Jurnal Ilmiah Ekonomi dan Bisnis
Vol. 16. No.2, September 2019: 122-134
EISSN : 2442 – 9813
ISSN : 1829 – 9822

FRAUDULENT FINANCIAL REPORTING: A PENTAGON FRAUD ANALYSIS

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be accepted: 20/5/2019; revised: 24/5/2019; published: 24/9/2019

Abstract: Financial statements describe the company's financial condition. There are many gaps in the financial reports that enable management to commit fraudulent financial reporting. This study purpose to analyze the pentagon fraud, namely the pressure that is proxied by the financial target, the opportunity that is proxied by the effectiveness of monitoring (ineffective monitoring); Rationalization which is proxied by change in auditor; Competence which is proxied by the change of company directors; and Arrogance which is proxied by the number of CEO images that appear (number of CEO's picture), detects fraudulent financial statements measured using the Altman Z Score. The sample used in this study were 24 pharmaceutical sub-sector manufacturing companies registered on the Indonesia Stock Exchange during the period 2015 until 2017. The type of data used is secondary data obtained from annual reports and company financial statements for the 2015-2017 period. The analysis of the data used is multiple regression using the SPSS version 16. This study found that financial stability and ineffective monitoring influence fraudulent financial statements. Whereas auditor turnover, change of directors and the number of CEO photos that appear do not affect fraudulent financial statements.

Keywords: *pentagon fraud, financial statement fraud, altman z score.*

BACKGROUND

Financial statements is an important source of information to a company's external stakeholder. It contains information such as financial performance, financial position, and cash flow that serve as a basis in decision making. The information presented in the financial statements will be a benchmark for users of financial statements to assess the effectiveness and efficiency of a company. Therefore, management will try to present the best financial statements figure as possible to attract the attention of users of financial statements. However, sometimes, this may trigger company to present a misleading information in order to satisfy investor. This action can be considered as scandal and surely will harm investors and other financial statement's users.

In Indonesia there are several accounting scandals that are quite damaging to the trust chain between investors and management. An example for a manufacturing company is the case of PT Kimia Farma in 2002 which reported an excess of net income of Rp. 32.6 billion from actual profit. The management of PT Kimia Farma engineered the financial statements in the form of overstated sales of Rp 2.7 billion in the Raw Material Industry unit, overstated inventory of Rp 23.9 billion in the Logistics unit and overstated inventory of Rp 8.1 Billion and overstated sales IDR 10.7 billion in the Pharmaceutical Wholesalers unit. As result of this case the Ministry of BUMN decided to stop the process of investing in Government-owned shares in PT Kimia Farma.

Based on the above case, it has been shown that some companies

manipulate financial reports presented to users of these financial reports to make the company looks good in order to attract investors to invest to the company. This shows that the company does not describe the actual situation and has committed fraud. Fraud certainly involves many parties, both internal and external parties. According to the latest research conducted by the Indonesian Association of Certified Fraud Examiners (ACFE, 2016), it is estimated that the losses incurred due to fraud and misuse are 5% of annual income. ACFE Indonesia reveals that there are three main categories of fraud that occur, consisting of: asset misappropriation, corruption and fraudulent financial statements. From a collection of fraud cases found by ACFE Indonesia, 77% were corruption cases with an average loss of Rp. 100.000.000.000 to Rp. 500.000.000.000, followed by cases of misuse of assets by 19% with an average loss of Rp. 100 million to Rp. 500. million, and the remaining 4% is a case of fraudulent financial statements with an average loss of more than Rp. 10 billion. Even though the financial report fraud case has the smallest percentage, which is 4%, the resulting loss is very large.

Fraud acts are related to bankruptcy. According to Kartikasari and Irianto (2010) that most common reason for the collapse of giant companies is due to financial report manipulation. Similarly, Albrecht et al (2006) also found that bankruptcy can be a cause and consequence of fraud. The results of the research by Irianto (2010) show that the Altman model (2000) can be applied in detecting fraudulent financial statements. (Junardi, 2016).

