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Research Paper

Examining the Fraud Triangle in Detecting Financial Statement Fraud

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ABSTRACT
The purpose of this study is to test and analyze the fraud triangle against the potential for fraud in kaeuangan reports. The fraud triangle in this study is pressure proxied by financial stability, financial targets, external pressure, personal financial needs. Opportunity is proxied by ineffective monitoring, and rationalization is proxied by the change of auditors. This study used secondary data and data documentation that was considered to be related to the research taken on the official website of the Indonesia Stock Exchange. With 15 number of samples treated using multiple regression analysis. This study also used FScore to see the potential for fraud in financial statements. The findings in the study show that financial stability, financial targets, personal financial needs, external pressure, and rationalization affect financial statement fraud, while ineffective monitoring does not affect financial statement fraud.
Keywords*: Fraud triangle, pressure/ pressure, financial stability, financial target, external pressure, personal financial need, opportunity/ opportunity, ineffective monitoring, rationalization, fscore, financial statement fraud*

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I. Introduction

According to the Association of Certified Fraud Examiners (ACFE, 2000), fraud is an act of fraud or mistake made by a person or entity who knows that the error may result in some unkind benefit to the individual or entity. Research conducted by the Association of Certified Fraud Examiners (ACFE, 2000) found that 83% of fraud cases that occur are carried out by company owners or the board of directors. In addition, Ernst & Young (2009) also found that more than half of fraud perpetrators are management. If financial statement fraud is indeed a significant problem, the auditor as the responsible party must be able to detect fraudulent activities before it eventually develops into a very adverse accounting scandal.

The detection of fraud reports has not yet received a bright spot, due to the various motivations behind it. The fraud triangle theory initiated by Cressey (1953) until now is used by practitioners as an approach in detecting fraud. Where managers have an important role in the company. Managers are responsible for maximizing stakeholder profits, but on the other hand, managers also have an interest in optimizing their personal well-being. Such differences in interests can affect the quality of reported profits.

There are studies that have tried to prove the existence of a fraud triangle in detecting an act of fraud. However, there are still differences in results between one researcher and another or there are inconsistencies in the research results. The researchers include Mawarni (2016), Sulastri (2019), Tiffany and Marfuah (2015), Mardianto and Carissa Tiono (2019), Haryono (2017), and Widarti (2015). Referring to these studies, there are several factors that can be used to detect financial statement fraud, including financial stability, nature of industry, ineffective monitoring, auditor change, auditor report, personal financial need, external pressure, rationalization, financial target, and organizational structure.

Mawarni (2016), Tiffani and Marfuah (2015), Mardianto and Carissa Tiono (2019), and Widarti (2015) obtained the results of a study that financial stability affects fraud in financial statements. On the other hand, Haryono (2017) found the results of a study that financial stability has no effect on financial statement fraud. Haryono (2017) found the results of a study that personal financial need has a positive effect on financial statement fraud. In contrast, research conducted by Sulastri (2019), Tiffani and Marfuah (2015), and Widarti

(2015) found that personal financial need had no effect on the occurrence of fraud in financial statements. Tiffani and Marfuah (2015), and Widarti (2015) found the results of research that external pressure has a positive influence on financial statement fraud. Meanwhile, research conducted by Sulastri (2019) and Mardianto and Carissa Tiono (2019) found that external pressure did not affect financial statement fraud. Widarti (2015) found the results of research that financial targets have an influence on financial statement fraud. Meanwhile, the results of research conducted by Mawarni (2016), Sulastri (2019), Tiffani and Marfuah (2015), Mardianto and Carissa Tiono (2019), and Haryono (2017) that financial targets have no influence on fraud in financial statements. Mawarni (2016), Sulastri (2019), Tiffani and Marfuah (2015) Haryono (2017) stated that ineffective monitoring has a positive effect on fraud in financial statements. Meanwhile, Mardianto and Carissa Tiono (2019) and Widarti (2015) stated that ineffective monitoring has no effect on fraud in financial statements.

