

FRAUD TRIANGLE IN FINANCIAL STATEMENTS OF COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

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ABSTRACT

This observe pursuits to decide the impact of possibilities, pressures, and explanation (the fraud triangle) on fraudulent economic reporting. The research approach used is a quantitative associative observe through reading facts on production businesses listed at the Indonesian inventory change (IDX) in 2018-2020. The studies pattern become conducted by way of a centered sampling method with several criteria defined with the aid of the researcher, in order that the studies sample became obtained from 35 production companies. statistics analysis was carried out using descriptive statistical methods, normality tests, classical assumption checks, speculation checking out, and more than one linear checks using SPSS. The results confirmed that a few and large opportunities, pressures and rationalizations had a great fantastic effect on fraud with financial statements, as evidenced by using the calculation of > table t and sig. 0.05. The value of R square is 0.920, so the level of influence between the independent variables and the structured used is 92.0%, and the rest is stricken by different variables.

Keywords: *Fraud Triangle, Fraudulent Financial Statements, Indonesia Stock Exchange (IDX)*

INTRODUCTION

Financial statements are records of company financial information consisting of balance sheets, income statements, statements of changes in equity, cash flows, and notes to financial statements. The issuance of financial statements is generally intended to provide information about the position financial statements, results of operations, and cash flows of the company. When preparing financial statements, each company always wants to describe the state of the company in good condition. This matter is carried out to ensure that users of financial statements assess that the effectiveness of their management is good. Management is trying their best to describe the situation as the best possible company; even this can lead to manipulation of financial statements to make the company looks good. Manipulated info can't be used in decision-making because it is claimed to be invalid. Counting Financial action statements are a form of fraud. Financial reporting fraud is defined as actions that intentionally deviate from company

records, such as errors in the application of principles of accounting, which cause material misrepresentation of financial statements (Rachmawati, 2014).

Indonesia, being a country using unstable economic conditions, has also been beset by the outbreak of a widespread accounting scandal. According to data from the Ministry of Defense, State-owned and Bapepam investigations (BAPEPAM 2002) found an imbalance in the financial statements, which resulted in an overestimation of net profit for the year ended December 31, 2001, amounting to Rp. 32.7 billion, representing 2.3% of sales and 24.7% origin of net income. The growth of accounting fraud scandals in Indonesia is also proven using liquidation of several banks, filing public and private administration cases, cases of banking crimes, tax manipulation, corruption in the election commission, and DPRK (Soselisa & Mukhlisin, 2008).

In October 2002, the American Institute of Chartered Accountants (AICPA) issued Statement of Audit standard No. 99 (SAS

No. 99) regarding the fraudulent treatment of financial statement audits. Destination-derived information CAC No. 99 is to increase the efficiency of auditors in detecting fraud by assessing the company's fraud risk factors. Factor fraud risk adopted in SAS No. 99 is based on Cressey's (1953) theory of fraud factor, known as the fraud triangle of the fraud triangle, a term used to describe the three conditions that lead to fraud in the report company finances. From Cressy's theory (cited by Skousen et al. 2009), there are three conditions in which there is always a fraud, namely pressure, opportunity, and rationalization, which are considered the fraud triangle. These three conditions are fraud risk factors in various situations.

The components of the fraud triangle cannot be investigated directly. As a result, researchers must develop variables and proxies to measure them (Skousen et al., 2009). Independent variables that can be used in research include financial stability, external pressure, immediate financial need, financial objectives, nature of the industry, monitoring ineffectiveness, organizational structure, and rationalization.

Financial reporting fraud can be done in various ways (Spathis, 2002). One of the proxies that can measure financial statement fraud is revenue management. This is based on Reza's (2002) report that fraudulent financial reporting is closely related to the use of profit manipulation by the management.

THEORETICAL BASIS

Financial reporting fraud

Fraud is an act that is committed use intentionally with complete confidentiality. The absence of financial reports is the act of an official who is aware of information material to hide the company's financial condition, which will benefit those who commit fraud. This may be an abuse of position for resources taken for only purposes.

Opportunity

Opportunity or opportunity allows fraud to occur. The opportunity is created by weaknesses in internal controls, ineffective management controls, or abuse of workplace or authority. Failure to decide which procedure is sufficient to detect fraudulent activity also increases the likelihood of fraud. Of the three fraud risk factors (pressure, opportunity, and rationalization), these opportunity factors are the main thing that can happen at any time; as a result, they require supervision of the origin of the structure organization, starting to come from the top. The organization shall establish applicable processes, procedures, and controls and assign employees to exclusive positions. As a result, they cannot commit fraud and effectively detect fraud, as affected by SAS No. 99.

Pressure

Pressure is the inducement of people to commit fraud. In finance, the imagery of this impulse is material. Pressure in non-financial matters pushes someone to commit fraud, such as acting to hide a job that bad because of better job management. SAS No. 99 there are four general requirements that There are pressures that lead to fraud, namely: pressure on financial stability, financial goals, personal financial needs, and external pressures.

