Jurnal HARMONI, 3 (1) (2024) 13-18
Online ISSN : 2829-730X

THE EFFECT OF PENTAGON FRAUD COMPONENTS ON INDICATIONS OF FINANCIAL STATEMENT FRAUD

Ahmad Rif'at[1*], Nurmala Ahmar[2], JMV. Mulyadi[3]

[1,2,3] Universitas Pancasila

ABSTRACT

The purpose of this research is to examine and analyse the influence of pentagon fraud components (pressure, opportunity, rationalisation, competence, and arrogance) on financial statement fraud. The samples used in this study are 90 manufactured companies that were listed on the Indonesia Stock Exchange during the period 2017-2019. The type of data used is secondary data, in the form of annual reports of companies listed on the Indonesia Stock Exchange during the period 2017–2019. Hypothesis testing was conducted with PLS (Partial Least Squares) software. The result showed that opportunity (receivable), rationalisation (TACC), and competence (DIRCHANGE) had an effect on the financial statement fraud. While pressure (ACHANGE) and arrogance (CEO PIC) had no effect on financial statement fraud.
***Keywords**: Beneish Model Score, Financial Statement Fraud, Fraud Pentagon.*

Corresponding author: rifat0011@gmail.com
How to cite this article:
History of Article: Received: Feb 2024. Revision: April 2024. Published: May 2024.

Introduction

Over a period of time, financial statements serve as a communication tool to convey the company's financial information to people inside and outside the company. Good financial statements are reports that can provide sufficient information and explanation about the results of a company's operations. Therefore, the information must be complete, clear, and able to describe precisely the economic events that affect the results of the company's operations (Ghozali and Chariri, 2007). These financial statements must be prepared as well as possible using accurate data in accordance with applicable accounting rules to provide appropriate information for their users.

According to PSAK No. 01 concerning the presentation of financial statements, which was amended in 2015, the qualitative characteristics that financial statements must have to make their information useful to users are as follows: understandable, relevant, reliable, and comparable. Primary characteristics consist of relevance and reliability, while secondary qualities consist of comparability and consistency. Information in financial statements must be relevant so that user needs in the decision-making process can be met. Information must also be reliable, meaning it must be completely accurate, not misleading, and reliable as honest and accurate information. If the data presented can be used to compare a business with other businesses in a particular industry (horizontal comparison) or to compare the same business for different time periods (vertical comparison), in addition, the information presented must show that the entity is consistent in using the same accounting standards.

One type of fraud is manipulating financial statements. The Treadway Commission defines financial reporting fraud as "deliberate acts of irregularities against company records, such as misapplication of accounting principles, resulting in materially misleading financial statements" (Hasnan et al., 2013). According to the Association of Certified Fraud Examinners (ACFE) in 2002, fraud is defined as an act of fraud or misconduct committed by a person or entity who knows that the mistake may result in negative benefits for individuals, entities, or other parties. Ernst and Young LPP (cited by Nabila, 2013).

The results of preliminary testing conducted by the author on 90 financial statements of manufacturing companies listed on the Indonesia Stock Exchange from 2017 to 2019 using the Beneish M-Score Model as a tool to identify fraud in financial statements showed that 35.55%, or 32 companies, were proven to have committed fraud in financial statements during the observation period.

The study aimed to test and analyse inconsistent components of previous research on how people commit fraud. Five independent variables with eleven indicators were used in the study. Pressures proxied with (financial objectives, financial stability, outside pressures, and personal financial needs), opportunities proxied with (nature of industry, quality of outside auditors, and ineffective oversight), rationalisations proxied with (total accrual and change of auditor), capabilities proxied with (change of director), and hubris proxied with (change of director). Manufacturing companies listed on the Indonesia Stock Exchange from 2017 to 2019 were used as samples.

In the Beneish M-Score model, there are eight variables used to identify fraud in financial statements. These variables are Gross Margin Index (GMI), Sales In Receivables Index (DSRI), Asset Quality Index (AQI), Sales Growth Index (SGI), Total Accrual to Total Assets Index (TATA), Depreciation Index (DEPI), Inventory, General and Administrative Expenses Index (SGAI), and Leverage Index (LEVI).

The Association of Certified Fraud Examiners (ACFE) defines fraud as an act of fraud or mistake committed by someone and resulting in adverse benefits for others. According to the Association of Certified Fraud Examiners (ACFE), fraud is divided into three types: the fraud tree, which describes the branches of fraud in the form of an employment relationship, along with the twigs and twigs. Collusion, misappropriation of assets, and false statements are three types of fraud (Tuanakotta, 2010: 97).