II. Theoretical Studies & Hypothesis Development

1. Stewardship Theory

Stewardship theory which is part of Agency theory. According to Donaldson et al. (1997) in their research found that there is a difference between Stewardship theory and Agency theory. Where stewardship theory is a depiction of situations where management is not motivated by individual goals but rather prioritizes the goals of their main results for the benefit of the organization. The theory assumes the existence of a strong relationship between the satisfaction and success of the organization.

In Stewardship theory, managers are seen as parties who are able to carry out their best actions with the aim of meeting the needs of stakeholders. This theoretical concept makes the principle of trust the basis for the authorized party, where management in an organization is considered a good steward who carries out the duties of his superiors with full responsibility. Stewardship here assumes that there is no conflict between individuals because each side wants to achieve the goal of congruence in organization.

2. Fraud

Fraud or fraud is the deliberate presentation of false financial statements by eliminating or adding a certain amount to deceive the rights owner of the financial statements. According to Albercht et al., (2011) in Pardosi (2015), "Fraud is a generic term,and embraces all the multivararious means which humans ingenuity can devise which are resorted to by one individual, to get an advantage over another by false representation. No definite and invariable rule can be laid down as a general proposition in definiting. Fraud as it includes surprise, trickery, cunning and unfair ways by wich another in cheated. The only bounderies defining it are those which limit human knavery". This means that fraud is a general thing and has many meanings, occurs because of human ingenuity and is intended for one party to obtain more benefits by presenting the wrong. There are no specific rules that can be used as a basis in interpreting fraud which consists of surprise, fraud, cunning and unnatural means that are used as a way to deceive others. The only way to explain it is that fraud is something that will damage human morale. Some ordinary people state that fraud is an act of corruption committed by high-ranking state officials. Although it is true that corruption is part of the model of cheating in question. The Association of Certified Fraud Examiners or ACFE (2016) describes a chart of fraud schemes in the world of work called the fraud tree.

3. Financial Statement Fraud (Kecurangan Laporan Keuangan)

According to ACFE (2016) there are 2 kinds of operations carried out by actors to manipulate financial statements. First, by presenting higher company revenues or assets so that the company's financial performance looks good so that users of financial statements, especially investors and creditors, increasingly believe in the company's prospects. The second mode is that the perpetrator manipulates financial statements by presenting income and assets that are lower than they actually are. The purpose of which is carried out with a lower presentation is to reduce the payment of obligations to the government or taxes and other parties.

4. Fraud Triangle Theory (Teori Segitiga Kecurangan)

Fraud triangle is a theory that was first put forward by Cressey (1953) in Skousen et al as an idea that examines the causes of cheating. In Cressey's research this generally explains the reasons why people commit fraud. The cause of the emergence of fraud itself is due to three conditions as described in PSA 70 (Auditing Standards Section 316). The three conditions are as described below:

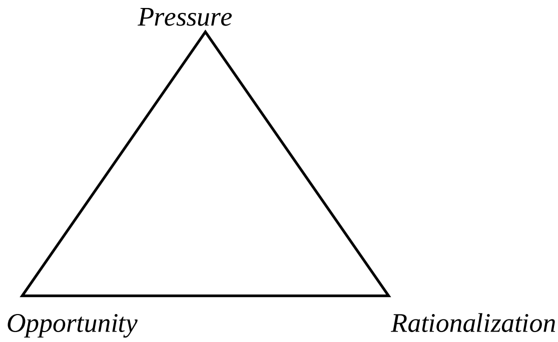

Figure 2.1 ***Fraud Triangle***

5. Research Hypothesis

- Renzy (2019) found the results of research that financial stability has a negative effect on financial statement fraud. Stating that the high financial stability can cause a tendency to commit fraud in financial statements. Based on the existing description, this hypothesis can be tested in this study is:

H_1: Financial stability affects financial statement fraud.

- Research conducted by Hanifa and Laksito (2015) found that financial targets have a negative influence on financial statement fraud. In line with stewardship theory which has the view that managers will behave as stewards, and tend to follow the wishes of the principal. Based on the description above, the hypthesis that can be tested in this study is:

H_2: Financial targets affect financial statement fraud

- the research of Vermeer, Press and Weintrop as quoted from Skousen et al. (2009) concluded that when repayment of a loan is carried out, the manager is likely to carry out the discretionary accrual. Based on the theory and from the results of previous studies, the external pressure experienced by company management can be one of the factors that can be used to detect financial statement fraud.

