

Fraud Pentagon Analysis in Detecting Financial Statement Fraud (Study on State Owned Companies Listed on the Indonesia Stock Exchange in 2014-2019)

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Abstract

Financial reports contain quantitative information that have to qualify the qualitative characteristics, one of it is the qualitative characteristics of reliability including honest presentation, substance outperforming form, neutrality, completeness including relevance, and fair presentation. Given the urgency of using a financial report, the information presented by the company must be accurate and relevant without any crime in fraudulent financial reporting. However, many managers are motivated to improve company performance through financial reports so that the company's existence is maintained. Financial statement fraud committed by management is in the form of material misstatement of financial statements (both overstatement and understatement) of a financial or non-financial that is detrimental to investors, creditors, and other stakeholders. Fraud in financial reports tends to be difficult to detect and requires a long detection time. Therefore, detection is a very important concept in fraud investigation where the speed in detecting fraud as well as detection efforts can have a significant impact on the size of a fraud. This study use Crowe's Fraud Pentagon Theory, which is a fraud risk factor by Crowe in 2011, as a tool to be able to detect early financial statement fraud in a company.

The purpose of this study is to analyze Crowe's Fraud Pentagon Theory which is proxied by 8 independent variables, there are financial stability (ACHANGE), external pressure (ROA), financial target (Leverage), nature of industry (RECEIVABLE), effective monitoring (BDOUT), rationalization (TATA), competence / capability (DCHANGE), and arrogance (frequent number of CEO's photos that displayed in the annual report) on the detection of financial statement fraud which is proxied by earning management and measured using discretionary accruals (DAit) at listed State Owned Companies (BUMN) on the Indonesia Stock Exchange 2014-2019. The research method used is a quantitative method with hypothesis testing based on multiple linear regression analysis. The unit of analysis in this study was 96 units of analysis using 16 samples of BUMN that had been selected according to predetermined criteria during the study period. This study uses two data collection methods, which is literature study, documentary study and browsing via the internet. The simultaneous test results show that financial stability represents pressure perspective, external pressure represents pressure perspective, financial target represents pressure perspective, nature of industry represents opportunity perspective, effective monitoring represents opportunity perspective, rationalization, competence/capability, and arrogance have a simultaneous effect on the detection of financial statement fraud. The results of the partial test show that the financial stability variable representing the pressure perspective, the external pressure variable representing the pressure perspective, the nature of industry variable representing the opportunity perspective, and the rationalization variable have an effect on the detection of financial statement fraud. Meanwhile, the financial target variable representing the pressure perspective, the effective monitoring variable representing the opportunity perspective, the competence/capability variable, and the arrogance variable didn't have an effect on the detection of financial statement fraud. So, this research can only prove the fraud triangle theory by Cressey in 1953.

Selected References

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