Factors that cause fraud are explained in several theories of fraud, starting from the fraud triangle introduced by Cressey in 1953. Cressey (1953) revealed that fraudulent financial reporting always occurs followed by three situations, which are pressure, opportunity and rationalization. This theory is then developed into diamond fraud proposed by Wolfe and Hermanson in 2004, where in this theory a qualitative element is added. The qualitative element is believed to have effect on fraud, namely capability. Not only that, Crowe (2011) also helped perfecting the theory coined by Cressey (1953) by adding two more elements. Crowe found that arrogance also influence the occurrence of fraud. Crowe (2011) also adds three elements from Cressey's research and competency elements that have the same meaning as capability, so that in this fraud theory there are 5 fraud risk factors, namely; opportunity, pressure (rationalization), competence (competence), and arrogance (arrogance). The fraud theory model is referred to as The Pentagon's Crowe Fraud. Crowe (2011) revealed that competence possessed by someone can be used to commit fraud. Competence has the same intent as the capability found in diamond fraud theory. Arrogance is an attitude of superiority over the rights of someone who has a position and status in a company, so that internal control and company policies do not apply to him. According to Crowe (2011), arrogance is an attitude of high egos and superiority posses by Chief Executive Officer (CEO).

Based on the background of the research and the inconsistencies of the results of previous studies, several problems can be formulated as follows: Do financial targets affect fraudulent financial statements?; Does the quality of auditor affect fraudulent financial statements?; Does the auditor's turnover affect fraudulent financial statements?; Does the change of directors of a company affect fraudulent financial statements?; Does the number of CEO images affect fraudulent financial statements?

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LITERATURE REVIEW

The Relationship between Pressure and Fraudulent Financial Reporting

According to Singleton *et.all* (2006), a condition that happened in the fraudster's life that creates need for fund and arising intention to steal is explained as pressure, incentive or motivation. In company situation, financial pressure may be seen in form of high level of leverage ratio.

High levels of leverage indicate the possibility of companies not being able to pay off their obligations. This put pressure on the CEO to immediately improve the situation. When the CEO realizes that the financial pressures experienced by the company are difficult to be repaired, the CEO will be tempted to commit fraud, in order to save his position. Based on this argument, hypothesis below is proposed :

H1 : Financial Pressure affects Fraudulent Financial Reporting

The Relationship between External Auditor Quality and Fraudulent Financial Reporting

In this study, external auditor quality is a proxy for opportunity. Rae and Subramanian (2008) explained opportunity as a weakness in the system that increases the possibility of employee to exploit the situation and commiting fraud. A company with a weak internal control system may trigger fraudster to commit fraud, since they might think that their fraud action will not be detected. In company situation a weak internal control may present in a company that using low quality external auditor. Low quality auditors may not detect the weakness on a company's internal control and thus may be seen as opportunity to the CEO to act fraudulent financial reporting.

Contrarily, companies with high quality auditors tend to have a lower opportunity to commit fraudulent financial reporting. This is caused by the higher capability of auditors in detecting fraud and weaknesses of internal control system. Thus it can be argue that the quality of auditor may affect fraudulent financial reporting. Based on this argument the second hypothesis is proposed :

H2 : External auditor quality affect fraudulent financial reporting

The Relationship between Replacement of External Auditor and Fraudulent Financial Reporting

In this study, changing external auditor is proxy for rationalization. Rationalization is the reason for justifying fraud committed by the perpetrator. One of the rationalizations made by the perpetrators is an attempt to hide his actions. The ways to hide fraud can be done with replacement of KAP, with the hope that fraud will be difficult to detect, because it is done by different KAPs. An indication of a company committing fraud is from its frequency

KAP change in checking financial statements. This KAP change will eliminate traces of fraud committed by companies (Tifani and Marfuah, 2015; Tesa and Harto,2016). Following this argument, the third hypothesis is proposed as follows:

