

THE INFLUENCE OF FRAUD TRIANGLE UPON THE EXISTENCE OF FINANCIAL STATEMENT FRAUD

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**The Influence of Fraud Triangle upon the
Existence of Financial Statement Fraud**

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ABSTRACT

This research is designed to find empirical evidence on the influence of fraud triangle factors upon the existence of financial statement fraud in Indonesian Listed companies. The research samples are 105 public companies consisting of 42 fraud firms and 63 nonfraud firms. Classification between fraud firm and the nonfraud firm uses the Eckel index.

The result indicates that: first, the external pressure variable that proxied by debt, personal need variable that proxied by insiders' stock ownership, and CEO's education, and ineffective monitoring variable that proxied by unexistence antifraud program and training have a significant positive influence to the existence of financial statement fraud. Second, the personal financial need variable that proxied by CEO's Tenure, the ineffective monitoring variable that proxied by unexistence whistleblowing program, and rationalization variable that proxied by auditor change has negative significant to the existence of financial statement fraud. Third, simultaneously, all independent variables influence the existence of financial statement fraud.

Keywords: financial statement fraud, income smoothing, fraud triangle.

JEL Classification: J24, D1, J1

This Paper has been presented at Asia-Pacific Management Accounting Association 2013, Nagoya, Japan

Received:
20 Feb 2017
Revised:
01 Mar 2019
Accepted:
27 Jun 2019

Indonesian
Management and
Accounting
Research
ISSN:
(e) 2441-9724
(p) 1411-8858

Volume 18
Number 02
July 2019

INTRODUCTION

Background

The field of financial fraud has attracted high-profile attention from the general public, investors, analysts, and regulators, especially after the occurrence of financial scandals in several public companies. Fraud can occur due to the weakness of internal control over human resources in companies, and the perpetrators are often the people who have the power in the company (Skousen et al., 2008). The weakness of internal control happens due to lack of supervision and abuse of authority. According to PSAK No. 1 (revised 2009), *Presentation of Financial Statements*, financial statements portray the financial effects of transactions and other events by grouping them into broad classes according to their economic characteristics.

Financial statement fraud is deliberate or careless, whether it could be a deliberate act that resulted in material errors in the financial statements (Taylor and Glezen in Soselisa and Mukhlisin, 2008). Once fraud is committed, it is often necessary to continue over time. There are several forms of financial statement fraud, but the most common are overstated revenues, profits, and assets to create a financially stronger company, and understating expenses and liabilities to increase the company's net worth and equity. The increasing numbers of accounting scandals caused speculation that the management has committed fraud in the financial statements. The agency theory (Jensen and Meckling, 1976) can be used to explain the phenomena of financial statement fraud. One of the problems in agency relationship arises when there is a different goal between agent and principal. When the agent and principal seek to maximize the utility of each and have different desire and motivation, then the management (agent) does not always act according to the goals of shareholders (principal).

Indonesia, as a country with stable economic conditions, has also suffered accounting scandals. In 2002, it was recorded that financial scandals involving several public companies, such as PT Dharma Ocean Fishing Industries Tbk, and PT Indonesian Satellite Corporation Tbk. Based on the Bapepam examination (Bapepam, 2002), it was found that there was an existence of market manipulation action on PT Dharma Ocean Fishing Industries Tbk. The case began after the stock trading companies in August 2002, which did not lead to changes in ownership of stock transactions and

misuse of funds and the assurance client's shares without customer authorization. These transactions violated The Law no. 8 of 1995 on the stock market. Also, cases of insider trading in the stock trade experienced by PT Indonesian Satellite Corporation Tbk. The case began after the implementation of corporate divestiture in May 2002. It was found that there were significant stock sales made by several parties, resulted in the company's stock price declining in significantly over the same period.

After the occurrence of fraud scandals in the United States, on July 30, 2002, the Sarbanes-Oxley Act of 2002 (Sarbox) was signed into law by President George W. Bush. Sarbox is a comprehensive revision of the federal securities laws applicable to public companies. Sarbox also established PCAOB to oversee the audits of public companies and conduct disciplinary proceedings and impose sanctions for violations of Sarbox, and in order to provide solutions to the weaknesses in fraud detection procedures across the globe, AICPA also issued SAS No.99 on *Consideration of Fraud in a Financial Statement Audit* in 2002. SAS No. 99 contains specific recommendations that an institution's board of directors, audit committees, and management can take to prevent, deter, and detect fraud. SAS No. 99 is the form basis for an external auditor's responsibilities for detecting fraud. SAS No. 99 emphasizes the importance of evaluating fraud risk from the view of fraud triangle factors to detect fraud. The fraud risk factors adopted in SAS No. 99 are based on Cressey's (1953) theory (Skousen et al., 2008). Generally, the fraud triangle consists of three conditions that are presented when fraud occurs. First, there is a pressure that provides a reason to commit fraud. Second, there is an opportunity for fraud to be perpetrated. Third, the individuals committing the fraud possess an attitude that enables them to rationalize the fraud. Skousen et al. (2008) stated that SAS No. 99 requires auditors to detect the presence of fraudulent behavior by comprehensively assessing the extent to which pressure, opportunity, and rationalization are present. According to SAS No. 99, four types of pressure may lead to fraudulent financial reporting. Types of pressure are financial stability, external pressure, personal financial need, and financial targets. SAS No. 99 also classifies the opportunities that may occur in fraudulent financial statements into three categories. Types of opportunities are the nature of the industry, ineffective monitoring, and organizational structure. According to Skousen et al. (2008), rationalization is the third part of the fraud triangle and the most difficult to measure, research shows that the incidence of audit failures and

litigation increases rapidly after the auditor change. The finding of fraud risk factors by Cressey (1953) is based on a series of interviews with people who have been convicted of embezzlement (Skousen et al., 2008).

Cases of financial fraud scandals in recent years provide strong evidence that the audit failures affect business losses. The use of fraud triangle analysis to detect fraud in financial statements has previously made by Persons (1995) dan Kaminski *et al.* (2004). They developed a predictive model of fraud using financial ratios. However, the model has a high rate of misclassification (Skousen et al., 2008).

Cressey conducted the development research model to detect fraudulent financial statement fraud triangle analysis (1953), Turner et al. (2003), Ken and Elder (2007), Skousen et al. (2008), and Lou and Wang (2009). Skousen et al. (2008) tested the effectiveness of the adoption of fraud risk factors by Cressey (1953) in SAS No.99 to detect financial statement fraud. The study was conducted by developing variables, and then Skousen et al. (2008) developed the variables in some proxy measure of the third leg of the fraud triangle, namely: pressure, opportunity, and rationalization. Variables were tested using logistic regression analysis method by comparing the sample of fraud firms and nonfraud firms. The test results successfully predicted correctly and demonstrated substantial improvement compared to other fraud prediction models.

In 2006, ACFE Canada also conducted a study in the field of fraud. This study examined on how to measure the occupational fraud cost, how occupational fraud is committed, who are victims of occupational fraud, how to detect occupational fraud, how to limit the fraud losses, how to know the perpetrators of fraud, and how to recover losses caused by fraud. This study aimed to help all anti-fraud professionals and academics better understand how to prevent and detect fraud. The web survey used to gather data for this study. This study has been adapted from previous ACFE U.S. fraud surveys by Dr. Peltier Rivest, Associate Professor at Concordia University, Canada, and ACFE.

Based on the foregoing, this study is intended to detect and predict financial statement fraud using the fraud triangle analysis. Furthermore, the component of variables cannot be directly observed, so the proxy variables need to be developed. The independent variables of this research are pressure factors variables which include external pressure and personal financial need, opportunity factors which include ineffective monitoring, and the rationalization.

External situational pressures are normally economic pressures. According to SAS No. 99, the excessive pressure exists for management to meet the requirements or expectations of third parties due to obtaining additional debt or equity financing to stay competitive-including financing of major research and development or capital expenditures. Accordingly, this study includes the debt (DEBT) as proxies for external pressure.

Situational pressures will prompt an otherwise honest person to commit an illegal act. Whether it is internal or external, pressures will always be present. Beasley (1996), COSO (1999), and Dunn (2004) in Skousen et al. (2008) indicate that when someone has a significant financial stake in a firm, their financial situation may be threatened by the firm's financial performance. ACFE Canada (2006) also stated that there are some factors also related to the perpetrator, which affect the nature of fraud and the size of losses inflicted upon victim organizations, such as perpetrator's position, perpetrator's education, and perpetrator's tenure. Jensen and Meckling (1976) also stated that higher levels of managerial ownership should result, holding other things constant, in increased firm performance as higher ownership levels help to mitigate the inherent conflict of interest between managers and owners. Skousen et al. (2008) stated that the company's shareholder composition from insiders has a less tendency to commit fraud, but when the percentage of insiders' stock ownership in a company does lower, the probability of fraud in the company is high. Accordingly, this study includes insiders' stock ownership (INSIDE), CEO's education (CEOEDU), and CEO's tenure (CEOTEN) as proxies for personal financial need.

The opportunity to commit and conceal fraud must exist. The main factor of an opportunity to commit fraud is the absence of internal controls. A weakness in internal controls or ineffective monitoring provides the opportunity for fraudsters to commit their crimes. According to ACFE Canada (2006), various anti-fraud measures may be implemented by an organization to prevent of limit fraud losses, such as implement a fraud hotline or whistleblowing system and provide a fraud awareness or antifraud training program for their employees and managers. If there are reasons present that make it appear to be relatively easy to commit and conceal the fraud, the likelihood of it occurring is very high (Colby, 2005). In addition to being useful in the detection of fraud, this study includes the ineffective whistleblowing program (INWHIST), and the ineffective antifraud program and training (INTIFR) as proxy variables for

opportunity factors. These variables are developed which serve as a proxy measure for opportunity factors.

Rationalization is the ability to justify dishonesty, and that is what makes the act possible. People who commit financial statement fraud can rationalize the act. He or she might believe that the lies and deceit are for the company's benefits. Rationalizations are also affected by management's ethical behavior in running the company. According to Stice (1991), St. Pierre and Anderson (1984), and Loebbecke *et al.* (1989) in Skousen et al. (2008), extant research indicates that the incidence of audit failures and litigation increase immediately after a change in auditor. Therefore, this study includes auditor change (AUCHANG) as a proxy for rationalization.

Financial statement fraud often begins with the misleading of information in financial statements. Therefore, this study uses the practice of income smoothing as the dependent variable. In this study, Eckel index is used as a proxy to measure financial statement fraud. Income smoothing practice is chosen as the dependent variable because this practice is closely related to earnings manipulation actions taken by management, and any intentional misstatement of accounting information represents fraudulent financial reporting.

Based on the explanation above, a study that intended to predict the existence of financial statement fraud using the fraud triangle analysis is still relatively rare, especially concerning study within an Indonesian context, although the financial fraud cases are common. This study adopts Skousen et al. (2008) and ACFE Canada (2006) in the context of testing the variables contained in the fraud triangle to the existence of financial statement fraud in Indonesian listed companies.

Formulation of the Problem

Based on the above issues, this study aims to analyze the relationship between the variables of the fraud triangle factors upon the existence of financial statement fraud, and the main problems in this study can be formulated as follows:

1. Does external pressure have a significant influence on the existence of financial statement fraud?
2. Does personal financial need such as insiders' stock ownership, CEO's education, and CEO's tenure have a significant influence on the existence of financial statement fraud?

3. Do the ineffective monitoring such as ineffective whistleblowing program, and effective antifraud program and training have a significant influence on the existence of financial statement fraud?
4. Is the rationalization factor variable that proxied by auditor change has a significant influence on the existence of financial statement fraud?
5. Do insiders' stock ownership, CEO's education, CEO's tenure, ineffective whistleblowing program, effective antifraud program and training, and auditor change simultaneously have a significant influence on the existence of financial statement fraud?

LITERATURE REVIEW

Agency theory is an approach that can describe the concept of fraud that is strongly associated with financial statement fraud that will be addressed in this study. Agency theory embeds the influential relationship that exists between managers and shareholders of the firm. This relationship has the potential to influence the decision-making process in the firm, which in turn has potential impacts on the firm. Jensen and Meckling (1976) define agency relationship as a contract under which the principals engage an agent to perform some service on their behalf, which involves delegating some decision-making authority to the agent. Principals are assumed only interested in financial returns derived from their investment in the company, while the agent is assumed to receive the satisfaction not only the financial compensation but also the other extras involved in the agency relationship (Eisenhardt, 1989).

The principals are motivated to commit fraud in order to improve his or her life with profitability. On the other hand, agents are motivated to meet the economic and psychological needs (Eisenhardt, 1989). Conflict of interest is intensified when the principal can not monitor the daily activities of an agent, so the principal does not know whether an agent is working in accordance with the wishes of the principal or not.

The statement was in line with Poll (2004), which stated that the action of earnings management is closely related to financial statement fraud. The earnings management action was taken by management, if it left unchecked and unnoticed by the owner, will ultimately develop into a financial statement fraud that was materially misleading. Based on the explanation, it can be concluded that the agency problem between the

owner (principal) and management (agent) can lead to financial statement fraud that is misleading and harmful.

Fraud is a very large scope in the literature review. Here are the common definitions of fraud from some viewpoints. Table 2.1 below shows some definitions of fraud according to previous books and journals:

Table 2.1: Definitions of Fraud

No	Source	Definitions
1	Association of Certified Fraud Examiners (ACFE)	Fraud is the use of one's occupation for personal enrichment through the deliberate misuse of misapplication of employing organization's resources or asset.
2	Statement of Auditing Standards No.99	Fraud is an intentional act that results in a material misstatement in financial statements that are the subject of an audit.
3	The U.S Security Exchange Commission (SEC), Securities Exchange Act of 1934, Section 10b-5	Fraud shall be unlawful for any person, directly or indirectly, by the use of any means or instrumentality of interstate commerce, mails, of any facility of any national securities exchange, to employ any scheme to defraud, to make any untrue statement of material fact, and to engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person, in connection with the purchase or sale of any security.

The concept of fraud triangle was introduced in professional literature by AICPA in SAS No. 9, *Consideration of Fraud in a Financial Statement Audit*. AICPA has referred to these three elements as the fraud risk factors or conditions of fraud. The potential presence of fraudulent behavior by assessing factors related to perceived pressure, opportunity, and rationalization.

