

IS FRAUD PENTAGON EFFECTIVE IN DETECTING FRAUDULENT FINANCIAL STATEMENT IN CAMBODIA?

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ABSTRACT

This study was conducted to examine the ability of the Fraud Pentagon theory to detect fraudulent financial statements. The object of this research are companies that listed in Cambodia Securities Exchange (CSX) from 2017-2020. The purposive sampling method is used to select the research sample. The study uses SPSS program to analyze data. The measurement of fraudulent financial statement is discretionary accrual. This study used arrogance, competence, pressure, opportunity and rationalization as independent variables. The result of this study shows that pressure is effective in detecting fraudulent financial statements. These findings will be very helpful to auditors and forensic accountants to pay more caution in aspects of pressure to detect fraudulent financial statements.

Keywords : fraud pentagon; fraudulent financial statement; discretionary accrual

INTRODUCTION

The financial report is a measurement of the financial condition of a company. Financial reports can be useful in the process of making economic decisions for both internal and external parties within the scope of the company. This causes the company's desire to present the best possible information to meet the needs or desires of its users, which in turn can create a large risk of fraud. The financial report itself is a document that contains documents and data on financial data in the company. (Manurung & Hardika, 2019)

The Association of Certified Fraud Examiners defines that fraud in financial statements is an intentional error in reporting or omitting material data and facts and is used as material for consideration with the data presented will cause users of financial statements to change or replace their decisions (Lou & Wang, 2011). In practice, financial statement fraud entails the deliberate removal of activities, transactions, accounts, or other significant details from financial reports, as well as the misapplication of accounting rules, regulations, or procedures used to calculate, register, monitor, and disclose transactions.

There have been many studies related to fraud using the Fraud Triangle theory. This theory explains that fraud occurs because of pressure, rationalization and opportunity. Fraud can occur because of someone's rationalization. The reasons are various, but the justification will always be there. Rationalization is carried out through conscious decisions in which the perpetrator of fraud places his or her interests above the interests of others (rationalization). Stress can occur from within the organization and in the lives of individuals. Individual needs are considered personally more important than organizational needs. The reasons for committing fraud are often triggered through pressure that affects the individual, rationalization or opportunity (pressure). Fraud will be committed if there is an opportunity where a person must have access to the assets or have the authority to set up control procedures that allow the fraudulent scheme to be carried out. Position, responsibility and authorization provide opportunities for fraud (opportunity). The only factor that can be controlled is opportunity (Suprajadi, 2009). Cheating: Although there are various types of fraud, the basic working definition fraud was "an erroneous know the truth or concealment of a material fact to encourage others to act on the loss" (Gamer in Zulkarnaen, W., et al. 2020:2473)

Wolfe & Hermanson (2004) carried out a development of the fraud triangle model, the addition of a factor that encourages fraud, namely capability, is also called the fraud diamond. In this theory, it is stated that the nature and ability of a person to play a major role in the occurrence of fraud in addition to the other 3 elements of fraud will appear.

In developing countries, fraud and corruption are seen as a way of life, a tradition of public service, or a culture that cannot be eradicated (Azham et al., 2008). Fraud theory is growing. Many research have been carried out to investigate the factors that lead to fraud. Marks (2012) found the fraud pentagon model which states that the elements in the fraud pentagon consist of arrogance, competence or capability, pressure, opportunity, and rationalization. This fraud pentagon focuses on a larger fraud plan that incorporates CEO or CFO manipulation. (Aprilia, 2017). Marks (2012) states that at least 70% of fraud is committed by perpetrators by combining pressure with arrogance and greed. Arrogance is a superiority and greedy attitude that must be directed and remedied. However, the results of research conducted by Faradiza (2019), Agusputri & Sofie (2019), Septriyani & Handayani (2018), Agustina & Pratomo (2019) state that there is

no significant impact arrogance on fraud in financial statements. Based on these findings, this research will re-examine the impact of components on the fraud pentagon on financial statement fraud, with a focus on Cambodia, a developing country.

