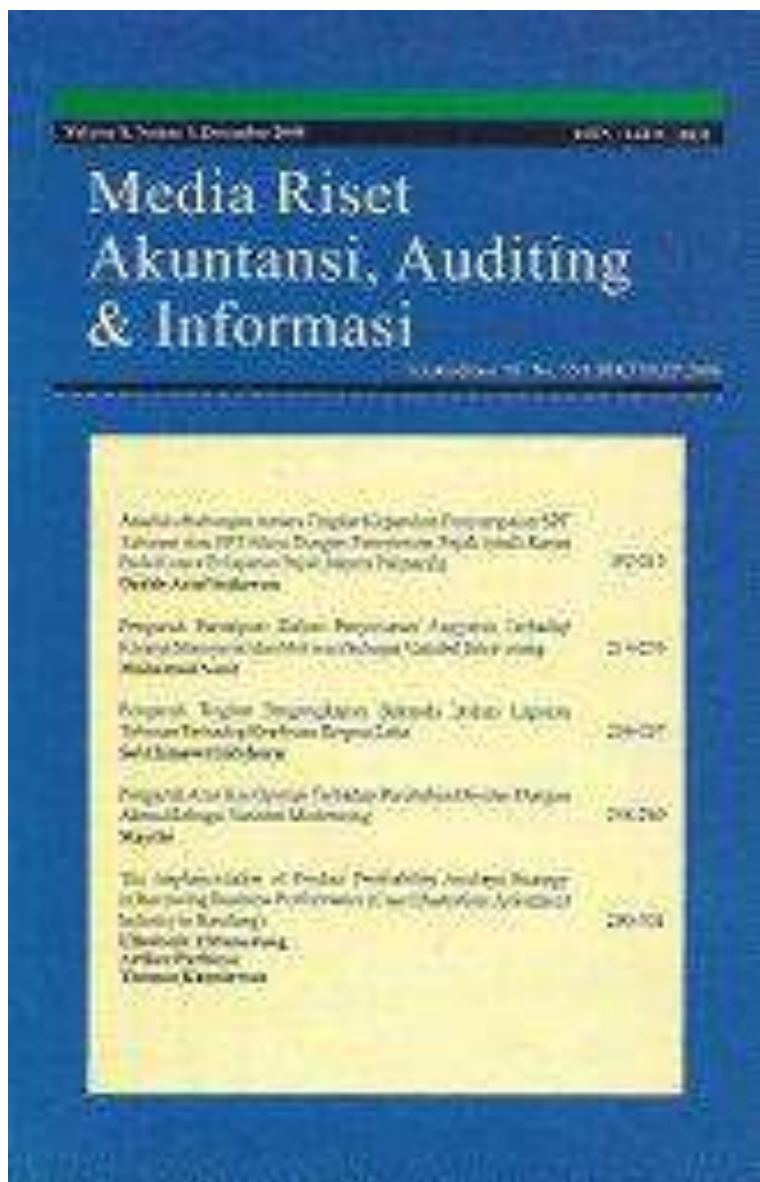


PREDICTION OF FINANCIAL REPORTING FRAUD WITH CROWE'S FRAUD PENTAGON MODEL



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PREDICTION OF FINANCIAL REPORTING FRAUD WITH CROWE'S FRAUD PENTAGON MODEL

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Abstrak

Penelitian ini bertujuan menguji faktor yang mempengaruhi kecurangan laporan keuangan dengan pendekatan crowe's Pentagon model. Terdapat lima dimensi dalam model ini meliputi Tekanan, Kesempatan, Rasionalisasi, Kompetensi dan Arogansi. Ketidakstabilan finansial, tingkat utang merupakan proksi pengukuran

PREDICTION OF FINANCIAL REPORTING FRAUD WITH CROWE'S FRAUD PENTAGON MODEL

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Keywords : *Crowe's Fraud Pentagon Model, Kecurangan Laporan Keuangan, Perubahan Kebijakan Akuntansi, Foto CEO*

Abstract

This study aims to examine the factors that influence fraudulent financial statements using the Crowe's Pentagon model approach. There are five dimensions in this model including Pressure, Opportunity, Rationalization, competence and arrogance. Financial instability, and leverage, is a proxy for measuring the Pressure variable. Composition of Directors and Head of Internal Auditor turnover is a proxy for measuring the Opportunity variable. Restatement times of financial statements and Change in accounting policy, become a proxy for measuring the Rationalization variable. Undeclared Policies and Special purpose entities are proxies for measuring

Competence variables. CEO arrogance is measured by the frequency of CEO photo views. The research sample is 115 firm year companies listed on the LQ 45 index with an observation period of 2017 to 2019. The results of the study prove that the head of internal audit turnover, Restatement times, Change in Accounting policy, Special purpose entities and also CEO Picture have a positive effect on financial fraud.

Keywords : *Crowe's Fraud Pentagon Model, Fraudulent Financial Reporting, Change in Accounting Policies, CEO Picture*

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INTRODUCTION

Business competition and economic conditions can affect company performance. Management seeks to maintain the sustainability of the company in various ways, one of which is to attract funds from investors. Therefore, management is motivated to improve company performance. This motive encourages management to commit fraud in order to cover up poor performance in order to attract funds from investors and creditors. Financial statement fraud occurs to obtain funding and cover up poor performance and maintain stock prices (Santoso and Surenggono, 2018).

Financial statement fraud occurs in various industrial sectors, even in sectors that are of great interest to investors. According to data from the Investment Coordinating Board (BKPM), the transportation, warehouse and telecommunications sectors have a portion of 13.2 percent, while the electricity, gas and water sector has a portion of 12.8 percent of the total investment from both Foreign Investment (PMA) and Investment. Domestic Investment (PMDN) in 2018 with an investment value of IDR 70.7 trillion and IDR 68.7 trillion (Detik, 2018). Likewise, companies in the infrastructure sector at the beginning of 2019 posted positive returns because they experienced an increase in share prices and became more attractive to investors. (Kontan, 2019). The large amount of capital that has been invested by both foreign and domestic investors does not reduce the practice of fraud. The transportation sector is known to have experienced an increase in fraudulent practices from 68 cases in 2016 to 83 cases in 2018 with an average loss of US\$ 141,500. The utility sector with 102 cases in 2016 became 173 cases in 2018 with an average loss of US\$ 423,000. Likewise, the infrastructure sector has experienced an increase in fraud practices with a total of 86 cases in 2016 to 90 cases in 2018 with an average loss of averaged US\$ 243,000 (ACFE, 2018).

The phenomenal case of fraudulent financial reporting is the Enron corporation. The Enron case dragged public accountant Arthur Anderson, who was responsible for auditing financial statements. The existence of Arthur Anderson in the Enron case

caused his reputation to collapse and he dropped out of the big five public accountants. Another example is the manipulation of the 2018 financial statements of PT. Garuda Indonesia Tbk. This case dragged public accountants Tanubrata, Sutanto, Fahmi, Bambang and Partners (Ananta, 2019).

The practice of fraudulent financial reporting also occurred at PT Hanson Internasional, which was proven to have manipulated the presentation of the annual financial statements (LKT) in 2016. In an examination conducted by the OJK, manipulation was found in accounting presentation related to the sale of "Kavling Siap Bangun" (Kasiba) with a gross value of Rp. 732 billion, thus making the company's revenue rise sharply. In the sale and purchase, Hanson International violated Financial Accounting Standard 44 concerning Accounting for Real Estate Activities (PSAK 44). OJK disputed the recognition using the full accrual method, even though in the 2016 LKT, the transaction was not disclosed in the 2016 LKT. Meanwhile, based on the Accounting for Real Estate Development Activities (PSAK 44), sales revenue can be recognized using the full accrual method provided that it meets the criteria, including the completion of a Sale and Purchase Contract Agreement (PPJB) which cannot be proven by the company. According to OJK, by not submitting the PPJB to the auditor who audited PT Hanson International Tbk's LKT, overstated the 2016 LKT's revenue with a material value of IDR 613 billion. (Kompas, 2020)

Measurement of Fraudulent Financial Reporting in this study separates Manipulators, NonManipulators, and Gray Companies. Beneish suggests using accounting variables which are considered to have signals of future prospects as a technique for detecting manipulation. This technique is based on the notion of the importance of company information that can capture the nature of the company's operations or activities economically and has an economically reasonable detection ability.

LITERATURE REVIEW AND HYPOTHESIS

Hypothesis Development

Financial stability is influenced by the state of a country's economy. If the economic condition is unstable, it will affect the company's financial stability. This will put pressure on the management, which then justifies any means to display financial reports that seem good, including committing fraud in the presentation of financial statements.

In addition, the high assets owned by the company are an attraction for investors. To attract investors, company management certainly tries to present a convincing company appearance for investors. In order to display the company's growth and increased performance, company management often manipulates financial reports. Therefore, a high percentage change in total assets indicates manipulation of the financial statements. Research conducted by Bawekes (2018) and Septriani and

Handayani (2018) shows that financial stability has a positive effect on fraudulent financial reporting.

H₁: *Financial Instability* has a positif effect on *Fraudulent Financial Reporting*

Aprilia (2017) states that external pressure will cause management to seek loans from other parties so that the company can compete competitively. This pressure will be a trigger for management to manipulate financial reports. Management will justify all kinds of ways to get a loan and will try to display perfect financial reports so that performance is assessed as good. Yusof (2016) in his research has the assumption that PLC (Public Listed Company) fraud can deliberately transfer financial risks from equity owners and management to debt owners to deal with high financial pressure. The results of these studies have not led to a significant effect. In addition, the results of research conducted by Husmawati, et.al. (2017) state that external party pressure proxies by leverage has positive effect on fraudulent financial statements.

H₂: Leverage has a positive effect on Fraudulent Financial Reporting

Independent oversight is usually carried out by placing a number of independent commissioners within the company. Independent commissioners are commissioners who come from outside the company or are not affiliated with the company's shareholders. The more commissioners in a company, the more effective the supervision will be (Aprilia, 2017). Research by Yusof (2016) and Simon (2015) shows that the effectiveness of supervision has a significant effect on fraudulent financial reporting.