H3 : The replacement of external auditor affect fraudulent financial reporting

The Relationship between CEO Replacement and Fraudulent Financial Reporting

In this study, CEO replacement is a proxy for capability. Wolfe and Hermanson (2004) defines capability as

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Capability is defined as the ability of someone in a company to provide opportunity in commiting fraud. Moreover, Change of directors is one of the factors driving financial statement fraud due to the impact of changes. This is a management attemptation to improve the results of the performance of directors previously by shifting the organizational structure of the company or the recruitment of new directors considered to have more good ability than the prior directors. The replacement is also done as a way to hide fraudulent financial reporting. Based on this argument, the fourth hypothesis is proposed as below :

H4 : CEO replacement affect fraudulent financial reporting

The Relationship between Frequent Number of CEO Pictures and Fraudulent Financial Reporting

Frequently number of CEO picture is a proxy for arrogance, that is measured by counting the number of CEO's pictures.According to Crowe (2011), frequent number of CEO's can be counted from company's display picture or profile, achievements, photos or other information about the CEO's track record which is repeatedly presented in company annual report. A CEO tends to want to show more to the public about the power and career they have within the company. It is done because they want to maintain their status or position within the scope of company management (or feel not considered). Arrogance can trigger the occurrence of financial statement of fraud by using and utilizing the authority owned. Any internal control of a system cannot limit a person's actions and behavior CEO because of the power they have. This explanation is supported by Simon et al (2015) and Tessa and Harto (2016) who found the results of a frequent number of CEO's picture relates to arrogance that influences the financial statement of fraud. Based on above argument, the fifth hypothesis is proposed as follows:

H5 : The frequent number of CEO pictures affect fraudulent financial reporting

RESEARCH METHODS

Financial report fraud is measured using the Altman Z-Score model. The model is considered as an early warning to predict the possibility of manipulation and to determine which companies have the opportunity to manipulate their financial statements. (Noha, 2017)

$$Z' = 1.2Z1 + 1.4Z2 + 3.3Z3 + 0.6Z4 + 1.0Z5$$

Information:
Z1 = working capital divided by total assets
Z2 = balance of retained earnings divided by total assets
Z3 = profit before interest and tax divided by total assets
Z4 = equity market value divided by equity book value
Z5 = sales divided by total assets

If the value of Z score is > 2.99 that means the company is not in a state of financial distress and there is no fraud in the financial statements, whereas if the value of Z score is <1.88, the company is in a financial distress and there is indication of fraud in the financial statements. (Zaki, 2016 in Noha, 2017)

The independent variables in this study are variables developed in the Pentagon fraud, namely:

a. Pressure will be explained by the financial target measured by Return on Assets (ROA).

$$\textbf{ROA} = \frac{Net\ Income}{Total\ Assets}$$

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b. Opportunities will be explained by incompetent monitoring as measured by the ratio of independent commissioners (BDOUT).

$$\textbf{BDOUT} = \frac{\text{Jumlah Dewan Komisaris Independen}}{\text{Jumlah total Dewan Komisaris}}$$

c. Rationalization will be explained by auditor change (CPA), which is auditor change.

Rationalization is proxied in this study with the change of independent auditors (PACPA) measured using dummy variables. In this case if the company has replaced the auditor during the 2015-2017 period then coded 1, if instead, there is no auditor change during the 2015-2017 period then coded 0.

d. Capability (Competence) will be explained by changes / changes in directors (DHANGE). This study proves competence with the shifting of directors (DCHANGE) which is measured by a dummy variable where if there is a shifting of directors during the 2015 until 2017 period then coded 1. However, if during the period 2015-2017 there is no change of directors, then code 0.
e. Arrogance will be explained by the number of CEO images (number of CEO's picture) (CEOPIC).

RESULTS AND DISCUSSION

Descriptive Statistics Analysis

The following is a table of descriptive statistical analysis that gives an overview of the data seen from the minimum, maximum, average, and standard deviations of the values of the tested variables. Based on descriptive analysis, it can be concluded that the level of fraud, opportunity, rasionalization, capability and arrogance are in low level. The pressure mean is highest among others. It means that pressure is a dominant factor that is experienced by management.

