried out by other parties and organisations involved to obtain money, property or services; to avoid payment or loss of services; or to secure personal or business profits.

Fraud triangle theory is a concept of fraud theory that is depicted in the fraud triangle; this theory was proposed by Cressey (1953). According to Tuanakotta (2015), pressure is one of the reasons for management and other employees to commit fraud. Generally, someone embezzles a company’s money because of some kind of pressure, which can be in the form of an urgent need that must be resolved immediately (financial pressure). These motivations and personal goals trigger someone to commit fraud (Habbe et al., 2019). Abdullah and Mandsor (2015) explain that opportunities for fraud are created by ineffective controls or governance systems. According to Rae and Subramaniam (2008), rationalisation is justification for cheating due to a lack of integrity from employees and other moral reasons. Cheating due to rationalisation can also be influenced by one’s characteristics (Sihombing et al., 2019), which drive behaviour in different situations (Hakim and Fernandes, 2017).

Fraud diamond theory is the development of the theory of fraud triangle theory. In diamond fraud, there are additional elements to complement the fraud triangle elements. Fraud diamond theory was proposed by Wolfe and Hermanson (2004) by adding a new element: one’s individual capability. Fraud will not occur without someone who has the ability to recognise opportunities. A lot of fraud – especially that involving large sums of money – will not happen without the right people who have the necessary abilities.
The pentagon fraud theory was put forward by Crowe Howarth in 2011, adding another element of fraud: competence and arrogance. According to Crowe Howarth (2011), competence is an extension of the element of opportunity, which includes an individual’s ability to override internal controls and to socially control the situation for their personal benefit, while arrogance is a behaviour of superiority and the right or greed of perpetrators of crimes who believe that company policy and the procedure was not applied to them.

Fraudulent financial reporting is an act of fraud in the company’s financial statements. Suyanto (2009) explains that financial statement fraud is an intentional act or negligence that results in material misstatement, which misleads financial statements so that it can harm investors or creditors. In addition, Priantara (2013) revealed that fraudulent financial reporting aimed at tricking investors and creditors is undertaken by raising the value of liabilities and recognise income, and conversely lowering the value of liabilities and charging operational and production costs.

Financial stability or instability can put pressure on companies, especially for management. The condition of a company’s financial stability is also influenced by the economic conditions of a country: if a country’s economic conditions are unstable, this will affect the company’s financial stability. Research from Martantya (2013) shows that financial stability influences financial statement fraud; the research is also supported by Aprilia’s (2017) research. However, the opposite results were found in Ulfah et al.’s (2017) study, which showed that financial stability did not show a significant effect on financial statement fraud. Therefore, the hypothesis can be formulated as follows:

**H1:** Financial stability has a significant effect on detecting fraudulent financial reporting.

Financial targets can represent a pressure for company management, because companies are required to successfully achieve the targets they set; this is what triggers fraud in the company’s financial statements. Financial targets are usually proxied by return on assets (RoA) as a measure of operating performance used to indicate how efficiently an asset has been built (Skousen et al., 2009).

Research from Martantya (2013) shows that financial targets show a significant influence in detecting fraudulent financial statements. However, the results of research from Aprilia (2017) actually show the opposite. Based on these explanations, the following hypothesis can be formulated:

**H2:** Financial targets have a significant effect on detecting fraudulent financial reporting.
Pressure usually comes from competitors, which will create competition. This causes the company’s management to commit fraud and strive for everything in order to be able to compete and defeat its competitors. Research from Sihombing and Rahardjo (2014) shows that external pressures have a significant effect on financial statement fraud, while different results are shown in studies from Aprilia (2017) and Ulfah et al. (2017). Based on these explanations, the following hypothesis can be formulated:

\[ \text{H3: External pressure has a significant effect on detecting fraudulent financial reporting.} \]

Ineffective supervision of the company, such as weak internal audit and internal controls, can create a loophole for fraud in the company’s financial statements. This is not supported by research results from Aprilia (2017) and Ulfah et al. (2017). Thus the following hypothesis can be formulated:

\[ \text{H4: The ineffectiveness of supervision has a significant effect on detecting fraudulent financial reporting.} \]

A change of external auditors usually occurs because there is an audit failure, but the change of auditors can also be an indication of the presence of fraud in the company, with the change of auditors intended to erase traces of fraud that have been found by the previous auditor. Substitution of external auditors is included in the element of rationalisation in fraud pentagon theory; in this case, the company tries to justify what has been done in the financial statements and seeks to replace the external auditor so that the new external auditor will confirm the results of the financial statements.

