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Original Research

Testing the Crowes Pentagon Theory of Fraud on Financial Statement Fraud

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Abstract

This paper aims to test the Crowes Pentagon Theory of Fraud in detecting financial statement fraud and provide further explanation of the fraud indicators in the Pentagon Fraud Theory consisting of pressure, opportunity, competence, rationalization, and arrogance. (arrogance) can detect fraud in financial reporting in manufacturing companies listed on the Indonesia Stock Exchange in 2017-2021. The data used in this research was obtained from annual reports and websites of manufacturing companie. The sample selection technique in this study used simple random sampling to obtain 655 company-years. The data analysis techniques used are descriptive statistical and multiple linear regression analyses. The results show that the fraud indicators in the fraud pentagon theory represented by financial stability, leverage, ineffective monitoring, and director turnover, can detect financial statement fraud, while other indicators - auditor changes and a large number of CEO photos - cannot detect financial statement fraud.

Keywords: Crowes Pentagon Theory of Fraud, financial statement fraud, financial stability, auditor change.

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Introduction

In recent years, news about corporate financial report fraud scandals is no longer unexpected news, this news has become a common occurrence in global companies. There are many well-known cases of financial fraud where this case is very detrimental to companies, this case causes many negative impacts on global financial markets such as shares experiencing losses, and also causes a loss of investor confidence in financial markets. This can increase global concerns about financial fraud (Ozcelik, 2020a). In Indonesia, there have been cases of fraud that occurred in several companies where the companies experienced a lot of losses and lost investors' trust in the companies.

Financial reporting fraud is an intentional action carried out by managers to deceive and materially mislead users of financial reports, especially investors and creditors (ACFE, 2016). Based on the results of a survey conducted by ACFE in 2019, corruption was the highest fraud case in Indonesia, namely 6.4%. Then, misappropriation of state and company assets or wealth is in second place in cases of fraud that occur in Indonesia. Company with a percentage of 28.9%. And cases of fraud that are rarely found in Indonesia are Financial Report fraud, which is only 6.7%. Because corruption cases are often highlighted by the media, the public considers corruption scandals to be the most common fraud cases in Indonesia.

However, if we look at the magnitude of losses due to fraud, financial statement fraud is in first place with a percentage of 67.4% with a loss value of under ten million rupiah and a percentage of 5% with a loss value of more than ten million rupiah. Then in 2020, to be precise in August 2020, the Association of Certified Fraud Examiners Global released a biannual report which stated that Indonesia was the contributor to financial statement fraud cases in Southeast Asia with a total of 36 cases and beat China which only had 33 cases. This act of fraud or manipulation is carried out only to beautify the performance of a company so that it remains attractive in the eyes of shareholders, stakeholders, and investors, especially in companies that have the status of a public company whose annual financial reports can be seen transparently by the public. Information presented in financial reports that have been manipulated will provide a wrong basis for decision-making.

In Indonesia, there is a company that is known to have recorded a net profit in its financial statements for 2018. However, PK and OJK finally determined that there was something wrong with the presentation of the company's financial statements in 2018 with the discovery of a loss of US$ 175 million, or 2.53 trillion after national airline records adjusted. Apart from that, in Indonesia, there is also a company suspected of manipulating the financial reports of its subsidiaries. It is known that the Indonesian Stock Exchange questioned the subsidiary's financial figures which were integrated with the 2019 Annual Financial Report, alleging that the subsidiary had not prepared financial reports. Based on this, fraud can not only harm users of financial reports but also damage a company's reputation, thereby reducing the company's ability to maintain business continuity and even lead to bankruptcy.

In general, this fraud occurs without prior prevention and detection. In the practice of preventing and detecting fraud in financial reports, it also often clashes with other factors that motivate the emergence of fraud in various situations, as explained by various fraud theories such as Cressey's Fraud Triangle Theory put forward by Cressey, Wolfe's Fraud Diamond Theory put forward by Wolfen and Hermanson and most recently Crowe's Pentagon Theory of Fraud is an extension of the Fraud Triangle Theory proposed by Cressey. Crowe's Pentagon Theory of Fraud has five fraud risk factors that use financial and non-financial ratios. The five risk factors for fraud consist of pressure, opportunity, competence, rationalization, and arrogance. Crowe's Pentagon Theory Fraud is a new theory that further explores the factors that trigger fraud, namely Pentagon fraud. Therefore, fraud prevention and detection are necessary to minimize the impact of fraud (Crowe Horwarth, 2011).

