

## Can The Diamond Fraud Model Influence the Occurrence of Fraudulent Financial Reporting?

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### Abstract

This research is quantitative in nature and is intended to examine whether can the diamond fraud model influence the occurrence of fraudulent financial reporting. The fraud diamond theory is measured by pressure (financial stability, financial targets, and external pressure), opportunity (ineffective monitoring), rationalization (change in auditor), and capability (change of director). State-owned business (BUMN) registered on the stock exchange of Indonesia between 2016 and 2022 comprise the population considered within this research. Purposive sampling was utilized in this research to select 154 companies for the sample. In this work, logistic regression analysis is the analytical method. The findings within this research show that the variables of financial stability and financial targets have a significant negative impact on the occurrence of fraudulent financial reporting, while the variables of external pressure and director change do not affect the occurrence of fraudulent financial reporting. The variables of ineffective monitoring and change in auditors also affect the occurrence of fraudulent financial reporting.

**Keywords:** Fraud Diamond, Fraudulent Financial Reporting, M-Score, Fraud

### Introduction

Financial reports provide an organized presentation of a company's financial health and performance. Financial reports are designed to give consumers details regarding the entity's cash flow, financial performance, and financial situation so they can make wise decisions (Ratnasari & Solikhah, 2019). Good financial reports are reports that present relevant and reliable information. Financial reports are often used as a basis for making investment and funding decisions. Therefore, managers will try to present good company performance in the financial accounts to draw attention the attention of investors and creditors.

Concerning fraud schemes, fraud on financial reporting is the most extensive, valued at USD 32,900, according to study data released by the Association of Certified Fraud Examiners in 2020. Fraud in financial reports should not be underestimated, since it has been demonstrated that this behavior might happen annually and generate significant losses. The consequences of this deception may also diminish public confidence and harm the company's brand. The financial and banking sector as well as the government sector are undoubtedly the industries most affected by fraud when compared to other industries, according to the findings of a survey done in 2018 by the Association of Certified Fraud Examiners (ACFE, 2018). In Indonesia there are many companies, one of which is BUMN. BUMN is a government organization under the Republic of Indonesia's Ministry of State-Owned Enterprises. According to the 2019 ACFE (2018) Indonesia study results, 48.5% of the institutions that were negatively impacted by fraud were the government. Then SOEs are 31.8%, 15.1% of the businesses are privately held, 2.9% are non-profits, and 1.7% are other businesses. Therefore, this study chose to use BUMN companies as research samples.

In addition, State-Owned Enterprises (BUMN) are currently in the public spotlight due to several accounting cases that have occurred. One example is the corruption case that occurred at PT Garuda Indonesia (Persero Tbk), which resulted in state losses of IDR 8.8 trillion (Jullani, M. Yudi, 2020). These incidents have led to dishonest reporting processes where false information is created by manipulation, which eventually causes harm to those who depend on the financial reports. Regarding financial reporting, data on earnings is crucial for parties using financial statements to evaluate management performance. In addition to the case example at PT Garuda Indonesia, Currently, there are fraud cases about the purported financial reports manipulation committed by two state-owned enterprises, specifically PT Wijaya Karya (Persero) Tbk and PT Waskita Karya (Persero) Tbk. The state-owned companies are currently experiencing difficulties in cash flow, but look like they have been profitable for years. The fraud that occurred in BUMN companies is an example that shows that there are still a lot of fraudulent financial reports in BUMN companies that can harm the state with a very large nominal. These instances of fraud cases have the potential to harm a company's reputation with creditors, investors, and the general public.

Therefore, financial reporting is a delicate and significant topic in the accounting profession since accountant fraud can have a major negative financial impact on the state and its stockholders. Failure to catch financial statement fraud in its early stages might lead to a serious case that is more harmful to numerous parties. The study of false financial reporting is crucial because it helps investors reduce risk and safeguard their investment portfolios by identifying the traits of financial fraud. In addition, there is a need to enhance oversight, recognize the shortcomings of the corporate regulatory frameworks that are now in place, and simultaneously find better ways to stop the growing number of financial reporting fraud cases.

As an international association for public accounting professionals, the American Institute of Certified Public Accountants (AICPA), responded to these fraud cases by issuing standards related to fraud, namely SAS No. 99. Skousen et al. (2009) explains that an auditor must estimate the risk of material errors in the financial reporting that may occur due to fraud, and the auditor must consider this risk estimate when designing audit procedures. Based on the idea of fraud risk, the auditor must also take into account the risk factors related to fraud while assessing these risks. In this study, it was chosen to use the fraud diamond concept because it is considered a further development of the previous model, namely the fraud triangle.