Dependent Variables

The dependent variable in this study is fraudulent financial statements. It is measured using the Altman Z Score. The value of Z Score above 2.99 shows that company is in safe condition and there is no indication of fraud, while the company whose z score is below 1.88 shows that the company is unsafe and indicated fraud. Based on the table above the potential for fraud has an average of 2.285250. This means that the average company with the potential to commit fraud every year is 2.285250. The index of companies with the potential to commit the largest fraud is PT Indofarma Tbk (INAF) of 0.9490. While the index of companies that have the potential to commit the smallest fraud is PT Pyridam Farma Tbk (PYFA) of 4.9645 and the standard deviation is 1.0835271.

Independent Variables

Pressure

The pressure variable is proxied by the financial target that is measured using ROA. Based on analysis, pharmaceutical sub-sector company has an average ROA of 10.142083. This means that the effectiveness of the company in generating net income up to 10.142083 of the total assets owned by the company. The smallest ROA value was obtained at -5.8100 owned by PT Indofarma Tbk (INAF) in 2017. This means that PT Indofarma Tbk suffered a loss of -5.8100 from the total assets held in 2017. Furthermore, the largest ROA was owned by PT Merck Indonesia Tbk (MERK) amounted to 25,1000 in 2015. This means that 25.1% of the total assets owned by PT Merck Indonesia Tbk is the net profit

that the company has obtained. The standard deviation of ROA shows the number 8.5037379 which indicates that the number is smaller than the average number.

Opportunity

Opportunity is explained by ineffective monitoring that is measured by the ratio of independent commissioners (BDOUT). The ratio of independent board of sample companies has an average of 0.397608. That is, the average sample company has an independent board of commissioners of 39.76% of the total board of commissioners in the company. The lowest board commissioner ratio of 0.3333 is owned by PT Darya Varia Laboratoria Tbk (DVLA), PT Indofarma Tbk (INAF), PT Kimia Farma Tbk (KAEF), PT Merck Indonesia Tbk (MERK), PT Schering Plow Indonesia Tbk (SCPI) , and PT Sido Muncul herbal and pharmaceutical industry (SIDO). This shows that 33.33% of the total board of commissioners of the company are independent commissioners. The highest value of the independent commissioner ratio of 0.6000 is owned by PT Tempo Scan Pacific Tbk (TSPC). This shows that 60% of the total board of commissioners of the company is an independent board of commissioners and the standard deviation is 0.14088.

Rationalization

Rationalization is proxied by auditor change (inCPA). Auditor change from the data of 24 companies has an average of 0.250000. This shows that out of a total of 24 sample companies having a frequency of change of external auditors is 25% with standard deviations having a considerable value of 0.4423259.

Ability

Ability will be explained by changes in directors (DHANGE). Where, with the amount of data 24 has the lowest value 0 and the highest value 1 (using a dummy variable). The average change of directors shows a value of 0.333333 which means that the change of directors from the collected company data is 33.33% with a standard deviation of 0.4815434.

Arrogance

The arrogance variable which is proxied by the number of photos of CEOs displayed (CEOPIC) has an average of 2.083333. This shows that there are quite number of CEO photos displayed in the annual report of company. The CEOPIC variable is calculated using the interval scale with the highest grade value, which is 4 owned by the Sido Muncul Pharmacy and Pharmaceutical Industry (SIDO), where the range for the highest number of CEO photos between 9-12 photos displayed. While the lowest interval class is 1, where there are no CEO photos displayed in the company's annual report. Companies that do not display CEO photos in annual reports are PT Schering Plow Indonesia Tbk (SCPI) and Tempo Scan Pacific Tbk (TSPC).

To perform a multiple linear regression, a classical assumption test should be done to justify the using of the regression model. The classical assumption test done in this study is the test of normality, multicollinearity, heteroscedasticity, and autocorrelation. Based on classical assumption test results, it can be inferred that the regression model is normal and free of multicollinearity, heteroscedastisity and autocorrelation.