This research re-examines the Crowes Pentagon Theory of Fraud following previous research, especially research conducted by (Mukhtaruddin et al., 2020), which differentiates this research from previous research as follows: first, this research is on the independent variable, namely pressure using a proxy consisting of financial stability and leverage, this variable is different from research conducted by (Mukhtaruddin et al., 2020) where the independent variable on pressure uses a proxy, namely financial targets and external pressure. Second, this research took samples from non-financial sector companies, namely the manufacturing sector listed on the Indonesia Stock Exchange with a longer research year, namely 2017-2021, namely for five years, while (Mukhtaruddin et al., 2020) took samples from banking companies and finance listed on the Indonesian Stock Exchange only in the 2016-2018 research year, namely for three years, there is a possibility that there are variables that cannot be measured with just three years of research. Apart from that, what differentiates my research from previous research is that in measuring the dependent variable, namely financial statement fraud, my research uses the M-score model measurement, while previous research uses the F-score to measure the financial fraud variable. Then, there are also differences in research in the sampling technique used in this study using a simple random sampling method, whereas previous research used purposive sampling.

Theoretical Base

The Agency Theory by Jensen & Meckling defines an agency relationship as a contract between two parties that contains the delegation of work and authority by the first party (as principal/leader) to the second party (as agent/subordinate) so that the second party is willing to do the work. is for the benefit of the first party. Agency theory is based on the assumption that individuals are individualistic, opportunistic, and self-interested. Based on this assumption, the relationship between shareholders as principals (owners of company assets) and managers as agents is a standard "owner-agent" relationship where all parties act to maximize personal interests, this process determines conflict/agency costs (Jensen & Meckling, 1976). The purpose of this agency theory is that there is a cooperative relationship between shareholders as principals who have the desire and access to know information relating to the company in which they invest and management as agents as real actors in operational activities carried out by the company certainly know the information. related to operations and overall company performance. The Principal has a goal to always get a high return on the investment issued for the company.

Meanwhile, agents have their own goals to get large compensation or results for their performance. This shows that there is a conflict of interest between the principal and the agent, which is called a conflict of interest. Conflicts of interest that occur between the agent and the principal give rise to mutual distrust because the agent will act in personal interests and not in accordance with the interests of the principal (Dama et al., 2021).

Due to this conflict, the company as an agent faces various (pressures) so that the company can determine that the company's performance will always increase with the hope that this increased performance, as the principal, will provide a form of appreciation (rationalization) because the company's performance is always increasing. The ability to commit fraud will be more open if management has broad access (competence) as well as opportunities and opportunities to increase profits (opportunity), apart from that (arrogance) or high self-confidence, this trait is based on having high self-confidence so can trigger someone to want to commit fraud so that they believe that internal control does not apply to them. Apart from that, as is known, fraud occurs due to several fraudulent factors which have now developed into Crowe's Pentagon Theory Fraud. Agency theory is a factor in the formation of the characteristics described in detail in fraud. There are three basic types of human nature that explain further agency theory, namely that in general humans are self-interested, have limited thinking power regarding future perceptions (bounded rationality), and always avoid risks (risk averse) (Eisenhardt, 1989).

According to SAS No. 99 (AICPA, 2002), fraud is an act of cheating or deliberate error that results in material misstatements in the financial statements so that the impact is wrong in decision-making. Fraud is behavior that is detrimental to business actors and stakeholders and provides unfair advantages for the perpetrators of fraud. Fraud according to Crowe Horwath (Horwath, 2011) is an illegal act characterized by deception, concealment, or breach of trust. This action does not depend on threats of violence or physical force. Fraud is committed by parties and organizations to obtain money, property, or services to avoid payment, or loss of services or to secure personal or business benefits.

Financial Statement Fraud

(Association of Certified Fraud Examiners, 2016) states that fraudulent financial reporting is a deliberate misunderstanding of the financial condition of a company by making intentional misstatements or omissions of amounts or disclosures in financial reports to deceive users of financial statements. The main reason for fraudulent financial reporting is the result of pressure on the company or managers. For example, elements such as sudden declines in revenue or market share of a company or industry, unrealistic budgetary pressures especially for short-term results, and financial pressures resulting from bonus plans based on short-term economic performance (where individuality is a greater factor dominant) can be considered as a reason for fraudulent financial reporting (Erdoğan & Erdoğan, 2020).