"Financial statement fraud is a deliberate attempt by corporations to deceive or mislead users of published financial statements, especially investors and creditors, by preparing and disseminating materially misstated financial statements," said Rezaee and Riley (2009). That is, financial statement fraud is an attempt made by companies deliberately to deceive and deceive users of financial statements, especially investors and creditors, by presenting and engineering the material value of financial statements. This fraud can be carried out by individuals, groups, or companies to get certain benefits.

In recent years, the cheating model has evolved rapidly. It was first invented by Donald R. Cressey in 1953 and is known as the three-faceted model, which describes the components that cause fraud. The three-sided model later evolved into the diamond model invented by Wolfe and Hermanson in 2004, and Jonathan Marks invented its latest version in 2012.

Research Method

This study uses a casual research design with the aim of identifying the relationship between two or more variables (Sugiyono, 2016: 56). This causal study aims to find out how one or more independent, or independent, variables affect the dependent variable. Financial targets, financial stability, outside pressures, personal financial needs, nature of industry, quality of outside auditors, changes in outside auditors, total accrual, change of director, and CEO image are independent variables that will be tested for their effect on manufacturing companies from 2017 to 2019.

Manufacturing companies listed on the Indonesia Stock Exchange from 2017 to 2019 were the subjects of this study.

This study used purposive sampling techniques, which means samples are selected based on certain considerations. The criteria for determining the sample of this study are as follows:

1. manufacturing companies (food and beverages, tobacco, cosmetics, and pharmaceuticals) listed on the Indonesia Stock Exchange from 2017 to 2019;
2. Companies that submitted audited financial statements from December 31, 2017 to 2019; and
3. Companies that disclose data that is relevant to research variables and can be accessed in full.

This study used documentation and literature methods to collect data. The documentation method means collecting data by viewing, using, and studying secondary data. The annual report of manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2019 can be accessed through the www.idx.co.id website. To achieve the expected results of the study, data and information are needed.

The financial statements for the period 31 December 2017–2019, which have been audited and compiled in the annual financial statements accessible at www.idx.co.id, are the source of data used in this study.

Result

The study looked at how the Pentagon's fraud element impacts indications of financial statement fraud. This study analysed companies operating in the food and beverage subsector (12 companies), the cigarette subsector (4 companies), the pharmaceutical subsector (9 companies), and the cosmetics subsector (5 companies). These companies were listed on the Indonesia Stock Exchange from 2017 to 2019. Ninety companies are the total sample of the study.

The Effect of Pressure on Financial Statement Fraud

The Effect of Pressure on Financial Statement Fraud The results of the first hypothesis test show that the pressure associated with financial stability (ACHANGE) has no impact on financial statement fraud. The average value of asset change, or ACHANGE, is positive, which indicates that the company's condition is stable. This condition shows a steady change in assets and is not too different from the previous year. Management is not forced to commit financial statement fraud as long as the financial situation is stable. However, when a company's financial situation is unstable or disrupted, company managers may not manipulate financial statements because doing so will worsen the financial condition in the future.

The results of this study support research conducted by Setiawati & Baningrum (2018) and Aprilia (2017), which shows that financial stability pressure has no effect on fraudulent financial statements. However, this finding is different from the research of Amalia et al. (2020), Khadafil & Terzaghi (2019), and Rusmana & Tanjung (2019), which found that financial stability pressure affects fraudulent financial statements.

The Effect of Opportunities on Financial Statement Fraud

The results of testing the second hypothesis show that opportunities proxied by the nature of the industry (receivable) affect financial statement fraud. The results showed that the amount of the company's receivables increased from the previous year, indicating that the company's cash turnover was poor. The large number of trade receivables will reduce the amount of cash that the company can use to finance its operations. A limited amount of cash can encourage management to make incorrect financial statements. If foreign companies attract investors, one way to achieve this is to change the amount of receivables, according to Sihombing and Raharjo (2014).

This study corroborates the findings of Sihombing's (2014) research, which found that opportunities projected by the nature of the industry affect financial statement fraud. However, this finding is different from the research of Septiani & Handayani (2018), Setiawati & Baningrum (2018), and Wijaya et al. (2019), which found that opportunities projected by the nature of the industry affect financial statement fraud.

The Effect of Rationalization on Financial Statement Fraud

The results of testing the third hypothesis show that the rationalisation proxied by TACC has an impact on financial statement fraud. These results suggest that accrual is an accounting method in which receipts and expenses are recorded when transactions occur, not when money is received or paid. The concept of accrual discretionary can mean that management can manipulate revenue by recording transactions when they have occurred, even though money has not been received or paid. Many times, it is used to achieve the desired income. So, if the company has a high level of discretionary accruals, then there is a high probability that there is fraud in the financial statements. So, it can be concluded that the likelihood of financial statement fraud will increase if the value of discretionary accruals rises, and the possibility decreases if the value falls. The results of this study support the findings of research conducted by Jaunanda et al. (2020), Agusputri & Sofie (2019), and Septiani & Handayani (2018), which show that TACC rationalisation has an effect on financial account fraud. However, this finding contradicts research conducted by Wijaya et al. (2019), which found that TACC rationalization had no effect on financial account fraud.