H_3: External pressure affects financial statement fraud.

- In line with this stewardship theory, it assumes that there will be no conflict between individuals because each party attaches great importance to the interests of the organization rather than the interests of the individual. Based on the explanation above, a hypothesis can be proposed:

H_4: Personal financial need affects financial statement fraud

- research conducted by Septriani and Handayani (2018) which states that the ineffectiveness of supervision affects financial statement fraud due to the absence of good internal control. Fraud also occurs if the existence of the independent commissioner is not independent in supervising because he participates in fraud and manipulation with management. On the basis of this description, the hypothesis in this study is as follows:

H_5: Ineffective monitoring affects financial statement fraud.

- Lou and Wang (2009) stated that a company can replace auditors to reduce the possibility of detection of financial statement fraud by auditors. Proxy auditor change has been researched by Rachmawati (2014) stating that auditor change has a significant effect on financial statement fraud. Based on the description submitted, the hypotheses that can be tested in this study are:

H_6: Rationalization affects financial statement fraud

6. **Frame of Mind**

Based on the frame of thought outlined, it can be seen in Figure 2.2 the relationship between variables in the study is as follows:

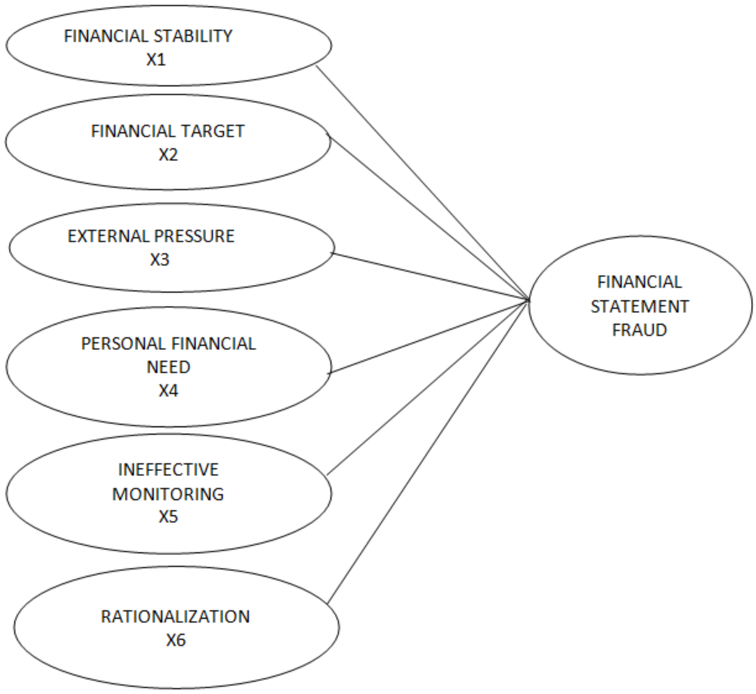

Figure 2.2 Framework of Thought

A. Research Methods

This research uses quantitative research types and the type of data used in this study is secondary data in the form of annual financial report data of manufacturing companies registered in Bursa Efek Indonesia. In this study, it used descriptive statistical analysis to explain the characteristics of the existing variables used by this study such as minimum, maximum, average, and standard deviation. This study also used bound variables (dependent) and free variables (independent). The bound variable in this study is financial statement fraud. The free variables in this study are financial stability, financial target, external pressure, personal financial need, ineffective monitoring, and rationalization.

B. Research Findings & Discussion

a. **Descriptive Statistical** Analysis

The financial statement fraud potential variable measured using the Fscore indicator shows a minimum value of -0.306. While the maximum value is 0.412. The average Fscore indicator is 0.04126 which shows that the average sample company has the potential to commit financial statement fraud. Standard deviation is an overview of the level of data variation so that the level of variation in Fscore indicator data is 0.195089.

	n	Min	Max	Mean	Sum	SD
Fscore	15	-,306	,412	,04126	,619	,195089
ROA	15	,001	,243	,10344	1,552	,077085
ACHANGE	15	,047	,145	,05298	,795	,054799
BDOUT	15	,214	,500	,36259	5,439	,081474
LEV	15	,085	,609	,36824	5,524	,187937
OSHIP	15	,000	,373	,08661	1,299	,151111
AUDCHANGE	15	0	1	,200	3,0	,4140

b. Determinant coefficient test

The coefficient of determination test (R^2) aims to determine the percentage of influence of independent variables on dependent variables used in this study.