Measurement of financial statement fraud is carried out using the Beneish M-Score formula (1997). This Beneish Model uses a ratio scale and has a threshold score which is a benchmark for a company committing fraud in its financial reports. When applying the

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Beneish Model if the threshold is greater than -2.22 (i.e., less than negative) this is an indication that the company's financial statements may have been manipulated (Warshavsky, 2012).

Fraud Pentagon Theory

Fraud pentagon theory, this theory was put forward by Jonathan Marks who is a partner in charge of fraud and ethics practice at Crowe Horwath LLP in 2011, this fraud pentagon is an extension of the fraud triangle and fraud diamond theories. The fraud triangle explains the three components of fraud, pressure, opportunity, and rationalization. Research conducted by (Cheliatsidou., et al, 2021) uses the fraud triangle to test the dominant fraud triangle framework and its variants developed in the accounting literature to provide the etiology of fraud. Then the fraud diamond was created, which is a refinement of the fraud triangle theory to strengthen the new fraud diamond model theory and determine whether it can be used as a reference to determine the causes of financial statement fraud (Khamainy & Ali, 2022). To prevent fraud, it is necessary to detect financial statement fraud in this research using the fraud pentagon theory, which is a newer theory for detecting financial statement fraud where there are two additional components of fraud, namely competence, and arrogance. So in the fraud pentagon, five factors cause fraud to detect fraudulent financial statements, namely pressure, opportunity, rationalization, capability, and arrogance.

Pressure

Stress can be caused by current conditions which can be used to deceive someone. Business management can sometimes indicate that the company's assets are well managed and are under pressure to meet investors' high-income expectations. Businesses can show their assets higher to meet the expectations of a good company (Ozcelik, 2020b). Companies with high-pressure experience higher rates of fraud incidents (Aghghaleh, 2014). Pressure can cause someone to commit fraud.

In this study financial stability is used as a proxy for stress. Financial stability is a condition that describes the company's financial condition in a stable position. Financial statement fraud can occur when managers face pressure when financial stability or profitability is threatened by economic, industry, or agency operating conditions (Skousen et al., 2009). Financial stability in a company can be seen from the condition of its assets. Assets are economic benefits that may occur in the future obtained or controlled by a particular entity as a result of past transactions or events. Total assets which include current assets and non-current assets describe the wealth owned by the company. This causes management to be under pressure to show that the company has been able to manage its assets well so this condition encourages management to cover up the poor state of financial stability by committing fraudulent financial reports. Therefore, in this study, financial stability is proxied by FSit which is the ratio of changes in assets over two years to measure pressure (Skousen et al., 2009). FS is calculated by the formula:

$$FSit = \frac{Total\ Asest_t - Total\ Asset_{t-1}}{Total\ Asest_t} \quad (1)$$

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Apart from that, Leverage is also used as a proxy for pressure. Leverage is a ratio used by companies to calculate the company's ability to fulfill company obligations. Tessa G & Harto, (2016) explain that a high leverage ratio causes creditors to be worried about providing loans and financing to the company. This concern is because the company or debtor has large debts so the credit risk is also high. According to SAS No. 99 (AICPA, 2002) states that managers experience pressure to commit fraud because the company's profitability is threatened by economic conditions, industry, and other situations. When the company's economic condition is threatened, company management tries to cover up its economic situation by taking out loans (debts) which causes the company's leverage ratio to become high. Managers who see that their company's leverage ratio is high will do everything they can, such as manipulating financial reports in the debt section to reduce their leverage ratio. This action is taken so that creditors see that the company's ability to pay off its debts is good and that it does not have large credit so that creditors will be interested in investing or providing loans to the company. This means that the higher the company's leverage ratio, the more likely company managers will commit financial report fraud. Therefore, in this research, Leverage to measure pressure in the company is proxied by LEVit, where this ratio can be used to see the company's ability to pay all obligations with the assets it owns (Aghghaleh, 2014).