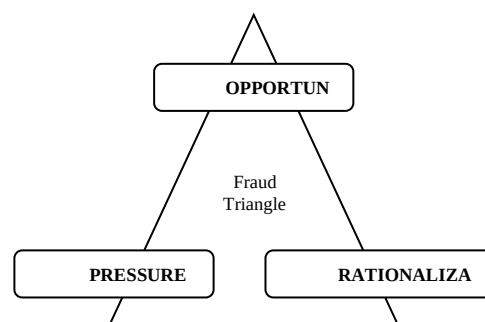


Figure 2.1: Fraud Triangle, Source: AICPA

1. Pressures

Pressures will prompt an otherwise honest person to commit an illegal act and often because it is seen as the only option. It is typical as a result of an immediate problem or pressure within either his or

her internal or external environment (Colby, 2005). Pressure causes people to commit fraud. Pressure can be manifold, including lifestyle, economic demands, and others. Pressure most often came from financial necessity pressure. According to SAS 99, there are four common types of conditions on the pressure that can lead to fraud. These conditions are financial stability, external pressure, personal financial need, and financial targets.

2. Opportunity

The opportunity to commit fraud must exist. According to AICPA, a person's position, as well as their responsibilities and authorization, also contribute to the opportunity to commit fraud. There is a direct correlation between the opportunity to commit fraud and the ability to conceal the fraud. To commit fraud, an individual must have access to the asset or manage a control procedure that allows the commission of the fraud scheme. Colby (2005) also stated that the opportunity to commit fraud often involves the improper oversight by the board of directors or audit committee, weak or nonexistent internal controls, complex transactions, and ineffective internal audit staff. From the three fraud risk factors, the opportunity factor is the basic things that can happen at any time, so it requires supervision from the organizational structure. Organizations should establish the processes, procedures, and controls, so the perpetrators cannot commit to fraud, as stated in SAS No.99. SAS 99 states that opportunities in financial statement fraud can occur in three conditions. These conditions are the nature of the industry, ineffective monitoring, and organizational structure.

3. Rationalization

Fundamentally, rationalization is the ability to justify dishonesty, and that is what makes the act possible. The individual might believe that lies and deceit are for the betterment of the company. If top management is not committed to integrity and ethical values, the ability to rationalize dishonest behavior will be greatly increased (Colby, 2005). Skousen et al. (2008) stated that rationalization is the most difficult part to measure. According to SAS No. 99, rationalization can be measured from the turnover cycle of auditor change and audit opinions acquired by the company.

Table 2.2 The SAS No. 99 Categories, and Examples of Fraud Risk Factor Relating to Financial Statement Fraud

Fraud Risk Factor	SAS No.99 Categories	Explanations
Pressure	<i>Financial Stability</i>	Financial stability is a condition that describes a company's financial stability. Examples of risk factors: in instances where a company is experiencing growth that is below the industry average, the management may resort to manipulation to improve the firm's outlook.
	<i>External Pressure</i>	The ability to meet exchange-listing requirements, repay debt, or meet debt covenants are widely recognized sources of external pressure. Examples of risk factors: when a company faces expectations from investment analysts, there is a pressure to give the best performance to investors, creditors, and other external parties.
	<i>Personal Financial Need</i>	Personal Financial Need is a condition that describes the company's financial position influenced by personal financial positions. Examples of risk factors: financial interests are dominated by management for the stock price, the company's operations, the company's financial position, or company's cash flows.
	<i>Financial Targets</i>	Excessive pressure on management to achieve financial targets set by directors or management. Examples of risk factors: a company may manipulate earnings to meet the analysts' forecasts such as manipulation of net income.
Opportunity	<i>Nature of Industry</i>	Nature of industry is a condition that connected to the company's risk in industries. The balances in certain accounts are determined largely based on estimations and subjective judgments. Example of risk factors: management may focus on such accounts when engaging in financial statement manipulation.
	<i>Ineffective Monitoring</i>	A condition where the company has no supervisory unit to monitor the performance of the company. Example of risk factors: the dominance management, without control compensation, and ineffectiveness board of directors and audit committee in the internal control process.
	<i>Organizational Structure</i>	A condition where a company has a complex and unstable organizational structure. Examples of risk factors: the organizational structure is too complex, personnel turnover such as senior managers or directors is high.
Rationalization	<i>Rationalization</i>	A condition where the attitude/rationalization of board members, management, or employees allow them to engage in and justify fraudulent financial reporting. Examples of risk factors: at the time of issuing financial statements, the company wanted to portray the real condition in the best condition. The management is more likely to engage in fraudulent financial reporting, which

lead to fraudulent financial statements that would mislead investors and other users of financial statements.

The Association of Certified Fraud Examiners (ACFE), which is the world's largest anti-fraud organization and the premier provider of anti-fraud training education and certification, classifies fraud according to *The Uniform Occupational Fraud Classification System / Fraud Tree*, all occupational frauds fall into one of three major categories, there are:

1. Fraudulent Statements

Fraudulent statements can be viewed as common practice taken by management that adverse investors and creditors. Fraudulent statements consist of financial and non-financial. A major class of frauds in the fraud tree is fraudulent financial reporting or financial statement fraud. The amount of a financial statement fraud in total tends to a material misstatement of the financial reports. The types of fraudulent financial reporting outlined by the ACFE typically focus on improving the organization's financial picture by overstating income, understating losses, or using misleading disclosures.

2. Asset Misappropriations

Asset misappropriation covers the misuse or theft of assets or property of the company or any other party. It is a form of fraud that most easily detected because it is tangible or can be calculated. Asset Misappropriation performed in three forms: skimming, larceny, and fraudulent disbursements.

3. Corruption

Type of this fraud is the most difficult to detect because it involves cooperation with other parties. Corruption often cannot be detected because the parties are working together (symbiosis mutualism). Corruption performed in four forms: abuse of power/conflict of interest, bribery, illegal gratuities, and economic extortion.

According to ACFE, fraudulent statement fraud schemes typically are done by executives. The CEO can direct subordinates to manipulate the books. Executive management can use various other advantages in their positions for the benefit of the organization and the fraudster. According to Singleton and Singleton (2010, p.99), the red flags associated with financial statement fraud include:

1. Accounting anomalies
2. Rapid growth

3. Unusual profits
4. Internal control weaknesses
5. The aggressiveness of executive management
6. Obsession with stock prices by executive management
7. Micromanagement by executive management

The most common red flag of this category is the management style or character of key executives. A senior manager has an observable, overly aggressive nature Singleton and Singleton (2010, p.99). For example, the executive could continually produce and approve overly optimistic financial goals by doing earnings management. Gravitt (2006) in Nguyen (2008) stated that fraud in financial statements involves the following scheme:

1. The forgery, alteration, or manipulation of material financial records that supporting documents or business transaction;
2. The deliberate omission or misrepresentation of events, transactions, accounts, or other important information from financial statements prepared;
3. The willful misconduct on the use of accounting principles, policies, and procedures used to measure recognition, report, and disclose economic events and business transactions;
4. The negligence or intentional disclosure presentation of inadequate disclosures accounting principles and policies and related financial value.

Earnings management is a concept that conducted by the company in managing the financial statements, so the financial statements may be seen having a good quality of financial reporting. Earnings management has a broader scope than the income smoothing. With the earnings management action, the information produced by the company becomes inaccurate. Earnings management contained the refraction of income measurement raised/lowered). One form of earnings management will be addressed in this study is the act of smoothing income.

Income smoothing is a way of removing volatility in earnings by leveling off the earnings peaks over a number of years and raising the valleys over the same period. Steps are therefore taken to reduce and store profits during good years for use during slower years (Mulford and Comiskey, 2002 in Poll, 2004). Koch (1981) in Kustono (2011) also stated that income smoothing is a means used by management to diminish the variability of a stream of reported income numbers relative to some

perceived target stream by the manipulation of artificial (accounting) or real (transactional) variables. The application of income smoothing is one of the earnings management or creative accounting practices.

Income smoothing is concerned with lowering the volatility of the company's earnings, increasing the value of dividends and the stock price of the company; and other aspects directly related to money. It follows that the actions underlying all these items aim to change the information content of the financial statements, thereby influencing the integrity of information (Poll, 2004).

The practice of income smoothing is one of the management actions taken to improve market returns (Poll, 2004). Management action was deliberately done to reach the desired profit in the income statement in order to attract companies to invest in the market, as investors' attention is often focused only on procedures that companies use to generate those earnings information. Also, to report earnings in a stable position, income smoothing practice will give more confidence to the owners of the company, along with the purpose in increasing shareholder satisfaction through growth and stability of earnings reported.

The studies that discuss fraud have been conducted. The following are some examples of study related to fraud.

Table 2.3: Prior Research

No.	Title of Research	Research Method	Result of Research
1	Turner <i>et al.</i> (2003) / <i>An Analysis of The Fraud Triangle</i>	This study developed a network of evidence which has two sub-networks using belief functions approach, to proof the relationship of the conventional audit financial statements and captures the relationship of risk and evidence for fraud risk assessment.	The results of this study support the concept of the fraud triangle into three components, and relationships between components are shown to have a major impact on audit risk.
2	ACFE Canada (2006) / <i>Detecting Occupational Fraud in Canada: A Study of its Victims and Perpetrators</i>	This study aimed to be a useful research tool for all anti-fraud professionals and academics who may use its findings to help them better understand how to prevent and detect fraud. The web survey used to gather data for this study was distributed to all Canadian members of the ACFE in March	This study showed that - the median loss caused by the 90 occupational fraud cases reported in this study was C\$187,500. - anti-fraud professionals with a median of 15 years of experience in the fraud examination field estimate that the typical Canadian organization loses 5% of its annual sales to fraud every year.

		2006. The Canadian survey has been adapted from previous ACFE U.S. fraud surveys by Dr. Peltier Rivest, Associate Professor at Concordia University in Montreal (Quebec, Canada), and the ACFE.	▪ Ninety percent of all occupational fraud cases involved asset misappropriations; 11.1% of the cases involved fraudulent financial statement schemes. ▪ Smaller organizations with less than 100 employees accounted for 42.2% of the victim organizations represented in this study. ▪ Forty-Two percent of the occupational frauds reported in this study were detected through tips from employees, vendors, customers, or anonymous sources. ▪ Organizations that conducted surprise audits regularly experienced much lower median fraud losses than other organizations. ▪ Organizations that provided fraud awareness or ethics training to their employees and managers had median fraud losses of C\$100,000. ▪ Forty-Two percent of occupational frauds were committed by employees, as compared to 38.6% for managers and 19.3% for owners/executives.
3	Ken and Elder (2007) / <i>Fraud Risk Factors and the Likelihood of Fraudulent Financial Reporting: Evidence from Statement on Auditing Standards No. 43 in Taiwan.</i>	The study aimed to assess the effectiveness of the framework of fraud risk factors that applied in Taiwan 43 SAS to detect financial statement fraud.	The results of this study indicate that Taiwanese listed firms with pressure risk factors, opportunity factors, and rationalization factors are more likely to engage in fraudulent financial reporting.
4	Skousen et al. (2008) / <i>Detecting and Predicting Financial Statement Fraud: The Effectiveness of Fraud Triangle and SAS No. 99</i>	This research performed a series of additional tests to determine whether significant proxy variables could be used in prediction of financial statement fraud to a set of fraud firms and a matched sample of non-fraud firms.	The results of this research indicate that rapid asset growth, increased cash needs, and external financing is positively related to the likelihood of fraud. Internal versus external ownership of shares and control of the board of directors are also linked to increased incidence of financial statement fraud. Expansion in the number of independent members on the audit committee, on the other hand, is negatively related to the occurrence of fraud.
5	Soselisa and Mukhlisin (2008) / <i>Pengaruh Faktor Kultur Organisasi, Manajemen, Strategik, Keuangan, dan Auditor Terhadap</i>	The objective of this study was to explain the effect of organization culture, managerial strategic, financial ratios, and	The result showed that the number of related party transactions, CEO's age, current asset composition in the total asset, capital turnover, firm size, and auditor's non-unqualified

	Kecenderungan Kecurangan Akuntansi: Studi Pada Perusahaan Publik di Indonesia	auditor factors on the tendency of accounting fraud.	opinion affected the tendency of accounting fraud significantly.
6	Lou and Wang (2009) / <i>Fraud Risk Factor of The Fraud Triangle Assessing the Likelihood of Fraudulent Financial Reporting</i>	Lou and Wang (2009) used a simple logistic model based on examples of fraud risk factors in ISA 240 and SAS 99.	The results showed that only financial leverage has a positive impact on accounting fraud. While investment, CEO, and firm size have no significant impact on accounting fraud.
7	Rahmawati and Muid (2012) / <i>Analisis Faktor-Faktor yang Berpengaruh Terhadap Praktik Perataan Laba</i>	This study aims to analyze the factors that influence income smoothing. Eckel index used to classify companies that do or do not practice income smoothing.	In the multivariate analysis, only the firm size has a significant effect on the practice of income smoothing. The net profit margin and debt to equity ratio do not significantly influence the practice of income smoothing.