THEORETICAL FRAMEWORK AND HYPOTHESIS

Fraud in Financial Statements

Fraud is an act that is carried out deliberately, consciously and wants to misuse everything that is owned together, such as corporate resources or state resources, for personal gain and then presents false information to cover up this. Deception is different from unintentional mistakes. If a person accidentally enters the wrong data when recording a transaction, it cannot be said to be fraudulent because it was done accidentally. But if a person casually uses his ingenuity to manipulate financial statements to attract investors to develop his company, then it is called fraud. Fraud in financial statements is deliberate or negligent financial reporting where the financial statements presented are not in accordance with applicable accounting standards. Such neglect or intent is substantial in nature, and it has the potential to sway the actions of interested parties. (Faradiza, 2019).

Financial statement fraud is a method of deceit in which figures or disclosures of financial statements are deliberately omitted with the deceptive intent of profiting from the users' expectations of the entity's results and profitability. Financial statements that are false may also be defined as unlawful acts with intentional elements, such as the issuance of misleading financial statements with the intent of taking advantage (Tuanakotta, 2014). Financial Statement Fraud is defined as intentional or unintentional errors or omissions in financial statement reporting that do not conform to generally accepted accounting principles. This is a deliberate omission or a material nature that may have an impact on the parties' decision (Manurung, 2019).

Pentagon Fraud Theory

Pentagon fraud consists of five elements, namely pressure (a person's intuition is in a state of urgency to commit a crime where several general conditions that occur in pressure lead to fraud, namely financial stability, financial targets, and personal financial needs), opportunities (weak internal control and supervision and the existence of abuse of authority, there will be opportunities to commit fraud and the most encouraging of this fraud is ineffective monitoring), rationalization (an act of justification for something that

is actually bad), capability (the amount of power and capacity that a person does to commit fraud), arrogance (the nature of superiority). or the greed that exists in the perpetrator and himself who feels that his internal controls, policies and procedures are not applied to him) (Dalimunthe & Hakim, 2020).

The latest fraud theory proposed by Marks (2012) research is The Crowe's Fraud Pentagon or generally known as Pentagon fraud. Crowe's fraud pentagon theory extends the fraud triangle theory and the fraud diamond theory by including two additional characteristics of deception, namely competence, which is the same as capability and arrogance. Pentagon fraud theory consists of pressure, opportunity, rationalization, competence and arrogance.

The Effect of Arrogance on Fraud in Financial Statements

The arrogant or arrogant attitude of someone who believes he is capable of cheating is referred to as arrogance. This personality trait develops as a result of management's high self-interest, which amplifies arrogance. This trait will lead him to believe that if he commits fraud, he will go unnoticed and that the current penalties will not apply to him (Apriliana & Agustina, 2017). Fraud perpetrators believe that the internal controls that are implemented cannot befall him, as a result, the culprit is frequently free to think without fear of being caught. in Apriliana & Agustina, (2017) research, it was successful to prove that the number of CEO photos influenced the possibility of financial reporting fraud and also proved that the number of CEO photos had an effect on the prediction of financial reporting fraud.

Arrogance, which is proxied by the frequency of appearance of CEO images, is a factor that influences fraudulent financial reporting. This is because the increasing number of CEO picture that are plastered in the company's annual reports shows the level of arrogance and superiority they have where they want to show the wider community about the status and position held in a company (Septriyani & Handayani, 2018). The findings of his research indicate that there is no frequent effect of CEO image on fraud in financial statements.

An annual report with many of CEO images can indicate a company with a high level of CEO arrogance. Since a CEO's ego and pride make him believe that any internal controls would not extend to him because of his rank and role, a high degree of arrogance can lead to fraud. According to Crowe (2011) and Bawekes, (2018), there is

also the risk that the CEO will go to any length to keep his current role. The findings of this study show that the factor of arrogance in the fraud hypothesis, as measured by the number of images of the CEO, has an impact on the likelihood of false financial reporting.

H1: Arrogance has a significant positive effect on fraud in financial statements.