Research from Ulfah et al. (2017) shows that the change in external auditors influences financial statement fraud. Thus the following hypothesis can be formulated:

\[ \text{H5: Substitution of external auditors has a significant effect on detecting fraudulent financial reporting.} \]

A change of directors may involve replacing the previous directors in order to become more advanced, but it can also be used to influence political interest in the company. Substitution of directors is also considered to reduce the effectiveness of time because it takes a long time for the new board of directors to adapt to company conditions. This is the background for the need to do research using this variable.

Research from Ulfah et al. (2017) shows the same results: namely, that changes in company directors have no effect on corporate financial statement fraud. But to further ensure that the researcher will conduct a repeat study, then the following hypothesis can be formulated:
**H6:** Changes in company directors have a significant effect on detecting fraudulent financial reporting.

The auditor’s opinion is partly related to the company’s financial situation (Simamora and Hendarjatno, 2019). The auditor’s opinion describes the results of a company’s performance as well as providing an evaluation of the company’s financial statements, whether the report is reasonable or not. The auditor's opinion is included in the rationalisation element of fraud pentagon theory because the company needs justification for the performance results as well as the results of the financial statements that are displayed; it therefore needs a fair opinion from the auditor. However, if within the period specified by the auditor’s opinion, the financial statements change, then fraud may be suspected in the financial statements.

Research conducted by Ulfah et al. (2017) shows that audit opinion influences financial statement fraud. However, unlike the results of research conducted by Aprilia (2017), the following hypothesis can be formulated:

**H7:** The auditor’s opinion has a significant effect on detecting fraudulent financial reporting.

The frequency with which CEO photos appear in the company’s financial statements is considered an indication of the level of arrogance of the CEO. Too often, when the CEO’s photo appears in the financial statements, it is assumed that the CEO has an arrogant nature. Therefore, it is necessary to conduct research related to the nature of CEO arrogance with the level of fraud in the company, to see whether it is connected. Based on this explanation, the following hypothesis can be formulated:

**H8:** The frequency with which CEO photos appear has a significant effect on detecting fraudulent financial reporting.

A CEO who is also a politician will have many connections that will help in the smooth running of a company’s business, but this can also trigger the arrogant attitude of a CEO and may lead to fraud because many parties are able to support the smooth running of the business. This research continues from the results of research conducted by Aprilia (2017). Thus the following hypothesis can be formulated:

**H9:** CEOs who are also politicians have significant influence on detecting fraudulent financial reporting.
Research Methodology

Sample and Data Sources

The sample used in this study is from the banking and financial sector companies listed on the Indonesia Stock Exchange for the period 2014–16, based on certain criteria that have been set, or purposive sampling – namely the banking and financial sector companies listed on the Indonesia Stock Exchange (BEI) for the period 2014-2016, which published financial statements in nominal rupiah and annual reports for the last three years and the period of financial statements ending 31 December.

Variable Definition and Measurement

Independent Variable

The independent variable in this study was developed from five pentagon fraud components: pressure, opportunity, rationalisation, competence and arrogance.

1) Financial stability

Skousen et al. (2009) state that the greater the ratio of changes in the total assets of a company, the higher the possibility of cheating a company’s financial statements. Financial stability is proxied by the ratio of changes in total assets (ACHANGE), which can be formulated as follows:

\[
ACHANGE = \frac{Total \ assets \ t - total \ assets \ t - 1}{Total \ Assets \ t - 1}
\]

2) Financial targets

The company management often applies high financial targets for the company, which causes pressure for some parties so they will do anything to be able to achieve these targets. According to Skousen et al. (2009), ROA is a measure of operational performance that is used widely to indicate how efficiently an asset has been used. The actual ROA that has been achieved in the previous year will be used by management to set financial targets in the following years (Martantya, 2013).

\[
ROA = \frac{Net \ Income}{Total \ Assets}
\]

3) External pressure

External pressure is excessive pressure from third parties aimed at management to be able to meet the requirements desired by third parties. Based on Skousen et al., (2009) this research is proxied by the leverage ratio (LEV) which can be formulated as follows:
4) **Ineffective monitoring**

Ineffective supervision is a condition where the company has an effective role of always monitoring the company’s performance. A weak level of supervision will lead to fraud in the company. The effectiveness of supervision is proxied by the ratio of independent commissioners (BDOUT), which can be formulated as follows:

\[
BDOUT = \frac{\text{Number of Independent Commissioners}}{\text{Total number of the Commissioners Board}}
\]

5) **Substitution of external auditors**

Companies that have replaced external auditors can be suspected of fraud, according to SAS statement No. 99. Changes in external auditors (AUDCHANGE) are measured using a dummy variable – if there is a change in auditors, then it is coded 1; if there is no change, then it is coded 0.