Conceptual Framework

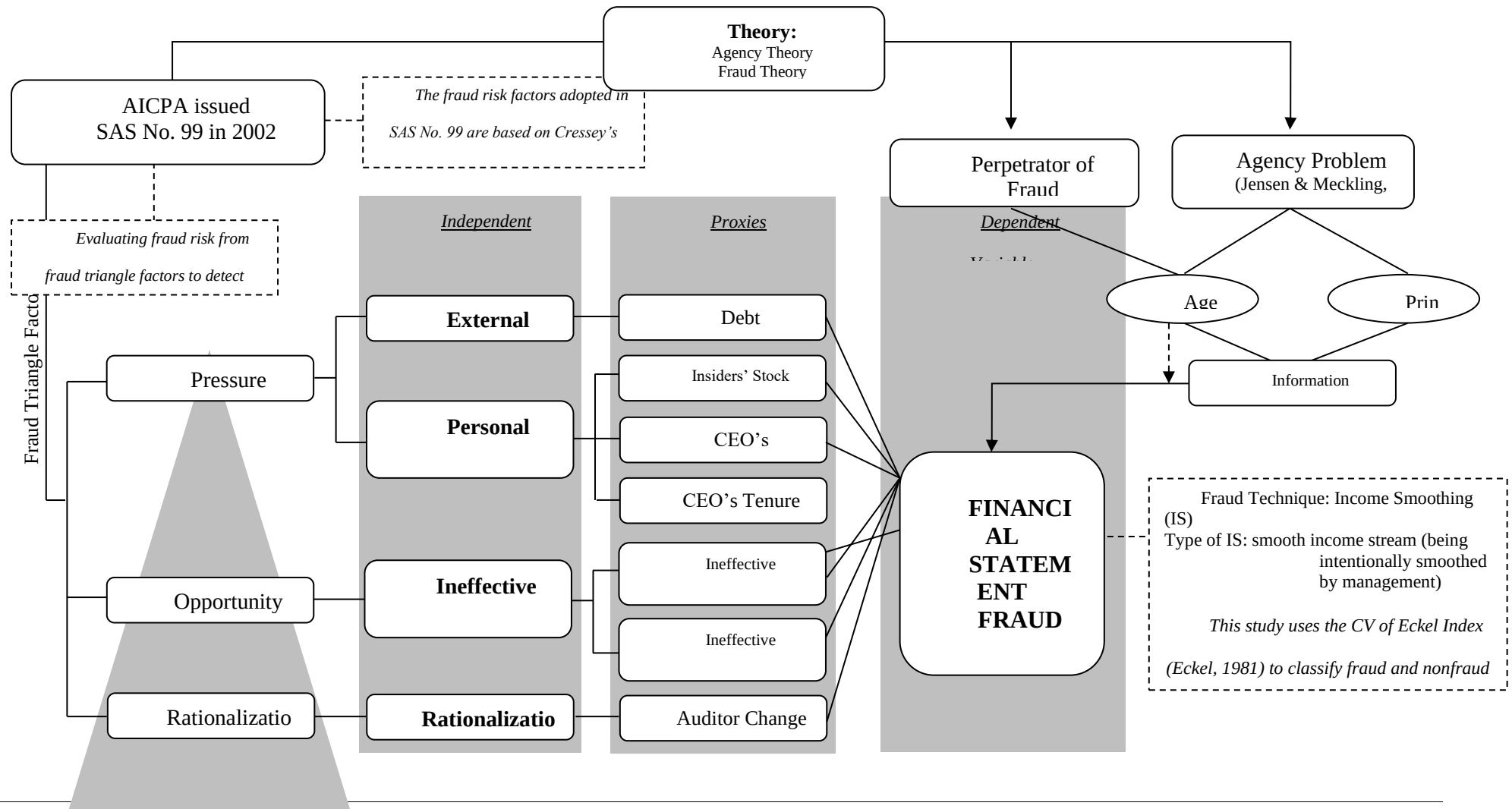
The company's financial statement has a role in providing financial information to users. However, the relevance of its accounting information is declining from time to time. The information contained in the financial statements is no longer relevant as a reference in the decision-making process; this is caused by the presence of financial statement fraud (Ken and Elder, 2007).

The increased accounting scandal gives further evidence of audit failure that brings to serious consequences. Therefore, in 2002, the AICPA issued SAS No. 99, which regulates the detection of financial statement fraud. In response to growing awareness of financial statement fraud, this study is intended to find whether the fraud triangle factors have significant influence on the existence of financial statement fraud in Indonesian listed companies. This study adopts the research of Skousen et al. (2008) and ACFE Canada (2006) in the context of testing the variables contained in the fraud triangle upon the existence of financial statement fraud.

These factors cannot be directly observed so that the necessary proxy variable for easy examined (Skousen et al., 2008). This study uses seven independent proxy variables; this is due to the adjustment of the availability of data. Furthermore, the dependent variable of the study is financial statement fraud that proxied by smoothing index (Eckel index) because this proxy is closely related to the occurrence of fraudulent financial reporting.

This idea is described in a theoretical framework, as seen in a systematic diagram as follows.

Figures 2.3 Conceptual Framework



Hypothesis

Based on the explanation above, the hypothesis of this study is as follows.

The Influence of External Pressure Factor on the Financial Statement Fraud.

External situational pressures are normally economic pressures. According to SAS No. 99, the excessive pressure exists for management to meet the requirements or expectations of third parties due to obtaining additional debt or equity financing to stay competitive-including financing of major research and development or capital expenditures. Jensen and Meckling (1976) stated that by taking debt option, the company would make periodic payments of interest and principal. The debt policy will have an impact on the discipline policy for managers to optimize the use of existing funds because a large portion of the debt will cause a substantial financial bankruptcy risk. The company will be assessed as a high-risk company if the company has a large portion of the debt in its capital structure, and conversely, if the company uses little or no debt at all, then the company will be assessed as a firm that unable to take advantage from external capital sources. Accordingly, to Skousen et al. (2008), when the level of debt is higher, the pressure will be less likely to engage in financial statement fraud. Accordingly, this study includes the debt (DEBT) as proxies for external pressure. Based on the explanation above, the hypothesis is:

Ha1: The debt ratio as external pressure factor has a negative influence on financial statement fraud

The Influence of Personal Financial Need Factors (Insiders' Stock Ownership, CEO's Education, and CEO's Tenure on the Financial Statement Fraud).

According to SAS No. 99, the management or the board of directors' financial situation is threatened by the entity's financial performance arising from the significant financial interests in the entity and portions of their compensation. Situational pressures will prompt an otherwise honest person to commit an illegal act. Whether it is internal or external, pressures will always be present. Examples of internal pressures would include a sudden decline in revenues or market share that would negatively impact the firm's performance. Unrealistic performance expectations or financial pressures from bonus plans that depend on short-term performance are common (Colby, 2005).

Therefore, the variable of personal financial need is proxied by the percentage of stock ownership by insiders. The condition in which a portion of shares held by managers, directors, and commissioners of the company, will automatically affect the company's financial condition. The insiders' stock ownership can be used as controls in financial reporting (Skousen et al., 2008). The stock owners must be more careful in operating the company. It also affects the managerial policies adopted in the company. Insiders' ownership is meant to allow managers involved in ownership, so the position of manager and owners are in the same line. Insiders' ownership can be viewed as a tool to unite the interests of managers and owners. Skousen et al. (2008) stated that the company's shareholder composition from insiders has a less tendency to commit fraud, but when the percentage of insiders' stock ownership in a company does lower, the probability of fraud in the company is high.

According to a research about occupational fraud by ACFE Canada (2006), there are some factors also related to the perpetrator, which affect the nature of fraud and the size of losses inflicted upon victim organizations, such as perpetrator's position, perpetrator's education, and perpetrator's tenure. Beasley (1996), COSO (1999), and Dunn (2004) in Skousen et al. (2008) indicate that when someone has a significant financial stake in a firm, their financial situation may be threatened by the firm's financial performance. ACFE Canada (2006) also stated that forty-two percent of occupational frauds were committed by employees, as compared to 38.6% for managers and 19.3% for owners/executives. Owners/executives tended to commit the largest frauds with a median loss of C\$1 million. More owners/executives' frauds (52.9%) were detected by tips than by any other detection method. Accordingly, this study includes the insiders' stock ownership (INSIDE), CEO's education (CEOEDU), and CEO's tenure (CEOTEN) as proxies for personal financial need. Based on the explanation, the hypotheses are:

- Ha2: The insiders' stock ownership has a negative influence on the financial statement fraud
- Ha3: The CEO's education has a positive influence on the financial statement fraud
- Ha4: The CEO's tenure has a positive influence on the financial statement fraud

The Influence of Ineffective Monitoring Factors (Ineffective Whistleblowing Program and Ineffective Antifraud Program and Training on the Financial Statement Fraud).

Having effective detective controls in place and visible is one of the strongest deterrents to fraudulent behavior, used in tandem with preventive controls, detective controls enhance a fraud risk management program's effectiveness by providing evidence that preventive controls are working as intended and identifying fraud that occurs. Whistleblowing program is intended to encourage and enable employees to against fraud, by reporting any suspected cases of fraud. Whistleblowing protection program also enforces the whistleblower provisions of protecting employees who report corporate fraud. According to the fraud guidance by The IIA, AICPA, and ACFE (2008), the use of a whistleblower hotline, which has markedly increased among SEC registrants since the U.S. Sarbanes-Oxley Act of 2002 mandated it, is one of the more effective measures organizations can implement as part of their fraud risk assessment program. Various surveys indicate that anonymous tips received through hotlines or by other methods are the most likely means of detecting fraud. An effective hotline program should analyze the data received and compare results to norms for similar organizations. The ongoing analysis allows an organization to reshape its fraud risk management program to address evolving risks. Therefore, the inexistence of the whistleblower program will lead to low preventive fraud controls and increase the opportunity to commit fraud. Based on the explanation above, the hypotheses are:

- Ha5: The ineffective whistleblower program has a positive influence on the financial statement fraud
- Ha6: The ineffective antifraud program and training has a positive influence on the financial statement fraud

Influence of Rationalization Factor such as Auditor Change on the Financial Statement Fraud.

Cressey (1953) in Ken (2007) pointed out that rationalization is not an *ex post facto* means of justifying a theft act, but a necessary element of the crime before it occurs. Accordingly, to Stice (1991), St. Pierre and Anderson (1984), Loebbecke et al. (1989) in Skousen et al. (2008), extant research indicates that the incidence of audit failures and litigation increase immediately after a change in auditor. The issue of auditor independence has been increasingly important in the provision of audit services taken by a public accountant. The government as the regulator is

expected to facilitate the interests of all parties; corporate parties, the accountant, and external parties. The government intervention on the issue of independence is represented on the regulations that require the auditor rotation or audit tenure. In accordance with the Law no 17/PMK.01/2008 for *Public Accountant Services*, which is authorized by the Minister of Finance, the provision on general audit services of an entity's financial statements taken by certified public accountant firm has the longest period to six consecutive fiscal years, and by a certified public accountant has maximum period to three consecutive fiscal years. Since a change in auditor reflects audit failures and higher litigation process, Skousen et al. (2008) expect that firms with a change in auditor will be more likely to engage in financial statement fraud. Based on the explanation above, the hypothesis is:

Ha7: The rationalization factor that proxied by auditor change has a positive influence on the existence of financial statement fraud

The Simultaneous Influence of Insiders' Stock Ownership, CEO's Education, CEO's Tenure, Ineffective Whistleblowing Program, Ineffective Antifraud Program and Training, and Auditor Change on the Financial Statement Fraud.

In this study, all independent variables will be tested to find evidence whether these variables have a simultaneous influence on the existence of financial statement fraud using the *Omnibus Tests of Model Coefficients*.

The hypothesis is:

Ha8: The insiders' stock ownership, CEO's education, the CEO's tenure, debt, whistleblowing programs ineffective, ineffective antifraud programs and training, and auditor change simultaneously have a significant influence on the financial statement fraud.

METHODS

This research examines whether pressure factors, opportunity factors, and rationalization factors have significant influence towards the extent of financial statement fraud, using manufacture companies listed in IDX, obtained from ICMD for the year 2008-2011 company's annual report. For the analysis purpose, these data were gathered within a specific period

from a targeted group of samples that have been determined (Frees, 2004).

Total samples of this study are 105 samples.

Based on the problem formulation, the variables used in this research can be listed as follows:

Table 3.1: Variables and Measurements

No	Variable's Name	Proxy	Symbol	Scale	Type of Variable
1	Financial Statement Fraud	CV Eckel Index	FRAUD	Nominal	Dependent
2	Pressure Factors:				
	• External Pressure	• Debt	DEBT	Ratio	Independent
	• Personal Financial Need	• Insiders' stock ownership	INSIDE	Ratio	Independent
		• CEO's education	CEOEDU	Nominal	Independent
		• CEO's tenure	CEOTEN	Nominal	Independent
3	Opportunity Factors:				
	• Ineffective Monitoring	• Ineffective whistleblowing program	INWHIST	Nominal	Independent
		• Ineffective antifraud program and training	INTIFR	Nominal	Independent
4	Rationalization Factors:				
	• Auditor Changes	Auditor changes	AUCHANG	Nominal	Independent

The model of this research is:

$$FRAUD_i = \alpha + \beta_1 INSIDE_i + \beta_2 CEOEDU_i + \beta_3 CEOTEN_i + \beta_4 DEBT_i + \beta_5 INWHIST_i + \beta_6 INTIFR_i + \beta_7 AUCHANG_i + \varepsilon_i$$

LEGEND

$FRAUD_i$	FRAUDI	The existence of financial statement fraud (dummy variable, 1, if the company is classified as a fraud firm, and 0 otherwise)
$DEBT_i$	DEBTi	Total liabilities divided by total assets
$INSIDE_i$	INSIDEi	Percentage of insiders' stock ownership in a firm (insiders' shares divided by total outstanding shares)
$CEOEDU_i$	CEOEDUi	CEO's education (dummy variable with a value of 1 if the CEO has an MBA background, and 0 otherwise)
$CEOTEN_i$	CEOTENi	CEO's Tenure (dummy variable with a value of 1 if the CEO has tenure more than three years, and 0 otherwise)
$INWHIST_i$	INWHISTI	Whistleblowing program (dummy variable with a value one if the firm does not implement

	whistleblowing program in 1 year or more, and 0 otherwise)
$INTIFR_i$	Antifraud program (dummy variable with a value one if the firm does not implement antifraud management program and anti-fraud training for managers and employees in 1 year or more, and 0 otherwise)
$AUCHANG_i$	Auditor Change (a dummy variable for change in auditor where 1: change in auditor in the two years before fraud occurrence and 0 otherwise)
ε_i	Error

Logistic regression analysis is used to understand which among the independent variables are related to the dependent variable, and to explore the forms of these relationships. The methods of analysis used in this research are descriptive statistics and multivariate analysis. According to Kuncoro (2001) in Rahmawati and Muid (2012), logistic regression does not have the normality assumption on the independent variables used in the model, because the explanatory variables are not normally distributed. Ghozali (2006) in Rahmawati and Muid (2012) also stated that multivariate test using binary logistic regression does not require the normality test on the independent variables used in the model, because the explanatory variables do not have a normal distribution, linear, and have the same variance in each group. These variables are caused by the dependent variable estimation technique that underlies the logistic regression is not maximum likelihood, but the *Ordinary Least Square* (OLS). The logistic regression model in this research include:

RESULTS

The basis for decision making based on the value of probability; if the probability > alpha 0.05, then H_0 is accepted, and if the probability < alpha 0.05, then H_0 is rejected.