The Effect of Competence on Fraud in Financial Statements

Position / positioning, intelligence, self-confidence, coercion, deception (effective lying / deception), and stress management are all components of ability. Changes in the board of directors' composition are thought to be capable of describing the ability to manage stress (during the stress period), which can lead to opportunities for fraud. This shift in the board of directors' makeup may reflect a political desire to replace the previous board of directors. In addition, Changing the board of directors' makeup is often thought to be an attempt to minimize management efficiency since it takes more time to adjust to the new directors' work culture. The change of directors has little impact on false financial statements, according to this report, unless the corporation transfers directors to cover up fraud committed by previous directors. New directors need time to get used to the financial data of the company. So, with the change of directors, we'll have to wait a little longer for the previous board of directors' fraud to be exposed (Septriyani & Handayani, 2018).

The ability to use the proxy board of director change, according to Manurung, (2019), has a positive effect on fraudulent financial reporting. As a result, the proxied ability of board of director composition changes has a positive effect on fraudulent financial reporting. Changes in the board of directors can lead to periods of stress, which can lead to opportunities for fraud. Changing the board of directors is a choice for the company's attempts / efforts to boost the previous directors' results, either by changing the board's composition or by hiring new directors who are more qualified. A change in the board of directors could also be interpreted as a political move to replace the previous board. A change of directors, on the other hand, is believed to diminish success efficacy because it takes longer to adapt to the new directors' culture (Wolfe & Hermanson, 2004)

The results of research conducted by Agusputri & Sofie (2019) and Septriyani & Handayani (2018) show that the change of directors has a negative effect on fraudulent financial reporting.

H2: Competence has a significant effect on fraud in the financial statements.

The Effect of Pressure on Fraud in Financial Statements

Companies in general to carry out their operational activities to run smoothly require sources of funding and capital not only internally but also from external parties. Companies can make credit loans to banks and other third parties. The bigger the credit risk, the more concerned the lender is about granting loans to businesses. In addition, the high credit risk of the company makes creditors think that the company has a high probability of violating the credit agreement. Therefore, the company has the potential to commit fraud in presenting its financial statements so that the company is assessed both by creditors and other third parties who will provide sources of funding and capital to the company. This study succeeded in proving that external pressure influences fraudulent financial statements. This is because the greater the debt a company has, the tighter the supervision is carried out by the creditor in looking at a company's credit history. In addition, if the debt of a large company and the company commits fraud by beautifying its financial statements (hiding the value of its debt) this will actually worsen the condition of the company, over time the company will go bankrupt (Agusputri & Sofie, 2019).

The extent of an external pressure's value has an impact on the possibility of financial statement fraud. When a corporation has a high leverage ratio, it suggests it has a lot of debt and is more vulnerable to risk. Large debt to the company is a source of pressure for management, because the risk of failure to repay the debt will also be higher. Therefore, companies tend to seek additional capital other than by increasing debt, namely by issuing shares again. Based on the results of this study, external pressure has a positive and significant effect on fraudulent financial statements. It can be concluded that the size of the external pressure value will affect the potential for financial statement fraud. (Purwaningtyas, 2021).

The amount of pressure from third parties that is given to company managers, usually will tend to result in fraudulent acts, but all of that is not necessarily done by company managers to deal with high pressure from third parties. Managers may have

various plans and strategies in accordance with accounting standards in financial preparation that can be used to achieve third party goals, so that high pressure from third parties does not make managers commit fraudulent acts on the company's financial statements (Setiawati & Baningrum, 2018).

This study proves that financial stability or financial stability has no effect on the implementation of fraudulent financial reporting. This is because when the financial condition is unstable or unstable, managers may not necessarily manipulate reports because this will actually worsen financial conditions in the future and the possibility of companies that have good supervision by the board of commissioners so that when managers face pressure, financial conditions that is threatened does not affect the conduct of fraudulent financial reporting (Setiawati & Baningrum, 2018).

When financial stability is challenged by the state of the economy, market, or the condition of operational companies, managers are under pressure to conduct financial statement fraud. Skousen *et al.*, (2009) research explain that the company's financial stability is measured by the increase in amount of assets from year to year. The total value of the company's assets is a major draw for investors, creditors, and other decision makers. When a company's total assets are large enough, it is thought to be capable of providing investors with the best possible returns. If, on the other hand, total assets have decreased or even fallen below zero, investors, creditors, and decision-makers may lose interest because the company's condition is considered unstable, it is unable to operate properly, and it is not profitable. Financial stability has an effect on fraudulent financial reporting, according to research conducted by Bawekes (2018).