Multiple linear analysis is done to check whether there are two or more independent variables that affect the dependent variable. The linearity test results show that the Pressure (ROA) with

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a sign value of 0.003 and Opportunity (BDOUT) with a sign value of 0.013 has a significance value below 5%, which means that these two variables affect fraudulent financial statements.

Determination Coefficient Test Results (R2)

The Adjusted R-Square value of 0.335 shows the proportion of the influence of fraud risk factors on the Pentagon fraud theory on fraudulent financial reporting. Fraud risk factor Pentagon fraud theory has an effect of 0.335 or 33.5% on fraudulent financial statements, and the remainder is influenced by other variables of 0.665 or 66.5% (1-0,665) that are not tested in this study.

T Test Results (Partial Test)

The t statistical test is done to investigate whether independent variable affect the variablity of dependent variable. The test is tested at a significant level of 0.05. H1 is accepted when probabilty value t is smaller than 0.05, whereas H1 will be rejected when t value is greater than 0.05 The following are the results of t test calculations:

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	1.855	1.498		1.238	.232
	Pressure (ROA)	.075	.022	.589	3.388	.003
	Opportunity (BDOUT)	.696	2.900	.050	.240	.013
	Rationalization (ΔCPA)	-.085	.492	-.035	-.172	.865
	Capability (DCHANGE)	-.752	.477	-.334	-1.576	.132
	Arrogance (CEOPIC)	-.161	.317	-.097	-.510	.616
a. Dependent Variable: Fraudulent						

Based on table above produces a regression model as follows:

Y = 1,855 + 0,075X1 + 0,696X2 - 0,085X3 - 0,752X4 - 0,161X5 + ε

Where:
Y: Fraud financial statements
X1: Pressure (ROA)
X2: Opportunity (BDOUT)
X3: Rationalization (ΔCPA)
X4: Capability (DCHANGE)
X5: Arrogance (CEOPIC)
ε: Error term

From the regression equation above it can be interpreted that the constant of 1.855 states if there is pressure (ROA), opportunity (BDOUT), rationalization (ΔCPA), capability (DCHANGE), and arrogance (CEOPIC) fraud detection of financial statements increases by 1.855. The regression coefficient on the pressure variable is 0.075. A positive sign in the regression coefficient indicates a unidirectional relationship between the independent variable and the dependent variable. . This means that for a pressure increase that is proxied by the financial target (ROA) of 1.855, it will increase fraud detection of financial statements by 0.075.

Regression coefficients on opportunity variables are 0.696. A positive sign in the regression coefficient indicates a unidirectional relationship between the independent variable and the dependent variable. This means that for an increase in opportunity, which is proxied by an independent commissioner ratio (BDOUT) of 1.855, it will increase fraud detection of financial statements by 0.696.

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.945	5	2.589	3.315	.027[a]
	Residual	14.057	18	.781		
	Total	27.003	23			

a. Predictors: (Constant), Arrogance, Capability, Pressure, Rationalization, Opportunity

b. Dependent Variable: Fraudulent

The regression coefficient on the rationalization variable is -0.085. The negative sign in the regression coefficient shows the opposite direction relationship between the independent variable and the dependent variable. This means that the increase in rationalization measured by auditor change of 1.855 will reduce fraud detection of financial statements by -0.085.

The regression coefficient on the ability variable is -0.752. The negative sign in the regression coefficient shows the opposite direction relationship between the independent variable and the dependent variable. This means that an increase in capability as measured by a change of directors of 1.855 will reduce fraud detection of financial statements by -0.752.

The regression coefficient on the arrogance variable is -0.161. The negative sign in the regression coefficient shows the opposite direction relationship between the independent variable and the dependent variable. This means that the increase in arrogance as measured by the number of CEO photos of 1.855 will reduce fraud detection of financial statements by -0.161.