Table 4.1.

		Variables in the Equation					95% C.I. for EXP(B)	
		B	S.E.	Wald	df	Sig.	Exp(B)	
							Lower	Upper
Step 1 ^a	DEBT	-.005	.012	.143	1	.705	.996	.973 1.019
	INSIDE	8.355	5.156	2.626	1	.105	4252.030	.174 104105709.496
	CEOEDU(1)	-1.053	.478	4.849	1	.028	.349	.137 .891
	CEOTEN(1)	-.683	.492	1.923	1	.165	.505	.193 1.326
	INWHIST(1)	-.665	.489	1.854	1	.173	.514	.197 1.340
	INTIFR(1)	-1.488	.504	8.733	1	.003	.226	.084 .606
	AUCHANG(1)	-.964	.495	3.789	1	.052	.381	.144 1.007
Constant		1.711	.765	5.005	1	.025	5.534	

a. Variable(s) entered on step 1: DEBT, INSIDE, CEOEDU, CEOTEN, INWHIST, INTIFR, AUCHANG.

Source: data processed by IBM SPSS Version 20

Table 4.1 shows the results of a logistic regression test with a 5% significance level.

Table 4.2 Hypothesis Testing Results

<i>Ha1</i>	<i>The external pressure factor that proxied by debt ratio has a negative influence on the existence of financial statement fraud</i>	Debt shows a negative coefficient with a value of 0.005 and significance level of $0.705 > 0.05$ which means <i>Ha1</i> is rejected (<i>Ho1</i> is accepted), and it can be concluded that this variable does not have a negative influence on the existence of financial statement fraud.
<i>Ha2</i>	<i>The personal financial need factor that proxied by insiders' stock ownership has a negative influence on the existence of financial statement fraud</i>	Insiders' stock ownership shows a positive coefficient with a value of 8.355 and significance level of $0.105 > 0.05$ which means <i>Ha2</i> is rejected (<i>Ho2</i> is accepted), and it can be concluded that this variable does not have a negative influence on the existence of financial statement fraud.
<i>Ha3</i>	<i>The personal financial need factor that proxied by CEO's education has a positive influence on the existence of financial statement fraud</i>	CEO's education shows a negative coefficient with a value of 1.053 and significance level of $0.028 < 0.05$ which means <i>Ha3</i> is accepted (<i>Ho3</i> is rejected), and it can be concluded that this variable has a positive influence on the existence of financial statement fraud.
<i>Ha4</i>	<i>The personal financial need factor that proxied by the CEO's tenure has a positive influence on the existence of financial statement fraud</i>	CEO's tenure shows a negative coefficient with a value of 0.683 and significance level of $0.165 > 0.05$ which means <i>Ha4</i> is rejected (<i>Ho4</i> is accepted), and it can be concluded that this variable does not have a positive influence on the existence of financial statement fraud.
<i>Ha5</i>	<i>The ineffective monitoring factor that proxied by ineffective whistleblower program has a positive influence on the existence of financial statement fraud</i>	Ineffective whistleblowing program shows a negative coefficient with a value of 0.665 and significance level of $0.173 > 0.05$ which means <i>Ha5</i> is rejected (<i>Ho5</i> is accepted), and it can be concluded that this variable does not have a positive influence on the existence of financial statement fraud.
<i>Ha6</i>	<i>The ineffective monitoring factor that proxied by ineffective antifraud program and training has a positive influence on the existence of financial statement fraud</i>	Ineffective antifraud programs and training shows a negative coefficient with a value of 1.488 and significance level of $0.003 < 0.05$ which means <i>Ha6</i> is accepted (<i>Ho6</i> is rejected), and it can be concluded that this variable has a positive influence on the existence of financial statement fraud.
<i>Ha7</i>	<i>The rationalization factor that proxied by auditor change has a positive influence on the existence of financial statement fraud</i>	Auditor change shows a negative coefficient with a value of 0.964 and significance level of $0.052 < 0.05$ which means <i>Ha7</i> is rejected (<i>Ho7</i> is accepted), and it can be concluded that this variable does not have a positive influence on the existence of financial statement fraud.

Formulation of hypothesis *Ha8*, the insiders' stock ownership, CEO's education, the CEO's tenure, debt, whistleblowing programs ineffective, ineffective antifraud programs and training, and auditor change simultaneously have a significant influence upon the existence of financial statement fraud.

Table 4.10.

Omnibus Tests of Model Coefficients				
		Chi-square	df	Sig.
Step 1	Step	29.848	7	.000
	Block	29.848	7	.000
	Model	29.848	7	.000

Source: data processed by IBM SPSS Version 20

By viewing the Omnibus test of Model Coefficient table, it can be seen that the value of chi-square = 29.848 and degree of freedom = 7. With the significance of 0.005 (p-value 0.000 < alpha 0.05), Ha8 is accepted, so it can be concluded that all independent variables simultaneously have a significant influence on the existence of financial statement fraud.

DISCUSSION

Formulation of hypothesis Ha1: The external pressure factor that proxied by debt ratio has a negative influence on the existence of financial statement fraud.

Debt variable on table 4.8 shows a negative coefficient with values of 0.005 and significance level of 0.705 > 0.05 means Ha1 is rejected (Ho1 is accepted), and it can be concluded that this variable does not have a negative influence on the existence of financial statement fraud. Although this result contradicts to the previous research conducted by Skousen et al. (2008), Soselisa and Mukhlisin (2008) and Rahmawati and Muid (2012), the result of this study is supported by the statement of Persons (1995), Ken and Elder (2007), and Lou and Wang (2009). Based on this research, it is known that the debt variable has a positive influence on the existence of financial statement fraud. If the company has a high debt level, it will increase the risk of companies in experiencing financial distress that led to the bankruptcy of the company. The higher debt ratio will lead to a higher tendency of companies doing financial statement fraud. Debt ratio is the ratio of total debt to total assets, and also shows the risk of the company. By conducting earnings management through income smoothing practice, it will give more confidence to the owners of the company, along with to increase shareholder satisfaction through growth and stability of earnings reported. If the company has a high risk, management will attempt to cover its debts, so the management is motivated to commit fraud.

Hypothesis Ha2, the personal financial need factor that proxied by insiders' stock ownership has a negative influence on the financial statement fraud.

Insiders' stock ownership variables on table 4.8 show a positive coefficient with values of 8.355 and significance level of $0.105 > 0.05$ means Ha2 is rejected (Ho2 is accepted), and it can be concluded that this variable does not have a negative influence on the existence of financial statement fraud. Based on this result, it can be seen that although there is insiders' stock ownership in a company, the ownership does not reduce the likelihood of fraud within the company. Although this result contradicts to the previous research conducted by Skousen et al. (2008), this phenomenon may occur because the level of the insider ownership stake in the company is still in a low level, so it cannot resolve the conflict of interest that occurs between the agent and the principal. The increased levels of information asymmetry between agent and principal can encourage the earnings management practices taken by management (Jensen and Meckling, 1976). The results also indicate that the adoption of research variable Skousen et al. (2008) has different conclusions to this research.

Hypothesis Ha3, the personal financial need factor that proxied by CEO's education has a positive influence on the existence of financial statement fraud.

CEO's education variables on table 4.8 show a negative coefficient with a value of 1.053 and significance level of $0.028 < 0.05$ means Ha3 is accepted (Ho3 is rejected), and it can be concluded that this variable has a positive influence on the existence of financial statement fraud. This result supports the previous research conducted by ACFE Canada (2006). The result suggests that the adoption of research variable ACFE Canada (2006) has different conclusions to this research, although the result of this study contradicts to the result of Soselisa and Mukhlisin (2008).

Hypothesis Ha4, the personal financial need factor that proxied by the CEO's tenure has a positive influence on the existence of financial statement fraud.

CEO's tenure variables on table 4.8 show a negative coefficient with a value of 0.683 and significance level of $0.165 > 0.05$ means Ha4 is rejected (Ho4 is accepted), and it can be concluded that this variable does not have a positive influence on the existence of financial statement fraud. This result contradicts to the previous research conducted by ACFE Canada

(2006). The result suggests that the adoption of research variable ACFE Canada (2006) has different conclusions to this research, and it can be concluded that if the CEO of a company that has more than three years tenure, the CEO's tenure does not affect the existence of financial statements.

Hypothesis Ha5, the ineffective monitoring factor that proxied by ineffective whistleblower program has a positive influence on the existence of financial statement fraud.

The ineffective whistleblowing program variables on table 4.8 show a negative coefficient with values of 0.665 and significance level of $0.173 > 0.05$ means Ha5 is rejected (Ho5 is accepted), and it can be concluded that this variable does not have a positive influence on the existence of financial statement fraud. This result contradicts to previous research conducted by ACFE Canada (2006). The result suggests that the adoption of research variables ACFE Canada (2006) produce different conclusions on the research done on companies listed on the IDX, according to the Indonesian context. It can be concluded that if the company does not run a whistleblowing program, it does not affect the existence of financial statements.

Hypothesis Ha6, the ineffective monitoring factor that proxied by ineffective antifraud program and training has a positive influence on the existence of financial statement fraud.

The ineffective antifraud programs and training variables on table 4.8 shows a negative coefficient with values of 1.488 and significance level of $0.003 < 0.05$ means Ha6 is accepted (Ho6 is rejected), and it can be concluded that this variable has a positive influence on the existence of financial statement fraud. This result supports the previous research conducted by ACFE Canada (2006). If a company does not implement the antifraud programs and training for managers and employees, it influences the existence of financial statement fraud.

Hypothesis Ha7, the rationalization factor that proxied by auditor change has a positive influence on the existence of financial statement fraud.

Auditor change variables on table 4.8 show a negative coefficient with values of 0.964 and significance level of $0.052 < 0.05$ means Ha7 is rejected (Ho7 is accepted), and it can be concluded that this variable does not have a positive influence on the existence of financial statement fraud. This result contradicts to previous research conducted by Skousen et al.

(2008). If some companies change auditors within two years, it does not affect the existence of financial statements. Companies tend to use the same independent auditor any opinions given as stated on The Law no 17/PMK.01/2008 That describes the length of use of the independent auditor for three years and a public accounting firm for five years. The results also showed that the change of auditors is not the reason for a company to cover up the fraud act that has been done.

Hypothesis Ha8, the insiders' stock ownership, CEO's education, the CEO's tenure, debt, whistleblowing programs ineffective, ineffective antifraud programs and training, and auditor change simultaneously have a significant influence upon the existence of financial statement fraud.

Based on the Omnibus test of Model Coefficient table on table 4.10, the results of the study shows the value of the chi-square value of 29.848, degree of freedom equal to 7, with the significance of 0.005 (p-value 0.000 < α 0.05), suggesting that Ha8 accepted. The debt, insiders' stock ownership, CEO's education, the CEO's tenure, whistleblowing programs ineffective, ineffective antifraud programs and training, and auditor change simultaneously have a significant influence upon the existence of financial statement fraud. Therefore, the companies listed in IDX should consider seven factors in predicting the existence of financial statement fraud. So, the company can avoid the possibility of fraud incidents.

CONCLUSION

This study is conducted to find empirical evidence whether fraud triangle factors have significant influence on the existence of financial statement fraud in Indonesian listed companies. This study also seeks to fill that gap by empirically examining the effectiveness of the fraud risk factor framework in detecting the existence of financial statement fraud (Skousen et al., 2008). Based on the result, analysis, and discussion, this study can be concluded some points, as follows. First, the external pressure variable that proxied by debt has a positive influence on the existence of financial statement fraud. Although this result contradicts to the previous research conducted by Skousen et al. (2008), Soselisa and Mukhlisin (2008) and Rahmawati and Muid (2012), the result of this study is supported with the statement of Persons (1995), Ken and Elder (2007), and Lou and Wang (2009). Second, the personal need variable that proxied by insiders' stock ownership has a negative influence on the existence of financial statement fraud. This result contradicts to the previous research conducted by

Skousen et al. (2008). Third, the personal need variable that proxied by CEO's education has a positive influence on the existence of financial statement fraud. This result supports the previous research conducted by ACFE Canada (2006). Fourth, the personal need variable that proxied by the CEO's tenure has a negative influence on the existence of financial statement fraud. This result contradicts to the previous research conducted by ACFE Canada (2006). Fifth, the ineffective monitoring variable that proxied by the ineffective whistleblowing program has a negative influence on the existence of financial statement fraud. This result contradicts to previous research conducted by ACFE Canada (2006). Sixth, the ineffective monitoring variable that proxied by the ineffective antifraud program and training has a positive influence on the existence of financial statement fraud. This result supports the previous research conducted by ACFE Canada (2006). Seventh, the rationalization variable that proxied by auditor changes has a negative influence on the existence of financial statement fraud. This result contradicts to previous research conducted by Skousen et al. (2008). Eighth, the independent variables, namely insiders' stock ownership, CEO's education, the CEO's tenure, financial leverage, ineffective whistleblowing programs, ineffective antifraud programs and training, and auditor change simultaneously have a significant influence on the financial statement fraud.

Based on the results of the previous chapter, these results are expected can be a reference for a company to make a policy related about financial statement fraud and antifraud management program, strengthen the company's internal controls to prevent and detect fraud, to encourage the awareness of fraud. Even though, the results of this study indicate that the low level of insiders' ownership, CEO's tenure, and the inexistence of whistleblowing program have a negative influence on the existence of financial statement fraud; it should be realized that fraud occurred because there is an opportunity to commit fraud. For example, the weakness of a company's internal control can increase the probability of fraud occurrence.

For the public, this study is conducted to give information that fraud triangle factors can detect the existence of financial statement fraud. Through this research, the public can understand about the type of fraud that may occur in the company, the type of perpetrator of fraud, and the factors that can lead to the existence of financial statement fraud.

Finally, this study is expected used as consideration and motivation for the Indonesian government to develop guidelines or legislation related to the antifraud management program. The regulatory bodies and the government also can make a standard of measurements relating to financial fraud detection.