H₃: Composition of Directors has a negative effect on Fraudulent Financial Reporting

SPI chief replacement must be in accordance with the rules. However, if this change does not comply with the rules, then internal control is considered ineffective (Aprilia; 2017). If this change occurs frequently, it will have an impact on SPI performance. Research related to the influence of SPI chairman turnover on financial statement manipulation is still relatively small. Simon (2015) conducted an analytical study of the role of replacing the chief internal auditor to measure the "opportunity" element contained in pentagon fraud. This study continues Simon's research (2015), with the following research hypothesis:

H₄ : Change of Head of Internal Auditor has a positive effect on Fraudulent Financial Reporting

Retrospective restatement of historical financial statements can occur due to many factors. For example, the application of the new accounting standard PSAK 24 which was issued on December 19, 2013 concerning employee benefits requires companies to do a restate from 2013-2015. Another example is the company failing to

present Financial Statements that have been uploaded to the Indonesia Stock Exchange, resulting in a sanction for restating. The rationalization factor of management appears in every restatement of financial statement. Yusof (2016) provides evidence that frequent historical financial presentations reflect the weaknesses of top management and can be considered as management attitudes or habits. The results of his research prove that the High of Historical Financial Restatements Times has a positive effect on fraudulent financial reporting.

H₅ : Restatement Times has a positive effect on Fraudulent Financial Reporting

Simon (2015) initiated a new measurement to detect financial reports by observing the trend of changing accounting policies. This variable is used to measure rationalization, one of the elements of pentagon fraud. A change in accounting policy within a company will bring up rationalization for management to commit fraudulent financial reporting.

H₆: Accounting Policies Changes have a positive effect on Fraudulent Financial Reporting

Companies need to disclose all accounting policies used in Notes to Financial Statements. It is intended that investors obtain transparent and relevant information according to the needs of its users. However, if the disclosure of this accounting policy is incomplete, it is an indication of hiding information by management for other purposes. For example, an undisclosed doubtful account accounting policy indicates a liquidity/solvency problem faced by the company, as found by Simon (2015) on the Malaysia Stock Exchange and Aprilia (2017). This variable is used to measure competence, one of the elements of Fraud Pentagon.

H₇: Undeclared Policies have a positive effect on Fraudulent Financial Reporting

Special purpose entities are formed with the aim of covering the operational needs of the parent company. The presence or absence of a special purpose entity is usually disclosed in the notes to the financial statements. All stakeholders obtain accountable information regarding the company's activities from Notes to Financial Statements. Limited access to information from outsiders to special purpose entities is seen as a lack of transparency. This allows information to be covered up by company management and indicates fraud. Simon (2015) provides suggestions for empirically proving the effect of limited access to special purpose entity information on financial statement fraud (this variable is used to measure competence, one of the elements of Pentagon fraud).

H₈: Vehicles Financial Reports have a positive effect on Fraudulent Financial Reporting

CEO Picture and Fraudulent Financial Reporting. CEO's picture is the number of CEO photos that appear in the company's annual report. The number of photos of this CEO, represents the level of arrogance or superiority that the CEO has. A CEO tends to show everyone the status and position he currently has and tries not to be dethroned. The reason is, they don't want to lose that status or position (Crowe; 2011). High arrogance triggers fraud because with the arrogance and superiority of a CEO, the CEO feels that any internal control will not apply to him because of his status and position. According to Crowe (2011), there is also the possibility that the CEO will take any means to maintain the current position and position. Tessa (2016) proves that the frequency of CEO pictures has a positive effect on Fraudulent Financial Statements.

H₉: CEO Picture has a positive effect on Fraudulent Financial Reporting

Research Method

The dependent variable is a variable that is influenced by other variables. The dependent variable in this research is fraudulent financial reporting. Fraudulent financial reporting is calculated using the Beneish Model adopted in 1999 contained in the Mahama (2015). This study uses a ratio index analysis technique to the company's financial statement data as a sample. The ratio index calculation is intended to determine the category of a company classified as manipulators or non-manipulators. Companies are categorized as manipulators or non-manipulators if they obtain a ratio index value according to the parameter index according to the Beneish Model. The ratio index used in the Benish model includes Days Sales in Receivable Index (DSRI), Gross Margin Index, Asset Quality Index (AQI).

This research uses the independent variable which is represented by the five components of the pentagon fraud using 10 proxies. Financial Instability is a condition that describes the company's financial condition from instability. When the company's financial stability is in a threatened condition, management will take various ways so that the company's financial stability looks good. In cases where companies experience below-average industry growth, management is very likely to use financial statement manipulation to improve the company's appearance (Skousen, et.al. 2009). In this case, assets play an important role to show stable growth. Financial Instability is proxied by ACHANGE which is the percentage change in assets during the two years prior to the occurrence of the fraud. After a period of rapid growth, management uses financial statement manipulation to display steady growth. Therefore, asset growth is included as a proxy for fraud.

Leverage is a proxy variable used to test the relationship between pressure and fraudulent financial reporting in companies in Indonesia. This study predicts high leverage in Indonesian public companies showing a higher tendency towards fraudulent financial reporting. This study predicts that a high debt structure in several tbk companies in Indonesia can increase the possibility of fraudulent financial reporting. This prediction is made based on the assumption that corporate fraud in Indonesia can

transfer financial risks from equity owners and management to debt owners to deal with high financial pressures.

The composition of the Board of Directors is a proxy variable used to test the Opportunity for fraudulent financial reporting. The hypothesis predicts that a lower percentage of outside or independent members (Independent Non-executive Directors and/or Independent Commissioners) in the composition of the Commissioners and Directors shows a higher tendency towards the possibility of fraudulent financial reporting. This study predicts that one of the reasons for fraudulent financial reporting is caused by the smaller number of independent members (represented in this study by Commissioners and/or Independent Non-Executive Directors) in the composition of the Board of Commissioners and Directors. This situation will provide opportunities for members who are not independent (referred to in this study as Executive Directors) to dominate or manipulate major and material decisions of Indonesian Tbk companies, which can eventually lead to fraud.

Internal auditor head rotation is another proxy variable used to measure the relationship between opportunity and fraudulent financial reporting in Indonesia. The hypothesis predicts a high turnover frequency. Chief Internal Auditors show a higher tendency towards fraudulent financial reporting. This study predicts that one of the reasons for frequent changes in the head of internal auditors at Indonesian Tbk companies is due to management's decision to change the head of internal auditors as a measure to reduce the detection of fraudulent financial reporting activities (Simon, 2015). The variable is measured by the number 1 if there is a change in the head of the internal auditor during three years of observation at LQ45 companies in Indonesia.

Restatement of Historical Financial Statements is a proxy variable used to test the attitude of management in Tbk companies in Indonesia towards the possibility of fraudulent financial reporting. The previous hypothesis predicts that the restatement of historical financial statements has shown a higher tendency towards fraudulent financial reporting. Because individual attitudes are difficult to measure with quantitative methods, this study predicts that historical financial presentations often reflect top management weaknesses and can be considered management attitudes. In the context of this research, all observations can be made to the Public Listed Company Indonesia which has received sanctions for restating historical financial statements by the Indonesian Stock Exchange and the Financial Services Authority (OJK). Variables are measured by giving the number 1 for companies that carry out financial statement restatements for three years of observation (Yusof; 2015)

Changes in accounting policies (Δ ACCPOL) are proxy variables used to test the rationalization component with the possibility of fraudulent financial reporting at Indonesian Tbk companies. The hypothesis predicts that "frequent changes in accounting policies of Tbk companies indicate a higher tendency towards fraudulent financial reporting." This study predicts that frequent changes in accounting policies can rationalize fraudulent financial reporting through various accounting policies because these changes are permitted by accounting standards (Simon, 2015). The

research variable is measured by giving the number 1 for Companies that Make Policy Changes for three years of observation.

Undeclared or unpublished accounting policies regarding bad debts and debts are proxy variables used to test (capability)/competence with fraudulent financial reporting. Aprilia (2017) states that a company needs to announce all policies used by the company in its financial statement notes, so that investors obtain transparent and relevant information about the company's policies and performance. If there are companies that do not announce the policies used, it shows the high probability that there are things that are hidden by the company's management. This variable is measured by giving the number 1 for companies that do not announce accounting policies regarding doubtful debts (seen in the financial statement notes) based on Yusof (2015), and Aprilia (2017)

Special purpose entities and restricted information is another proxy variable used to measure competence for fraudulent financial reporting in Public Listing Companies in Indonesia. The previous hypothesis predicts that financial reports that do not have access or limit information to special purpose entities show a higher tendency towards the possibility of fraudulent financial reporting. This research predicts that fraudulent public listing companies are more likely to hide obligations and dubious transactions through separate accounting in the financial statements of special purpose entities. This variable is measured by giving the number 1 for companies that have special purpose entities and limited information, following Yusof (2015) and Aprilia (2017).

According to Tessa and Harto (2016) Frequent number of CEO's picture is the number of photos of the CEO attached to the company's annual report (annual report) and the number of photos of the CEO attached to a company's annual report can represent the level of arrogance that the CEO has. This gives an illustration that having a CEO will provide better monitoring results. However, this study also considers the possibility that some CEOs in fraud PLC Indonesia prefer to maintain a low profile to hide their fraudulent financial reporting activities for public exposure and detection. Thus, in hypothesis looking at both sides from this perspective. First, it predicts that the frequent number of images of Chief Executive Officers (CEOs) in annual reports indicates a more arrogant CEO and a higher propensity for fraudulent financial reporting; or a smaller number of CEO images in annual reports indicates a higher tendency for CEOs to hide their fraudulent financial reporting activities. This arrogance variable is measured by the frequency of appearance of the CEO's image in the Company's Annual Report during the research year, following Simon (2015) and Aprilia (2017).

Hypothesis Testing

This research was conducted on LQ45 companies listed on the Indonesia Stock Exchange (IDX) in 2018-2020 and using rupiah currency during the observation period. based on these criteria, 39 companies were obtained that met the criteria so that

the total sample was 117. However, there were 12 data outliers so that the final sample was 105 firm years.

The percentage distribution of the sample companies in this study found three groups of financial statements, namely the Manipulators, Non-Manipulators, and Gray Company samples. the LQ45 group of companies is dominated by annual reports that are non-manipulators with a percentage of 28%, 70% are classified as Manipulators, and 2% are classified as Gray Companies.

