

## **Analysis of the Effect of Fraud Pentagon Models in Predicting the Occurrence of Fraudulent Financial Statements** *(Empirical Study on Manufacturing Companies Listed on the Indonesia Stock Exchange 2016-2018 Period)*

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**Farrah Geubrina Rezeki**  
Universitas Mercu Buana, Jakarta, Indonesia  
E-mail: [gabby\\_galzstation@yahoo.com](mailto:gabby_galzstation@yahoo.com)

### **ABSTRACT**

*This study aims to determine the effect of Fraud Pentagon Model to predicting occurrence of Fraudulent Financial Statements in manufacturing companies listed on the Indonesia Stock Exchange in 2016-2018. Pentagon Fraud Model is a development of Fraud Triangle Theory and Fraud Diamond, including opportunity, pressure, competence, rationalization, and arrogance. The sample consisted of 83 manufacturing companies listed on the Indonesia Stock Exchange in 2016-2018, selected using purposive sampling method. The data analysis method used is multiple regression with SPSS version 25.0. The results of this study indicate that pressure and arrogance influence in predicting the occurrence of Fraudulent Financial Statements. While rationalization, opportunity, and competence have no effect in predicting occurrence of Fraudulent Financial Statements. Key Words: Fraud Triangle Theory, Fraud Diamond, Fraud Pentagon Model, Fraudulent Financial Statement.*

*Keywords: Fraud Triangle Theory, Fraud Quadrant, Fraud Triangle Model, Fraudulent Financial Reporting.*

### **INTRODUCTION**

In order to show an increase in the existence of performance, company management is often compelled to always look good from various parties through the financial reporting that is presented. This often makes company management forced to manipulate financial reporting, which causes the information provided to be inappropriate, and often causes losses for many parties. This fraudulent practice of financial reporting is better known as fraudulent financial statements (Arens, 2015).

Fraud is not a new phenomenon (Awang et. al., 2015). The most popular fraud case in Indonesia in recent years is the fraud case committed by Bakrie & Brothers. Bakrie & Brothers (BNBR), a business focused on the manufacturing and infrastructure sectors. Bakrie

& Brothers can carry out manipulation cases on financial statements three times, even more in a year. As was done in 2010.

In early 2010, Indonesia Corruption Watch (ICW) revealed the manipulation of coal that had been carried out since 2003-2008. This caused losses to the state to reach US\$620.9 million. Furthermore, at the beginning of the year, BNBR again manipulated the financial statements that were revealed because of the whistle blower who reported it to Bapepam-LK. The manipulation carried out is that there are differences in the recording in BNBR's financial statements. The event of disbursement of deposits at the end of March is not recorded in the financial statements for the period of March. This was done to beautify the portfolio display of the first quarter 2010 financial report performance. It didn't stop there. At the end of 2010, Bapepam-LK investigated the

differences in the recording of the Annual Financial Reports (LKT) between BNBR's subsidiaries, namely AKRA and BNBR's consolidated LKT. The fuel purchase transaction is only recorded in the AKRA LKT, but the BNBR LKT does not record the transaction.

Furthermore, the fraud case that is very well known to the world is the fraud case by Enron. The bankruptcy of the Enron Corporation, described in the book Arens, et. al. (2015). Three types of fraud, according to the ACFE report in 2018, the type of fraud that caused the most losses to the company was fraudulent financial statements with a total loss of US\$800,000, with a case percentage of 10%. According to the results of the 2018 ACFE report, companies that the highest number of fraud cases and median loss when compared to other industrial or organizational types, with a total of 212 cases, and causing a loss of US\$240,000.

The factors that cause fraud have been investigated for the first time that can affect the occurrence of fraud. Furthermore, the latest research, namely the Fraud Pentagon Model is a development of the previous theory (Yusof, et.al., 2015). Marks (2012) expands the fraud diamond into a fraud pentagon model.

Because of the many cases of fraud that occur in the world, the researchers are interested in analyzing the effect of fraud risk factors according to the fraud pentagon which adds aspects of competence and arrogance in predicting the occurrence of fraudulent financial reporting.

## METHOD

This type of research is quantitative research, where the research data uses numbers and statistical analysis. And this research includes causal research, namely research with the characteristics of the problem in the form of a cause-and-effect relationship between two or more variables. The sample in this study is a manufacturing company listed on the Indonesia Stock Exchange with the research year 2016-2018. From the results of sampling using purposive sampling method, obtained as many as 83 companies from a total of 144 companies that

were sampled. This study uses data collection techniques. The data used are secondary data.