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The Influence of Fraud Triangle upon the Existence of Financial Statement Fraud

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Submission date: 02-Nov-2023 01:07PM (UTC+0700)

Submission ID: 2215016063

File name: ud_triangle_upon_the_existence_of_financial_statement_fraud..pdf (573.92K)

Word count: 11488

Character count: 64400

IMAR

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**Indonesian Management and
Accounting Research**<http://www.trijurnal.lemlit.trisakti.ac.id/index.php/imar>

The Influence of Fraud Triangle upon the Existence of Financial Statement Fraud

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ABSTRACT

This research is designed to find empirical evidence on the influence of fraud triangle factors upon the existence of financial statement fraud in Indonesian Listed companies. The research samples are 105 public companies consisting of 42 fraud firms and 63 nonfraud firms. Classification between fraud firm and the nonfraud firm uses the Eckel index.

The result indicates that: first, the external pressure variable that proxied by debt, personal need variable that proxied by insiders' stock ownership, and CEO's education, and ineffective monitoring variable that proxied by unexistence antifraud program and training have a significant positive influence to the existence of financial statement fraud. Second, the personal financial need variable that proxied by CEO's Tenure, the ineffective monitoring variable that proxied by unexistence whistleblowing program, and rationalization variable that proxied by auditor change has negative significant to the existence of financial statement fraud. Third, simultaneously, all independent variables influence the existence of financial statement fraud.

Keywords: financial statement fraud, income smoothing, fraud triangle.

JEL Classification: J24, D1, J1

This Paper has been presented at Asia-Pacific Management Accounting Association 2013, Nagoya, Japan

Received:
20 Feb 2017
Revised: 11
01 Mar 2019
Accepted:
27 Jun 2019

Indonesian
Management and
Accounting
Research
ISSN:
(e) 2441-9724
(p) 1411-8858

Volume 18
Number 02
July 2019

INTRODUCTION

Background

The field of financial fraud has attracted high-profile attention from the general public, investors, analysts, and regulators, especially after the occurrence of financial scandals in several public companies. Fraud can occur due to the weakness of internal control over human resources in companies, and the perpetrators are often the people who have the power in the company (Skousen et al., 2008). The weakness of internal control happens due to lack of supervision and abuse of authority. According to PSAK No. 1 (revised 2009), *Presentation of Financial Statements*, financial statements portray the financial effects of transactions and other events by grouping them into broad classes according to their economic characteristics.

¹⁸ Financial statement fraud is deliberate or careless, whether it could be a deliberate act that resulted in material errors in the financial statements (Taylor and Glezen in Souselisa and Mukhlisin, 2008). Once fraud is committed, it is often necessary to continue over time. There are several forms of financial statement fraud, but the most common are overstated revenues, profits, and assets to create a financially stronger company, and understating expenses and liabilities to increase the company's net worth and equity. The increasing numbers of accounting scandals caused speculation that the management has committed fraud in the financial statements. The agency theory (Jensen and Meckling, 1976) can be used to explain the phenomena of financial statement fraud. One of the problems in agency relationship arises when there is a different goal between agent and principal. When the agent and principal seek to maximize the utility of each and have different desire and motivation, then the management (agent) does not always act according to the goals of shareholders (principal).

Indonesia, as a country with stable economic conditions, has also suffered accounting scandals. In 2002, it was recorded that financial scandals involving several public companies, such as PT Dharma Ocean Fishing Industries Tbk, and PT Indonesian Satellite Corporation Tbk. Based on the Bapepam examination (Bapepam, 2002), it was found that there was an existence of market manipulation action on PT Dharma Ocean Fishing Industries Tbk. The case began after the stock trading companies in August 2002, which did not lead to changes in ownership of stock transactions and

misuse of funds and the assurance client's shares without customer authorization. These transactions violated The Law no. 8 of 1995 on the stock market. Also, cases of insider trading in the stock trade experienced by PT Indonesian Satellite Corporation Tbk. The case began after the implementation of corporate divestiture in May 2002. It was found that there were significant stock sales made by several parties, resulted in the company's stock price declining in significantly over the same period.

After the occurrence of fraud scandals in the United States, on July 30, 2002, the Sarbanes-Oxley Act of 2002 (Sarbox) was signed into law by President George W. Bush. Sarbox is a comprehensive revision of the federal securities laws applicable to public companies. Sarbox also established PCAOB to oversee the audits of public companies and conduct disciplinary proceedings and impose sanctions for violations of Sarbox, and in order to provide solutions to the weaknesses in fraud detection procedures across the globe, AICPA also issued SAS No.99 on *Consideration of Fraud in a Financial Statement Audit* in 2002. SAS No. 99 contains specific recommendations that an institution's board of directors, audit committees, and management can take to prevent, deter, and detect fraud. SAS No. 99 is the form basis for an external auditor's responsibilities for detecting fraud. SAS No. 99 emphasizes the importance of evaluating fraud risk from the view of fraud triangle factors to detect fraud. The fraud risk factors adopted in SAS No. 99 are based on Cressey's (1953) theory (Skousen et al., 2008). Generally, the fraud triangle consists of three conditions that are presented when fraud occurs. First, there is a pressure that provides a reason to commit fraud. Second, there is an opportunity for fraud to be perpetrated. Third, the individuals committing the fraud possess an attitude that enables them to rationalize the fraud. Skousen et al. (2008) stated that SAS No. 99 requires auditors to detect the presence of fraudulent behavior by comprehensively assessing the extent to which pressure, opportunity, and rationalization are present. According to SAS No. 99, four types of pressure may lead to fraudulent financial reporting. Types of pressure are financial stability, external pressure, personal financial need, and financial targets. SAS No. 99 also classifies the opportunities that may occur in fraudulent financial statements into three categories. Types of opportunities are the nature of the industry, ineffective monitoring, and organizational structure. According to Skousen et al. (2008), rationalization is the third part of the fraud triangle and the most difficult to measure, research shows that the incidence of audit failures and

litigation increases rapidly after the auditor change. The finding of fraud risk factors by Cressey (1953) is based on a series of interviews with people who have been convicted of embezzlement (Skousen et al., 2008).

Cases of financial fraud scandals in recent years provide strong evidence that the audit failures affect business losses. The use of fraud triangle analysis to detect fraud in financial statements has previously made by Persons (1995) dan Kaminski *et al.* (2004). They developed a predictive model of fraud using financial ratios. However, the model has a high rate of misclassification (Skousen et al., 2008).

Cressey conducted the development research model to detect fraudulent financial statement fraud triangle analysis (1953), Turner et al. (2003), Ken and Elder (2007), Skousen et al. (2008), and Lou and Wang (2009). Skousen et al. (2008) tested the effectiveness of the adoption of fraud risk factors by Cressey (1953) in SAS No.99 to detect financial statement fraud. The study was conducted by developing variables, and then Skousen et al. (2008) developed the variables in some proxy measure of the third leg of the fraud triangle, namely: pressure, opportunity, and rationalization. Variables were tested using logistic regression analysis method by comparing the sample of fraud firms and nonfraud firms. The test results successfully predicted correctly and demonstrated substantial improvement compared to other fraud prediction models.

In 2006, ACFE Canada also conducted a study in the field of fraud. This study examined on how to measure the occupational fraud cost, how occupational fraud is committed, who are victims of occupational fraud, how to detect occupational fraud, how to limit the fraud losses, how to know the perpetrators of fraud, and how to recover losses caused by fraud. This study aimed to help all anti-fraud professionals and academics better understand how to prevent and detect fraud. The web survey used to gather data for this study. This study has been adapted from previous ACFE U.S. fraud surveys by Dr. Peltier Rivest, Associate Professor at Concordia University, Canada, and ACFE.

Based on the foregoing, this study is intended to detect and predict financial statement fraud using the fraud triangle analysis. Furthermore, the component of variables cannot be directly observed, so the proxy variables need to be developed. The independent variables of this research are pressure factors variables which include external pressure and personal financial need, opportunity factors which include ineffective monitoring, and the rationalization.

External situational pressures are normally economic pressures. According to SAS No. 99, the excessive pressure exists for management to meet the requirements or expectations of third parties due to obtaining additional debt or equity financing to stay competitive-including financing of major research and development or capital expenditures. Accordingly, this study includes the debt (DEBT) as proxies for external pressure.

Situational pressures will prompt an otherwise honest person to commit an illegal act. Whether it is internal or external, pressures will always be present. Beasley (1996), COSO (1999), and Dunn (2004) in Skousen et al. (2008) indicate that when someone has a significant financial stake in a firm, their financial situation may be threatened by the firm's financial performance. ACFE Canada (2006) also stated that there are some factors also related to the perpetrator, which affect the nature of fraud and the size of losses inflicted upon victim organizations, such as perpetrator's position, perpetrator's education, and perpetrator's tenure. Jensen and Meckling (1976) also stated that higher levels of managerial ownership should result, holding other things constant, in increased firm performance as higher ownership levels help to mitigate the inherent conflict of interest between managers and owners. Skousen et al. (2008) stated that the company's shareholder composition from insiders has a less tendency to commit fraud, but when the percentage of insiders' stock ownership in a company does lower, the probability of fraud in the company is high. Accordingly, this study includes insiders' stock ownership (INSIDE), CEO's education (CEOEDU), and CEO's tenure (CEOTEN) as proxies for personal financial need.

The opportunity to commit and conceal fraud must exist. The main factor of an opportunity to commit fraud is the absence of internal controls. A weakness in internal controls or ineffective monitoring provides the opportunity for fraudsters to commit their crimes. According to ACFE Canada (2006), various anti-fraud measures may be implemented by an organization to prevent or limit fraud losses, such as implement a fraud hotline or whistleblowing system and provide a fraud awareness or antifraud training program for their employees and managers. If there are reasons present that make it appear to be relatively easy to commit and conceal the fraud, the likelihood of it occurring is very high (Colby, 2005). In addition to being useful in the detection of fraud, this study includes the ineffective whistleblowing program (INWHIST), and the ineffective antifraud program and training (INTIFR) as proxy variables for

opportunity factors. These variables are developed which serve as a proxy measure for opportunity factors.

Rationalization is the ability to justify dishonesty, and that is what makes the act possible. People who commit financial statement fraud can rationalize the act. He or she might believe that the lies and deceit are for the company's benefits. Rationalizations are also affected by management's ethical behavior in running the company. According to Stice (1991), St. Pierre and Anderson (1984), and Loebbecke *et al.* (1989) in Skousen et al. (2008), extant research indicates that the incidence of audit failures and litigation increase immediately after a change in auditor. Therefore, this study includes auditor change (AUCHANG) as a proxy for rationalization.

Financial statement fraud often begins with the misleading of information in financial statements. Therefore, this study uses the practice of income smoothing as the dependent variable. In this study, Eckel index is used as a proxy to measure financial statement fraud. Income smoothing practice is chosen as the dependent variable because this practice is closely related to earnings manipulation actions taken by management, and any intentional misstatement of accounting information represents fraudulent financial reporting.

Based on the explanation above, a study that intended to predict the existence of financial statement fraud using the fraud triangle analysis is still relatively rare, especially concerning study within an Indonesian context, although the financial fraud cases are common. This study adopts Skousen et al. (2008) and ACFE Canada (2006) in the context of testing the variables contained in the fraud triangle to the existence of financial statement fraud in Indonesian listed companies.

Formulation of the Problem

Based on the above issues, this study aims to analyze the relationship between the variables of the fraud triangle factors upon the existence of financial statement fraud, and the main problems in this study can be formulated as follows:

1. Does external pressure have a significant influence on the existence of financial statement fraud?
2. Does personal financial need such as insiders' stock ownership, CEO's education, and CEO's tenure have a significant influence on the existence of financial statement fraud?

3. Do the ineffective monitoring such as ineffective whistleblowing program, and effective antifraud program and training have a significant influence on the existence of financial statement fraud?
4. Is the rationalization factor variable that proxied by auditor change has a significant influence on the existence of financial statement fraud?
5. Do insiders' stock ownership, CEO's education, CEO's tenure, ineffective whistleblowing program, effective antifraud program and training, and auditor change simultaneously have a significant influence on the existence of financial statement fraud?

LITERATURE REVIEW

Agency theory is an approach that can describe the concept of fraud that is strongly associated with financial statement fraud that will be addressed in this study. Agency theory embeds the influential relationship that exists between managers and shareholders of the firm. This relationship has the potential to influence the decision-making process in the firm, which in turn has potential impacts on the firm. Jensen and Meckling (1976) define agency relationship as a contract under which the principals engage an agent to perform some service on their behalf, which involves delegating some decision-making authority to the agent. Principals are assumed only interested in financial returns derived from their investment in the company, while the agent is assumed to receive the satisfaction not only the financial compensation but also the other extras involved in the agency relationship (Eisenhardt, 1989).

The principals are motivated to commit fraud in order to improve his or her life with profitability. On the other hand, agents are motivated to meet the economic and psychological needs (Eisenhardt, 1989). Conflict of interest is intensified when the principal can not monitor the daily activities of an agent, so the principal does not know whether an agent is working in accordance with the wishes of the principal or not.

The statement was in line with Poll (2004), which stated that the action of earnings management is closely related to financial statement fraud. The earnings management action was taken by management, if it left unchecked and unnoticed by the owner, will ultimately develop into a financial statement fraud that was materially misleading. Based on the explanation, it can be concluded that the agency problem between the

owner (principal) and management (agent) can lead to financial statement fraud that is misleading and harmful.

Fraud is a very large scope in the literature review. Here are the common definitions of fraud from some viewpoints. Table 2.1 below shows some definitions of fraud according to previous books and journals:

Table 2.1: Definitions of Fraud

No	Source	Definitions
1	Association of Certified Fraud Examiners (ACFE)	Fraud is the use of one's occupation for personal enrichment through the deliberate misuse of misapplication of employing organization's resources or asset.
2	Statement of Auditing Standards No.99	Fraud is an intentional act that results in a material misstatement in financial statements that are the subject of an audit.
3	The U.S Security Exchange Commission (SEC), Securities Exchange Act of 1934, Section 10b-5	Fraud shall be unlawful for any person, directly or indirectly, by the use of any means or instrumentality of interstate commerce, mails, of any facility of any national securities exchange, to employ any scheme to defraud, to make any untrue statement of material fact, and to engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person, in connection with the purchase or sale of any security.