6) **Change of directors**

Change of directors is a variable development of the competence component in pentagon fraud. According to Wolfe and Hermanson (2004), changes in directors will cause confusion or stress on the company, resulting in greater opportunities for fraud. Change of directors (DCHANGE) is measured using a dummy variable. If there is a change of reaction during the three-year observation period, the code is 1; if there is no change, the code is 0.

7) **Auditor’s opinion**

Auditor’s opinion is measured using a dummy variable: if the company gets an opinion that tends to change during three years of observation, then it is coded 1; if the company gets an opinion that does not change during the three years of observation, it is coded 0.

8) **Frequency of CEO photos in annual reports**

According to Simon et al. (2015), one measure of arrogance is the appearance of the CEO’s image in the company’s annual report. If a CEO has enough pictures in the company’s annual report, then the CEO is considered to want to be known by the public. Companies that display CEO photos are coded 1; if they don’t display CEO photos, they are coded 0.

9) **CEO politicians**

According to Simon et al. (2015), a CEO who is also a politician will have many connections and this can help smooth the company’s business. A CEO who has a lot of connections will have up a haughty and arrogant attitude, which will make the CEO do everything possible to
cover up any fraud. The measurement of CEO politicians uses a dummy variable: if the company has a CEO who is also a politician, it is coded 1; if the CEO is not a politician, it is coded 0.

Dependent Variable

Fraudulent financial reporting is proxied by earnings management, which is measured through the value of discretionary accrual (DACC) from modified Jones (Sihombing and Rahardjo, 2014). Measurement of financial statement fraud using earnings management calculation is based on research by Dechow et al. (2012).

\[ TACC_{it} = NDACC_{it} + DACC_{it} \]

Notes:
- \( TACC_{it} \): Total company accrual \( i \) in period \( t \)
- \( NDACC_{it} \): Non-discretionary value of company accrual \( i \) in period \( t \)
- \( DACC_{it} \): Discretionary value of company accrual \( i \) in period \( t \)

Methodology

The analytical method was used to test the effect of pentagon fraud in detecting fraudulent financial reporting using multiple linear regression with the SPSS21 program. To test the hypothesis, the regression equation is used as follows:

\[ DACC_{it} = \beta_0 + \beta_1 \text{ACHANGE} + \beta_2 \text{ROA} + \beta_3 \text{LEV} + \beta_4 \text{BDOUT} + \beta_5 \text{AUOPINI} + \beta_6 \text{DCHANGE} + \beta_7 \text{AO} + \beta_8 \text{CEOPIC} + \beta_9 \text{POLCEO} + \epsilon \]

Notes:
- \( \beta_0 \): Constant regression coefficient
- \( \beta_1,2,3,4,5,6,7,8,9 \): Regression coefficients of each proxy
- \( DACC_{it} \): Discretionary accruals of company \( i \) year \( t \)
- \( \text{ACHANGE} \): The ratio of changes in total assets
- \( \text{ROA} \): Return on Assets
- \( \text{LEV} \): Ratio of total liabilities to total assets
- \( \text{BDOUT} \): Independent commissioners’ ratio
- \( \text{AUOPINI} \): Substitution of Independent Auditors
- \( \text{DCHANGE} \): Change of Directors
- \( \text{AO} \): Auditor's opinion
- \( \text{CEOPIC} \): The frequency with which CEO photos appear
- \( \text{POLCEO} \): Politician CEO
- \( \epsilon \): error
Results and Discussion