## **Literature Review**

### **Theory of Agency**

According to this view of agency, management and the business owner have a contractual arrangement. To ensure that the management of the company carries out its operational operations following the entity's aims and targets, which are established by the principal, the company's owner exercises authority over the agent in the capacity of a principal. However, as each party will strive to maximize their own, it's not always the case that the agent acts in the greatest interest of the principal. As a result, agency problems arise. This will result in false financial reporting being made by the agent or management, who is the company's manager and has access to more information than the principle, an outsider with little knowledge of the company's financial situation. This situation often involves reported information that does not match the company's reality, it is called information that is asymmetric. The higher the asymmetry of information between managers (agents) and owners (principals), encourages falsified accounting information by management.

## **Fraud Diamond Theory**

The foundation of fraud theory is the fraud triangle concept. Cressey (1953) proposed the fraud triangle idea in 1953. It states that three things opportunity, pressure, and rationalization encourage people to do activities that are documented in financial reports. After that, Wolfe & Hermanson (2004) proposed the fraudulent of diamond theory as an expansion of the fraud triangle idea, adding "capability" as a fourth component. According to Wolfe & Hermanson (2004), fraud cannot happen if there isn't someone present who possesses the necessary skills. The four components of a fraud diamond are therefore opportunity, pressure, rationalization, and capability.

### **The Effect of Financial Stability on Fraudulent Financial Reporting**

In the perspective of diamond theory, management is under pressure when external variables, including industry conditions and economic conditions, risk the company's financial stability and profitability. From an agency theory perspective, principals want their companies to have solid financial stability, as this will affect investment returns and investor interest. This pressure encourages agents to look for ways to achieve the financial stability desired by the principal, and one way that may be taken is by committing fraud. One term used to characterize the state of the organization's finances is financial stability. The condition of the assets of the organization can be used to assess how stable its financial situation (Koharudin & Januarti 2021). Research conducted by Koharudin & Januarti (2021), Putra & Dinarjito (2021), and Tarjo et al. (2021) assert that the presence of dishonest financial reporting is significantly impacted by financial stability.

H<sub>1</sub>: Financial Stability has a positively impact on Fraudulent Financial Reporting.

### **The Effect of Financial Targets on Fraudulent Financial Reporting**

Financial targets are included in the pressure element according to the diamond theory. The pressure faced by agents arises when managers are given high financial targets, so the pressure felt by agents also increases. In the context of agency theory, agents have a desire to get a positive assessment from the principal, which is based on the resulting profitability performance. The financial target is the pressure the management of the firm faces to increase earnings in order to fulfill the owner's request (Budiyono & Arum 2020). When under pressure to fulfill profit targets, the company's management may take all necessary steps, even if they conflict with the interests of shareholders to do so. Indirectly, management is encouraged to commit fraud. Financial target and business success are closely related. Research by Kusumawati et al. (2021), Setiawati & Baningrum (2018), and Budiyono & Arum (2020) discovered that potential dishonest financial reporting is impacted by financial targets.

H<sub>2</sub>: Financial Target has a positively impact on Fraudulent Financial Reporting.

### **The Effect of External Pressure on Fraudulent Financial Reporting**

From the standpoint of diamond theory, the ability to meet debt payment obligations is one source of external pressure. Agency theory looks at the relationship between management and shareholders in terms of financial reporting. Management is encouraged to fulfill the requests of other parties via external pressure. The capacity of an organization to repay its debts is one form of external pressure. Organizations with high levels of debt are particularly vulnerable to financial report fraud, because if they want to get additional debt from both investors and creditors, it is seen from the extent to which the company can return the funds borrowed or invested (Umar et al., 2020). Research by Putra & Dinarjito (2021), Cahyani et al. (2021), and Tarjo et al. (2021) declare that an advantageous connection exists between external pressure and the incidence of financial statement fraud.

H<sub>3</sub>: External Pressure has a positively impact on Fraudulent Financial Reporting.