Financial stability had an effect on fraudulent financial statements, according to the findings of Cahyanti (2020) research. Because if the company demonstrates that its financial stability is in jeopardy, it will trigger possible violations to ensure that the financial situation remains stable. As a result, management is under pressure or reassured, which encourages financial statement fraud in order to maintain the company's good performance. Cahyanti (2020) also proved that financial targets, as measured by ROA, have an impact on financial statement fraud. And, based on the theory of fraud, the company supports the indication of fraud by increasing profits or maintaining a stable portion of profit on the financial statements. This can be due to pressure or guarantees

seen by managers in carrying out their performance where they are required to always monitor financial targets that have been set.

Financial Targets, which are proxied by Return On Assets (ROA), are used to measure manager performance and are used as a basis for determining bonuses and salary or wage increases. The bigger the ROA target of a company, it will make the company's management tend to manipulate earnings, which is a form of fraudulent financial statements. However, in this study, Agustina *et al.*, (2020) concluded that the high value of ROA does not guarantee that the company will commit fraud. In achieving a company's financial targets, management does not necessarily commit fraud. The financial targets that are set realistically will be achieved by the company's management in the right way. With no fraud occurring in the company, investors do not need to worry about the investment they will invest in the company so that there is no change in market reaction.

H3: Pressure has a significant effect on fraud in financial statements.

The Effect of Opportunity on Fraud in Financial Statements

The state of Nature of Industry is ideal for a company in the industry. Accounts receivable is a type of industry nature that can elicit a variety of responses from different company executives. Inventory estimates are usually used to determine industry conditions associated with risks for companies engaged in industries that involve estimates and considerations to a significantly greater extent. For example, a company that has its inventory spread over many locations will have a greater risk of inventory valuation misstatement. Inventory levels that are too high are a common way to hide corporate fraud. Simple manipulation of the level of inventory can be used to cover losses due to fraud. This study shows that industry conditions have an effect on the occurrence of financial statement fraud (Faradiza, 2019)

The ideal state of a company in an industry is called the nature of industry. When the company is in good shape, management will not falsify financial statements in order to make the company look good in the industry. When a company's financial situation isn't ideal, however, it's more likely to engage in fraudulent financial reporting. This is done to ensure that interested parties, particularly investors, think highly of the company and are willing to invest. Management's fraudulent acts, such as material misstatement and accounting for estimates in order to make the financial statements

look good in the eyes of investors. Bad debts and obsolete inventory are two accounts that can be used. The researchers were successful in demonstrating that the nature of the industry has an impact on fraud in financial statements (Agusputri & Sofie, 2019)

According to the findings of Cahyanti (2020) research, the nature of the industry has an impact on financial report fraud. Because it establishes a link between management's opportunities and the accounts receivables that are presented. The number of business accounts held by a company that can be used to reduce the amount of cash used in its daily operations. Because of the limited amount of cash on hand, management may be tempted to manipulate financial statements; one strategy for doing so is to manipulate the total of receivables. Companies that want to make a good impression will increase the number of receipts and cash receipts.

H4: Opportunity has a significant effect on fraud in financial statements.

The Effect of Rationalization on Fraud in Financial Statements

In fraud, rationalization is a concept used to justify fraud that is about to happen or has already happened. Almost all fraud is motivated by the desire to be rational. Someone who initially does not want to commit fraud will eventually do so due to rationalization. Rationalization is a personal reason (due to other factors) that can be used to justify an action even if it is wrong. Fraudsters will usually look for a variety of rational reasons to justify their actions. According to (Faradiza, 2019) research, the change in auditor and total accrual ratio is a proxy for rationalization. Both proxies show a negligible effect, implying that rationalization has no impact on financial statement fraud.