Descriptive Statistics

Table 1: Descriptive statistics

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Range</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Sum</th>
<th>Mean</th>
<th>Std. deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Achange</td>
<td>120</td>
<td>2,1300</td>
<td>-0,2700</td>
<td>1,8600</td>
<td>18,5220</td>
<td>0,154350</td>
<td>0,2395582</td>
</tr>
<tr>
<td>Roa</td>
<td>120</td>
<td>0,2000</td>
<td>0,0000</td>
<td>0,2000</td>
<td>4,6510</td>
<td>0,38758</td>
<td>0,304675</td>
</tr>
<tr>
<td>Lev</td>
<td>120</td>
<td>0,91</td>
<td>0,01</td>
<td>0,92</td>
<td>70,55</td>
<td>0,5879</td>
<td>0,26224</td>
</tr>
<tr>
<td>Bdout</td>
<td>120</td>
<td>0,5</td>
<td>0,3</td>
<td>0,8</td>
<td>58,0</td>
<td>0,483</td>
<td>0,1386</td>
</tr>
<tr>
<td>Auchange</td>
<td>120</td>
<td>1,0</td>
<td>0,0</td>
<td>1,0</td>
<td>32,0</td>
<td>0,267</td>
<td>0,4441</td>
</tr>
<tr>
<td>Dchange</td>
<td>120</td>
<td>1,0</td>
<td>0,0</td>
<td>1,0</td>
<td>78,0</td>
<td>0,650</td>
<td>0,4790</td>
</tr>
<tr>
<td>Auopini</td>
<td>120</td>
<td>1,0</td>
<td>0,0</td>
<td>1,0</td>
<td>21,0</td>
<td>0,175</td>
<td>0,3816</td>
</tr>
<tr>
<td>Ceopic</td>
<td>120</td>
<td>1,0</td>
<td>0,0</td>
<td>1,0</td>
<td>114,0</td>
<td>0,950</td>
<td>0,2189</td>
</tr>
<tr>
<td>Polceo</td>
<td>120</td>
<td>1,0</td>
<td>0,0</td>
<td>1,0</td>
<td>2,0</td>
<td>0,017</td>
<td>0,1286</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>120</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 1 shows the results of the descriptive statistical analysis for the variables used in this study. An average value of financial stability (ACHANGE) of 0.154350 and a high standard deviation of 0.2395582 were found. The average value for audit quality is 0.45 with a standard deviation of 0.499. The financial target (ROA) has an average value of 0.038758 and a standard deviation of 0.304675. The External Pressure (LEV) average value is 0.5879 and the standard deviation is 0.26224. Effective monitoring (BDOUT) has an average value of 0.483 and a standard deviation of 0.1386. Substitution of external auditors (AUCHANGE) has an average value of 0.267 and a standard deviation value of 0.4441. Substitution of directors (DCHANGE) has an average value of 0.650 and a standard deviation value obtained of 0.4790. Audit opinion (AUOPINI) has an average value of 0.175 and a standard deviation value of 0.3816. The frequency of appearance of the CEO photo (PIC CEO) has an average value of 0.950 and a standard deviation value of 0.2189. Politicians CEO (POLCEO) has an average value of 0.17 and a standard deviation of 0.1286.

Classic Assumption test

Normality Test

The normality test is used to test whether, in a regression model, the independent variable and the dependent variable or both have normal distribution. The normality test results show a normal probability plot graph that displays points spreading close together between diagonal straight lines. Therefore, it can be concluded that the sample from the study population meets the assumption of normality test.
**Multicollinearity Test**

The multicollinearity test aims to test whether the regression model found a correlation between independent variables (Ghozali, 2013). Multicollinearity can be seen through tolerance and variance inflation factor.

**Table 2:** The results of the multicollinearity test

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>β</td>
<td>Std. Error</td>
<td>β</td>
<td></td>
<td>Tolerance</td>
</tr>
<tr>
<td>1 (Costanst)</td>
<td>0,078</td>
<td>0,087</td>
<td>0,507</td>
<td>0,897</td>
<td>0,372</td>
</tr>
<tr>
<td>Achange</td>
<td>0,324</td>
<td>0,055</td>
<td>0,065</td>
<td>5,911</td>
<td>0,000</td>
</tr>
<tr>
<td>Roa</td>
<td>-0,324</td>
<td>0,465</td>
<td>-0,103</td>
<td>-0,697</td>
<td>0,487</td>
</tr>
<tr>
<td>Lev</td>
<td>-0,60</td>
<td>0,057</td>
<td>-0,028</td>
<td>-0,001</td>
<td>0,975</td>
</tr>
<tr>
<td>Bdout</td>
<td>0,070</td>
<td>0,093</td>
<td>0,057</td>
<td>0,633</td>
<td>0,528</td>
</tr>
<tr>
<td>Auchange</td>
<td>0,020</td>
<td>0,031</td>
<td>0,064</td>
<td>0,757</td>
<td>0,451</td>
</tr>
<tr>
<td>Dchange</td>
<td>-0,028</td>
<td>0,030</td>
<td>-0,087</td>
<td>-0,922</td>
<td>0,358</td>
</tr>
<tr>
<td>Auopini</td>
<td>-0,001</td>
<td>0,036</td>
<td>-0,003</td>
<td>-0,032</td>
<td>0,975</td>
</tr>
<tr>
<td>Ceopic</td>
<td>-0,013</td>
<td>0,059</td>
<td>-0,019</td>
<td>-0,226</td>
<td>0,821</td>
</tr>
<tr>
<td>Polceo</td>
<td>-0,031</td>
<td>0,105</td>
<td>-0,026</td>
<td>-0,295</td>
<td>0,768</td>
</tr>
</tbody>
</table>