Model	R	R Square	Adjusted R Square
1	0,828	0,686	0,450

Source: SPSS output data

From table 4.6 it is known that the coefficient of determination (Adjusted R Square) is 0.450. This means that the potential for fraud in financial statements (dependent variables) can be explained by financial stability, financial targets, external pressure, personal financial needs, ineffective monitoring, and rationalization (independent variables) of 45.0% and the remaining 55.0% is explained by other variables that are not in the study.

c. Test F

The F test is performed to test the feasibility of the regression model. Here are the regression feasibility test results (Test F):

Table of F Test Results

Model		Sum of Square	Df	Mean Square	F	Itself.
1	Regression	0,102	6	0,017	2,908	0,042
	Residual	0,047	8	0,006		
	Total	0,149	14			

Source: SPSS output data

From the table above, it can be seen that the significant value (0.042) < the significance level / 0.05. Then the conclusion of the test is that the regression model used in the study is feasible or fit to use. This means that all its independent variables have an effect on its dependent variables

d. Multiple Linear Regression Analysis

The multiple linear regression test aims to test variables that can be used to detect financial statement fraud. The results of the multiple regression analysis carried out can be seen in the table below:

Multiple Linear Regression Results Table

	Coefficient	p-value
Constant	0,084	0,635
ROA	1,108	0,036
ACHANGE	-0,759	0,043
BDOUT	0,712	0,175
LEV	-0,186	0,047
OSHIP	-0,355	0,036
AUDCHANGE	-0,099	0,048

Source: SPSS output data

From the results of multiple linear regression in table 4.8 above, the regression model used is:

F-Score= 0,084 + -1,108ROA + -0,759ACHANGE + 0,712BDOUT + -0,186LEV + -0,355OSHIP + -0,099AUDCHANGE

From the multiple linear regression equation, it can be concluded that the constant value of 0.084 indicates that ROA, ACHANGE, BDOUT, LEV, OSHIP, and AUDCHANGE do not exist or have zero, hence the potential for fraud in financial statements /Fscore is worth 0.084.

The value of the ROA regression coefficient is -1.108, meaning that if the ROA increases by 1 unit, the Fscore/potential fraud of the financial statements will decrease by 1.108, and vice versa assuming other independent variables are constant.

The value of the ACHANGE regression coefficient is -0.759, meaning that if ACHANGE increases by 1 unit then the Fscore/potential for financial fraud will decrease by 0.759, and vice versa assuming other independent variables are of constant benefit.

The value of the BDOUT regression coefficient is 0.712, meaning that if BDOUT increases by 1 unit, the Fscore / potential fraud of financial statements will increase by 0.712, and vice versa assuming other independent variables are constant.

The value of the LEV regression coefficient is -0.186, meaning that if the LEV increases by 1 unit, the Fscore / potential fraud of the financial statements will decrease by 0.186, and vice versa assuming other independent variables are constant.

The value of the OSHIP regression coefficient is -0.355, meaning that if the OSHIP increases by 1 unit, the Fscore /potential fraud of the financial statements will decrease by 0.355, and vice versa assuming other independent variables are constant.

The value of the AUDCHANGE regression coefficient is -0.048, meaning that if AUDCHANGE increases by 1 unit, the Fscore / potential fraud of financial statements will decrease by 0.048, and vice versa assuming other independent variables are constant.

e. Hypothesis Test

The hypothesis test or t test aims to separately test the influence of independent variables on dependent variables.