Table 1
Financial Stability, Leverage, Composition of Directors

Variabel	n	Min	Max	Mean	Std.Deviation
<i>Financial Instability</i>	105	-0,2351	4,0761	0,153727	0,4199703
<i>Leverage</i>	105	0,0016	13,2290	0,595761	1,3487834
<i>Composition of Directors</i>	105	0,1700	0,8300	0,380952	0,1208426

Source:

Financial Instability in this study is proxied by ACHANGE, using the change in total assets compared to the total assets of the previous year. The company that has a minimum point is PT Indo Tambangraya Megah Tbk in the 2018 observation year of -0.2351. While the maximum value is owned by PT PP London Sumatra Indonesia Tbk in the 2017 observation year of 4.0761. The maximum value, means that the company has a level of financial condition that is less stable. Based on the results of descriptive statistics, the average value is 0.153727. This average value indicates that the level of stability in its financial condition is still low, meaning that total assets have not experienced a good change when viewed from the previous year. In addition, the standard deviation number is 0.4199703 or greater when compared to the average, so there are quite a lot of variations in the data in this variable.

Leverage in this study is proxied using total long term debt divided by total equity. The company that has a minimum leverage value is PT Waskita Beton Precast Tbk in the 2018 observation year of 0.0016. Meanwhile, the maximum value of leverage owned by PT Sri Rejeki Isman Tbk is 13.2290. This maximum value illustrates that the higher the leverage ratio, the higher the risk of default on debt obligations faced by the company. Based on the results of descriptive statistics, the average value is 0.595761 with a standard deviation of 1.3487834 or greater than the average, so there is quite a lot of variation in the data in this variable.

Table 2.
Statistic Descriptive for dummy variabel measurement.

1	Head of IA Turnover	Freq	%	2	Restatement Times	Freq	%
	No turnover	57	54		Never	80	76
	Turnover	48	46		Manytimes	25	24
3	Change in Acc Policy			4	Undeclared Policy		
	Never	23	22		Declared	62	59
	Manytimes	82	78		Undeclared	43	41
5	Special purpose Entity						
	Have no Special	36	34				

Entites		
Have special entites	69	66

The composition of directors in this study is proxied using the number of independent commissioners divided by the total number of commissioners. The company that has the minimum Composition of Directors is PT Bukit Asam Tbk in the observation period from 2017-2019 of 0.17. While the maximum value of the Composition of Directors is owned by PT Unilever Indonesia Tbk in the 2018 period. This maximum value illustrates that the level of supervision carried out by the independent commissioner is higher, namely 5 of the 6 total existing board of commissioners. Based on the results of descriptive statistics, the average value is 0.380952 with a standard deviation of 0.1208426 or smaller when compared to the average, so that the variation in the data in this study for the Composition of Directors variable is still small.

Number of CEOs' Pictures in Annual Reports, is the frequency of appearances of CEO pictures in the Company's Annual Reports during the year of research. Frequency of CEO Picture appearances 1 time (7%), 2 times (31%), 3 times (41%), 4 times (11.4%), 5 times (3.8%), 6 times (2%) and appeared 7 times as much as 3%.

Table 3
Hypothesis Testing

Variables	Proxy	Expected sign	-2 Log Likelihood of Reduced Model	Chi-Square	Sign
Intercept			77,355	0,252	0,441
Pressure	Financial Instability	+	77,304	0,201	0,452
	Leverage	+	78,021	0,918	0,316
Opportunity	Composition of Directors	-	80,080	2,977	0,113
	Head of Internal Auditor Turnover	+	95,704	18,601	0,000*
	Restatement Times	+	87,389	10,286	0,003*
Rationalization	Change in Acc. Policy	+	85,008	7,905	0,009*
	Undeclared Policies	+	78,075	0,972	0,307
Competence	Special purposed Entities	+	84,450	7,347	0,012*
Arrogance	CEO picture	+	87,477	10,374	0,003*
Dependent Variable : Fraudulent Financial Statement					
*) Sign at 5%					

Based on the results in Table 3 above, it is evident that opportunity as measured by Head of Internal Auditor turnover has a positive effect on fraudulent financial statements. In addition, rationalization with both measurement proxies has proven to have a positive effect on fraudulent financial statements. Competence as measured by a special purposed entity has proven to have a positive effect on fraudulent financial statements, as well as arrogance.

Referring to Multinomial logistic regression for the regression model with the dependent variable with a nominal scale of three categories, the resulting variable categories are coded $Y = 0$ Non Manipulator, $Y = 1$ Gray Company, and $Y = 2$ Manipulators. In multinomial logistics one has been used as a category or comparison between the three existing categories and in this case the variable used as the comparison variable is Non Manipulator so that Logit 1 is formed, namely Manipulator compared to Non Manipulator and Logit 2 is formed, namely Gray compared to Non Manipulator. According to Ghozali (2013), the Wald test is used to determine the effect of financial instability, leverage, composition of directors, auditor turnover, restatement times, change in accounting policies, undeclared policies, Special purpose entities, CEO picture, on fraudulent financial reporting.

Table 4
Manipulator, Non Manipulator, Grey Area

variables	Proxy	β & Sign.	Logit 1 (Manipulator Vs NonManipulator)	Logit 2 (Grey Vs NonManipulator)
	Intercept	β Sign	-1,141 0,309	-16,562 0,500
Pressure	Fin. Instability	β Sign Exp (β)	-1,742 0,309 0,175	142,891 0,497 1,140
		β Sign Exp (β)	-0,191 0,205 0,826	9,497 0,498 13,325,237
		β Sign Exp (β)	10,052 0,005 23,200,645	508,127 0,497 2,105
	Opportunity	β Sign Exp (β)	6,088 0,003* 440,499	18,947 0,499 169,280,424,985
		β Sign Exp (β)	5,519 0,007* 249,372	1,697 0,50 5,457
		β Sign Exp (β)	5,07 0,013* 0,006	73,212 0,499 62,479
Rationalization	Restatement Times	β Sign Exp (β)	1,131 0,171 3,1	-26,669 0,498 2,617
		β Sign Exp (β)	3,708 0,016* 40,76	39,512 0,499 144,560
		β Sign Exp (β)	1,232 0,009* 0,292	9,658 0,498 15,640,736
	Change in Acc. Policy	β Sign Exp (β)	1,131 0,171 3,1	-26,669 0,498 2,617
		β Sign Exp (β)	3,708 0,016* 40,76	39,512 0,499 144,560
		β Sign Exp (β)	1,232 0,009* 0,292	9,658 0,498 15,640,736
Competence	Undeclared Policies	β Sign Exp (β)	1,131 0,171 3,1	-26,669 0,498 2,617
		β Sign Exp (β)	3,708 0,016* 40,76	39,512 0,499 144,560
		β Sign Exp (β)	1,232 0,009* 0,292	9,658 0,498 15,640,736
	Special purposed Entities	β Sign Exp (β)	1,131 0,171 3,1	-26,669 0,498 2,617
		β Sign Exp (β)	3,708 0,016* 40,76	39,512 0,499 144,560
		β Sign Exp (β)	1,232 0,009* 0,292	9,658 0,498 15,640,736
Arrogance	CEO picture	β Sign Exp	1,232 0,009* 0,292	9,658 0,498 15,640,736

variables	Proxy	β & Sign.	Logit 1 (Manipulator Vs NonManipulator)	Logit 2 (Grey Vs NonManipulator)
(β)				
Dependent Variable : Fraudulent Financial Statement				
*) Sign at 5%				

From the table above, it is revealed that several variables influence fraudulent financial statements, especially in the logit equation 1 (manipulator vs. non-manipulator group), including:

1. Head of Internal auditor, explaining that companies that perform Head of Internal auditor Turnover tend to commit fraudulent financial reporting in the manipulator category 440.499 times greater than non-manipulator companies.
2. Restatement Times, proving that companies that carry out Restatement Times have a tendency towards fraudulent financial reporting in the manipulator category 249.372 times greater than non-manipulator companies.
3. Change in Accounting Policies, proving that companies that make Change in Accounting Policies have a tendency towards fraudulent financial reporting in the manipulator category 0.006 times greater than non-manipulator companies.
4. Special Purpose Entities affect fraudulent financial reporting in the manipulator vs. non-manipulator group. Companies that have special purpose entities have a tendency towards fraudulent financial reporting in the manipulator category 40.76 times greater than non-manipulator companies.
5. CEO picture affects fraudulent financial reporting in the manipulator vs. non-manipulator group. Companies with a CEO Picture have a tendency towards fraudulent financial reporting in the manipulator category 0.292 times greater than non-manipulator companies

Discussion

Financial Instability is a condition of instability in a company. Financial stability is influenced by the state of a country's economy. If the economic conditions are unstable, it will affect the financial stability of the company. Of course things like this will put pressure on the management of the company. In order to display the company's growth and increased performance, company management often manipulates financial reports. Therefore, a high percentage change in total assets indicates manipulation of the financial statements. However, this research does not support the research conducted by Bawekes (2018) and Septriani and Handayani (2018) which shows that financial instability has a positive effect on fraudulent financial reporting.

Looking at the test results in this study, the total asset change value of the sample companies tends to decrease. For example, the company PT Bumi Serpong Damai Tbk has an asset/ACHANGE change value in 2017 of 0.1651 and in 2018 it becomes 0.0259. This means that a decrease in the company's financial instability has no effect on fraudulent financial reporting. It is quite reasonable that a company with a

low level of instability should reduce the potential for fraudulent financial reporting, but in this study it appears that PT Bumi Serpong Damai Tbk is included in the manipulator company. In addition, companies that experience a decrease in the value of changes in their assets, for example, are PT Astra International Tbk in the observation years 2018 to 2019, namely 0.1652 and 0.0210 respectively and also have no effect on fraudulent financial reporting. So that the level of corporate financial instability in this study does not make management automatically commit fraudulent financial reporting in order to increase attractiveness to investors. It turns out that the value of changes in total assets in this study cannot be a reference for a company to commit fraudulent financial reporting or not. These results reflect that financial instability as measured by the variable ratio of changes in asset value in the sample LQ45 company research does not absolutely indicate the presence of fraudulent financial statements. Changes in the increase or decrease in asset values can be caused by the implementation of the fair value method in recording asset values or can also be caused by asset value revaluations which can result in asset values increasing or decreasing. In addition, the company's unfavorable financial stability does not motivate management to commit fraud by increasing asset values. This is quite reasonable, because increasing the value of assets by committing fraud will put the company in trouble in the future with the difficulty for the company to get additional funds for the company's sustainability both from investors and from creditors. The results of this study are in line with the results of Santoso and Surenggono (2018) and Rahardjo (2012).