$$\text{LEVit} = \frac{\text{Total Debt}}{\text{Total Assets}} \quad (2)$$

Opportunity

Opportunities for fraud will occur due to a weak control system within the company which makes it easier for perpetrators who commit fraud to escape without being caught. This can occur due to ineffective internal controls, failure to implement appropriate disciplinary measures, and poor regulation and supervision (Aghghaleh, 2014). Ineffective monitoring is used as a proxy for opportunity. Ineffective monitoring is a condition where the company's internal control system is not effective. This can occur due to the dominance of management by one person or small group, without compensation control, ineffective supervision of the board of directors and audit committee over the financial reporting process internal controls, and the like (ACFE, 2022). Lack of control from internal company parties creates an opportunity for several parties to manipulate data in financial reports. This is because independent audit committee members are members from outside the company who have little knowledge of the company's business and they likely have similar responsibilities in other companies, resulting in ineffective supervision which provides an opportunity or chance to commit fraud. Therefore, to measure opportunities, research is proxied by NECit for ineffective monitoring of the ratio of the number of NEC independent board of commissioners (Ratmono et al., 2020).

$$\text{NECit} = \frac{\text{Number of Independent Commissioners}}{\text{Number of Board of Commissioners}} \quad (3)$$

Rationalization

Rationalization occurs because someone seeks justification for their activities that contain fraud. This concept posits that perpetrators of unethical behavior will frame some kind of morally acceptable rationalization before engaging in fraud or other forms of unethical behavior for that matter, If a potential perpetrator cannot justify the unethical behavior, then the likelihood of him engaging in fraud is unlikely. (Omukaga, 2019). People who tend to have their justifications for whether actions are good or bad for them are more likely to commit fraud (Owusu et al., 2022). Thus, it is easier for employees to commit fraud when they have the belief that their wrongful actions are necessary and will end up helping others. Such people usually have a mindset that not only fails to recognize wrongdoing but also an attitude that justifies their actions as inoffensive.

Rationalization is proxied by changing auditors to eliminate audit trails so that fraud is not found in previous audits and to cover the risk of fraud being committed so that the possibility of being discovered by the auditor is small because the new auditor does not fully understand the condition of the company well (Agustina & Pratomo, 2019). With the change of auditors in the company, fraud can be indicated according to SAS No. 99 (ACFE, 2022). Therefore, this research uses the change in Public Accounting Firm (ACit) as a proxy for change in auditor in Rationalization using dummy variables. If there is a change in Public Accounting Firm during the research period, it is given code “1”, conversely if there is no change in Public Accounting Firm during the research period, it is given code “0”.

Competence or Capability (Competence)

The competencies described in the fraud pentagon theory have a similar meaning to the capabilities previously explained in the fraud diamond theory (Wolfe & R, 2004). Competence is an employee's ability to ignore internal controls, develop concealment strategies, and control social situations for personal gain (Crowe Horwarth, 2011). Weak internal controls in a company occur when managers or employees use too much power or authority without control or supervision and internal controls are poorly created. This is because there is no well-documented fraud policy to guide employees and managers. In this research, director turnover is used as a proxy for competence. Change of Director was chosen as a variable from one of the elements of fraud. There are six factors in competence, namely: positioning, intelligence, confidence/ego, coercion skill, effective lying/deceit, and stress management. The change of director is indicated to be able to illustrate the ability to carry out stress management (Sasongko, Noer. Wijayantika, 2019). Changing directors can cause management stress which can open up opportunities for fraud. The change of directors can also indicate a certain political interest in replacing the previous board of directors because they were deemed unable to cooperate in committing fraud. Therefore, this study uses director turnover (DCit) as a proxy for the competency variable which is measured by a dummy variable. If there is a change in the company director during the research period, it is coded “1” and if there is no change in the company director during the research period, it is coded ‘0”.

Arrogance

Arrogance is an attitude of superiority over one's rights and a feeling that internal controls or company policies do not apply to oneself. Arrogance is described as the perception of having a certain entitlement and the feeling that an organization's internal controls or policies do not apply to oneself to justify wrongdoing in the minds of cheaters

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(Avortri & Agbanyo, 2021). This arrogance is a set of behaviors that communicate a person's excessive sense of superiority which is often accompanied by belittling or demeaning others (Johnson & Silverman, 2010). In this research, arrogance is shown in many pictures of CEOs. Arrogance is usually directed more towards someone who has a high position in a company. The number of CEO photos displayed in a company's annual report can represent the level of arrogance or superiority that the CEO has (Aviantara, 2019). A CEO tends to be more willing to show his status and position in the company because he doesn't want to lose his status or position. The CEO who shows his photo in the financial report indirectly symbolizes the CEO's arrogance, this is one of the elements described in the Pentagon fraud (Marks, Jonathan, 2011).