Rationalization

Rationalization is an important element in the occurrence of fraud when criminals find reasons for their actions. Rationalization is the most challenging part of the origin scam triangle (scam triangle). For those who are accustomed to dishonesty, it may be easier to rationalize deception. Scammers are always looking for rational reasons to justify their actions (Diaz Priantara, 2013: 47).

HYPOTHESES

Based on the theoretical review and previous research that has been described previously, the research hypothesis can be formulated as follows:

H1: Opportunities, pressures, and rationalizations affect financial reporting fraud.

H1a: Opportunity hypnotizes financial reporting fraud.

H1b: Pressure affects fraudulent financial reporting.

H1c: Rationalization suggests Fraudulent Financial Reporting.

METHOD

The research method used means quantitative associative studies, consisting of origin analyzing the correlation between one variable and another. This research was conducted by taking data from the official website of a manufacturing company listed on the Indonesia Stock Exchange (IDX) 2018-2020 at the Islamic University FEB Investment Gallery Poor. Based on data obtained from www.IDX.co.id. and website www.sahamok.com.

The author uses the multiple linear regression method because, in this study, there is more than one independent variable. The multiple linear regression method tests how much influence the independent variable has on the dependent variable so that the functional relationship between the dependent variable, namely Interest in entrepreneurship. (Y) and the independent variable, namely Entrepreneurship education (X1), Entrepreneurial practice (X2), Motivation (X3), and Family environment (X4). In general, the multiple regression equation in this study is formulated as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Description :

Y : Fraudulent Financial Reporting

α : Constant

$\beta_1, \beta_2, \beta_3, \beta_4$: Regression coefficient of independent variable

X1 : Opportunity

X2 : Pressure

X3 : Rationalization

ε :Standar error

RESULTS AND DISCUSSION

Impact of Opportunity (X1) on Financial Reporting Fraud (Y)

It is known that the variable (X1) has a t-test value of 3.598 with a significant value of 0.001, which means the value is significantly less than 0.05; this test shows that H1 accepts Ho rejected, which means the possibility of having a significant positive influence on fraud using financial reporting. So that it can prevent fraud using reports financial statements, if possible, measured by accounts receivable.

Impact of Pressure (X2) on Financial Reporting Fraud (Y)

The variable (X2) is known to have a t-test value of 32.650 with a significant value of 0.000, which is a significant value less than 0.05. This test shares that the H1 obtained by Ho was rejected, which means that pressure has a significant positive impact on financial reporting fraud. To prevent the theft of financial statements, synchronize using the pressure measured by Exchange. Increased pressure, increased fraud with financial reports.

Pressure is one of the things that causes companies to cheat. The pressure is from financial needs or problems and can also be caused by much greed for the company. The pressure in the company will encourage companies to commit fraud using financial statements to reduce efficiency in managing assets and reflect a deflection in the practical and effective management of investment funds. This result is in line with the research conducted by Agustina and Pratomo (2019), which states that pressure influences financial reporting fraud, which means that the higher the pressure, the more fraudulent financial reporting.

Effect of Opportunity (X1) on Financial Reporting Fraud (Y)

It is known that the variable (X1) has a t-test value of 3.598 with a significant value of 0.001, which means the value is significantly less than 0.05; this test shows that H1 accepts Ho rejected, which means the possibility of having a significant positive influence on fraud using financial

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Effect of Pressure (X2) on Financial Reporting Fraud (Y)

The variable (X2) is known to have a t-test value of 32.650 with a significant value of 0.000, which is a significant value less than 0.05. This test shares that the H1 obtained by Ho was rejected, which means that pressure has a significant positive impact on financial reporting fraud. To prevent the theft of financial statements, synchronize using the pressure measured by Exchange. Increased pressure, increased fraud with financial reports.

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Effect of Rationalization (X3) on Financial Reporting Fraud (Y)

The variable (X3) is known to have a t-test value of -2.171 with a significant value of 0.032, less than 0.05. The results confirm the third hypothesis in this study, which means that the third hypothesis is accepted. Rationalization has a significant negative effect on financial statement fraud. The higher the rationalization, the lower the financial statement fraud. This study reveals that the predicted rationalization variable hurts fraudulent financial reporting. The ratio in this study looks at the total accruals that affect financial reporting fraud. Under the concept of discretionary

accruals, it may mean that management can manipulate earnings by recording transactions at the time of the transaction, even when revenue is not received, or by registering disbursements, even if they are not issued to generate the desired income. This result is in line with the study by Jaunanda and Agoes (2019), which states that rationalization affects financial reporting fraud, which means that the higher the rationalization, the lower the fraudulent financial reporting.

CONCLUSION

From the explanation and explanation of the data analysis above, it can be concluded:

1. Simultaneous testing shows that concurrent opportunities, pressures, and rationalizations have a significant positive effect on fraudulent financial reporting.
2. By partial testing, you can find out that opportunity, pressure, and rationalization significantly positively impact fraudulent financial reporting.

Based on the description that has been described above, the suggestions which can be stated are as follows:

1. The variables used in the study are opportunity, pressure and rationalization, and fraudulent financial reporting. The next researcher added other related variables.
2. Observation time is minimal, and only three are from 2018 to 2020. So it is necessary to add a year of observation.

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