The existence of pressure from external parties will cause management to seek loans from other parties so that the company can compete competitively. This pressure will be a trigger for management to manipulate financial statements. Management will justify all kinds of ways to get a loan and will try to display perfect financial reports so that good performance is assessed. Yusof (2016) in his research has the assumption that fraud can deliberately transfer financial risks from equity owners and management to debt owners to deal with high financial pressure. The results of this study in the LQ45 sample companies have not shown a significant effect because the company can repay its debts so that in this case there is no pressure for the company's management to carry out fraudulent financial reporting. This is supported by an average leverage value of 0.595761. This value indicates that in general the total equity of the company is much greater than the total debt owned by the company. In addition, the results of this study also support the results of research conducted by Bawekes (2018) which states that external party pressure proxied by leverage has no significant effect on fraudulent financial statements.

The results of this study explain that management does not fully experience pressure when fulfilling its obligations. They have an obligation to fulfill their debts. However, reporting fraud is not the only solution to fulfill this obligation. The company is more trying to improve its performance in order to generate good profits to fulfill its obligations. Based on the results of this study data indicate that leverage has no effect on fraudulent financial reporting. An example is PT Perusahaan Gas Negara (Persero)

Tbk which has a level of leverage that has decreased every year from 2017-2019 of 0.6549 in 2017, 0.442 in 2018 and 0.0538 in 2019 and this is not affected by fraudulent financial reporting is proven that with the highest ratio in 2017 it does not make the company enter into a manipulator company. The tendency of companies to commit fraud with low leverage characteristics is more likely due to the fact that creditors are not currently considering the amount of leverage generated, but there are other considerations such as the level of trust or a good relationship between the company and creditors. In addition, many companies prefer to issue shares again to obtain additional business capital from investors without having to enter into a new debt agreement which causes the company's debt burden to become larger and the company's leverage to be lower (Prajanto, 2012).

Independent oversight is usually carried out by placing a number of independent commissioners within the company. Independent commissioners are commissioners who come from outside the company or are not affiliated with the company's shareholders. The more commissioners in a company, the more effective the supervision will be (Aprilia, 2017). However, the results of this study have not led to a significant effect. In addition, the results of this study are not in line with the results of research conducted by Yusof (2016) and Simon (2015) which show that the effectiveness of supervision has a significant effect on reducing fraudulent financial statements. This explains that the independent commissioner who is part of the board of commissioners performs a fairly good oversight function against fraudulent financial reporting as explained by Anisyukurlillah, et.al. (2022) that a lack of knowledge regarding the background of the company's business activities can result in the failure of the formulation of an effective corporate strategy. In addition, a larger proportion of independent commissioners can provide assurance that the company will run effectively in accordance with the wishes of the company's management because independent commissioners can oversee management's performance so that it can reduce fraudulent financial reporting. Looking at the research results, an example of a company that has a lower percentage of outside or independent members, namely 1 out of 6 of the board of commissioners, is PT Bukit Asam Tbk in 2019 and is not included in the manipulator company. The appointment of an independent board of commissioners by the company may only be carried out to comply with regulations, but is not intended to uphold good corporate governance in the mechanism of efforts to prevent financial statement fraud. So it can be concluded that the existence of an independent commissioner as a controller has not run optimally. This can be explained that the placement or addition of independent members of the board of commissioners is only possible to fulfill formal requirements, while majority shareholders still play an important role so that the performance of the board does not increase, even decreases (Daljono dan Martantya, 2013).

Aprilia (2017) in her research stated that the change in the head of the internal auditor should follow the regulations that apply in the company. If the replacement of the chairman of the internal auditor does not follow the regulations If there is, then the company is considered ineffective. Changing the chairman of the internal auditor too often will affect the internal audit that will be carried out by the Internal Control System (SPI). So far, the research has not examined the effect of changing internal auditors on financial statement manipulation. Seeing the test results in this study in the manipulator category with a positive direction indicates that the higher the turnover rate

of the head of internal auditors will increase fraudulent financial reporting. This research supports the research conducted by Simon (2015). An example is PT Akr Corporindo Tbk, which changed the chairman of the internal auditor during the 2017-2019 observation period.

Retrospective restatement of historical financial statements can occur due to many factors, for example the application of new accounting standards such as PSAK 24 which was issued on December 19, 2013 concerning employee benefits which requires companies to restate from 2013-2015, another example is the company being declared a failure to present reports the financials that have been uploaded to the Indonesia Stock Exchange so that they receive sanctions to carry out corrections and restate. Rationalization factors from management can appear in every restate incident. Yusof (2016) states in his research that frequent historical financial presentations can reflect top management weaknesses and can be considered as management attitudes or habits. This study is consistent with the results of Yusof's research (2016), which yields High of Historical Financial Restatements Times has a positive effect on fraudulent financial reporting. The results of this study indicate that the frequent or presence of restatement of historical financial statements which is done shows a higher tendency towards fraudulent financial reporting. Because individual attitudes are difficult to measure with quantitative methods, this study predicts that historical financial presentations often reflect top management weaknesses and can be considered management attitudes. An example of a company that performs restatement times in the research sample is PT Barito Pacific which performs restatement times during the observation period, namely the company in its financial statements displays 2016 financial data in its 2018 financial reports.

Research conducted by Simon (2015) produces a new measurement for detecting financial reports by observing the tendency for changes in company accounting policies. There is a change in accounting policy within a company will bring up justification (rationalization) for management to commit fraudulent financial reporting. The results of this study are in line with research conducted by Simon (2015). The results of this study indicate that companies that frequently change their accounting policies have a high tendency towards fraudulent financial reporting. An example of a company, namely PT Sawit Sumbermas Sarana Tbk in 2018, includes the company amending PSAK No. 2 regarding Reports of Cash Flows-Disclosure Initiatives, PSAK No. 46 concerning Income Tax concerning recognition of Deferred Tax Assets for Unrealized Losses, and PSAK 69 concerning Agriculture and PSAK 16 concerning fixed assets-amendments to productive plants.

The company needs to announce all policies used by the company in its financial statement notes, so that investors obtain transparent and relevant information regarding the company's policies and performance. If there are companies that do not announce the policies used, it shows the high probability that there are things that are hidden by the company's management. The policy regarding undeclared dubious debts demonstrates a lack of transparency. Often debts are questioned by investors to see the company's performance pay off their obligations. Related to this, management needs to display information transparently. The results of this study are not in line with the research conducted by Simon (2015) and Aprilia (2017) through interviews and observations. The results of this study explain that policies regarding unannounced dubious debts do not mean there is no transparency within the company but rather that the company has a separate report from its financial statements or has not been

included in its annual report, an example in this study is PT PP Properti Tbk in 2017 which did not present information regarding policies regarding questionable debts in the notes to its financial statements.

Special purpose entities are usually formed with a special purpose, namely to cover the operational needs of the parent company. The presence or absence of a special purpose entity is usually disclosed in the notes to financial statements and it is from there that outsiders get accountable information about the company's activities. Limited access to information from outsiders to special purpose entities is seen as a lack of transparency. This allows information to be covered up by company management and indicates fraud. Simon (2015) has not conducted further research regarding the effect of limited access to special purpose entity information on financial statement fraud (this variable is used to measure the competence contained in the pentagon fraud element). This study answers research conducted by Simon (2015) because there is a positive effect on fraudulent financial reporting in the manipulator company category. Seeing the results of research in a positive direction shows that companies that have special purpose entities have a high tendency towards fraudulent financial reporting. In this case, the company examples are PT AKR Corporindo Tbk which has a list of special purpose vehicles in 2019 and PT Bank Mandiri (Persero) Tbk which states that it does not have a parent entity and a special purpose vehicle.

The frequent number of CEO's picture is the number of CEO photos displayed in the company's annual report. The number of CEO photos displayed in a company's annual report can represent the level of arrogance or superiority that the CEO has. A CEO tends to want to show everyone the status and position they have in the company because they don't want to lose that status or position (or feel ignored). This is in accordance with one of the elements described by Crowe (2011). A high level of arrogance can lead to fraud due to arrogance and superiority owned by a CEO, making the CEO feel that any internal control will not apply to him because of the status and position held. According to Crowe (2011), there is also the possibility that the CEO will take any means to maintain the current position and position. This research is in accordance with research from Tessa (2016) where the research in the pentagon fraud theory indicated that there was fraudulent financial reporting in testing the elements of fraud with the final result showing that the occurrence of fraudulent financial reporting was influenced by the variable frequent number of CEO's picture. Seeing the results of research in a positive direction shows that companies that have a lot of CEO photos in their annual reports have a high tendency to fraudulent financial reporting. In this case, examples of several companies that have a positive effect on fraudulent financial reporting are PT Telekomunikasi Indonesia Tbk. in the 2017 observation period, there were 6 frequency of appearances and the company was included in the manipulator category. The results of this study are also in line with the theory put forward by Crowe (2011), a study by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) has found that 70% of fraud has a profile that combines pressure with arrogance or greed and 89% of cases fraud involved the CEO. Crowe (2011) shows that there are five elements of arrogance from the CEO's perspective, in which (1) big ego-CEOs are seen as celebrities rather than entrepreneurs, (2) they avoid internal control and are not trapped, (3) they have bullying attitudes, (4)) they practice an autocratic management style and (5) fear they will lose their position or status. This element of arrogance can develop into extreme arrogance which has a negative impact on subordinates and can destroy a career or

company. It can be concluded that the more CEO photos in the annual report can show the tendency of companies to do fraudulent financial reporting.