Therefore, the CEO wants to show his status and position in the company to everyone to gain personal benefits and show that he is very influential in the company. This triggers fraudulent financial reports by abusing the CEO's authority. This arrogance can affect company performance and the possibility of fraudulent financial reporting. In line with research that found that the frequent number of CEO photos as an indicator of arrogance affected fraudulent financial reporting (Tessa & Harto, 2016). Harto's research proves that the greater the number of CEO photos displayed in a report can indicate a high level of CEO arrogance in the company. A high level of arrogance can lead to fraud because the arrogance and superiority of a CEO can make the CEO feel that any internal control will not apply to him because of his status and position. Therefore, arrogance is proxied by (CEOPit) which is the number of CEO photos as measured by the total number of CEO photos displayed in the company's annual report.

Based on the description above, the conceptual framework scheme for this research is drawn upcan be seen in the Figure1.

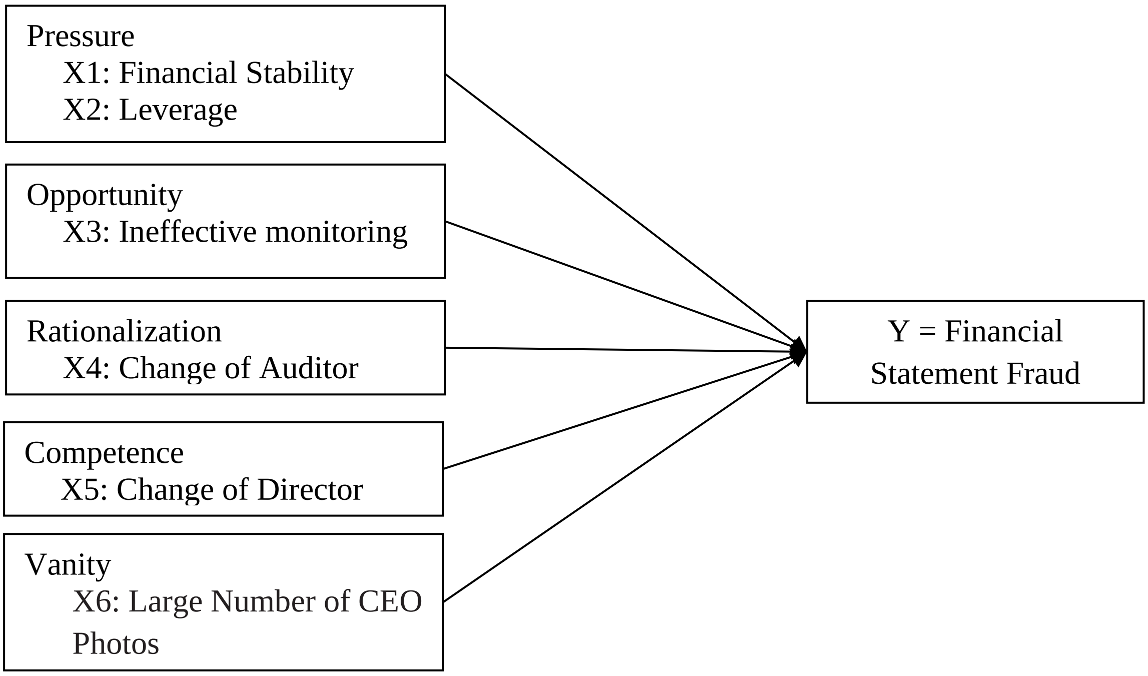

Figure 1. Conceptual Framework

Hypothesis Development

Based on the relationship between variables in the conceptual framework, the hypothesis in this research is:

H1: Financial stability has a positive effect on fraudulent financial statements

H2: *Leverage*has a positive effect on fraudulent financial statements

H3: Ineffective monitoring has a positive effect on fraudulent financial statements

H4: Changing auditors has a positive effect on financial statement fraud

H5: Director change has a positive effect on financial statement fraud

H6: The large number of CEO photoshas a positive effect on financial statement fraud.