According to Albrecht *et al.*, (2011) when people cheat, they rationalize by thinking "the asset actually belongs to me, I just borrowed it and will return it, no one is harmed, this happens and is done for something urgent, the books will be fixed once the financial problems are resolved, and I am willing to sacrifice my reputation and integrity as long as it raises my standard".

This study proves that the quality of auditor changes has no effect on the implementation of fraudulent financial reporting. This is because the company may change auditors not because they want to reduce the financial reports of the old auditors, but because the company is obeying government regulations that change auditors for a certain period (Setiawati & Baningrum, 2018).

Someone finds justification for fraudulent acts, which leads to rationalization. Fraud perpetrators believe or believe that their actions are not a fraud, but rather something they are entitled to, and that they have done a lot for the organization. (Ulfah *et al.*, 2017) discovered that changing auditors had an impact on the occurrence of fraudulent financial statements in their study. These findings are backed up by a study by Siddiq *et al.*, (2017) which found that auditor changes had a significant impact on fraudulent financial reporting.

H5: Rationalization has a significant effect on fraud in financial statements.

RESEARCH METHOD

All public companies listed on the Cambodia Stock Exchange compensate the study's population (CSX). The sample used in this analysis was chosen using a purposive sampling process, which involves selecting samples that meet specific criteria (Table 1)

Operational Definitions of Variables (Table 3.1)

Dependent variable

Earning management is used in this analysis to determine whether a financial report is fraudulent. Earning management, according to Rezaee (2004), is the beginning of financial statement fraud since fraudulent financial statements are often accompanied by misstatements or earnings management from quarterly financial reports that are deemed irrelevant at the time, but ultimately grow into major fraud and generate deceptive annual financial reports.

In this study, earnings management is calculated using the discretionary accrual modified Jones Model which is calculated as follows :

Independent variable

The independent variables of this study are 5 factors from the fraud pentagon consisting of arrogance, competence / capability, pressure, opportunity and rationalization. The following is the operational definition and measurement method of each variable:

1. Arrogance

Arrogance is the arrogant attitude of someone who believes they are capable of deception. According to Aprilia (2017); Nanda *et al.*, (2019); Sepriyani &

Handayani (2018), arrogance is determined by the amount of pictures or images of the CEO that are shown in published annual reports.

2. Competence / Capability

a. Change in Board Director

Changing the board of directors will cause a stress period that will open up opportunities for fraud. Therefore, this study uses a change of directors (Δ DIRECTOR) as one of the proxies measured by dummy variable, if there is a change in the board of directors in the observation period it will be given a value of 1 and if it is not, it will be given a value of 0 (Nanda et al., 2019; Septriyani & Handayani, 2018)

b. Change in CEO

The perpetrators of management fraud usually have high positions in the company, for example the CEO. When a CEO change occurs, it will generally be followed by the elimination of very large assets. CEOs who are about to retire or have their contracts expired will carry out a strategy to maximize the amount of reported earnings in order to increase the amount of bonuses they will receive later (Skousen *et al.*, 2009). So, this research will use CEO turnover (Δ CEO) which will be measured by dummy variable. A score of 1 if during the observation period there was a change of CEO and a score of 0 if not.

3. Pressure

a. Financial Stability

The term "financial stability" refers to the state of a company's finances when they are stable. The state of the company's assets can be used to determine the financial health of the company. The total assets held by the corporation are a measure of the company's wealth. ACHANGE, which describes the ratio of sales to assets owned and SALTA, which describes the ratio of sales to assets owned (Skousen *et al.*, 2009), each of which can be calculated using the formula:

$$\text{ACHANGE} = \frac{\text{Total Asset}_t - \text{Total Asset}_{t-1}}{\text{Total Asset}_{t-1}}$$

$$SALTA = \frac{\text{Sales}_t}{\text{Total Asset}_t}$$

b. External Pressure

There is excessive pressure on management to comply with the requirements or expectations of third parties. Companies need additional external sources of funding to stay competitive, such as research and development or capital spending, to overcome this pressure. External funding requirements are linked to cash provided from debt financing (Skousen *et al.*, 2009). The Leverage ratio (LEV) is used to quantify external pressure in this analysis, and it is determined using the formula:

$$LEV = \frac{\text{Liabilities}_t}{\text{Total Asset}_t}$$

c. Financial Target

This is the benefit amount that must be achieved in exchange for the effort required to achieve the profit. Return on Assets is one of the indicators of a company's earnings for the money it spends on its operations (ROA). The ROA formula is a metric of operational efficiency that is commonly used to show how well an asset is operating (Skousen *et al.*, 2009) with the formula:

$$ROA = \frac{\text{Net Income Before Extraordinary Post}_t}{\text{Total Asset}_t}$$