The Effect of Ability on Financial Statement Fraud

The results of testing the fourth hypothesis show that the ability proxied by the change of director affects the fraud of financial statements. This result shows that the change of the board of directors carried out by shareholders aims to improve the company's performance by replacing the old directors with new ones that are considered more competent and can work better than the previous period. Old directors may resign due to illness, death, or to meet the requirements of the Financial Services Authority. This study corroborates the findings of research conducted by Rahman & Nurbaiti (2019), Novitasari & Chairil (2019), Agusputri & Sofie (2019), and Setiawati & Baningrum (2018), which found that the ability proxied by changing directors had no effect on financial statement fraud. However, this finding is different from research conducted by Wijaya et al. (2019) and Rusmana & Tanjung (2019).

The Effect of Arrogance on Financial Statement Fraud

The results of testing the fifth hypothesis show that the PIC CEO's arrogance has no impact on financial statement fraud. These results suggest that having multiple photos of the CEO in a company's annual report does not indicate that the CEO is extremely arrogant and may have committed financial statement fraud. This is because the CEO's photo is reported in the annual report to introduce the company's leaders and provide transparency about who is in charge of the company's activities.
The results of this study corroborate the research findings of Amalia et al. (2020), Rahman & Nurbaiti (2019), Septiani & Handayani (2018), Khadafil & Terzaghi (2019), and Agusputri & Sofie (2019). The results of this study, however, contradict the research of Rusmana & Tanjung (2019), Wijaya et al. (2019), and Vivianita &Indudewi (2019), which states that the arrogance of the CEO of PIC does not affect finances.

Conclusion

The conclusion in this study is to analyze the components of Pentagon Fraud (pressure, opportunity, rationalization, competence and arrogance) to Financial Statement Fraud using the Beneish Model. The research sample used in this study was 90 manufacturing companies listed on the Indonesia Stock Exchange in 2017-2019. By

1. Pressure proxied by financial stability (ACHANGE) does not affect indications of financial statement fraud in manufacturing companies listed on the Indonesia Stock Exchange in 2017-2019.
2. Opportunities proxied by the nature of industry (RECEIVABLE) affect indications of financial statement fraud in manufacturing companies listed on the Indonesia Stock Exchange in 2017-2019.
3. Rationalization proxied with total accrual (TATA) affects the indication of financial statement fraud in manufacturing companies listed on the Indonesia Stock Exchange in 2017-2019.
4. Capability proxied with DIRECTOR CHANGE affects the indication of financial report fraud in manufacturing companies listed on the Indonesia Stock Exchange in 2017-2019

The arrogance proxied with the CEO of PICTURE has no effect on the indication of financial statement fraud in manufacturing companies listed on the Indonesia Stock Exchange in 2017-2019.

Reference

Abdillah, Willy dan Jogiyanto. 2015. Partial Least Square (PLS) Alternatif Structural Equation Modeling (SEM) dalam Penelitian Bisnis. Ed.1. Yogyakarta: ANDI.

ACFE. (2016). Report to the nations on occupational fraud and abuse. Chicago: Association of Certified Fraud Examiners

Agusputri, H., & Sofie, S. (2019). Faktor-Faktor yang Berpengaruh terhadap Fraudulent Financial Reporting dengan Menggunakan Analisis Fraud Pentagon. Jurnal Informasi, Perpajakan, Akuntansi, Dan Keuangan Publik, 14(2), 105-124.

Agustina, R. D., & Pratomo, D. (2019). Pengaruh fraud pentagon dalam mendeteksi kecurangan pelaporan keuangan. Jurnal Ilmiah MEA (Manajemen, Ekonomi, & Akuntansi), 3(1), 44-62.

Beneish, Messod D., 1999. The Detection Of Earning Manipulation. Financial Beneish, Messod D., Charles M.C. Lee, D. Craig Nichols, 2012. Fraud Detection And Expected Returns.

Bologna, Jack, Robert J. Lindquist, & Joseph T. Wells. 1993. The
Accountant's Handbook of Fraud and Commercial Crime.
John Wiley & Sons.

Cressey, Donald R. (1954). The Differential Association Theory and Compulsive Crimes, Journal of Criminal Law and Criminology, 45, No.1.

Dewan Standar Akuntansi Keuangan. 2015. Pernyataan Standar
Akuntansi Keuangan No. 1 tentang Penyajian Laporan
Keuangan. Jakarta: Ikatan Akuntan Indonesia.
Ghozali, Imam. dan A, Chariri. 2007. Teori Akuntansi. Semarang:
Badan Penerbit Universitas Diponegoro.