The concept of fraud triangle was introduced in professional literature by AICPA in SAS No. 9, *Consideration of Fraud in a Financial Statement Audit*. AICPA has referred to these three elements as the fraud risk factors or conditions of fraud. The potential presence of fraudulent behavior by assessing factors related to perceived pressure, opportunity, and rationalization.

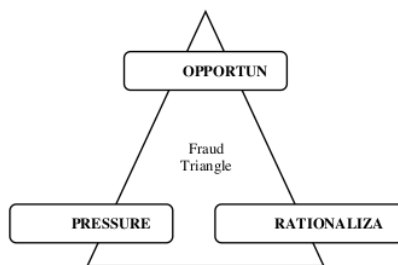


Figure 2.1: Fraud Triangle, Source: AICPA

1. Pressures

Pressures will prompt an otherwise honest person to commit an illegal act and often because it is seen as the only option. It is typical as a result of an immediate problem or pressure within either his or

her internal or external environment (Colby, 2005). Pressure causes people to commit fraud. Pressure can be manifold, including lifestyle, economic demands, and others. Pressure most often came from financial necessity pressure. According to SAS 99, there are four common types of conditions on the pressure that can lead to fraud. These conditions are financial stability, external pressure, personal financial need, and financial targets.

2. Opportunity

The opportunity to commit fraud must exist. According to AICPA, a person's position, as well as their responsibilities and authorization, also contribute to the opportunity to commit fraud. There is a direct correlation between the opportunity to commit fraud and the ability to conceal the fraud. To commit fraud, an individual must have access to the asset or manage a control procedure that allows the commission of the fraud scheme. Colby (2005) also stated that the opportunity to commit fraud often involves the improper oversight by the board of directors or audit committee, weak or nonexistent internal controls, complex transactions, and ineffective internal audit staff. From the three fraud risk factors, the opportunity factor is the basic things that can happen at any time, so it requires supervision from the organizational structure. Organizations should establish the processes, procedures, and controls, so the perpetrators cannot commit to fraud, as stated in SAS No.99. SAS 99 states that opportunities in financial statement fraud can occur in three conditions. These conditions are the nature of the industry, ineffective monitoring, and organizational structure.

3. Rationalization

Fundamentally, rationalization is the ability to justify dishonesty, and that is what makes the act possible. The individual might believe that lies and deceit are for the betterment of the company. If top management is not committed to integrity and ethical values, the ability to rationalize dishonest behavior will be greatly increased (Colby, 2005). Skousen et al. (2008) stated that rationalization is the most difficult part to measure. According to SAS No. 99, rationalization can be measured from the turnover cycle of auditor change and audit opinions acquired by the company.

Table 2.2 The SAS No. 99 Categories, and Examples of Fraud Risk Factor Relating to Financial Statement Fraud

Fraud Risk Factor	SAS No.99 Categories	Explanations
Pressure	<i>Financial Stability</i>	Financial stability is a condition that describes a company's financial stability. Examples of risk factors: in instances where a company is experiencing growth that is below the industry average, the management may resort to manipulation to improve the firm's outlook.
	<i>External Pressure</i>	The ability to meet exchange-listing requirements, repay debt, or meet debt covenants are widely recognized sources of external pressure. Examples of risk factors: when a company faces expectations from investment analysts, there is a pressure to give the best performance to investors, creditors, and other external parties.
	¹⁰² <i>Personal Financial Need</i>	Personal Financial Need is a condition that describes the company's financial position influenced by personal financial positions. Examples of risk factors: financial interests are dominated by management for the stock price, the company's operations, the company's financial position, or company's cash flows.
	<i>Financial Targets</i>	Excessive pressure on management to achieve financial targets set by directors or management. Examples of risk factors: a company may manipulate earnings to meet the analysts' forecasts such as manipulation of net income.
Opportunity	<i>Nature of Industry</i>	Nature of industry is a condition that connected to the company's risk in industries. The balances in certain accounts are determined largely based on estimations and subjective judgments. Example of risk factors: management may focus on such accounts when engaging in financial statement manipulation.
	<i>Ineffective Monitoring</i>	A condition where the company has no supervisory unit to monitor the performance of the company. Example of risk factors: the dominance management, without control compensation, and ineffectiveness board of directors and audit committee in the internal control process.
	<i>Organizational Structure</i>	A condition where a company has a complex and unstable organizational structure. Examples of risk factors: the organizational structure is too complex, personnel turnover such as senior managers or directors is high.
Rationalization	<i>Rationalization</i>	A condition where the ⁵⁸ attitude/rationalization of board members, management, or employees allow them to engage in and justify fraudulent financial reporting. Examples of risk factors: at the time of issuing financial statements, the company wanted to portray the real condition in the best condition. The management is more likely to engage in fraudulent financial reporting, which

lead to fraudulent financial statements that would mislead investors and other users of financial statements.

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The Association of Certified Fraud Examiners (ACFE), which is the world's largest anti-fraud organization and the premier provider of anti-fraud training education and certification, classifies fraud according to *The Uniform Occupational Fraud Classification System / Fraud Tree*, all occupational frauds fall into one of three major categories, there are:

1. Fraudulent Statements

Fraudulent statements can be viewed as common practice taken by management that adverse investors and creditors. Fraudulent statements consist of financial and non-financial. A major class of frauds in the fraud tree is fraudulent financial reporting or financial statement fraud. The amount of a financial statement fraud in total tends to a material misstatement of the financial reports. The types of fraudulent financial reporting outlined by the ACFE typically focus on improving the organization's financial picture by overstating income, understating losses, or using misleading disclosures.

2. Asset Misappropriations

Asset misappropriation covers the misuse or theft of assets or property of the company or any other party. It is a form of fraud that most easily detected because it is tangible or can be calculated. Asset Misappropriation performed in three forms: skimming, larceny, and fraudulent disbursements.

3. Corruption

Type of this fraud is the most difficult to detect because it involves cooperation with other parties. Corruption often cannot be detected because the parties are working together (symbiosis mutualism). Corruption performed in four forms: abuse of power/conflict of interest, bribery, illegal gratuities, and economic extortion.

According to ACFE, fraudulent statement fraud schemes typically are done by executives. The CEO can direct subordinates to manipulate the books. Executive management can use various other advantages in their positions for the benefit of the organization and the fraudster. According to Singleton and Singleton (2010, p.99), the red flags associated with financial statement fraud include:

1. Accounting anomalies
2. Rapid growth

3. Unusual profits
4. Internal control weaknesses
5. The aggressiveness of executive management
6. Obsession with stock prices by executive management
7. Micromanagement by executive management

The most common red flag of this category is the management style or character of key executives. A senior manager has an observable, overly aggressive nature Singleton and Singleton (2010, p.99). For example, the executive could continually produce and approve overly optimistic financial goals by doing earnings management. Gravitt (2006) in Nguyen (2008) stated that fraud in financial statements involves the following scheme:

1. The forgery, alteration, or manipulation of material financial records that supporting documents or business transaction;
2. The deliberate omission or misrepresentation of events, transactions, accounts, or other important information from financial statements prepared;
3. The willful misconduct on the use of accounting principles, policies, and procedures used to measure recognition, report, and disclose economic events and business transactions;
4. The negligence or intentional disclosure presentation of inadequate disclosures accounting principles and policies and related financial value.

Earnings management is a concept that conducted by the company in managing the financial statements, so the financial statements may be seen having a good quality of financial reporting. Earnings management has a broader scope than the income smoothing. With the earnings management action, the information produced by the company becomes inaccurate. Earnings management contained the refraction of income measurement raised/lowered). One form of earnings management will be addressed in this study is the act of smoothing income.

Income smoothing is a way of removing volatility in earnings by leveling off the earnings peaks over a number of years and raising the valleys over the same period. Steps are therefore taken to reduce and store profits during good years for use during slower years (Mulford and Comiskey, 2002 in Poll, 2004). Koch (1981) in Kustono (2011) also stated that income smoothing is a means used by management to diminish the variability of a stream of reported income numbers relative to some

perceived target stream by the manipulation of artificial (accounting) or real (transactional) variables. The application of income smoothing is one of the earnings management or creative accounting practices.

Income smoothing is concerned with lowering the volatility of the company's earnings, increasing the value of dividends and the stock price of the company; and other aspects directly related to money. It follows that the actions underlying all these items aim to change the information content of the financial statements, thereby influencing the integrity of information (Poll, 2004).

The practice of income smoothing is one of the management actions taken to improve market returns (Poll, 2004). Management action was deliberately done to reach the desired profit in the income statement in order to attract companies to invest in the market, as investors' attention is often focused only on procedures that companies use to generate those earnings information. Also, to report earnings in a stable position, income smoothing practice will give more confidence to the owners of the company, along with the purpose in increasing shareholder satisfaction through growth and stability of earnings reported.

The studies that discuss fraud have been conducted. The following are some examples of study related to fraud.

Table 2.3: Prior Research

No.	Title of Research	Research Method	Result of Research
1	Turner <i>et al.</i> (2003) / <i>An Analysis of The Fraud Triangle</i>	This study developed a network of evidence which has two sub-networks using belief functions approach, to proof the relationship of the conventional audit financial statements and captures the relationship of risk and evidence for fraud risk assessment.	The results of this study support the concept of the fraud triangle into three components, and relationships between components are shown to have a major impact on audit risk.
2	ACFE Canada (2006) / <i>Detecting Occupational Fraud in Canada: A Study of its Victims and Perpetrators</i>	This study aimed to be a useful research tool for all anti-fraud professionals and academics who may use its findings to help them better understand how to prevent and detect fraud. The web survey used to gather data for this study was distributed to all Canadian members of the ACFE in March	This study showed that - the median loss caused by the 90 occupational fraud cases reported in this study was C\$187,500. - anti-fraud professionals with a median of 15 years of experience in the fraud examination field estimate that the typical Canadian organization loses 5% of its annual sales to fraud every year.

		2006. The Canadian survey has been adapted from previous ACFE U.S. fraud surveys by Dr. Peltier Rivest, Associate Professor at Concordia University in Montreal (Quebec, Canada), and the ACFE.	▪ Ninety percent of all occupational fraud cases involved asset misappropriations; 11.1% of the cases involved fraudulent financial statement schemes. ▪ Smaller organizations with less than 100 employees accounted for 42.2% of the victim organizations represented in this study. ▪ Forty-Two percent of the occupational frauds reported in this study were detected through tips from employees, vendors, customers, or anonymous sources. ▪ Organizations that conducted surprise audits regularly experienced much lower median fraud losses than other organizations. ▪ Organizations that provided fraud awareness or ethics training to their employees and managers had median fraud losses of C\$100,000. ▪ Forty-Two percent of occupational frauds were committed by employees, as compared to 38.6% for managers and 19.3% for owners/executives.
3	5 Ken and Elder (2007) / <i>Fraud Risk Factors and the Likelihood of Fraudulent Financial Reporting: Evidence from Statement on Auditing Standards No. 43 in Taiwan.</i>	100 The study aimed to assess the effectiveness of the framework of fraud risk factors that applied in Taiwan 43 SAS to detect financial statement fraud.	99 The results of this study indicate that Taiwanese listed firms with pressure risk factors, opportunity factors, and rationalization factors are more likely to engage in fraudulent financial reporting.
4	Skousen et al. (2008) / <i>Detecting and Predicting Financial Statement Fraud: The Effectiveness of Fraud Triangle and SAS No. 99</i>	This research performed a series of additional tests to determine whether significant proxy variables could be used in prediction of financial statement fraud to a set of fraud firms and a matched sample of non-fraud firms.	The results of this research indicate that rapid asset growth, increased cash needs, and external financing is positively related to the likelihood of fraud. Internal versus external ownership of shares and control of the board of directors are also linked to increased incidence of financial statement fraud. Expansion in the number of independent members on the audit committee, on the other hand, is negatively related to the occurrence of fraud.
5	41 Soselisa and Mukhlisin (2008) / <i>Pengaruh Faktor Kultur Organisasi, Manajemen, Strategik, Keuangan, dan Auditor Terhadap</i>	The objective of this study was to explain the effect of organization culture, managerial strategic, financial ratios, and	The result showed that the number of related party transactions, CEO's age, current asset composition in the total asset, capital turnover, firm size, and auditor's non-unqualified

	41	Kecenderungan Kecurangan Akuntansi: Studi Pada Perusahaan Publik di Indonesia	auditor factors on the tendency of accounting fraud.	opinion affected the tendency of accounting fraud significantly.
6		Lou and Wang (2009) / <i>Fraud Risk Factor of The Fraud Triangle Assessing the Likelihood of Fraudulent Financial Reporting</i>	Lou and Wang (2009) used a simple logistic model based on examples of fraud risk factors in ISA 240 and SAS 99.	88 The results showed that only financial leverage has a positive impact on accounting fraud. While investment, CEO, and firm size have no significant impact on accounting fraud.
7		Rahmawati and Muid (2012) / <i>Analisis Faktor-Faktor yang Berpengaruh Terhadap Praktik Perataan Laba</i>	This study aims to analyze the factors that influence income smoothing. Eckel index used to classify companies that do or do not practice income smoothing.	In the multivariate analysis, only the firm size has a significant effect on the practice of income smoothing. The net profit margin and debt to equity ratio do not significantly influence the practice of income smoothing.