### **The Effect of Ineffective Monitoring on Fraudulent Financial Reporting**

From the standpoint of diamond theory, when there is little oversight, managers will feel free to operate as they please and conduct fake financial statements as they believe no one is looking. The commissioners' independent board is included to oversee managerial operations because the principal wants management to do their duties in accordance with agency theory. However, commissioners' independent board lack of oversight makes management feel free to commit fraud. According to the AICPA, when it occurs that a lack of control and the internal business system is not functioning well, it is called ineffective monitoring, creating potential for fraudulent. As stated by Skousen et al. (2009), companies involved in fraud generally have fewer board members than companies that don't engage in fraudulent. The outcomes of studies conducted by Khamainy et al. (2022), Tarjo et al. (2021), and Putra & Dinarjito (2021) declare that dishonest financial reporting is positively impacted by ineffective monitoring.

H<sub>4</sub>: Ineffective Monitoring has a positively impact on Fraudulent Financial Reporting.

### **The Effect of Change In Auditor on Fraudulent Financial Reporting**

In the perspective of diamond theory, auditor changes are seen as part of the rationalization element. Arkorful et al. (2022) defines rationalization as a process of justifying fraud that is being planned or has been committed. Agency theory states that the principal wants good company performance so that the agent tries to provide positive signals in the form of improving company performance. Company management makes the reason for improving the performance required by the owner as a justification (rationalization) for committing fraud on the financial report. Government regulations governing audit rotation requirements or voluntary adjustments may result in auditor turnover. Another reason for auditor change may be fraudulent financial statements that the previous auditor discovered. In the research of Kirana et al. (2023), Koharudin & Januarti (2021), and Putra & Dinarjito (2021) cite evidence that a change in the auditor has a beneficial effect on misleading financial reporting.

H<sub>5</sub>: Change in Auditor has a positively impact on Fraudulent Financial Reporting.

### **The Effect of Change of Director on Fraudulent Financial Reporting**

In the perspective of diamond theory, ability refers to how much ability and capacity a person has in performing an action. From the standpoint of agency theory, directors run the company with the expectation that they will receive commensurate returns on their abilities. The board of directors is a group of people belonging to top management who have great responsibility for the company's operations. On this basis, a director feels that he deserves to receive a high salary and bonus so that they are willing to commit financial statement fraud if they cannot fulfill the wishes of the principal by using their capabilities (Yarana 2023). But if the fraud is found, the directors will be replaced. A stressful period brought on by a director's replacement may also contribute to the emergence of fraud chances. As a result, financial statement fraud will occur Sasongko & Wijyantika (2019), Cahyani et al. (2021) assert that a director's change has a beneficial effect on financial reporting fraud.

H<sub>6</sub>: Change of Director has a positively impact on Fraudulent Financial Reporting.

## **Methods**

Secondary quantitative methodologies are used in this study. The study's population consisted of all BUMN (State-Owned Enterprises) businesses that were listed between 2016 and 2022 on the Stock Exchange of Indonesia. With the following criteria in mind, the sample was selected by the use of purposeful sampling.

State-owned companies (SOEs) that were listed between 2016 and 2022 on the Indonesia Stock Exchange. BUMN businesses that provide full yearly report information. BUMN companies that present related variables used in research.

### Variable Operational Definition

This study uses independent variables, financial stability, financial target, external pressure, ineffective monitoring, nature of industry, change in auditor and change of director. Meanwhile, the dependent variable is fraudulent financial reporting.

### Independent Variable

Table 1. Measurement Of Independent Variables

Variable	Measurements
Financial Stability	$FS = \frac{\text{Total Aset}(t) - \text{Total Aset}(t - 1)}{\text{Total Aset}(t)}$ Skousen et al. (2009)
Financial Target	$ROA = \frac{\text{Net Profit}}{\text{Total Asset}}$ Skousen et al. (2009)
External Pressure	$\text{Leverage} = \frac{\text{Total Liability}}{\text{Total Asset}}$ Skousen et al. (2009)
Ineffective Monitoring	$\text{BDOUT} = \frac{\text{Number of Independent Commisioners}}{\text{Total Board of Commisioners}} \times 100\%$ Skousen et al. (2009)
Nature Of Industry	$\text{NOI} = \frac{\text{Receivable}}{\text{Sales}} - \frac{\text{Receivable } t - 1}{\text{Sales } t - 1}$ Skousen et al. (2009)
Change In Auditor	Using a dummy variable, the change in public accounting firm serves as a proxy for the change in auditor. coded 1 if the public accounting firm changes between 2018 and 2022, and coded 0 in the absence of any changes (Skousen et al., 2009).
Change Of Director	A dummy variable is used to measure changes in directors; code 1 indicates a change in directors while code 0 indicates none at all (Sasongko & Wijyantika 2019).