Table 2 shows that the multicollinearity test results of all variables showed a tolerance value of more than 0.10 and a VIF value of less than 10. It can thus be concluded that in this study there was no multicollinearity between the independent variables in the regression model.

**Autocorrelation Test**

To find out whether or not the symptom is correlated in the regression calculations for this study, Imaka uses the iDurbin-Watson (iDW-test) process. if the iDW number under i2 imaka happens to be an autocorrelation of ipositive, if ij DW is between -2 to +2 imaka it does not happen to be an autocorrelation, ian if id i i i i i i i + i correlated ipositive, ij if ij DW is between -2 to +2 imaka it does not happen to be an autocorrelation; Based on table 3 shows that the results of the Durbin-Watson autocorrelation test obtained a value of 2,091 which means that the value is more than the upper limit (du) 1.8665 and less than 2.1335 (4-du). So, it can be concluded that in this study there was no autocorrelation between variables in the regression model.
Table 3: The results of the Durbin-Watson autocorrelation test

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R²</th>
<th>Adjusted R²</th>
<th>Std. error of the estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.536&lt;sup&gt;a&lt;/sup&gt;</td>
<td>0.287</td>
<td>0.229</td>
<td>0.1344571</td>
<td>2.091</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), POLCEO, BDOUT, ACHANGE, DCHANGE, CEOPIC, AUOPINI, ROA, AUCHANGE, LEV
b. Dependent Variable: DACCit

Heteroscedasticity Test

For heteroskedastic testing, a scatter plot graph is used. The results of this test indicate that the pattern of these points spreads above and below the number 0 on the Y axis, so that a conclusion can be drawn that the regression model does not occur heteroscedasticity.

Hypothesis Testing Results

Table 4: Regression Analysis

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardised coefficients</th>
<th>Standardised coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>β</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Costanst)</td>
<td>0.078</td>
<td>0.087</td>
<td>0.507</td>
<td>0.897</td>
</tr>
<tr>
<td>Achange</td>
<td>0.324</td>
<td>0.055</td>
<td>-0.065</td>
<td>5.911</td>
</tr>
<tr>
<td>Roa</td>
<td>-0.324</td>
<td>0.465</td>
<td>-0.103</td>
<td>0.057</td>
</tr>
<tr>
<td>Lev</td>
<td>-0.60</td>
<td>0.057</td>
<td>-0.019</td>
<td>-1.052</td>
</tr>
<tr>
<td>Bdout</td>
<td>0.070</td>
<td>0.093</td>
<td>0.064</td>
<td>0.757</td>
</tr>
<tr>
<td>AUCHANGE</td>
<td>0.020</td>
<td>0.031</td>
<td>0.057</td>
<td>0.633</td>
</tr>
<tr>
<td>DCHANGE</td>
<td>-0.028</td>
<td>0.030</td>
<td>-0.087</td>
<td>-0.922</td>
</tr>
<tr>
<td>AUOPINI</td>
<td>-0.001</td>
<td>0.036</td>
<td>-0.003</td>
<td>-0.032</td>
</tr>
<tr>
<td>CEOPIC</td>
<td>-0.013</td>
<td>0.059</td>
<td>-0.019</td>
<td>-0.226</td>
</tr>
<tr>
<td>POLCEO</td>
<td>-0.031</td>
<td>0.105</td>
<td>-0.026</td>
<td>-0.295</td>
</tr>
</tbody>
</table>