CONCLUSION, LIMITATION ANG SUGGESTION

Conclusion

This study aims to examine the factors that influence fraudulent financial statements using the Crowe's Pentagon model approach. The results of the study can be concluded as follows: (1) Head of Internal Auditor Turnover as a proxy of Opportunity has a positive effect on fraudulent financial statements. (2) Restatement times and change in accounting policy as a proxy for rationalization have a positive effect on fraudulent financial statements. (3) Special purposed Entities as a proxy of competence have a positive effect on fraudulent financial statements. (4) The number of CEO picture as a proxy of arrogance has a positive effect on the financial statement. (5) Financial instability, Leverage, composition of directors as proxy of Pressure, has no effect on fraudulent financial statements. (6) Undeclared Policies as proxy of Rationalization have no effect on fraudulent financial statements.

Limitation

The limitations of this study are first, This study uses proxies for measuring internal variables which may not be fit, so they are unable to capture financial phenomena in the observed period.. The second limitation, There are many annual reports contained therein in the form of financial reports whose data is blurry or cannot be displayed for use by readers. The third limitation, this research is not combined with interviews.

Implications

The results of the study reveal that accounting policies, composition of directors, and auditor turnover have a positive effect on fraudulent financial reporting. This finding expands on the results of previous research and adds to the literature that in knowing the occurrence of a fraud in the financial statements, it is necessary to pay attention to aspects of the accounting policies, the composition of the board of commissioners and the Head of internal auditor turnover.

This study proves that the frequency of CEO Picture shows has a positive effect on fraudulent financial statements. This means that these findings can be a concern for management to pay more attention to the composition of the number of images displayed in the company's annual report as an effort to reduce the arrogant attitude of the CEO.

Suggestion for Future Research

Future research can use a different sample for public companies in Indonesia and increase the number of years of research. Future research can use interview techniques to complement the results of their research regarding the elements in Crowe's Pentagon Model.

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Prediction Of Financial Reporting Fraud With Crowe's Fraud Pentagon Model

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Prediction Of Financial Reporting Fraud With Crowe's Fraud Pentagon Model

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Abstract (Times New Roman 12)

This study aims to examine the factors that influence fraudulent financial statements using the Crowe's Pentagon model approach. There are five dimensions in this model including Pressure, Opportunity, Rationalization, competence and arrogance. Financial instability, and leverage, is a proxy for measuring the Pressure variable. Composition of Directors and Head of Internal Auditor turnover is a proxy for measuring the Opportunity variable. Restatement times of financial statements and Change in accounting policy, become a proxy for measuring the Rationalization variable. Undeclared Policies and Special purpose entities are proxies for measuring Competence variables. CEO arrogance is measured by the frequency of CEO photo views. The research sample is 115 firm year companies listed on the LQ 45 index with an observation period of 2017 to 2019. The results of the study prove that the head of internal audit turnover, Restatement times, Change in Accounting policy, Special purpose entities and also CEO Picture have a positive effect on financial fraud statement.

Keywords : Crowe's Fraud Pentagon Model,
Fraudulent Financial Reporting, Change in Accounting Policies,
CEO Picture

Abstraksi

Penelitian ini bertujuan menguji faktor yang mempengaruhi kecurangan laporan keuangan dengan pendekatan crowe's Pentagon model. Terdapat lima dimensi dalam model ini meliputi Tekanan, Kesempatan, Rasionalisasi, Kompetensi dan Arogansi. Ketidakstabilan finansial, tingkat utang merupakan proksi pengukuran variabel Tekanan. Komposisi Direktur, dan Pergantian Kepala Internal Audit merupakan proksi pengukuran variabel Opportunity. Restatement laporan keuangan dan perubahan kebijakan akuntansi menjadi proksi pengukuran variabel Rasionalisasi. Kebijakan yang tidak diungkap dan entitas bertujuan khusus menjadi proksi pengukuran variabel

Kompetensi. Arogansi CEO diukur dengan frekuensi tayangan foto CEO. Sampel penelitian adalah 115 firm year perusahaan yang terdaftar pada indeks LQ 45 dengan periode amatan 2017 hingga 2019. Hasil penelitian membuktikan bahwa Pergantian Kepala Internal Audit, Restatement laporan keuangan, perubahan kebijakan akuntansi, entitas bertujuan khusus serta Foto CEO berpengaruh positif terhadap kecurangan laporan keuangan.

Keywords : *Crowe's Fraud Pentagon Model,
Kecurangan Laporan Keuangan, Perubahan kebijakan akuntansi, Foto CEO*

JEL Classification : M41, M42

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Introduction

Business competition and economic conditions can affect company performance. Management seeks to maintain the sustainability of the company in various ways, one of which is to attract funds from investors. Therefore, management is motivated to improve company performance. This motive encourages management to commit fraud in order to cover up poor performance in order to attract funds from investors and creditors. Financial statement fraud occurs to obtain funding and cover up poor performance and maintain stock prices (Surenggono, 2018).

Financial statement fraud occurs in various industrial sectors, even in sectors that are of great interest to investors. According to data from the Investment Coordinating Board (BKPM), the transportation, warehouse and telecommunications sectors have a portion of 13.2 percent, while the electricity, gas and water sector has a portion of 12.8 percent of the total investment from both Foreign Investment (PMA) and Investment. Domestic Investment (PMDN) in 2018 with an investment value of IDR 70.7 trillion and IDR 68.7 trillion (Detik, 2018). Likewise, companies in the infrastructure sector at the beginning of 2019 posted positive returns because they experienced an increase in share prices and became more attractive to investors. (Kontan, 2019). The large amount of capital that has been invested by both foreign and domestic investors does not reduce the practice of fraud. The transportation sector is known to have experienced an increase in fraudulent practices from 68 cases in 2016 to 83 cases in 2018 with an average loss of US\$ 141,500. The utility sector with 102 cases in 2016 became 173 cases in 2018 with an average loss of US\$ 423,000. Likewise, the infrastructure sector has experienced an increase in fraud practices with a total of 86 cases in 2016 to 90 cases in 2018 with an average loss of averaged US\$ 243,000 (ACFE, 2018).

The phenomenal case of fraudulent financial reporting is the Enron corporation. The Enron case dragged public accountant Arthur Anderson, who was responsible for

auditing financial statements. The existence of Arthur Anderson in the Enron case caused his reputation to collapse and he dropped out of the big five public accountants. Another example is the manipulation of the 2018 financial statements of PT. Garuda Indonesia Tbk. This case dragged public accountants Tanubrata, Sutanto, Fahmi, Bambang and Partners (Ananta, 2019). The Minister of Finance Sri Mulyani froze the licenses of public accountants and public accounting firms for 12 months (Okezone, 2019).

6 The practice of fraudulent financial reporting also occurred at PT Hanson Internasional, which was proven to have manipulated the presentation of the annual financial statements (LKT) in 2016. In an examination conducted by the OJK, manipulation was found in accounting presentation related to the sale of "Kavling Siap Bangun" (Kasiba) with a gross value of Rp. 732 billion, thus making the company's revenue rise sharply. In the sale and purchase, Hanson International violated Financial Accounting Standard 44 concerning Accounting for Real Estate Activities (PSAK 44). OJK disputed the recognition using the full accrual method, even though in the 2016 LKT, the transaction was not disclosed in the 2016 LKT. Meanwhile, based on the Accounting for Real Estate Development Activities (PSAK 44), sales revenue can be recognized using the full accrual method provided that it meets the criteria, including the completion of a Sale and Purchase Contract Agreement (PPJB) which cannot be proven by the company. According to OJK, by not submitting the PPJB to the auditor who audited PT Hanson International Tbk's LKT, overstated the 2016 LKT's revenue with a material value of IDR 613 billion. (Kompas, 2020)

Measurement of Fraudulent Financial Reporting in this study separates Manipulators, NonManipulators, and Gray Companies. Beneish suggests using accounting variables which are considered to have signals of future prospects as a technique for detecting manipulation. This technique is based on the notion of the importance of company information that can capture the nature of the company's operations or activities economically and has an economically reasonable detection ability.

Hypothesis Development

Financial stability is influenced by the state of a country's economy. If the economic condition is unstable, it will affect the company's financial stability. This will put pressure on the management, which then justifies any means to display financial reports that seem good, including committing fraud in the presentation of financial statements.

In addition, the high assets owned by the company are an attraction for investors. To attract investors, company management certainly tries to present a convincing company appearance for investors. In order to display the company's growth and increased performance, company management often manipulates financial reports. Therefore, a high percentage change in total assets indicates manipulation of the

financial statements. Research conducted by Bawekes (2018) and Handayani (2018) shows that financial stability has a positive effect on fraudulent financial reporting.

H₁: Financial Instability has a positive effect on Fraudulent Financial Reporting

Aprilia (2017) states that external pressure will cause management to seek loans from other parties so that the company can compete competitively. This pressure will be a trigger for management to manipulate financial reports. Management will justify all kinds of ways to get a loan and will try to display perfect financial reports so that performance is assessed as good. Yusof (2016) in his research has the assumption that PLC (Public Listed Company) fraud can deliberately transfer financial risks from equity owners and management to debt owners to deal with high financial pressure. The results of these studies have not led to a significant effect. In addition, the results of research conducted by Sari (2013) state that external party pressure proxied by leverage has positive effect on fraudulent financial statements.

H₂: Leverage has a positive effect on Fraudulent Financial Reporting

Independent oversight is usually carried out by placing a number of independent commissioners within the company. Independent commissioners are commissioners who come from outside the company or are not affiliated with the company's shareholders. The more commissioners in a company, the more effective the supervision will be (Aprilia, 2017). Research by Yusof (2016) and Simon (2015) shows that the effectiveness of supervision has a significant effect on fraudulent financial reporting.

H₃: Composition of Directors has a negative effect on Fraudulent Financial Reporting

SPI chief replacement must be in accordance with the rules. However, if this change does not comply with the rules, then internal control is considered ineffective (Aprilia; 2017). If this change occurs frequently, it will have an impact on SPI performance. Research related to the influence of SPI chairman turnover on financial statement manipulation is still relatively small. Simon (2015) conducted an analytical study of the role of replacing the chief internal auditor to measure the "opportunity" element contained in pentagon fraud. This study continues Simon's research (2015), with the following research hypothesis:

H₄ : Change of Head of Internal Auditor has a positive effect on Fraudulent Financial Reporting

Retrospective restatement of historical financial statements can occur due to many factors. For example, the application of the new accounting standard PSAK 24

which was issued on December 19 2013 concerning employee benefits requires companies to do a restate from 2013-2015. Another example is the company failing to present Financial Statements that have been uploaded to the Indonesia Stock Exchange, resulting in a sanction for restating. The rationalization factor of management appears in every restatement of financial statement. Yusof (2016) provides evidence that frequent historical financial presentations reflect the weaknesses of top management and can be considered as management attitudes or habits. The results of his research prove that the High of Historical Financial Restatements Times has a positive effect on fraudulent financial reporting.