## RESULT and DISCUSSION

### Descriptive Statistical Data Analysis

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
DACCit	249	-6.47	0.40	-0.1202	0.56370
LEV	249	0.08	11.10	1.2445	1.62910
BDOU	249	0.00	1.00	0.4011	0.13332
TATA	249	-3.22	21.91	0.3817	1.51910
CEOCHANGE	249	0.00	1.00	0.2249	0.41836
CEOPSIZE	249	1.00	4.00	2.4819	0.86642
N	249				

N written is 249, this means that there are 249 research samples, which consist of variable data on financial reporting fraud as proxied by DACCit, pressure proxied by leverage, opportunity proxied by BDOU, rationalization proxied by TATA, competence proxied by CEO CHANGE, arrogance proxied by CEO picture size.

The average DACCit is -0.1202, the minimum is -6.47, the maximum is 0.40, and the standard deviation is 0.56370. The LEV has a mean of 1.1202, a minimum of 0.08, a maximum of 11.10, and a standard deviation of 1.62910. BDOU has a mean of 0.4011, a minimum of 0.00, a maximum of 1.00, and a standard deviation of 0.13332. TATA has a mean of 0.3817, a minimum of -3.22, a maximum of 21.91, and a standard deviation of 1.51910. CEOCHANGE has a mean of -0.1202, a minimum of 0.00, a maximum of 1.00, and a standard deviation of 0.41836. CEOPSIZE has a mean of 2.4819, a minimum of 1.00, a maximum of 4.00, and a standard deviation of 0.86642.

### Normality test

Based on the results of SPSS data processing, obtained a significance value of 0.200, this means a significant value of  $0.200 > 0.05$  and normally distributed. So this study meets the normality test.

### Multicollinearity test

Based on the guidelines for the multicollinearity test, the results obtained with a tolerance value 0.1 and a VIF value 10, it can be

seen that there is no multicollinearity in this regression model, so the model is feasible to use.

### Heteroscedasticity test

The results of the heteroscedasticity test show that the points spread randomly and are spread both above and below the number 0 on the Y axis. It can be concluded that there is no heteroscedasticity in the regression model, so it is appropriate to use it to predict fraudulent financial statements based on the input of the independent variable pressure, opportunity, rationalization, competence, and arrogance.

### Autocorrelation test

Based on the autocorrelation test, the DW value was 1.950. The dU value for N=249 is 1.8253. This means that it can be said that this research does not occur autocorrelation.

### Coefficient of determination test (R<sup>2</sup>)

From the results of the coefficient of determination test, it shows that 7.4% of the dependent variable fraudulent financial statements is explained by the independent variables of pressure, opportunity, rationalization, competence, and arrogance. And the remaining 92.6% is explained by other variables.

### F Test result

Based on the results of data processing above, obtained F count 4.693 with a probability (significant) 0.000. This shows that simultaneously or simultaneously the variables of pressure, opportunity, rationalization, competence, and arrogance affect the occurrence of fraudulent financial reporting.

### Uji t Result

The first hypothesis (H1) in this study is that pressure affects the occurrence of fraudulent financial reporting. Pressure proxied by leverage (LEV) produces a t-value of 4.137 with a significant value of 0.000. The significance value is smaller than = 5%, then H1 is accepted.

The second hypothesis (H2) in this study is the opportunity to influence the occurrence of fraudulent financial reporting. opportunity proxied by BDOU produces t -1.135 with a significance

of 0.258. The significance value is greater than =5%, which means H2 is rejected.

The third hypothesis (H3) in this study is that rationalization affects the occurrence of fraudulent financial reporting. The rationalization proxied by TATA resulted in t 0.311 with a significance of 0.756. The significance value is greater than =5%, which means H3 is rejected.

The fourth hypothesis (H4) in this study is that competence has an effect on the occurrence of fraudulent financial reporting. Competence proxied by CEO Change (change of CEO) produces t 0.611 with a significance of 0.546. The significance value is greater than =5%, which means H4 is rejected.

The fifth hypothesis (H5) in this study is that arrogance affects the occurrence of fraudulent financial reporting. The arrogance proxied by CEO Picture Size (CEOPS) resulted in a t of 2.187 with a significance of 0.030. The significance value is smaller than =5%, which means H5 is accepted.

## CONCLUSION

Based on the results obtained. So it can be concluded that:

1. Pressure as a variable that affects FFS

The results show that H1 is accepted. It can be concluded that pressure has a significant effect on the occurrence of FFS.

2. Opportunity as a variable that affects FFS

The results show that H2 is rejected and it can be concluded that opportunity has no significant effect on the occurrence of FFS.

3. Rationalization as a variable that affects FFS

The results show that H3 is rejected and it can be concluded that rationalization has no significant effect on the occurrence of FFS.

4. Competence as a variable that affects FFS

The results show that H4 is rejected and it can be concluded that competence has no significant effect on the occurrence of FFS.

5. Arrogance as a variable that affects FFS

The results show that H5 is accepted and it can be concluded that arrogance has a significant effect on the occurrence of FFS.

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