Conceptual Framework

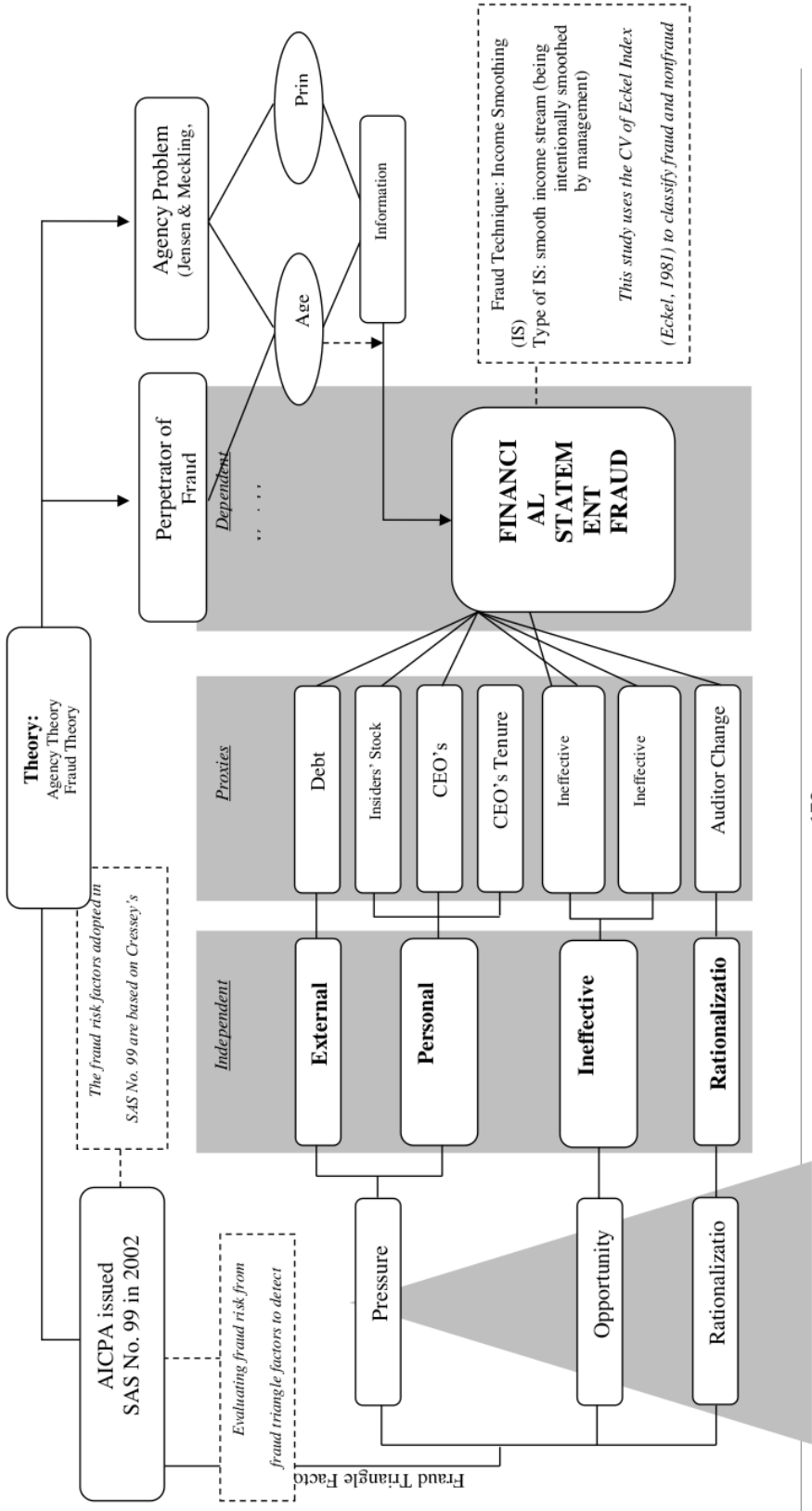
The company's financial statement has a role in providing financial information to users. However, the relevance of its accounting information is declining from time to time. The information contained in the financial statements is no longer relevant as a reference in the decision-making process; this is caused by the presence of financial statement fraud (Ken and Elder, 2007).

The increased accounting scandal gives further evidence of audit failure that brings to serious consequences. Therefore, in 2002, the AICPA issued SAS No. 99, which regulates the detection of financial statement fraud. In response to growing awareness of financial statement fraud, this study is intended to find whether the fraud triangle factors have significant influence on the existence of financial statement fraud in Indonesian listed companies. This study adopts the research of Skousen et al. (2008) and ACFE Canada (2006) in the context of testing the variables contained in the fraud triangle upon the existence of financial statement fraud.

These factors cannot be directly observed so that the necessary proxy variable for easy examined (Skousen et al., 2008). This study uses seven independent proxy variables; this is due to the adjustment of the availability of data. Furthermore, the dependent variable of the study is financial statement fraud that proxied by smoothing index (Eckel index) because this proxy is closely related to the occurrence of fraudulent financial reporting.

This idea is described in a theoretical framework, as seen in a systematic diagram as follows.

Figures 2.3 Conceptual Framework



Hypothesis

Based on the explanation above, the hypothesis of this study is as follows.

The Influence of External Pressure Factor on the Financial Statement Fraud.

External situational pressures are normally economic pressures. According to SAS No. 99, the excessive pressure exists for management to meet the requirements or expectations of third parties due to obtaining additional debt or equity financing to stay competitive-including financing of major research and development or capital expenditures. Jensen and Meckling (1976) stated that by taking debt option, the company would make periodic payments of interest and principal. The debt policy will have an impact on the discipline policy for managers to optimize the use of existing funds because a large portion of the debt will cause a substantial financial bankruptcy risk. The company will be assessed as a high-risk company if the company has a large portion of the debt in its capital structure, and conversely, if the company uses little or no debt at all, then the company will be assessed as a firm that unable to take advantage from external capital sources. Accordingly, to Skousen et al. (2008), when the level of debt is higher, the pressure will be less likely to engage in financial statement fraud. Accordingly, this study includes the debt (DEBT) as proxies for external pressure. Based on the explanation above, the hypothesis is:

Ha1: The debt ratio as external pressure factor has a negative influence on financial statement fraud

The Influence of Personal Financial Need Factors (Insiders' Stock Ownership, CEO's Education, and CEO's Tenure on the Financial Statement Fraud).

According to SAS No. 99, the management or the board of directors' financial situation is threatened by the entity's financial performance arising from the significant financial interests in the entity and portions of their compensation. Situational pressures will prompt an otherwise honest person to commit an illegal act. Whether it is internal or external, pressures will always be present. Examples of internal pressures would include a sudden decline in revenues or market share that would negatively impact the firm's performance. Unrealistic performance expectations or financial pressures from bonus plans that depend on short-term performance are common (Colby, 2005).

Therefore, the variable of personal financial need is proxied by the percentage of stock ownership by insiders. The condition in which a portion of shares held by managers, directors, and commissioners of the company, will automatically affect the company's financial condition. The insiders' stock ownership can be used as controls in financial reporting (Skousen et al., 2008). The stock owners must be more careful in operating the company. It also affects the managerial policies adopted in the company. Insiders' ownership is meant to allow managers involved in ownership, so the position of manager and owners are in the same line. Insiders' ownership can be viewed as a tool to unite the interests of managers and owners. Skousen et al. (2008) stated that the company's shareholder composition from insiders has a less tendency to commit fraud, but when the percentage of insiders' stock ownership in a company does lower, the probability of fraud in the company is high.

According to a research about occupational fraud by ACFE Canada (2006), there are some factors also related to the perpetrator, which affect the nature of fraud and the size of losses inflicted upon victim organizations, such as perpetrator's position, perpetrator's education, and perpetrator's tenure. Beasley (1996), COSO (1999), and Dunn (2004) in Skousen et al. (2008) indicate that when someone has a significant financial stake in a firm, their financial situation may be threatened by the firm's financial performance. ACFE Canada (2006) also stated that forty-two percent of occupational frauds were committed by employees, as compared to 38.6% for managers and 19.3% for owners/executives. Owners/executives tended to commit the largest frauds with a median loss of C\$1 million. More owners/executives' frauds (52.9%) were detected by tips than by any other detection method. Accordingly, this study includes the insiders' stock ownership (INSIDE), CEO's education (CEOEDU), and CEO's tenure (CEOTEN) as proxies for personal financial need. Based on the explanation, the hypotheses are:

- Ha2: The insiders' stock ownership has a negative influence on the financial statement fraud
- Ha3: The CEO's education has a positive influence on the financial statement fraud
- Ha4: The CEO's tenure has a positive influence on the financial statement fraud

The Influence of Ineffective Monitoring Factors (Ineffective Whistleblowing Program and Ineffective Antifraud Program and Training on the Financial Statement Fraud).

Having effective detective controls in place and visible is one of the strongest deterrents to fraudulent behavior, used in tandem with preventive controls, detective controls enhance a fraud risk management program's effectiveness by providing evidence that preventive controls are working as intended and identifying fraud that occurs. Whistleblowing program is intended to encourage and enable employees to against fraud, by reporting any suspected cases of fraud. Whistleblowing protection program also enforces the whistleblower provisions of protecting employees who report corporate fraud. According to the fraud guidance by The IIA, AICPA, and ACFE (2008), the use of a whistleblower hotline, which has markedly increased among SEC registrants since the U.S. Sarbanes-Oxley Act of 2002 mandated it, is one of the more effective measures organizations can implement as part of their fraud risk assessment program. Various surveys indicate that anonymous tips received through hotlines or by other methods are the most likely means of detecting fraud. An effective hotline program should analyze the data received and compare results to norms for similar organizations. The ongoing analysis allows an organization to reshape its fraud risk management program to address evolving risks. Therefore, the inexistence of the whistleblower program will lead to low preventive fraud controls and increase the opportunity to commit fraud. Based on the explanation above, the hypotheses are:

- Ha5: The ineffective whistleblower program has a positive influence on the financial statement fraud
- Ha6: The ineffective antifraud program and training has a positive influence on the financial statement fraud

Influence of Rationalization Factor such as Auditor Change on the Financial Statement Fraud.

Cressey (1953) in Ken (2007) pointed out that rationalization is not an *ex post facto* means of justifying a theft act, but a necessary element of the crime before it occurs. Accordingly, to Stice (1991), St. Pierre and Anderson (1984), Loebbecke et al. (1989) in Skousen et al. (2008), extant research indicates that the incidence of audit failures and litigation increase immediately after a change in auditor. The issue of auditor independence has been increasingly important in the provision of audit services taken by a public accountant. The government as the regulator is

expected to facilitate the interests of all parties; corporate parties, the accountant, and external parties. The government intervention on the issue of independence is represented on the regulations that require the auditor rotation or audit tenure. In accordance with the Law no 17/PMK.01/2008 for *Public Accountant Services*, which is authorized by the Minister of Finance, the provision on general audit services of an entity's financial statements taken by certified public accountant firm has the longest period to six consecutive fiscal years, and by a certified public accountant has maximum period to three consecutive fiscal years. Since a change in auditor reflects audit failures and higher litigation process, Skousen et al. (2008) expect that firms with a change in auditor will be more likely to engage in financial statement fraud. Based on the explanation above, the hypothesis is:

Ha7: The rationalization factor that proxied by auditor change has a positive influence on the existence of financial statement fraud

The Simultaneous Influence of Insiders' Stock Ownership, CEO's Education, CEO's Tenure, Ineffective Whistleblowing Program, Ineffective Antifraud Program and Training, and Auditor Change on the Financial Statement Fraud.

In this study, all independent variables will be tested to find evidence whether these variables have a simultaneous influence on the existence of financial statement fraud using the *Omnibus Tests of Model Coefficients*.

The hypothesis is:

Ha8: The insiders' stock ownership, CEO's education, the CEO's tenure, debt, whistleblowing programs ineffective, ineffective antifraud programs and training, and auditor change simultaneously have a significant influence on the financial statement fraud.

METHODS

This research examines whether pressure factors, opportunity factors, and rationalization factors have significant influence towards the extent of financial statement fraud, using manufacture companies listed in IDX, obtained from ICMF for the year 2008-2011 company's annual report. For the analysis purpose, these data were gathered within a specific period

from a targeted group of samples that have been determined (Frees, 2004).
Total samples of this study are 105 samples.

Based on the problem formulation, the variables used in this research can be listed as follows:

Table 3.1: Variables and Measurements

No	Variable's Name	Proxy	Symbol	Scale	Type of Variable
1	Financial Statement Fraud	CV Eckel Index	FRAUD	Nominal	Dependent
2	Pressure Factors:				
	• External Pressure	• Debt	DEBT	Ratio	Independent
	• Personal Financial Need	• Insiders' stock ownership	INSIDE	Ratio	Independent
		• CEO's education	CEOEDU	Nominal	Independent
		• CEO's tenure	CEOTEN	Nominal	Independent
3	Opportunity Factors:				
	• Ineffective Monitoring	• Ineffective whistleblowing program	INWHIST	Nominal	Independent
		• Ineffective antifraud program and training	INTIFR	Nominal	Independent
4	Rationalization Factors:				
	• Auditor Changes	Auditor changes	AUCHANG	Nominal	Independent

The model of this research is:

$$FRAUD_i = \alpha + \beta_1 INSIDE_i + \beta_2 CEOEDU_i + \beta_3 CEOTEN_i + \beta_4 DEBT_i + \beta_5 INWHIST_i + \beta_6 INTIFR_i + \beta_7 AUCHANG_i + \varepsilon_i$$

LEGEND

$FRAUD_i$	FRAUDI	The existence of financial statement fraud (dummy variable, 1, if the company is classified as a fraud firm, and 0 otherwise)
$DEBT_i$	DEBTi	Total liabilities divided by total assets
$INSIDE_i$	INSIDEi	Percentage of insiders' stock ownership in a firm (insiders' shares divided by total outstanding shares)
$CEOEDU_i$	CEOEDUi	CEO's education (dummy variable with a value of 1 if the CEO has an MBA background, and 0 otherwise)
$CEOTEN_i$	CEOTENi	CEO's Tenure (dummy variable with a value of 1 if the CEO has tenure more than three years, and 0 otherwise)
$INWHIST_i$	INWHISTI	Whistleblowing program (dummy variable with a value one if the firm does not implement)

$INTIFR_i$	whistleblowing program in 1 year or more, and 0 otherwise)
$INTIFR_i$	Antifraud program (dummy variable with a value one if the firm does not implement antifraud management program and anti-fraud training for managers and employees in 1 year or more, and 0 otherwise)
$AUCHANG_i$	Auditor Change (a dummy variable for change in auditor where 1: change in auditor in the two years before fraud occurrence and 0 otherwise)
ε_i	Error

Logistic regression analysis is used to understand which among the independent variables are related to the dependent variable, and to explore the forms of these relationships. The methods of analysis used in this research are descriptive statistics and multivariate analysis. According to Kuncoro (2001) in Rahmawati and Muid (2012), logistic regression does not have the normality assumption on the independent variables used in the model, because the explanatory variables are not normally distributed. Ghazali (2006) in Rahmawati and Muid (2012) also stated that multivariate test using binary logistic regression does not require the normality test on the independent variables used in the model, because the explanatory variables do not have a normal distribution, linear, and have the same variance in each group. These variables are caused by the dependent variable estimation technique that underlies the logistic regression is not maximum likelihood, but the *Ordinary Least Square* (OLS). The logistic regression model in this research include:

RESULTS

The basis for decision making based on the value of probability; if the probability > alpha 0.05, then H_0 is accepted, and if the probability < alpha 0.05, then H_0 is rejected.