Simultaneous Test Results (Test F)

The F statistical test is done to investigate whether there is a joint effect of independent variables to dependent variables. In testing this hypothesis used decision-making criteria, namely if the value of f shows significance smaller than 0.05 then H0 is rejected, meaning that all independent variables jointly influence the dependent variable. The following are the results of the F test in this study:

The F test resulted in F value of 3.315 with a probability (significant) of 0.027. Because it is significantly smaller than 0.05, it indicates that there is a joint or simultaneously effect of pressure, opportunity, rationalization, ability, and arrogance toward detecting fraudulent financial statements.

This study examines the influence of Pentagon Fraud in detecting fraudulent financial statements. The five elements of pentagon fraud are; (1) pressure which is proxied by the financial target; (2) Opportunity that is proxied by ineffective monitoring; (3) rationalization which is proxied by auditor change; (4) Competence which is proxied by the change of directors; and (5) Arrogance proxied by the number of CEO photos (number of CEO's picture).

The first hypothesis in this study is that financial targets affect detecting fraudulent financial statements. Financial targets are measured using the ROA ratio, where the ROA ratio is a ratio that shows how much return is generated on the use of company assets. The results of the study in table 12 show t value of 3.388 with a significant level of 0.033 which is smaller than 0.05 and the regression coefficient value (β) is positive at 0.075.

This means that for every increase in ROA of 1.855 it will increase fraud detection of financial statements by 0.075. Significant levels smaller than 0.05 indicate that H1 is accepted so that it can be said that the financial target is influential in detecting fraudulent financial statements. The company's high ROA (profitability) is not necessarily an indication of fraudulent financial statements in it. The increase in ROA can be caused by an increase in operational quality and company performance such as the modernization of information systems.

The second hypothesis is ineffective monitoring affects detection of fraudulent financial statements. The lack of effective supervision in a company tends to create an opportunity for management to commit financial report fraud. Independent boards are believed to be able to increase the effectiveness of corporate supervision. The results of the t test in table 12 show the value of t of 0.240 with a significance of 0.013 and the regression coefficient (β) of 0.696. A positive sign on the regression coefficient shows a unidirectional relationship between opportunity which is proxied by the ineffective monitoring with the fraudulent financial statements. The value of coefficient means that for an increase of 1.855 on effectiveness of supervision will also increase the ability in detecting fraud value by 0.696. Based on the significance level of 0.013 which is below 0.05 means that H2 is accepted, so that it can be said partially the opportunity variable that is proxied by influential ineffective monitoring in detecting fraudulent financial statements. In general, the existence of an independent board of commissioners will provide little assurance of supervision within a company. However, the number or number of independent board of commissioners has not provided a guarantee to increase operational oversight of the company. This is caused if there is an intervention to the independent board of commissioners, so that supervision in the company becomes not objective.

The third hypothesis is the effect of auditor change (changes in auditors) in detecting fraudulent financial statements. The replacement of external auditors indicates that management has manipulated financial statements. To cover management errors, the company seeks to replace its external auditor with the aim that the management's actions are unknown to its stakeholders. Based on table 12 the results of the t test for auditor turnover are -0.172 with a significance of 0.865 and a regression coefficient (β) of -0.085. The negative sign in the regression coefficient shows an opposite direction relationship between the rationalization variables that are proxied by auditor change (change in auditor) with fraudulent financial statements. The significance level of 0.865 which is greater than 0.05 also means that H3 is rejected. This means that auditor changes have no effect in detecting fraudulent financial statements. The company makes auditor changes to decrease the detection of fraudulent financial statements by the old auditor. Thus, with auditor changes, the possibility of detecting fraudulent financial statements is smaller.