Research Methods

The population in this research is all manufacturing sector companies listed on the Indonesia Stock Exchange during the period 2017 to 2021, the total population in this research is 192 companies. The sample determination in this study used a simple random sampling technique with the aim of each population having the same opportunity to become a sample by determining who could be a sample by doing it randomly without any stratification, clustering, or systematic techniques. To determine the sample size, use the following Slovin formula:

$$n = \frac{\mathrm{N}}{1+\mathrm{Ne}^{2}} = \frac{195}{1+195\ x\ 0{,}05^{2}} = \frac{195}{1+0{,}4875} = \frac{195}{1{,}4875} = 131 \text{ sample} \quad (4)$$

By calculating the formula above, the number of samples in data collection can be determined, which is carried out on 131 samples of companies in the manufacturing sector on the Indonesia Stock Exchange which are listed each year, with the observation years in this research being 5 years, namely 2017-2021, so the total The sample in this research was 655 financial reports of companies listed on the Indonesian Stock Exchange. The analysis technique used in this research is the multiple linear regression analysis method which aims to test the six independent variables against the dependent variable. This research data processing uses the SPSS (Statistical Package for Social Sciences) 20 program.

Research Results

Descriptive Statistical Analysis

Table 1. Descriptive Statistics Results

	N	Minimum	Maximum	Mean	Std. Deviation
FFRit	655	-5279,653	69856127,370	106642,403	2729505,087
FSit	655	-933895,625	,971	-2863,824	51278,357
LEVit	655	,012	7,260	,553	,605

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	N	Minimum	Maximum	Mean	Std. Deviation
NECit	655	,000	,800	,379	,137
ACit	655	0	4	,40	,521
DCit	655	0	1	,11	,311
CEOPit	655	0	39	2,83	2,839
Valid N (listwise)	655				

Pre-Regression Test Results

The table below presents a summary of the results of the classical assumptions. Based on this table, it can be concluded that this research is free from classical assumption problems.

Table 2. Pre-Regression Test Results

Variable	Normalitas Tes	AutokorelasiTes	Multikolinearitas Tes	
	Kolmogorov smirnov	Durbin- Watson	Toleransi	VIF
(Constant)	0,000	-	-	-
FSit			0,893	1,107
LEVit			0,884	1,116
NECit		1,970	0,782	1,219
ACit			0,995	1,005
DCit			0,984	1,016
CEOPit			0,995	1,005

To determine whether there is heteroscedasticity between independent variables, you can see the scatterplot graph between the predicted value of the dependent variable and its residual. The results of the heteroscedasticity test can be seen in the Figure 2.

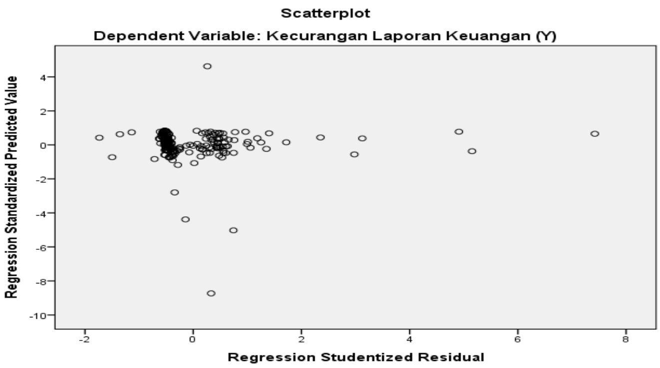

Figure 2. Results of the Heteroscedasticity

Based on the SPSS output display in the image above, it can be seen that the data (points) are not spread randomly either above or below the zero line on the Y axis, and do not form a particular pattern, so it can be concluded that in this regression test, there is a heteroscedasticity problem.

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Multiple Linear Regression Analysis

Table 3. Multiple Linear Regression Analysis

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	442793,098	362885,025		1,220	,223
	FSit	-121,111	9,201	-,402	-13,162	,000
	LEVit	,391	,112	,412	4,384	,000
	NECit	,325	,128	,365	2,539	,011
	ACit	,129	,292	,204	,441	,529
	DCit	,272	,134	,318	2,029	,037
	CEOPit	-,012	,938	-,042	-,012	,755
a. Dependent Variable: Kecurangan Laporan Keuangan (Y)						