H5: Restatement Times has a positive effect on Fraudulent Financial Reporting

Simon (2015) initiated a new measurement to detect financial reports by observing the trend of changing accounting policies. This variable is used to measure rationalization, one of the elements of pentagon fraud. A change in accounting policy within a company will bring up rationalization for management to commit fraudulent financial reporting.

H6: Accounting Policies Changes have a positive effect on Fraudulent Financial Reporting

Companies need to disclose all accounting policies used in Notes to Financial Statements. It is intended that investors obtain transparent and relevant information according to the needs of its users. However, if the disclosure of this accounting policy is incomplete, it is an indication of hiding information by management for other purposes. For example, an undisclosed doubtful account accounting policy indicates a liquidity/solvency problem faced by the company, as found by Simon (2015) on the Malaysia Stock Exchange and Aprilia (2017). This variable is used to measure competence, one of the elements of Fraud Pentagon.

H7: Undeclared Policies have a positive effect on Fraudulent Financial Reporting

Special purpose entities are formed with the aim of covering the operational needs of the parent company. The presence or absence of a special purpose entity is usually disclosed in the notes to the financial statements. All stakeholders obtain accountable information regarding the company's activities from Notes to Financial Statements. Limited access to information from outsiders to special purpose entities is seen as a lack of transparency. This allows information to be covered up by company management and indicates fraud. Simon (2015) provides suggestions for empirically proving the effect of limited access to special purpose entity information on financial statement fraud (this variable is used to measure competence, one of the elements of Pentagon fraud).

H₈: Vehicles Financial Reports have a positive effect on Fraudulent Financial Reporting

8

CEO Picture and Fraudulent Financial Reporting. CEO's picture is the number of CEO photos that appear in the company's annual report. The number of photos of this CEO, represents the level of arrogance or superiority that the CEO has. A CEO tends to show everyone the status and position he currently has and tries not to be dethroned. The reason is, they don't want to lose that status or position (Crowe; 2011). High arrogance triggers fraud because with the arrogance and superiority of a CEO, the CEO feels that any internal control will not apply to him because of his status and position. According to Crowe (2011), there is also the possibility that the CEO will take any means to maintain the current position and position. Tessa (2016) proves that the frequency of CEO pictures has a positive effect on Fraudulent Financial Statements.

H₉: CEO Picture has a positive effect on Fraudulent Financial Reporting

Research Method

The dependent variable is a variable that is influenced by other variables. The dependent variable in this research is fraudulent financial reporting. Fraudulent financial reporting is calculated using the Beneish Model adopted in 1999 contained in the Mahama journal (2015). This study uses a ratio index analysis technique to the company's financial statement data as a sample. The ratio index calculation is intended to determine the category of a company classified as manipulators or non-manipulators. Companies are categorized as manipulators or non-manipulators if they obtain a ratio index value according to the parameter index according to the Beneish Model. The ratio index used in the Benish model includes Days Sales in Receivable Index (DSRI), Gross Margin Index, Asset Quality Index (AQI).

This research uses the independent variable which is represented by the five components of the pentagon fraud using 10 proxies. Financial Instability is a condition that describes the company's financial condition from instability. When the company's financial stability is in a threatened condition, management will take various ways so that the company's financial stability looks good. In cases where companies experience below-average industry growth, management is very likely to use financial statement manipulation to improve the company's appearance (Skousen, 2009). In this case, assets play an important role to show stable growth. Financial Instability is proxied by ACHANGE which is the percentage change in assets during the two years prior to the occurrence of the fraud. After a period of rapid growth, management uses financial statement manipulation to display steady growth. Therefore, asset growth is included as a proxy for fraud.

Leverage is a proxy variable used to test the relationship between pressure and fraudulent financial reporting in companies in Indonesia. This study predicts high leverage in Indonesian public companies showing a higher tendency towards fraudulent

6 financial reporting. This study predicts that a high debt structure in several tbk companies in Indonesia can increase the possibility of fraudulent financial reporting. This prediction is made based on the assumption that corporate fraud in Indonesia can transfer financial risks from equity owners and management to debt owners to deal with high financial pressures.

The composition of the Board of Directors is a proxy variable used to test the Opportunity for fraudulent financial reporting. The hypothesis predicts that a lower percentage of outside or independent members (Independent Non-executive Directors and/or Independent Commissioners) in the composition of the Commissioners and Directors shows a higher tendency towards the possibility of fraudulent financial reporting. This study predicts that one of the reasons for fraudulent financial reporting is caused by the smaller number of independent members (represented in this study by Commissioners and/or Independent Non-Executive Directors) in the composition of the Board of Commissioners and Directors. This situation will provide opportunities for members who are not independent (referred to in this study as Executive Directors) to dominate or manipulate major and material decisions of Indonesian Tbk companies, which can eventually lead to fraud.

3 Internal auditor head rotation is another proxy variable used to measure the relationship between opportunity and fraudulent financial reporting in Indonesia. The hypothesis predicts a high turnover frequency. Chief Internal Auditors show a higher tendency towards fraudulent financial reporting. This study predicts that one of the reasons for frequent changes in the head of internal auditors at Indonesian tbk companies is due to management's decision to change the head of internal auditors as a measure to reduce the detection of fraudulent financial reporting activities (Simon, 2015). The variable is measured by the number 1 if there is a change in the head of the internal auditor during three years of observation at LQ45 companies in Indonesia.

Restatement of Historical Financial Statements is a proxy variable used to test the attitude of management in tbk companies in Indonesia towards the possibility of fraudulent financial reporting. The previous hypothesis predicts that the restatement of historical financial statements has shown a higher tendency towards fraudulent financial reporting. Because individual attitudes are difficult to measure with quantitative methods, this study predicts that historical financial presentations often reflect top management weaknesses and can be considered management attitudes. In the context of this research, all observations can be made to the Public Listed Company Indonesia which has received sanctions for restating historical financial statements by the Indonesian Stock Exchange and the Financial Services Authority (OJK). Variables are measured by giving the number 1 for companies that carry out financial statement restatements for three years of observation (Yusof; 2015)

Changes in accounting policies (Δ ACCPOL) are proxy variables used to test the rationalization component with the possibility of fraudulent financial reporting at Indonesian tbk companies. The hypothesis predicts that "frequent changes in accounting policies of tbk companies indicate a higher tendency towards fraudulent

financial reporting." This study predicts that frequent changes in accounting policies can rationalize fraudulent financial reporting through various accounting policies because these changes are permitted by accounting standards (Simon, 2015). The research variable is measured by giving the number 1 for Companies that Make Policy Changes for three years of observation.

Undeclared or unpublished accounting policies regarding bad debts and debts are proxy variables used to test (capability)/competence with fraudulent financial reporting. Aprilia (2017) states that a company needs to announce all policies used by the company in its financial statement notes, so that investors obtain transparent and relevant information about the company's policies and performance. If there are companies that do not announce the policies used, it shows the high probability that there are things that are hidden by the company's management. This variable is measured by giving the number 1 for companies that do not announce accounting policies regarding doubtful debts (seen in the financial statement notes) based on Yusof (2015), and Aprilia (2017)

Special purpose entities and restricted information is another proxy variable used to measure competence for fraudulent financial reporting in Public Listing Companies in Indonesia. The previous hypothesis predicts that financial reports that do not have access or limit information to special purpose entities show a higher tendency towards the possibility of fraudulent financial reporting. This research predicts that fraudulent public listing companies are more likely to hide obligations and dubious transactions through separate accounting in the financial statements of special purpose entities. This variable is measured by giving the number 1 for companies that have special purpose entities and limited information, following Yusof (2015) and Aprilia (2017).

According to Tessa and Harto (2016) Frequent number of CEO's picture is the number of photos of the CEO attached to the company's annual report (annual report) and the number of photos of the CEO attached to a company's annual report can represent the level of arrogance that the CEO has. This gives an illustration that having a CEO will provide better monitoring results. However, this study also considers the possibility that some CEOs in fraud PLC Indonesia prefer to maintain a low profile to hide their fraudulent financial reporting activities for public exposure and detection. Thus, in hypothesis looking at both sides from this perspective. First, it predicts that the frequent number of images of Chief Executive Officers (CEOs) in annual reports indicates a more arrogant CEO and a higher propensity for fraudulent financial reporting; or a smaller number of CEO images in annual reports indicates a higher tendency for CEOs to hide their fraudulent financial reporting activities. This arrogance variable is measured by the frequency of appearance of the CEO's image in the Company's Annual Report during the research year, following Simon (2015) and Aprilia (2017).

Hypothesis Testing

This research was conducted on LQ45 companies listed on the Indonesia Stock Exchange (IDX) in 2018-2020 and using rupiah currency during the observation period. based on these criteria, 39 companies were obtained that met the criteria so that the total sample was 117. However, there were 12 data outliers so that the final sample was 105 firm years.

The percentage distribution of the sample companies in this study found three groups of financial statements, namely the Manipulators, Non-Manipulators, and Gray Company samples. the LQ45 group of companies is dominated by annual reports that are non-manipulators with a percentage of 28%, 70% are classified as Manipulators, and 2% are classified as Gray Companies.

Table 1
Financial Stability, Leverage, Composition of Directors

Varibel	n	Min	Max	Mean	Std.Deviation
<i>Financial Instability</i>	105	-0,2351	4,0761	0,153727	0,4199703
<i>Leverage</i>	105	0,0016	13,2290	0,595761	1,3487834
<i>Composition of Directors</i>	105	0,1700	0,8300	0,380952	0,1208426

Source:

Financial Instability in this study is proxied by ACHANGE, using the change in total assets compared to the total assets of the previous year. The company that has a minimum point is PT Indo Tambangraya Megah Tbk in the 2018 observation year of -0.2351. While the maximum value is owned by PT PP London Sumatra Indonesia Tbk in the 2017 observation year of 4.0761. The maximum value, means that the company has a level of financial condition that is less stable. Based on the results of descriptive statistics, the average value is 0.153727. This average value indicates that the level of stability in its financial condition is still low, meaning that total assets have not experienced a good change when viewed from the previous year. In addition, the standard deviation number is 0.4199703 or greater when compared to the average, so there are quite a lot of variations in the data in this variable.