The fourth hypothesis is the change of directors affects the ability in detecting fraudulent financial reports. Change of directors is the company attemptation to change performance of prior directors. The test results based on table 12 illustrate the t value of -1.576 with a significance of 0.132 and the regression coefficient (β) value is -0.752. The negative sign in the regression coefficient shows the opposite direction relationship between the independent variables of ability that is proxied by the change of directors with fraud detection

Vol. 16. No. 2, September 2019: 122-134
EISSN : 2442 – 9813
ISSN : 1829 – 9822

of financial statements. However, the significance level greater than 0.05 shows that H4 is rejected, so that it can be said that partially, the change of directors has no effect in detecting fraudulent financial statements. This happen if the company makes a change of directors to hide fraud that has been done by the prior directors. The new Directors need time to adapt to the company's financial information. The replacement of of directors will complicate the detection of fraud..

The fifth hypothesis is the number of CEOs that appear influence in detecting fraudulent financial statements. The number of CEO photos displayed in the annual report illustrates the level of arrogance and confidence of the CEO. With a high level of arrogance and confidence can indicate the CEO to manipulate financial statements, because the internal control system, however, will not apply to him. The test results based on table 12 show a t value of -0.510 with a significance of 0.616 and a regression coefficient value of -0.161. The negative sign in the regression coefficient shows the opposite direction relationship between the independent variable capability which is proxied by the number of CEO photos that appear (number of CEO's picture) with the dependent variable. However, the significance level greater than 0.05 indicates that H5 is rejected, so that it can be said that partially the ability variable that is proxied by the number of CEO photos that appear (number of CEO's picture) has no effect in detecting fraudulent financial statements. This is due to the fact that from all the companies in the study sample not many companies display CEO photos in annual reports so that the number of CEO photos displayed cannot be used as a factor in the indication of financial report manipulation.

Financial report manipulation with fraud rate measured by Z score> 2.99 highest is owned by PT Pyridam Farma Tbk with a Z score of 4.9645 in 2015. This means that PT Pyridam Farma Tbk of a total Z score of 49.64% indicates a safe condition from fraud and secure bankruptcy in 2015. The lowest Z score <1.88 is owned by PT Indofarma Tbk with a Z score of 0.9490 in 2017 which shows a value prone to fraud and prone to bankruptcy of 94.9% in 2017.

CONCLUSION

This study examines the influential elements of the Pentagon fraud in detecting fraudulent financial statements. The five elements of pentagon fraud are; (1) pressure which is proxied by the financial target; (2) Opportunities (opportunity) that are proxied by ineffective monitoring; (3) rationalization which is proxied by auditor change; (4) Ability (competence) which is proxied by the replacement of directors; and (5) Arrogance. The sample companies are pharmaceutical sub-sector manufacturing companies registered on the Stock Exchange during the period 2015 until 2017 with 30 companies as population. The total sample used in this study was 24 samples.

Based on the results of data analysis, testing, and discussion, it can be concluded as follows: 1). The financial target is the first proxy variable of the pressure variable which is calculated using the ROA ratio, which results in the effect that the financial target is influential in detecting fraudulent financial statements. The results of this study accept hypothesis 1; 2). The effectiveness of supervision is the first proxy variable of opportunity variable which is calculated using the ratio of independent board of commissioners, influential in detecting fraudulent financial statements. The results of this study accept the second hypothesis. This shows that the number or number of independent board of commissioners is a factor that can increase the effectiveness of supervision of a

company; 3). Auditor turnover is the first proxy variable of the rationalization variable, not influential in detecting fraudulent financial statements. The results of this study reject the third hypothesis. This is because the company made auditor changes not necessarily to cover up the fraud that it did if the previous auditor found the fraud; 4). Substitution of directors is a proxy variable of ability variable, has no effect in detecting fraudulent financial statements. The results of this study accept the fourth hypothesis. This is because the company does not necessarily make changes to directors with the aim to cover up fraud committed by the previous directors; 5). The number of CEO photos that appear (Number of CEO's picture) is a proxy variable of the arrogance variable, has no effect in detecting fraudulent financial statements. The results of this study reject the fifth hypothesis. This is due to the fact that from all the companies in the study sample not many companies display CEO photos in annual reports so that the number of CEO photos displayed cannot be used as a factor in the indication of financial report manipulation.

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