### Variable Dependen

This model's variables make use of information that can be found in the financial accounts of the business, which will then produce an M-Score. This M-score will show whether or not there is fraud in the accounting records. The organization is considered to be engaging in fraudulent on financial reports if the M-score result exceeds or equal to -2.22. If the result is less than or equal to -2.22, the organization is not considered to be engaging in fraudulent on financial reports. Dummy variables will be used to measure variables that are nominal scales. Dummy variables with code 1 denote fraud on the financial reports of the organization, while code 0 denotes no fraud on the company's financial reports. The M-score calculation uses the results of each variable and is entered into the formula that follows.

$$M\text{-Score} = -4,84 + 0,92*DSRI + 0,528*GMI + 0,404*AQI + 0,892*SGI + 0,115*DEPI - 0,172*SGAI - 0,327*LVGI + 4,679*TATA$$

Table 2. Measurement Of Dependent Variables

Angka Indeks	Formula
DSRI	$\frac{Receivable_t / Sale_t}{Receivable_{t-1} / Sale_{t-1}}$
GMI	$\frac{(Sale_{t-1} - COG_{St-1}) / Sale_{t-1}}{(Sale_t - COG_{St}) / Sale_t}$
AQI	$\frac{(1 - ((Current\ Asset_t + PPE_t) / Total\ Asset_t))}{(1 - ((Current\ Asset_{t-1} + PPE_{t-1}) / Total\ Asset_{t-1}))}$
SGI	$\frac{Sale_t}{Sale_{t-1}}$
DEPI	$\frac{(Depreciation_{t-1} / (Depreciation_{t-1} + PPE_{t-1}))}{(Depreciation_t / (Depreciation_t + PPE_t))}$
SGAI	$\frac{(SGA\ expense_t / Sale_t)}{(SGA\ expense_{t-1} / Sale_{t-1})}$
LVGI	$\frac{((LTD_t + Current\ Liabilitiest) / Total\ Asset_t)}{((LTD_{t-1} + Current\ Liabilitiest-1) / Total\ Asset_{t-1})}$
TATA	$\frac{(Income\ before\ Extraordinary\ item_t - Operating\ Cash\ Flow_t)}{Total\ Asset_t}$

## Results and Discussion

Based on the sample criteria mentioned above, every year 22 businesses that satisfied the sample requirements were found, so the sample (n) in this research was 154 (22 X 7 periods) companies. After that, data processing is carried out using Eviews 12, which starts from descriptive statistics related to research data, results of tests for the feasibility of the regression model, the overall model, the logistic regression test, the coefficient of determination test, and the hypothesis testing test.

### Descriptive Statistical Analysis of Dummy Variables

Table 3. Descriptive Statistics of Dummy Variables

Variable	Description	Frequency	Percent
Fraudulent Financial Reporting	0	65	42%
	1	89	58%
Change In Auditor	0	122	79%
	1	32	21%
Change Of Director	0	24	16%
	1	130	84%

Description: Fraudulent Financial Reporting 0 (not classified as financial report fraud) and 1 (classified as financial report fraud), Change In Auditor 0 (no change of auditor) and 1 (no change of auditor), Director Change: A number of 0 indicates that a director change hasn't occurred, while a value of 1 indicates that there has.

**The tests for the feasibility of regression models, overall model fit, and coefficient of determination (R2 McFadden)**

Tabel 4. Regression Model Feasibility Test, Overall Model Fit Test, and Coefficient of Determination Test (McFadden's R2)

<b>Df</b>	<b>Sig. Chi - Square</b>
8	0.1435
<b>LR statistic</b>	<b>Prob (LR statistic)</b>
19.18470	0.003863
<b>Step</b>	<b>McFadden R - squared</b>
1	0,101248

Table 4 demonstrates that a significant probability number is 0.1435, over the degree of relevance of 0.05. This indicates that the model fits or is acceptable.

The study findings show that the dependent variable in logistic regression is simultaneously impacted by the independent variables, with the LR statistic value being 19.18470 and the Prob (LR statistic) value being 0.003863. This indicates that the LR statistic result is bigger than the Prob (LR statistic).