Leverage in this study is proxied using total long term debt divided by total equity. The company that has a minimum leverage value is PT Waskita Beton Precast Tbk in the 2018 observation year of 0.0016. Meanwhile, the maximum value of leverage owned by PT Sri Rejeki Isman Tbk is 13.2290. This maximum value illustrates that the higher the leverage ratio, the higher the risk of default on debt obligations faced by the company. Based on the results of descriptive statistics, the average value is 0.595761 with a standard deviation of 1.3487834 or greater than the average, so there is quite a lot of variation in the data in this variable.

Table 2.
Statistic Descriptive for dummy variabel measurement.

1	Head of IA Turnover	Freq	%	2	Restatement Times	Freq	%
	No turnover	57	54		Never	80	76
	Turnover	48	46		Manytimes	25	24

3	Change in Acc Policy			4	Undeclared Policy		
	Never	23	22		Declared	62	59
	Manytimes	82	78		Undeclared	43	41
5	Special purpose Entity						
	Have no Special						
	Entites	36	34				
	Have special entites	69	66				

The composition of directors in this study is proxied using the number of independent commissioners divided by the total number of commissioners. The company that has the minimum Composition of Directors is PT Bukit Asam Tbk in the observation period from 2017-2019 of 0.17. While the maximum value of the Composition of Directors is owned by PT Unilever Indonesia Tbk in the 2018 period. This maximum value illustrates that the level of supervision carried out by the independent commissioner is higher, namely 5 of the 6 total existing board of commissioners. Based on the results of descriptive statistics, the average value is 0.380952 with a standard deviation of 0.1208426 or smaller when compared to the average, so that the variation in the data in this study for the Composition of Directors variable is still small.

Number of CEOs' Pictures in Annual Reports, is the frequency of appearances of CEO pictures in the Company's Annual Reports during the year of research. Frequency of CEO Picture appearances 1 time (7%), 2 times (31%), 3 times (41%), 4 times (11.4%), 5 times (3.8%), 6 times (2%) and appeared 7 times as much as 3%.

Table 3
Hypothesis Testing

Variables	Proxy	Expected sign	-2 Log Likelihood of Reduced Model	Chi-Square	Sign
Intercept			77,355	0,252	0,441
Pressure	Financial Instability	+	77,304	0,201	0,452
	Leverage	+	78,021	0,918	0,316
Opportunity	Composition of Directors	-	80,080	2,977	0,113
	Head of Internal Auditor Turnover	+	95,704	18,601	0,000*
Rationalization	Restatement Times	+	87,389	10,286	0,003*
	Change in Acc. Policy	+	85,008	7,905	0,009*
Competence	Undeclared Policies	+	78,075	0,972	0,307
	Special purposed Entites	+	84,450	7,347	0,012*
Arrogance	CEO picture	+	87,477	10,374	0,003*

Dependent Variable : Fraudulent Financial Statement

*) Sign at 5%

Based on the results in Table 3 above, it is evident that opportunity as measured by Head of Internal Auditor turnover has a positive effect on fraudulent financial statements. In addition, rationalization with both measurement proxies has proven to have a positive effect on fraudulent financial statements. Competence as measured by a special purposed entity has proven to have a positive effect on fraudulent financial statements, as well as arrogance.

Referring to Multinomial logistic regression for the regression model with the dependent variable with a nominal scale of three categories, the resulting variable categories are coded $Y = 0$ Non Manipulator, $Y = 1$ Gray Company, and $Y = 2$ Manipulators. In multinomial logistics one has been used as a category or comparison between the three existing categories and in this case the variable used as the comparison variable is Non Manipulator so that Logit 1 is formed, namely Manipulator compared to Non Manipulator and Logit 2 is formed, namely Gray compared to Non Manipulator. According to Ghozali (2015), the Wald test is used to determine the effect of financial instability, leverage, composition of directors, auditor turnover, restatement times, change in accounting policies, undeclared policies, Special purpose entities, CEO picture, on fraudulent financial reporting.

Table 4
Manipulator, Non Manipulator, Grey Area

variables	Proxy	β & Sign.	Logit 1 (Manipulator Vs NonManipulator)	Logit 2 (Grey Vs NonManipulator)
	Intercept	β Sign	-1,141 0,309	-16,562 0,500
Pressure	Fin. Instability	β Sign Exp (β)	-1,742 0,309 0,175	142,891 0,497 1,140
		β Sign Exp (β)	-0,191 0,205 0,826	9,497 0,498 13,325,237
	Leverage	β Sign Exp (β)	10,052 0,005 23,200,645	508,127 0,497 2,105
		β Sign Exp (β)	6,088 0,003* 440,499	18,947 0,499 169,280,424,985
	Comp. of Directors	β Sign Exp (β)	5,519 0,007* 249,372	1,697 0,50 5,457
		β Sign Exp (β)	5,07 0,013* 0,006	73,212 0,499 62,479
Opportunity	Head of Internal Auditor Turnover	β Sign Exp (β)	1,131 0,171 3,1	-26,669 0,498 2,617
		β Sign Exp (β)		
		β Sign Exp (β)		
Rationalization	Restatement Times	β Sign Exp (β)		
		β Sign Exp (β)		
		β Sign Exp (β)		
Competence	Change in Acc. Policy	β Sign Exp (β)		
		β Sign Exp (β)		
		β Sign Exp (β)		
Undeclared Policies		β Sign Exp (β)		
		β Sign Exp (β)		
		β Sign Exp (β)		

	Special purposed Entities	β Sign Exp (β)	3,708 0,016* 40,76	39,512 0,499 144,560
Arrogance	CEO picture	β Sign Exp (β)	1,232 0,009* 0,292	9,658 0,498 15,640,736
Dependent Variable : Fraudulent Financial Statement				
*) Sign at 5%				

From the table above, it is revealed that several variables influence fraudulent financial statements, especially in the logit equation 1 (manipulator vs. non-manipulator group), including:

1. Head of Internal auditor, explaining that companies that perform Head of Internal auditor Turnover tend to commit fraudulent financial reporting in the manipulator category 440.499 times greater than non-manipulator companies.
2. Restatement Times, proving that companies that carry out Restatement Times have a tendency towards fraudulent financial reporting in the manipulator category 249.372 times greater than non-manipulator companies.
3. Change in Accounting Policies, proving that companies that make Change in Accounting Policies have a tendency towards fraudulent financial reporting in the manipulator category 0.006 times greater than non-manipulator companies.
4. Special Purpose Entities affect fraudulent financial reporting in the manipulator vs. non-manipulator group. Companies that have special purpose entities have a tendency towards fraudulent financial reporting in the manipulator category 40.76 times greater than non-manipulator companies.
5. CEO picture affects fraudulent financial reporting in the manipulator vs. non-manipulator group. Companies with a CEO Picture have a tendency towards fraudulent financial reporting in the manipulator category 0.292 times greater than non-manipulator companies

Discussion

Financial Instability is a condition of instability in a company. Financial stability is influenced by the state of a country's economy. If the economic conditions are unstable, it will affect the financial stability of the company. Of course things like this will put pressure on the management of the company. In order to display the company's growth and increased performance, company management often manipulates financial reports. Therefore, a high percentage change in total assets indicates manipulation of the financial statements. However, this research does not support the research conducted by Bawekes (2018) and Handayani (2018) which shows that financial instability has a positive effect on fraudulent financial reporting.

Looking at the test results in this study, the total asset change value of the sample companies tends to decrease. For example, the company PT Bumi Serpong Damai Tbk has an asset/ACHANGE change value in 2017 of 0.1651 and in 2018 it becomes 0.0259. This means that a decrease in the company's financial instability has no effect on fraudulent financial reporting. It is quite reasonable that a company with a low level of instability should reduce the potential for fraudulent financial reporting, but in this study it appears that PT Bumi Serpong Damai Tbk is included in the manipulator company. In addition, companies that experience a decrease in the value of changes in their assets, for example, are PT Astra International Tbk in the observation years 2018 to 2019, namely 0.1652 and 0.0210 respectively and also have no effect on fraudulent financial reporting. So that the level of corporate financial instability in this study does not make management automatically commit fraudulent financial reporting in order to increase attractiveness to investors. It turns out that the value of changes in total assets in this study cannot be a reference for a company to commit fraudulent financial reporting or not. These results reflect that financial instability as measured by the variable ratio of changes in asset value in the sample LQ45 company research does not absolutely indicate the presence of fraudulent financial statements. Changes in the increase or decrease in asset values can be caused by the implementation of the fair value method in recording asset values or can also be caused by asset value revaluations which can result in asset values increasing or decreasing. In addition, the company's unfavorable financial stability does not motivate management to commit fraud by increasing asset values. This is quite reasonable, because increasing the value of assets by committing fraud will put the company in trouble in the future with the difficulty for the company to get additional funds for the company's sustainability both from investors and from creditors. The results of this study are in line with the results of Surenggono's research (2018) and Rahardjo (2012).

The existence of pressure from external parties will cause management to seek loans from other parties so that the company can compete competitively. This pressure will be a trigger for management to manipulate financial statements. Management will justify all kinds of ways to get a loan and will try to display perfect financial reports so that good performance is assessed. Yusof (2016) in his research has the assumption that fraud can deliberately transfer financial risks from equity owners and management to debt owners to deal with high financial pressure. The results of this study in the LQ45 sample companies have not shown a significant effect because the company can repay its debts so that in this case there is no pressure for the company's management to carry out fraudulent financial reporting. This is supported by an average leverage value of 0.595761. This value indicates that in general the total equity of the company is much greater than the total debt owned by the company. In addition, the results of this study also support the results of research conducted by Bawekes (2018) which states that external party pressure proxied by leverage has no significant effect on fraudulent financial statements.