4. Opportunity

In this analysis, the measure of opportunity is Nature of Industry, which is the ideal state of a company in its industry. Accounts receivable is a form of nature

of industry that can elicit a variety of responses from various company executives. Accounts receivable refers to the estimate of uncollectible accounts receivable, which is subjective, so that management can manipulate financial statements for the account (Skousen *et al.*, 2009). As a result, the ratio of total accounts receivable is used as a proxy in this analysis, and it is determined using the formula:

$$\text{RECEIVABLE} = \frac{\text{Receivable}_t}{\text{Sales}_t} - \frac{\text{Receivable}_{t-1}}{\text{Sales}_{t-1}}$$

5. Rationalization

Change in Auditor was used as a test of rationalization in this analysis. A company's change of auditors can be viewed as an attempt to remove evidence of fraud (fraud trial) discovered by previous auditors. This practice encourages businesses to replace their independent auditors in order to conceal fraud. This analysis proxies Rationalization with changes in public accounting firms as determined by a dummy variable. If a public accounting firm changes during the study period, it is worth 1, if there is no change in auditor, it is worth 0.

RESEARCH METHOD

In this study, we used multivariate analysis in the form of multiple linear regression to test the fraud pentagon variable which was described by the following model :

$$DA = \alpha + \beta_1 \text{CEOPICT} + \beta_2 \Delta \text{DIR} + \beta_3 \Delta \text{CEO} + \beta_4 \text{ACHANGE} + \beta_5 \text{SALTA} + \beta_6 \text{LEV} + \beta_7 \text{ROA} + \beta_8 \text{REC} + \beta_9 \Delta \text{AUD} + \varepsilon$$

in which :

α	= constant
β	= the regression coefficient of each independent variable
DA	= discretionary accrual
CEOPICT	= total number of CEO pictures in annual report
ΔDIR	= change in board of director
ΔCEO	= change in CEO
ACHANGE	= ratio of changes in assets
SALTA	= ratio of sales to assets owned
LEV	= ratio of liabilities to assets
ROA	= return on assets
REC	= ratio of changes in receivable

Δ AUD = change in public accounting firm
 ε = error

DATA ANALYSIS AND DISCUSSION

Data Analysis (Table 3)

Discussion

Hypothesis 1: Arrogance has a significant positive effect on fraud in financial statements

This study indicated that arrogance has no impact on the fraudulent financial report of Cambodia listed companies. Therefore, the first hypothesis is rejected. According to the findings of this study, the quantity of CEO images in the annual report does not reflect the high degree of CEO arrogance discovered by Aprilia (2017); A. S. Faradiza (2019); Marsellisa (2018); Septriyani & Handayani (2018). This is because it is critical that the CEO picture be included in the annual report in order to present the company's CEO to the broader community, including stakeholders. Images in the annual report are photos of the outcomes of operations. If the CEO's portrait appears in these activities, it means the CEO is involved in whatever action the organization undertakes. So that the group can judge the CEO's seriousness, tenacity, and accountability in leading the business (Sanulika & Hidayati, 2021). These results contradict Marks (2012) assertion that the CEO would use a number of methods to retain his or her rank and influence. This is an example of a leader's ego. According to Kontesa *et al.*, (2021); Rijsenbilt & Commandeur (2013), narcissism is linked to unethical behavior and indicates a desire for power. CEOs with high levels of narcissism have ambitious expectations and self-centered impulses, but they can act unethically to fulfill their objectives. Chief Executive Officer to escape mediation tactics to remain alive in the dream realm of corporate financial strength, narcissists are more likely to freelancing for financial roles firms.