According to the aforementioned results, the McFadden RSquared value is 0.101248. This value accounts for 10.12% of the dependent variable's variability, which is described by the independent variables' variability, and the remainder 89.88% is described by variables outside of the model.

**Hypothesis Test**

Variable	Coefficient	Prob.	Description
Constant	0.840754	0.3829	
Financial Stability	-1.441007	0.0916 <sup>b</sup>	Negative Affect
Financial Target	-5.053427	0.0611 <sup>b</sup>	Negative Affect
External Pressure	-1.526565	0.1821	Not Affected
Ineffective Monitoring	4.500540	0.0136 <sup>a</sup>	Positive Affect
Change In Auditor	1,375386	0.0252 <sup>a</sup>	Positive Affect
Change of director	0,385874	0.5856	Not Affected

The results in the table above, testing is carried out by contrasting the error rate with the probability or significance level. The error rate in this study is 0.05 or 5%, and 0.1 or 10%, The following is an explanation of the study's logistic regression results.

$$M\text{-Score} = 0.840754 - 1.441007X_1 - 5.053427X_2 - 1.526565X_3 + 4.500540X_4 - 0.954462* - 1.441007D_1 - 0.267781* - 1.44100D_2 + e.$$

$$M\text{-Score} = 0.840754 - 1.441007X_1 - 5.053427X_2 - 1.526565X_3 + 4.500540X_4 - 1,375386D_1 + 0,385874D_2 + e.$$

The regression coefficient value of the financial stability variable on fraudulent financial reporting is -1.441007, and the financial stability variable's significance value is 0.0916 smaller

than 0.1. This indicates that H0 is rejected and H1 is accepted, indicating that the financial stability variable has a significant and negative effect on fraudulent financial reporting. The existence of financial stability reduces the risk of financial pressure that can trigger management to take actions that harm the principal. Companies that have higher financial stability will tend to focus on aspects of long-term growth, sustainability, and fulfillment of long-term shareholder interests (Irwandi et al., 2019). The results obtained from this inquiry align with research conducted by Indarto & Ghazali (2016), Irwandi et al. (2019), Tarjo et al. (2021), Sari et al. (2022), Achmad et al. (2023) it claims that the likelihood of dishonest financial reporting is significantly impacted negatively by financial stability.

The financial target variable's regression coefficient value on the incidence of fraudulent financial reporting is -5.053427. Its significance value is 0.0611, which is less than 0.1. This indicates that H0 is rejected and H2 is accepted, indicating that the financial target variable has a significant and negative impact on fraudulent financial reporting. Fraudulent of financial reports or manipulation typically happens when management is faced with a circumstance in which the company's performance falls short of expectations, or put another way cannot achieve the predetermined targets (Ginting & Daljono, 2023). Therefore, management does not feel the need to engage in fraud or manipulation of the numbers in the financial statements. A rise or steady return on assets (ROA) may suggest that the business is doing well and that management does not see the need to falsify financial statements, which eventually leads to a reduction in financial reporting fraud. This analysis backs up investigations carried out by Utama et al. (2018), and Carla & Pangestu (2021) studies indicate that the likelihood of dishonest financial reporting is significantly impacted negatively by financial targets.

A regression coefficient value of -1.526565 is obtained from the external pressure variable on the incidence of false financial reporting, and the external pressure significance value since 0.1821 is less than 0.05 or even 0.1, H0 and H3 are likewise rejected, indicating that there is no relationship between the external pressure variable and dishonest financial reporting. The low value of debt reflects that the company is not too dependent on debt as a source of funding, so the pressure from lenders is not burdensome for management. On the other hand, management is compelled by creditor pressure must be forthright and truthful regarding the state of the organization's finances. The pressure exerted by third parties on company managers can often lead to fraud. However, it cannot always be concluded that company managers commit fraud solely to overcome high pressure from third parties. Managers may have various plans and strategies that are in accordance with accounting standards in preparing financial statements to achieve the objectives of third parties. Therefore, even though the pressure from third parties is quite high, this does not always encourage managers to engage in fraudulent acts on the financial reports of the business. The results obtained from this inquiry align with research conducted by Setiawati & Baningrum (2018), Sasongko & Wijyantika (2019), Mappadang & Yuliansyah (2021), Koharudin & Januarti (2021), Sihombing & Panggulu (2022), Suryani & Fajri (2022), and Biduri et al. (2023) this asserts that dishonest financial reporting is unaffected by outside pressure.