Hasnan, Suhaily, Rashidah A. R., Sakthi M. 2013. Management Motive, Weak Governance, Earnings Management, and Fraudulent Financial Reporting: Malaysian Evidence. Journal of International Accounting Research, 12(1), pp: 1- 27.

Husein, ananda Sabil. 2015. Penelitian Bisnis dan Manajemen Menggunakan Partial Least Square (PLS) dengan Menggunakan samrt PLS 3.0. Malang : Jurusan Manajemen fakultas Ekonomi dan Bisnis Universitas Brawijaya.

Husmawati, Pera. 2017. Analisis Fraud Pentagon Dalam Mendeteksi Kecurangan Laporan Keuangan (Studi Pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia Periode 2013-2016). Tugas Akhir. Politeknik Negeri Padang.

Iqbal, Muhammad dan Murtanto. 2016. Analisa Pengaruh Faktor-Faktor Fraud Triangle Terhadap Kecurangan Laporan Keuangan Pada Perusahaan Property dan Real Estate Yang Terdaftar di Bursa Efek Indonesia. ISSN (E) : 2540-7589, ISSN (P0 : 2460-8696 . Jakarta : Seminar Nasional Cendekiawan 2016.

Marks J. (2012). The Mind Behind The Fraudsters Crime : Key Behavioral and Environmental Elements Discussion Leader: Crowe Horwarth. Crowe Horwarth.

Mehta, A., & Bhavani, G. (2017). Application of forensic tools to detect fraud: The case of Toshiba. Journal of Forensic and Investigative Accounting, 9(1), 692-710.

Nabila, A. R. (2013). Deteksi Kecurangan Laporan Keuangan Dalam Prespektif Fraud Triangle. Skripsi. Semarang: Fakultas Ekonomika dan Bisnis Universitas Diponegoro.

Novitasari, A. R., & Chariri, A. (2018). Analisis Faktor-Faktor Yang Mempengaruhi Financial Statement Fraud Dalam Perspektif Fraud Pentagon (Doctoral dissertation, Fakultas Ekonomika dan Bisnis).

Rusmana, O., & Tanjung, H. (2020). Identifikasi Kecurangan Laporan Keuangan Dengan Fraud Pentagon Studi Empiris Bumn Terdaftar Di Bursa Efek Indonesia. Jurnal Ekonomi, Bisnis, dan Akuntansi, 21(4).

Satibi, Iwan. 2011. Metode Penelitian Untuk Skripsi Dan tesis Bisnis. Jakarta : Rajawali Pers.

Saputra, M., & Kesumaningrum, N. D. (2017). Analisis Faktor–Faktor Yang Mempengaruhi Fraudulent Financial reporting Dengan Perspektif Fraud Pentagon Pada Perusahaan Perbankan Yang Terdaftar Di Bursa Efek Indonesia Tahun 2011-2015. Jurnal Akuntansi Dan Keuangan, 22(2), 121-134.

Septriani, Y., & Handayani, D. (2018). Mendeteksi Kecurangan Laporan Keuangan dengan Analisis Fraud Pentagon. Jurnal Akuntansi Keuangan Dan Bisnis, 11(1), 11-23.

Sugiyono. 2016. Metodelogi Penelitian Kuantitatif, Kualitatif dan R&D. Bandung : Alfabeta.

Summers, S., dan Sweeney J. 1998. Fraudulently misstated financial statements and insider trading: An Empirical analysis. The Accounting Review 73 (1), pp: 131-146.

Terzaghi, M. T., & Khadafi, M. (2019, March). Pengaruh Fraud Pentagon Dalam Mendeteksi Kecurangan Laporan Keuangan. In Seminar Hasil Penelitian FEB (Vol. 1, No. 1, pp. 20-34). Fakultas Ekonomi dan Bisnis Universitas Bina Darma Palembang.

Tiffani, Laila dan Marfuah. 2015. Deteksi Financial statement Fraud Dengan Analisis Fraud Triangle Pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia. JAAI Vol.19 No. 2. 112-125. Yogyakarta : Universitas Islam Indonesia.

Tuanakotta, Theodorus M . 2010. Akuntansi Forensik dan Audit Investigatif, Edisi Kedua, Penerbit Salemba Empat, Jakarta.

Ulfah, M., Nuraina, E., & Wijaya, A. L. (2017). Pengaruh Fraud Pentagon dalam Mendeteksi Fraudulent Financial Reporting (Studi Empiris pada Perbankan di Indonesia yang Terdaftar di BEI). Forum Ilmiah Pendidikan AkuntansiUniversitas PGRI Madiun , Vol. 5 (e-ISSN: 2337-9723), 399-418.

Wolfe, David T. Dana R. Hermanson. 2004. The Fraud Diamond: Considering The Four Element of Fraud. CPA Journal. 74.12: 38-42.

.