Dependent Variable: DACCit

The test results above show that the financial stability variable which is proxied by changes in total assets (ACHANGE) and the frequency of appearance of CEO photos (CEOPIC) show significant results or obtain a significance value of more than 0.05. So it can be concluded that of the nine variables there are only two variables, namely financial stability and the frequency of CEO photos that have an effect on detecting fraudulent financial reporting.
The Effects of Financial Stability in Detecting Fraudulent Financial Reporting

Financial stability, which is proxied by changes in total assets (ACHANGE), has a significant effect on detecting fraudulent financial reporting. This shows that if the company shows an indication of instability in financial conditions, it will further encourage the company to commit fraud in the financial statements, one of which is the total assets so that the company’s financial condition looks stable. The results of this study also support research results from Aprilia (2017), and Sihombing and Rahardjo (2014).

The Effects of Financial Targets in Detecting Fraudulent Financial Reporting

Financial targets, which are proxied by return on assets (ROA), have no significant effect on detecting fraudulent financial reporting, which means that any increase or decrease in financial targets does not affect fraudulent financial reporting. The results of this study also support research results from Aprilia (2017), and Sihombing and Rahardjo (2014).

The Effects of External Pressure in Detecting Fraudulent Financial Reporting

External pressure, which is proxied by leverage, has no significant effect on detecting fraudulent financial reporting, which means that any increase or decrease in external pressure does not affect fraudulent financial reporting. The results of this study also support research results from Ulfah et al. (2017) and Martantya (2013).

The Effects of Supervision Ineffectiveness in Detecting Fraudulent Financial Reporting

The ineffectiveness of supervision proxied by the ratio of independent commissioners (BDOUT) has no significant effect on detecting fraudulent financial reporting, which means that any increase or decrease in supervision ineffectiveness does not affect fraudulent financial reporting. The results of this study also support the results of research from Aprilia (2017).

The Effects of External Auditor Substitution in Detecting Fraudulent Financial Reporting

Substitution of external auditors (auditor change) does not have a significant effect in detecting fraudulent financial reporting, which means that any increase or decrease in turnover of external auditors does not affect fraudulent financial reporting. The results of this study support the results of research from Sihombing and Rahardjo (2014).
The Effects of Change of Directors in Detecting Fraudulent Financial Reporting

Changes in company directors (DCHANGE) have no significant effect on detecting fraudulent financial reporting, meaning that any increase or decrease in turnover of directors does not affect fraudulent financial reporting. The results of this study support the results of research from Ulfah et al. (2017).

The Effects of Changes in Auditor's Opinion in Detecting Fraudulent Financial Reporting

Changes in auditor’s opinion (AUOPINI) have no significant effect on detecting fraudulent financial reporting, meaning that any increase or decrease in changes in auditor opinion does not affect fraudulent financial reporting. The results of this study support the results of research from Aprilia (2017).

The Effects of Frequency of CEO Photo's Appearance in Detecting Fraudulent Financial Reporting

The frequency with which CEO photos appear (CEOPIC) in the company’s financial statements has no significant effect on detecting fraudulent financial reporting, meaning that any increase or decrease in the appearance of CEO photos does not affect fraudulent financial reporting.

The Effects of CEO Politicians in Detecting Fraudulent Financial Reporting

In leading a company, CEO politicians (POLCEO) have no significant effect on detecting fraudulent financial reporting, meaning that any increase or decrease in CEO politicians does not affect fraudulent financial reporting. The results of this study support the results of research from Aprilia (2017) and Yusof et al. (2015).

Conclusion

This study has examined the effect of financial stability, financial targets, external pressures, ineffectiveness of supervision, turnover of external auditors, turnover of directors, auditor opinion, frequency of CEO photo appearances and CEO politicians on fraudulent financial reporting. In this study, only one variable has proved to be significant in detecting fraudulent financial reporting: financial stability. This indicates that if the company shows an indication of instability in the financial condition, it will further encourage the company to commit fraud in the financial statements. Meanwhile, financial target variables, external pressure, ineffectiveness of supervision, change of external auditors, change of directors, auditor opinion, appearance of CEO photos and CEO politicians have no significant effect on
detecting fraudulent financial reporting, which means that all changes that occur in these variables will have no impact on fraudulent financial reporting. The limitation in this study is the number of samples: just 120 samples from 40 companies from the banking and financial sector listed on the Indonesia Stock Exchange. It is therefore expected that future research will increase the number of research samples so that the results obtained can be more accurate.

Acknowledgement

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