Based on the results of multiple linear regression analysis using SPSS 25 software as in Table 4.8, the linear regression equation formed is as follows:

$$FFRit = 442793{,}098 + 121{,}111FSit + 0{,}391LEVit + 0{,}325NECit + 0{,}129ACit+0{,}272DCit + 0{,}012CEOPit \quad (5)$$

Table 3. Summary of Hypothesis Results

Items	Hypothesis	Results
H1	Leverage Affects Fraud Report Finance	+ Accepted
H2	Ineffective Monitoring _ Influence Fraud Report Finance	+ Accepted
H3	Change of Auditor affects Fraud Report Finance	+ Not Accepted
H4	Substitution Director Influence Fraud Report Finance	+ Accepted
H5	Lots of it The number of CEOC photos affects Fraud Report Finance	+ Not Accepted

Description : (+) influential significant positive ; (-) has an effect negative significant; ® Rejected.

Discussion

The Effect of Pressure on Financial Statement Fraud

The results of the multiple linear regression test, pressure as measured by Leverage, the results of the multiple linear regression test show that Leverage affects Financial Statement Fraud. This can be seen through the results of the Leverage hypothesis test which has a positive coefficient value of 0.391 with a significance level of 0.000 which is smaller than the significance level of 5% (0.05), meaning that leverage has a unidirectional relationship and has a significant effect on financial statement fraud. Thus, it can be concluded that this research accepts the second hypothesis (H2) which states that leverage affects financial statement fraud. This is because leverage is used by companies to calculate the company's ability to fulfill company obligations. Tessa et al, (2016) explained that a high leverage ratio causes creditors to be worried about providing loans and financing to the company. This concern is because the company or debtor has large debts so the credit risk is also high. Apart from that, if the optimal level of debt is

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proportional to the level of business risk, which means there is a positive relationship between financial leverage and business risk, it can be said that companies with high business risk have a relatively high optimal level of debt compared to companies with low business risk.

The Effect of Opportunities on Fraudulent Financial Statements

The results of multiple linear regression testing show that ineffective monitoring has a positive effect on financial statement fraud. This can be seen through the results of the ineffective monitoring hypothesis test which has a positive coefficient value of 0.325 with a significance level of 0.011 which is smaller than the 5% significance level (0.05), meaning that ineffective monitoring has a unidirectional relationship and has a significant effect on fraudulent financial statements. Thus, it can be concluded that this research accepts the third hypothesis (H3) which states that ineffective monitoring influences financial report fraud. This is to previous research (Syahputra, 2019), (Ratmono et al., 2020), (Agusputri et al., 2019), (Agustina et al., 2019) and (Septriani et al, 2018). Ineffective monitoring can be seen from weak supervision and ineffective supervision within a company, resulting in the potential for fraudulent financial reporting to occur. With ineffective supervision, management will feel that they are not being closely monitored, so they will be more free to look for ways to maximize their personal welfare and profits.

The Effect of Rationalization on Financial Report Fraud

The results of multiple linear regression tests show that changing auditors does not have a positive effect on financial statement fraud. This can be seen through the results of the auditor change hypothesis test which has a positive coefficient value of 0.129 with a significance level of 0.529 which is greater than the significance level of 5% (0.05), meaning that changing auditors does not affect financial statement fraud. Thus, it can be concluded that this research rejects the third hypothesis (H4) which states that changing auditors affects financial statement fraud. This is to previous research (Aviantara, 2019), (Ratmono et al., 2020), in this case, the change of auditor was caused because the company changed auditors, not because it wanted to reduce the predictions of the financial statements by the previous auditor, but because the company complied with Republic Government Regulations. Indonesia Number 20 of 2015 Article 11 paragraph 1 states that the provision of audit services for financial reports for an entity by a Public Accountant is limited to a maximum of five consecutive financial years.

The Effect of Competency on Financial Report Fraud

The results of multiple linear regression testing show that Director Change has a positive effect on Financial Statement Fraud. This can be seen through the results of the Director Change hypothesis test which has a positive coefficient value of 0.272 with a significance level of 0.037 which is smaller than the 5% significance level (0.05), meaning that Director Change has a unidirectional relationship and has a significant effect on fraud. financial statements. Thus, it can be concluded that this research accepts the fifth hypothesis (H5) which states that Director Change affects financial statement fraud. This is by previous research (Siddiq et al., 2017), (Sasongko et al., 2019) and (Wolfe &