Table 4.1.

	B	S.E.	Variables in the Equation				95% C.I. for EXP(B)	
			Wald	df	Sig.	Exp(B)	Lower	Upper
Step 1 ^a	DEBT	-.005	.143	1	.705	.996	.973	1.019
	INSIDE	8.355	2.626	1	.105	4252.030	.174	104105709.496
	CEOEDU(1)	-1.053	.478	1	.028	.349	.137	.891
	CEOTEN(1)	-.683	.492	1	.165	.505	.193	1.326
	INWHIST(1)	-.665	.489	1	.173	.514	.197	1.340
	INTIFR(1)	-1.488	.504	1	.003	.226	.084	.606
	AUCHANG(1)	-.964	.495	1	.052	.381	.144	1.007
	Constant	1.711	.765	1	.025	5.534		

a. Variable(s) entered on step 1: DEBT, INSIDE, CEOEDU, CEOTEN, INWHIST, INTIFR, AUCHANG.

Source: data processed by IBM SPSS Version 20

Table 4.1 shows the results of a logistic regression test with a 5% significance level.

Table 4.2 Hypothesis Testing Results

<i>Ha1</i>	<i>The external pressure factor that proxied by debt ratio has a negative influence on the existence of financial statement fraud</i>	Debt shows a negative coefficient with a value of 0.005 and significance level of $0.705 > 0.05$ which means <i>Ha1</i> is rejected (<i>Ho1</i> is accepted), and it can be concluded that this variable does not have a negative influence on the existence of financial statement fraud.
<i>Ha2</i>	<i>The personal financial need factor that proxied by insiders' stock ownership has a negative influence on the existence of financial statement fraud</i>	Insiders' stock ownership shows a positive coefficient with a value of 8.355 and significance level of $0.105 > 0.05$ which means <i>Ha2</i> is rejected (<i>Ho2</i> is accepted), and it can be concluded that this variable does not have a negative influence on the existence of financial statement fraud.
<i>Ha3</i>	<i>The personal financial need factor that proxied by CEO's education has a positive influence on the existence of financial statement fraud</i>	CEO's education shows a negative coefficient with a value of 1.053 and significance level of $0.028 < 0.05$ which means <i>Ha3</i> is accepted (<i>Ho3</i> is rejected), and it can be concluded that this variable has a positive influence on the existence of financial statement fraud.
<i>Ha4</i>	<i>The personal financial need factor that proxied by the CEO's tenure has a positive influence on the existence of financial statement fraud</i>	CEO's tenure shows a negative coefficient with a value of 0.683 and significance level of $0.165 > 0.05$ which means <i>Ha4</i> is rejected (<i>Ho4</i> is accepted), and it can be concluded that this variable does not have a positive influence on the existence of financial statement fraud.
<i>Ha5</i>	<i>The ineffective monitoring factor that proxied by ineffective whistleblower program has a positive influence on the existence of financial statement fraud</i>	Ineffective whistleblowing program shows a negative coefficient with a value of 0.665 and significance level of $0.173 > 0.05$ which means <i>Ha5</i> is rejected (<i>Ho5</i> is accepted), and it can be concluded that this variable does not have a positive influence on the existence of financial statement fraud.
<i>Ha6</i>	<i>The ineffective monitoring factor that proxied by ineffective antifraud program and training has a positive influence on the existence of financial statement fraud</i>	Ineffective antifraud programs and training shows a negative coefficient with a value of 1.488 and significance level of $0.003 < 0.05$ which means <i>Ha6</i> is accepted (<i>Ho6</i> is rejected), and it can be concluded that this variable has a positive influence on the existence of financial statement fraud.
<i>Ha7</i>	<i>The rationalization factor that proxied by auditor change has a positive influence on the existence of financial statement fraud</i>	Auditor change shows a negative coefficient with a value of 0.964 and significance level of $0.052 < 0.05$ which means <i>Ha7</i> is rejected (<i>Ho7</i> is accepted), and it can be concluded that this variable does not have a positive influence on the existence of financial statement fraud.

Formulation of hypothesis *Ha8*, the insiders' stock ownership, CEO's education, the CEO's tenure, debt, whistleblowing programs ineffective, ineffective antifraud programs and training, and auditor change simultaneously have a significant influence upon the existence of financial statement fraud.

Table 4.10.

Omnibus Tests of Model Coefficients				
		Chi-square	df	Sig.
Step 1	Step	29.848	7	.000
	Block	29.848	7	.000
	Model	29.848	7	.000

Source: data processed by IBM SPSS Version 20

By viewing the Omnibus test of Model Coefficient table, it can be seen that the value of chi-square = 29.848 and degree of freedom = 7. With the significance of 0.005 (p-value 0.000 < alpha 0.05), Ha8 is accepted, so it can be concluded that all independent variables simultaneously have a significant influence on the existence of financial statement fraud.

DISCUSSION

Formulation of hypothesis Ha1: The external pressure factor that proxied by debt ratio has a negative influence on the existence of financial statement fraud.

Debt variable on table 4.8 shows a negative coefficient with values of 0.005 and significance level of 0.705 > 0.05 means Ha1 is rejected (Ho1 is accepted), and it can be concluded that this variable does not have a negative influence on the existence of financial statement fraud. Although this result contradicts to the previous research conducted by Skousen et al. (2008), Soselisa and Mukhlisin (2008) and Rahmawati and Muid (2012), the result of this study is supported by the statement of Persons (1995), Ken and Elder (2007), and Lou and Wang (2009). Based on this research, it is known that the debt variable has a positive influence on the existence of financial statement fraud. If the company has a high debt level, it will increase the risk of companies in experiencing financial distress that led to the bankruptcy of the company. The higher debt ratio will lead to a higher tendency of companies doing financial statement fraud. Debt ratio is the ratio of total debt to total assets, and also shows the risk of the company. By conducting earnings management through income smoothing practice, it will give more confidence to the owners of the company, along with to increase shareholder satisfaction through growth and stability of earnings reported. If the company has a high risk, management will attempt to cover its debts, so the management is motivated to commit fraud.

Hypothesis Ha2, the personal financial need factor that proxied by insiders' stock ownership has a negative influence on the financial statement fraud.

Insiders' stock ownership variables on table 4.8 show a positive coefficient with values of 8.355 and significance level of $0.105 > 0.05$ means Ha2 is rejected (Ho2 is accepted), and it can be concluded that this variable does not have a negative influence on the existence of financial statement fraud. Based on this result, it can be seen that although there is insiders' stock ownership in a company, the ownership does not reduce the likelihood of fraud within the company. Although this result contradicts to the previous research conducted by Skousen et al. (2008), this phenomenon may occur because the level of the insider ownership stake in the company is still in a low level, so it cannot resolve the conflict of interest that occurs between the agent and the principal. The increased levels of information asymmetry between agent and principal can encourage the earnings management practices taken by management (Jensen and Meckling, 1976). The results also indicate that the adoption of research variable Skousen et al. (2008) has different conclusions to this research.

Hypothesis Ha3, the personal financial need factor that proxied by CEO's education has a positive influence on the existence of financial statement fraud.

CEO's education variables on table 4.8 show a negative coefficient with a value of 1.053 and significance level of $0.028 < 0.05$ means Ha3 is accepted (Ho3 is rejected), and it can be concluded that this variable has a positive influence on the existence of financial statement fraud. This result supports the previous research conducted by ACFE Canada (2006). The result suggests that the adoption of research variable ACFE Canada (2006) has different conclusions to this research, although the result of this study contradicts to the result of Souselisa and Mukhlisin (2008).

Hypothesis Ha4, the personal financial need factor that proxied by the CEO's tenure has a positive influence on the existence of financial statement fraud.

CEO's tenure variables on table 4.8 show a negative coefficient with a value of 0.683 and significance level of $0.165 > 0.05$ means Ha4 is rejected (Ho4 is accepted), and it can be concluded that this variable does not have a positive influence on the existence of financial statement fraud. This result contradicts to the previous research conducted by ACFE Canada

(2006). The result suggests that the adoption of research variable ACFE Canada (2006) has different conclusions to this research, and it can be concluded that if the CEO of a company that has more than three years tenure, the CEO's tenure does not affect the existence of financial statements.

Hypothesis Ha5, the ineffective monitoring factor that proxied by ineffective whistleblower program has a positive influence on the existence of financial statement fraud.

The ineffective whistleblowing program variables on table 4.8 show a negative coefficient with values of 0.665 and significance level of $0.173 > 0.05$ means Ha5 is rejected (Ho5 is accepted), and it can be concluded that this variable does not have a positive influence on the existence of financial statement fraud. This result contradicts to previous research conducted by ACFE Canada (2006). The result suggests that the adoption of research variables ACFE Canada (2006) produce different conclusions on the research done on companies listed on the IDX, according to the Indonesian context. It can be concluded that if the company does not run a whistleblowing program, it does not affect the existence of financial statements.

Hypothesis Ha6, the ineffective monitoring factor that proxied by ineffective antifraud program and training has a positive influence on the existence of financial statement fraud.

The ineffective antifraud programs and training variables on table 4.8 shows a negative coefficient with values of 1.488 and significance level of $0.003 < 0.05$ means Ha6 is accepted (Ho6 is rejected), and it can be concluded that this variable has a positive influence on the existence of financial statement fraud. This result supports the previous research conducted by ACFE Canada (2006). If a company does not implement the antifraud programs and training for managers and employees, it influences the existence of financial statement fraud.

Hypothesis Ha7, the rationalization factor that proxied by auditor change has a positive influence on the existence of financial statement fraud.

Auditor change variables on table 4.8 show a negative coefficient with values of 0.964 and significance level of $0.052 < 0.05$ means Ha7 is rejected (Ho7 is accepted), and it can be concluded that this variable does not have a positive influence on the existence of financial statement fraud. This result contradicts to previous research conducted by Skousen et al.

(2008). If some companies change auditors within two years, it does not affect the existence of financial statements. Companies tend to use the same independent auditor any opinions given as stated on The Law no 17/PMK.01/2008 That describes the length of use of the independent auditor for three years and a public accounting firm for five years. The results also showed that the change of auditors is not the reason for a company to cover up the fraud act that has been done.

Hypothesis Ha8, the insiders' stock ownership, CEO's education, the CEO's tenure, debt, whistleblowing programs ineffective, ineffective antifraud programs and training, and auditor change simultaneously have a significant influence upon the existence of financial statement fraud.

Based on the Omnibus test of Model Coefficient table on table 4.10, the results of the study shows the value of the chi-square value of 29.848, degree of freedom equal to 7, with the significance of 0.005 (p-value 0.000 < alpha 0.05), suggesting that Ha8 accepted. The debt, insiders' stock ownership, CEO's education, the CEO's tenure, whistleblowing programs ineffective, ineffective antifraud programs and training, and auditor change simultaneously have a significant influence upon the existence of financial statement fraud. Therefore, the companies listed in IDX should consider seven factors in predicting the existence of financial statement fraud. So, the company can avoid the possibility of fraud incidents.

CONCLUSION

This study is conducted to find empirical evidence whether fraud triangle factors have significant influence on the existence of financial statement fraud in Indonesian listed companies. This study also seeks to fill that gap by empirically examining the effectiveness of the fraud risk factor framework in detecting the existence of financial statement fraud (Skousen et al., 2008). Based on the result, analysis, and discussion, this study can be concluded some points, as follows. First, the external pressure variable that proxied by debt has a positive influence on the existence of financial statement fraud. Although this result contradicts to the previous research conducted by Skousen et al. (2008), Soselisa and Mukhlisin (2008) and Rahmawati and Muid (2012), the result of this study is supported with the statement of Persons (1995), Ken and Elder (2007), and Lou and Wang (2009). Second, the personal need variable that proxied by insiders' stock ownership has a negative influence on the existence of financial statement fraud. This result contradicts to the previous research conducted by

Skousen et al. (2008). Third, the personal need variable that proxied by CEO's education has a positive influence on the existence of financial statement fraud. This result supports the previous research conducted by ACFE Canada (2006). Fourth, the personal need variable that proxied by the CEO's tenure has a negative influence on the existence of financial statement fraud. This result contradicts to the previous research conducted by ACFE Canada (2006). Fifth, the ineffective monitoring variable that proxied by the ineffective whistleblowing program has a negative influence on the existence of financial statement fraud. This result contradicts to previous research conducted by ACFE Canada (2006). Sixth, the ineffective monitoring variable that proxied by the ineffective antifraud program and training has a positive influence on the existence of financial statement fraud. This result supports the previous research conducted by ACFE Canada (2006). Seventh, the rationalization variable that proxied by auditor changes has a negative influence on the existence of financial statement fraud. This result contradicts to previous research conducted by Skousen et al. (2008). Eighth, the independent variables, namely insiders' stock ownership, CEO's education, the CEO's tenure, financial leverage, ineffective whistleblowing programs, ineffective antifraud programs and training, and auditor change simultaneously have a significant influence on the financial statement fraud.

Based on the results of the previous chapter, these results are expected can be a reference for a company to make a policy related about financial statement fraud and antifraud management program, strengthen the company's internal controls to prevent and detect fraud, to encourage the awareness of fraud. Even though, the results of this study indicate that the low level of insiders' ownership, CEO's tenure, and the inexistence of whistleblowing program have a negative influence on the existence of financial statement fraud; it should be realized that fraud occurred because there is an opportunity to commit fraud. For example, the weakness of a company's internal control can increase the probability of fraud occurrence.

For the public, this study is conducted to give information that fraud triangle factors can detect the existence of financial statement fraud. Through this research, the public can understand about the type of fraud that may occur in the company, the type of perpetrator of fraud, and the factors that can lead to the existence of financial statement fraud.

Finally, this study is expected used as consideration and motivation for the Indonesian government to develop guidelines or legislation related to the antifraud management program. The regulatory bodies and the government also can make a standard of measurements relating to financial fraud detection.

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