Regression analysis of the ineffective monitoring variable on the incidence of fraudulent financial reporting yields a coefficient of 4.500540 and a significance value of  $0.0136 < 0.05$ . This indicates that H0 and H4 are accepted at the 5% level, indicating a significant impact of the ineffective monitoring variable on fraudulent financial reporting. Supervisory ineffectiveness can increase the risk of fraud in financial statements, especially if internal controls do not operate optimally. Ineffective supervision occurs when the internal control system cannot prevent fraud from occurring. This circumstance gives people the chance to perpetrate deception for their benefit. Consequently, it is thought that having an independent board of commissioners that is unrelated to the organization's directors, shareholders, or other

internal parties is crucial for enhancing the organization's oversight and lowering the possibility of fraudulent financial report. The results obtained from this inquiry align with research conducted by Tiffani & Marfuah (2015), Cahyani et al. (2021), Putra & Dinarjito (2021) which state that ineffective monitoring has a positive effect on fraudulent financial reporting.

The regression coefficient value of the change in the auditor variable on the incidence of fraudulent financial reporting is 1.375386, and the significance value of the change in the auditor is  $0.0252 < 0.05$ . This indicates that  $H_0$  and  $H_1$  are accepted at the 5% level, indicating a significant impact on the change in the auditor variable related to false financial reporting. These findings suggest that the likelihood of falsified financial statements would increase with the frequency with which a company switches auditors. Auditor changes that are not in line with applicable regulations can be an indicator that the company is deliberately changing auditors with the assumption that the organization is worried if the prior auditor has known the fraud that occurred in the organization. Auditor changes that do not comply with applicable regulations may indicate that the company has concerns that the previous auditor has found fraud in the entity's financial report, so the organization decides to change auditors in an effort to reduce the risk of these potential findings (Ginting & Daljono, 2023). The findings of this investigation corroborate those of Kirana et al. (2023). Koharudin & Januarti (2021), and Putra & Dinarjito (2021) state that change in auditor has a positive effect on the occurrence of fraudulent financial reporting.

A regression coefficient value of 0.385874 and a significance value of  $0.5856 > 0.05$  for the change of director variable on fraudulent financial reporting indicates that  $H_6$  is rejected, indicating that the change of director variable does not affect fraudulent financial reporting. The prior director may have retired or resigned with honor, rather than the change of directors being due to evidence of dishonesty by the former directors. If a firm wishes to increase performance, but not by falsifying financial statements—it may also decide to change its directors. With new directors, companies hope to find new strategies that are more efficient and effective. This concept is in line with the view of Wolfe & Hermanson (2004), it asserts that organizations often change directors to boost business performance. It is anticipated that the hiring of more capable directors will result in improved performance, luring investors to contribute to the business. According to the findings of this inquiry, the study carried out by Setiawati & Baningrum (2018), Handoko & Natasya (2019), Tarjo et al. (2021), Putra & Dinarjito (2021), Koharudin & Januarti (2021), Sari et al. (2022), Achmad et al. (2022), Sihombing & Panggulu (2022), and Kirana et al. (2023) which states that a change of director does not affect the occurrence of fraudulent financial reporting.

Hence, elements from the fraud diamond model that may have an impact on the incidence of false financial reporting are what creditors, investors, and principals need to pay attention to. The reason for this is that, at the moment, fraudulent financial reporting is important and is considered to be able to reduce the detrimental economic impacts resulting from fraudulent acts committed. Furthermore, by using the results of this research, policy recommendations or best practices can be created, which will assist regulators and other professionals in stopping, identifying, and dealing with financial reporting fraud. In the end, founders, creditors, and investors may all help guarantee the long-term sustainability of organizations and the financial system overall. It can also assist in comprehending the workings of these scams and formulating plans to shield investors from needless losses.

## **Conclusion**

Based on the above findings and discussion finally, it can be said that this study successfully demonstrated that financial stability and financial target variables have a significant negative impact on fraudulent financial reporting. Variables such as ineffective monitoring and auditor

change have a significant positive impact on financial reporting fraud. External pressure and change of directors' variables do not affect fraudulent financial reporting.

To obtain a greater coefficient of determination, future research is anticipated to include many proxies for each fraud diamond variable and to lengthen the research observation year. Then further researchers can also re-examine variables in different time periods, and incorporate other components that are believed to influence financial reporting fraud, such as institutional ownership variables, nature of industry, and personal financial need.

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