Hypothesis 2: Competence has a significant effect on fraud in the financial statements

Using change of company directors and CEO as the proxy of competence. This study indicates that competence had little effect on financial reporting fraud. Therefore, the second hypothesis is rejected. This findings does not support Wolfe & Hermanson (2004) hypothesis that competence influences fraud. Wolfe & Hermanson (2004) stated that things are related to the competence aspect in the behavior of the fraudster such as

role / work, brains, trust / ego, coercion abilities, efficient deception, and stress immunity, are included in the characteristics of a director. Unlike Wolfe & Hermanson (2004), the findings of this study support Annisya *et al.*, (2016); Harto (2016); Sihombing & Nur Rahardjo (2014) analysis, which claims that competence has little bearing on financial statement fraud. This will occur if the company's highest owners seek to boost the company's efficiency by hiring directors who are more knowledgeable than the previous directors. So that directors whose job is not up to par can be replaced by directors who are more qualified and will work more efficiently, thus improving the company's productivity even more. The greater the board of directors' skill, the greater the degree of prudence with which they act, reducing the chances of fraud. But if a change of directors was made to cover up the previous board of directors' wrongdoing, the findings of this analysis will be different (Sihombing & Nur Rahardjo, 2014).

Hypothesis 3: Pressure has a significant effect on fraud in financial statements

The third hypothesis of this study is that pressure has an impact on financial statement fraud. Financial stability, external pressure, and financial targets are used to measure pressure in this study. The test results revealed major effects on financial stability, but negligible effects on financial targets and external pressure. This finding supports Aprilia (2017); Septriyani & Handayani (2018); Sihombing & Nur Rahardjo (2014), who found that financial stability has a positive impact on financial statement fraud. Financial stability is one of a company's performance factors. This will placed the company's executives under a lot of strain. This will motivate management to justify a variety of approaches to ensure proper financial reports. Companies may be expected to use accounting strategies to raise or reduce their assets in order to meet financial goals, while asset accumulation is used to determine financial stability. Too much asset growth is also detrimental to the company. When investments rise rapidly, managers can distort financial statements to keep the company's financial situation secure (Septriyani & Handayani, 2018). Financial targets are unable to anticipate fraudulent financial reporting. The strain on management to meet profitability targets is not the foundation for false financial statements by fraud companies. The ability of a company's assets to produce income is measured by its return on assets (ROA). This ratio can be used by investors to determine the valuation of a company's stock. If the company's management manipulate profitability, investors can see if the firm has a decent outcome,

resulting in high stock values and can result in high dividend payments, management has chosen to be prudent in order to avoid paying out too much in dividends. This research is in line with Apriliana & Agustina (2017); Bawekes (2018); D. T. H. Manurung & Hardika (2015); Meilida & Mustikasari (2018); Septriyani & Handayani (2018). On the other hand, leverage has no impact on the possibility of fraudulent financial reporting. The findings of this study verify Bawekes (2018); Rachmawati dan Marsono (2014); Setiawati & Baningrum (2018); Ulfah *et al.*, (2017) analysis. The result show that the independent variable external pressure had little effect on fraudulent financial statements. Since the company can repay the loan, there is no obligation on the company's management to conduct fraudulent financial reporting.

Hypothesis 4: Opportunity has a significant effect on fraud in financial statements

The findings suggest that the nature of industry, as measured by the value of trade receivables, has little bearing on financial reporting fraud. Since the size of the ratio of changes in trade receivables over the observation year does not prompt management to commit fraud. Furthermore, this is due to the fact that the overall shift in a company's receivables from the previous year has little effect on the company's cash turnover. The number of trade receivables held by the company does not affect the amount of cash available for the company's operating operations, so the percentage of trade receivables increases does not prompt management to make financial statement fraud (Yesiariani & Rahayu, 2016). The valuation of changes receivables cannot be used to identify dishonest management behavior. As a result, forth hypothesis is rejected. This finding supports Annisya *et al.*, (2016); Septriyani & Handayani (2018); Setiawati & Baningrum (2018); Yesiariani & Rahayu (2016).