The results of this study explain that management does not fully experience pressure when fulfilling its obligations. They have an obligation to fulfill their debts. However, reporting fraud is not the only solution to fulfill this obligation. The company is more trying to improve its performance in order to generate good profits to fulfill its obligations. Based on the results of this study data indicate that leverage has no effect on fraudulent financial reporting. An example is PT Perusahaan Gas Negara (Persero) Tbk which has a level of leverage that has decreased every year from 2017-2019 of 0.6549 in 2017, 0.442 in 2018 and 0.0538 in 2019 and this is not affected by fraudulent financial reporting is proven that with the highest ratio in 2017 it does not make the company enter into a manipulator company. The tendency of companies to commit fraud with low leverage characteristics is more likely due to the fact that creditors are not currently considering the amount of leverage generated, but there are other considerations such as the level of trust or a good relationship between the company and creditors. In addition, many companies prefer to issue shares again to obtain additional business capital from investors without having to enter into a new debt agreement which causes the company's debt burden to become larger and the company's leverage to be lower (Prajanto, 2012).

Independent oversight is usually carried out by placing a number of independent commissioners within the company. Independent commissioners are commissioners who come from outside the company or are not affiliated with the company's shareholders. The more commissioners in a company, the more effective the supervision will be (Aprilia, 2017). However, the results of this study have not led to a significant effect. In addition, the results of this study are not in line with the results of research conducted by Yusof (2016) and Simon (2015) which show that the effectiveness of supervision has a significant effect on reducing fraudulent financial statements. This explains that the independent commissioner who is part of the board of commissioners performs a fairly good oversight function against fraudulent financial reporting as explained by Noor (2012) that a lack of knowledge regarding the background of the company's business activities can result in the failure of the formulation of an effective corporate strategy. In addition, a larger proportion of independent commissioners can provide assurance that the company will run effectively in accordance with the wishes of the company's management because independent commissioners can oversee management's performance so that it can reduce fraudulent financial reporting. Looking at the research results, an example of a company that has a lower percentage of outside or independent members, namely 1 out of 6 of the board of commissioners, is PT Bukit Asam Tbk in 2019 and is not included in the manipulator company. The appointment of an independent board of commissioners by the company may only be carried out to comply with regulations, but is not intended to uphold good corporate governance in the mechanism of efforts to prevent financial statement fraud. So it can be concluded that the existence of an independent commissioner as a controller has not run optimally. This can be explained that the placement or addition of independent members of the board of commissioners is only possible to fulfill formal requirements, while majority shareholders still play an important role so that the performance of the board does not increase, even decreases (Daljono, 2013).

Aprilia (2017) in her research stated that the change in the head of the internal auditor should follow the regulations that apply in the company. If the replacement of the chairman of the internal auditor does not follow the regulations If there is, then the company is considered ineffective. Changing the chairman of the internal auditor too often will affect the internal audit that will be carried out by the Internal Control System (SPI). So far, the research has not examined the effect of changing internal auditors on financial statement manipulation. Seeing the test results in this study in the manipulator category with a positive direction indicates that the higher the turnover rate of the head of internal auditors will increase fraudulent financial reporting. This research supports the research conducted by Simon (2015). An example is PT Akr Corporindo Tbk, which changed the chairman of the internal auditor during the 2017-2019 observation period.

Retrospective restatement of historical financial statements can occur due to many factors, for example the application of new accounting standards such as PSAK 24 which was issued on December 19, 2013 concerning employee benefits which requires companies to restate from 2013-2015, another example is the company being declared a failure to present reports the financials that have been uploaded to the Indonesia Stock Exchange so that they receive sanctions to carry out corrections and restate. Rationalization factors from management can appear in every restate incident. Yusof (2016) states in his research that frequent historical financial presentations can reflect top management weaknesses and can be considered as management attitudes or habits. This study is consistent with the results of Yusof's research (2016), which yields High of Historical Financial Restatements Times has a positive effect on fraudulent financial reporting. The results of this study indicate that the frequent or presence of restatement of historical financial statements which is done shows a higher tendency towards fraudulent financial reporting. Because individual attitudes are difficult to measure with quantitative methods, this study predicts that historical financial presentations often reflect top management weaknesses and can be considered management attitudes. An example of a company that performs restatement times in the research sample is PT Barito Pacific which performs restatement times during the observation period, namely the company in its financial statements displays 2016 financial data in its 2018 financial reports.

Research conducted by Simon (2015) produces a new measurement for detecting financial reports by observing the tendency for changes in company accounting policies. There is a change in accounting policy within a company will bring up justification (rationalization) for management to commit fraudulent financial reporting. The results of this study are in line with research conducted by Simon (2015). The results of this study indicate that companies that frequently change their accounting policies have a high tendency towards fraudulent financial reporting. An example of a company, namely PT Sawit Sumbermas Sarana Tbk in 2018, includes the company amending PSAK No. 2 regarding Reports of Cash Flows-Disclosure Initiatives, PSAK No. 46 concerning Income Tax concerning recognition of Deferred Tax Assets for Unrealized Losses, and PSAK 69 concerning Agriculture and PSAK 16 concerning fixed assets-amendments to productive plants.

The company needs to announce all policies used by the company in its financial statement notes, so that investors obtain transparent and relevant information regarding the company's policies and performance. If there are companies that do not announce the policies used, it shows the high probability that there are things that are

hidden by the company's management. The policy regarding undeclared dubious debts demonstrates a lack of transparency. Often debts are questioned by investors to see the company's performance pay off their obligations. Related to this, management needs to display information transparently. The results of this study are not in line with the research conducted by Simon (2015) and Aprilia (2017) through interviews and observations. The results of this study explain that policies regarding unannounced dubious debts do not mean there is no transparency within the company but rather that the company has a separate report from its financial statements or has not been included in its annual report, an example in this study is PT PP Properti Tbk in 2017 which did not present information regarding policies regarding questionable debts in the notes to its financial statements.

Special purpose entities are usually formed with a special purpose, namely to cover the operational needs of the parent company. The presence or absence of a special purpose entity is usually disclosed in the notes to financial statements and it is from there that outsiders get accountable information about the company's activities. Limited access to information from outsiders to special purpose entities is seen as a lack of transparency. This allows information to be covered up by company management and indicates fraud. Simon (2015) has not conducted further research regarding the effect of limited access to special purpose entity information on financial statement fraud (this variable is used to measure the competence contained in the pentagon fraud element). This study answers research conducted by Simon (2015) because there is a positive effect on fraudulent financial reporting in the manipulator company category. Seeing the results of research in a positive direction shows that companies that have special purpose entities have a high tendency towards fraudulent financial reporting. In this case, the company examples are PT AKR Corporindo Tbk which has a list of special purpose vehicles in 2019 and PT Bank Mandiri (Persero) Tbk which states that it does not have a parent entity and a special purpose vehicle.

The frequent number of CEO's picture is the number of CEO photos displayed in the company's annual report. The number of CEO photos displayed in a company's annual report can represent the level of arrogance or superiority that the CEO has. A CEO tends to want to show everyone the status and position they have in the company because they don't want to lose that status or position (or feel ignored). This is in accordance with one of the elements described by Crowe (2011). A high level of arrogance can lead to fraud due to arrogance and superiority owned by a CEO, making the CEO feel that any internal control will not apply to him because of the status and position held. According to Crowe (2011), there is also the possibility that the CEO will take any means to maintain the current position and position. This research is in accordance with research from Tessa (2016) where the research in the pentagon fraud theory indicated that there was fraudulent financial reporting in testing the elements of fraud with the final result showing that the occurrence of fraudulent financial reporting was influenced by the variable frequent number of CEO's picture. Seeing the results of research in a positive direction shows that companies that have a lot of CEO photos in their annual reports have a high tendency to fraudulent financial reporting. In this case, examples of several companies that have a positive effect on fraudulent financial reporting are PT Telekomunikasi Indonesia Tbk. in the 2017 observation period, there were 6 frequency of appearances and the company was included in the manipulator category. The results of this study are also in line with the theory put forward by Crowe (2011), a study by the Committee of

Sponsoring Organizations of the Treadway Commission (COSO) has found that 70% of fraud has a profile that combines pressure with arrogance or greed and 89% of cases fraud involved the CEO. Crowe (2011) shows that there are five elements of arrogance from the CEO's perspective, in which (1) big ego-CEOs are seen as celebrities rather than entrepreneurs, (2) they avoid internal control and are not trapped, (3) they have bullying attitudes, (4) they practice an autocratic management style and (5) fear they will lose their position or status. This element of arrogance can develop into extreme arrogance which has a negative impact on subordinates and can destroy a career or company. It can be concluded that the more CEO photos in the annual report can show the tendency of companies to do fraudulent financial reporting.

Conclusion, Limitation & Implication

This study aims to examine the factors that influence fraudulent financial statements using the Crowe's Pentagon model approach. The results of the study can be concluded as follows:

1. Head of Internal Auditor Turnover as a proxy of Opportunity has a positive effect on fraudulent financial statements.
2. Restatement times and change in accounting policy as a proxy for rationalization have a positive effect on fraudulent financial statements
3. Special purposed Entities as a proxy of competence have a positive effect on fraudulent financial statements,
4. The number of CEO picture as a proxy of arrogance has a positive effect on the financial statement
5. Financial instability, Leverage, composition of directors as proxy of Pressure, has no effect on fraudulent financial statements
6. Undeclared Policies as proxy of Rationalization have no effect on fraudulent financial statements.

Limitation

The limitations of this study are first, this study examines three independent variables related to the company's internal finances which are suspected of having an influence on fraudulent financial reporting. The second limitation, There are many annual reports contained therein in the form of financial reports whose data is blurry or cannot be displayed for use by readers. The third limitation, this research is not combined with interviews.

Implications

The results of the study reveal that accounting policies, composition of directors, and auditor turnover have a positive effect on fraudulent financial reporting. This finding expands on the results of previous research and adds to the literature that in knowing the occurrence of a fraud in the financial statements, it is necessary to pay

attention to aspects of the accounting policies, the composition of the board of commissioners and the Head of internal auditor turnover.

This study proves that the frequency of CEO Picture shows has a positive effect on fraudulent financial statements. This means that these findings can be a concern for management to pay more attention to the composition of the number of images displayed in the company's annual report as an effort to reduce the arrogant attitude of the CEO.

Future research can use a different sample for public companies in Indonesia and increase the number of years of research. Future research can use interview techniques to complement the results of their research regarding the elements in Crowe's Pentagon Model.

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