- The Effect of financial stability on Financial Statement Fraud

The results of hypothesis testing table 4.8 show that financial stability as measured by ACHANGE has a coefficient value of 0.759 and a significance value (p-value) of 0.043. The p-value (0.043) < 0.05 which means significant financial stability (ACHANGE) at the level of 5%. This proves that there is an influence of financial stability (ACHANGE) variables on financial statement fraud. So that H_1 "financial stability affects financial statement fraud" is received.

- The Effect of Financial Targets on Financial Statement Fraud

The test results of the variable showed that the financial target measured by ROA had a coefficient value of -1.108 and a significance value (p-value) of 0.036. The p-value (0.036) < 0.05 which means that the financial target (ROA) is significant at the level of 5%. The results showed that there was a significant influence between financial targets and financial statement fraud. So that H_2 "financial targets affect financial statement fraud" is received

- The Effect of External Pressure on Financial Statement Fraud

The test results of the variable showed that the external pressure measured by LEV had a coefficient value of 0.186 and a significance value (p-value) of 0.244. The p-value (0.047) < 0.05 which means that the external pressure (LEV) is significant at the level of 5%. It was concluded that the LEV variable has a significant influence on financial report fraud. So that H_3 "external pressure affects financial statement fraud" isreceived

- The Effect of Personal Financial Need on Financial Statement Fraud

The test results of the variables showed that the personal financial need measured by OSHIP had a coefficient value of -0.355 and a significance value (p-value) of 0.036. The p-value (0.036) < 0.05 which means personal financial need (OSHIP) is significant at the level of 5%. So it can be concluded that the OSHIP variable has a significant influence on financial statement fraud. So that H_4 "personal financial need affects financial statement fraud" is received

- Effect of Ineffecive Monitoring on Financial Statement Fraud

The results of hypothesis testing in table 4.8 show that ineffective monitoring as measured by the ratio of independent board of commissioners or BDOUT has a coefficient value of 0.712 and a significance value (p-value) of 0.175. The p-value (0.175) > 0.05. This proves that the ineffective monitoring (BDOUT) variable does not have a significant influence on financial statement fraud. So that H_5 "ineffective monitoring affects financial statement fraud" is rejected

- The Effect of Rationalization on Financial Statement Fraud

The test results showed that the rationalization variable measured by auditor turnover (AUDCHANGE) had a coefficient value of -0.099 and a significance value (p-value) of 0.098. The p-value (0.048) < 0.05. This proves that variable rationalization (AUDCHANGE) has an influence on financial statement fraud. So that H_6 "rationalization affects the fraud of financial statements" diterima.

III. Conclusion

This study aims to determine the effect of financial stability, financial targets, external pressure, personal financial needs, ineffective monitoring, and rationalization on financial statement fraud. Based on the results of the analysis that has been described earlier, the conclusion that can be drawn is First, Financial stability (ACHANGE) has an influence on financial statement fraud. The results of this study show that the higher the financial stability of a company, the smaller the potential for fraud to occur and vice versa.

Second, financial target (ROA) has an influence on financial statement fraud. The results of this study show that the greater the ROA level owned by the company, the lower the potential for fraud in the financial statements to occur in the company and vice versa.

Third, External pressure (LEVERAGE) has an influence on fraud in financial statements. This shows that the high pressure from outside, the potential for financial statement fraud decreases.

Fourth, Personal financial need (OSHIP) has an influence on fraud in financial statements. The results of this study show that the higher the level of personal financial need, the lower the probability of fraud in financial statements. Vice versa, the lower the OSHIP level in the company, the higher the level of fraud in the financial statements that occurs

Fifth, neffective monitoring has no influence on financial statement fraud. The results of this study show that the high and low ineffective monitoring in a company, it does not affect the high and low fraud of financial statements

And Sixth, Rationalization has an influence on financial statement fraud. The results of this study show that the higher the turnover rate of auditors in the company, the smaller the potential for fraud to occur. It is expected for future studies to add and use other variables besides the variables that have been used in previous studies that are suspected to affect the possibility of fraud in financial reporting and also for future research so that the research time period is longer than the previous study.

This research is inseparable from the limitations of the research that can be considered for subsequent research in order to get better results, namely: This study only uses a period of three years and This study only has samples that are still undervalued. This is because companies that publish annual financial statements at the time of the study are still very lacking.

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