Hypothesis 5: Rationalization has a significant effect on fraud in financial statements

This research shows that change in auditors had little effect on financial reporting fraud. This is due to the possibility that the company will change auditors, not because of they want to reduce the accuracy of the old auditors' financial statements, but because the company complies with Government Regulation Royal Kram No. CS/RKM/0300/10, which states that the provision of audit services on financial reports of an entity by a Public Accountant is limited to a maximum of five consecutive financial years. Apart from that, the change of auditors may be attributed to the

corporation being dissatisfied with the previous external auditors' results. As a result, fifth hypothesis is rejected. This finding supports Harto (2016); Setiawati & Baningrum (2018); Sihombing & Nur Rahardjo (2014); Yesiariani & Rahayu (2016).

CONCLUSION

This study analyses the ability of the pentagon fraud theory in detecting fraudulent financial statements. According to the findings, pressure was found to have a substantial positive impact on fraudulent financial statements. The managerial implication of this study is suggesting auditors and forensic accountant to pay more caution in the aspect of pressure especially financial stability to detect fraudulent financial statement. The limitation of this study is we measure fraud with earnings management is deemed unable to represent fraudulent acts committed by companies, so for future research it is better to consider using other proxies. Furthermore, other factors should be used to measure arrogance.

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TABLE

Table 1 : Variables identification

No	Criteria	Total
1	Companies registered within CSX	7
2	The company published a complete annual financial report for 2017-2020	5
3	Complete data are available in accordance with the variables studied	5
4	The company was not delisted from CSX during the observation period	5
	Total of companies samples	5
	Total years of research	3
	Amount of data	15

3.1. Operational Definitions of Variables

Table 2 : Variables identification

Category	Variable name	Abbreviations	Type	Description
Discretionary accruals	DA		Ratio	$DA_t = \left(\frac{DA_t}{A_{t-1}} \right) = \frac{TA_t}{A_{t-1}} - \frac{NDA_t}{A_{t-1}}$
Arrogance Picture	CEO Change	CEOPICT	Nominal	Total number of CEO pictures in annual report "1" if there is a change in board of directors
Competence	in Board Director	ΔDIR	Binary	otherwise "0"
	Change in CEO	ΔCEO	Binary	"1" if there is a change in CEO otherwise "0"
Pressure	Financial Stability	ACHANGE	Ratio	$ACHANGE = \frac{Total Assets_t - Total Assets_{t-1}}{Total Assets_{t-1}}$
	External Pressure	SALTA	Ratio	$SALTA = \frac{Sales_t}{Total Assets_t}$
Opportunity	Financial Target	LEV	Ratio	$LEV = \frac{Liabilities_t}{Total Assets_t}$
	Nature of Industry	ROA	Ratio	$ROA = \frac{Net Income before Extraordinary Posts_t}{Total Assets_t}$
Rationalization	Change ini Auditor	REC	Ratio	$RECEIVABLE = \frac{Receivable_t}{Sales_t} - \frac{Receivable_{t-1}}{Sales_{t-1}}$
		ΔAUD	Binary	"1" if there is a change in public accounting firm otherwise "0"

Source: (Faradiza, 2019)

Table 3: T Statistic Result Coefficients^a

H	Variable	Proxy	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
			B	Std. Error			
H1	Arrogance	CEOPIC T	-0.064	0.043	-0.322	-1.473	0.201
H2	Competence	DIRCHANG	-0.045	0.039	-0.243	-1.154	0.300
		CEOCHANG	0.124	0.102	0.353	1.215	0.279
H3	Pressure	ACHANGE	0.009	0.009	0.202	1.063	0.336
		SALTA	-0.234	0.066	-0.797	-3.542	0.017
		LEV	-0.043	0.109	-0.148	-0.394	0.710
H4	Opportunity	ROA	-0.602	0.352	-0.584	-1.709	0.148
		RECEIV	-0.088	0.052	-0.427	-1.690	0.152
		AUDCHANG	-0.021	0.048	-0.098	-0.449	0.672
a. Dependent Variable: DAC							

Source : Authors' calculations (2021)