R, 2004). Changing directors in a company greatly influences financial statement fraud. This is the opinion of Wolfe & R, (2004) that fraud will not occur if someone does not have competence regarding the fraud. Change of director is a condition that creates a driving factor for fraud in the company. In this research, the director was considered incompetent at work so it was indicated that he had committed financial report fraud. Therefore, each director's performance will always be supervised and monitored by the board of commissioners, so that director changes carried out by the company will not occur frequently due to fraudulent acts committed by the previous director, but the highest stakeholders in the company will want improvements in the company's performance so that in the future it will be better. Therefore, if there is a director whose performance is not optimal, the company recruits a director who is considered more competent than the previous director so that he or she can work optimally to improve the quality of the company. The more competent a director is, the higher the level of caution in working, so the possibility of financial statement fraud will be smaller (Siddiq et al., 2017).

The Effect of Arrogance on Financial Statement Fraud

The results of multiple linear regression testing show that the large number of CEO photos does not affect financial report fraud. This can be seen through the results of the hypothesis test, the number of photos of CEOs, which has a coefficient value of -0.012 with a significance level of 0.755, which is greater than the significance level of 5% (0.05), meaning that the number of photos of CEOs does not affect financial statement fraud. Thus, it can be concluded that this research rejects the sixth hypothesis (H6) which states that the large number of photos does not affect financial statement fraud. The results of this research are supported by research results (Aviantara, 2019), (Sasongko et al., 2019), (Agustina & Pratomo, 2019), (Mukhtaruddin et al., 2020), and (Ulfah et al., 2017). This is because the large number of photos displayed in the company's annual report do not represent the level of arrogance or superiority that the president director has, but management feels that this is important to do so that external parties, especially stakeholders, know the company's CEO and show the performance in implementing his responsibilities as CEO of the company during his term of office (Ulfah et al., 2017). Apart from that, it is important to include many photos of the CEO in the annual report to introduce to the wider public, especially stakeholders, who the Chief Executive Officer of the company is. The photos included in the annual report are photos of the results of activities. If the photo is displayed in the activity, it proves that the CEO participated in every activity carried out by the company. So that the public can assess the seriousness, tenacity, and responsibility of the president director in leading the company (Ulfah et al., 2017).

Conclusion

Based on the results of research produced on financial statement fraud carried out internally in companies in Indonesia, there are many phenomena of fraud in financial reports, which shows that financial statement fraud is widespread in companies. In line with supporters of financial statement fraud, this study hypothesizes that the factors of Financial Stability, Leverage, ineffective monitoring, and change of directors tend to influence financial statement fraud.

The results show that employees or directors commit fraud because they face a lot of pressure from inside and outside the company, such as the company's financial condition being maintained in stable condition, which is a special attraction for investors and creditors. , even though in reality the company's condition is not in a stable condition, the suspicion of financial statement fraud is increasing, Then, high leverage causes creditors to be worried about providing loans and financing to the company, this becomes an incentive for companies to manipulate financial reports, Ineffective monitoring can be seen from weak supervision and ineffective supervision within a company, resulting in the potential for fraudulent financial reporting to occur. With ineffective supervision, management will feel that they are not being closely monitored, so they will be more free to look for ways to maximize their personal welfare and profits. Change of director is a condition that creates a driving factor for fraud in the company. In this research, the director was considered incompetent at work so it was indicated that he had committed financial report fraud.

Thus, the four elements of financial statement fraud were found to be important predictors of fraud in manufacturing companies, whether committed by employees or by directors. This study highlights several factors driving financial statement fraud which can help in designing strategies aimed at reducing the occurrence of fraud. About its contribution, this research is one of the few that focuses on manufacturing companies in examining financial statement fraud that occurs in companies. This study provides several new insights into the discourse of financial statement fraud by investigating the occurrence of fraud committed by parties within manufacturing companies, focusing on the factors that influence both employees and directors in these companies to commit financial statement fraud.

Future researchers can consider expanding the measurement of Financial Report Fraud, such as using the F-Score, Z-Altman, and Jones Model measurements to obtain more optimal results. Future researchers can consider looking for and using several other variables that might influence financial statement fraud, such as personal financial need, corporate governance index, independent board members, auditor substitution, auditor opinion, CEO dominance, and many others so that researchers can find out other factors. which influences fraudulent financial statements, as well as using the latest analytical methods if there are developments.

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