The Effect of Fraud Triangle on Manufacture Financial Statement of Listed Companies in Indonesia Stock Exchange

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Abstract. Recently, we had seen many cases of fraud. Therefore, this research is aimed at the effect of financial stability, external pressure, personal financial need, financial targets and ineffective monitoring on the financial statement fraud. In this case, the independent variables involves financial stability, external pressure, personal financial need, financial targets, and ineffective monitoring. Meanwhile, the dependent variable is the financial statement fraud itself. In addition, the research population covers the listed companies in Indonesia Stock Exchange as of December 2020 and the samples are taken by using the purposive sampling method. Furthermore, the research also employs the financial statement taken from the Indonesia Stock Exchange site as secondary data. Moreover, Multiple Linear Regression Analysis is also performed in this research. As a conclusion, the variables of financial stability, external pressure, personal financial need, financial targets, and ineffective monitoring has resulted in the financial statement fraud.

1. Introduction

Financial statement is one of the most important elements in a company. The statement provides financial data or any information regarding with the financial condition of a company, especially for the stakeholders and others who might have interest in the company. Financial statement is aimed at providing any information in relevant to the financial position, performance in financial position , and cash flow statement that is useful to a wide range of users in making economic decisions [1].

Every decision making in a company is generally considered regarding the information or data taken from the financial statement. Concerning its crucial role, especially in making any decision strategically, any manipulation or fraudulent act is not allowed because it will lead to misconception that results in making any decision improperly. Any problem appears in the financial statement is usually originated from error reporting or manipulation that leads to the fraud practice. Any fraud in the financial statement results in irrelevance and fraud reporting that will lead to any misconception for the financial statement users (Susianti, 2015).

In 2016 and 2018, the Association of Certified Fraud Examiners (ACFE), the biggest anti-fraud organization in the world, has conducted a survey concerning the frequency of industrial sectors performing financial statement fraud for about 41.4%. It is concluded that money and banking industry has made the biggest contribution in conducting the financial statement fraud. Several cases involving financial statement fraud in banking industry occurs to Bank Lippo Tbk. The bank has provided different statement, the one reported to Indonesia Stock Exchange and the one that is publicly published.

Therefore, Financial Services Authority (Otoritas Jasa Keuangan -OJK) has published Financial Services Authority Regulation Peraturan Otoritas Number 39/POJK.03/2019 concerning Anti-Fraud

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Strategic Implementation for Banking Industry. The regulation requires every bank to assemble and implement anti-fraud strategy effectively. Moreover, a bank is also required to form working or functional unit to deal with the strategy. According to the same regulation, any case of fraud involving deception, fraudulence, asset embezzlement, information leaks, criminal banking offence, and other conducts similar to fraud stipulated under the applicable law and regulations.

According to Cressey as cited by Skousen, et al. (2009), there are three conditions of fraud, i.e. pressure, opportunity, and rationalization which are commonly called fraud triangle. There are several research of fraud triangle that has been conducted. However, they reveal different conclusion from one to another. In regards to research conducted by Rahmawati & Nurmala (2019) and Setiawati & Baningrum (2018), financial stability, financial target as well as ineffective monitoring has been showing no effect on the financial fraud. Meanwhile, Kayoi & Fuad (2019) define that financial stability and external pressure has significant influence on the fraud. Hence, this research is conducted based on the background mentioned. This research is entitled **The Effect of Fraud Triangle on Financial Statement of Listed Companies in Indonesia Stock Exchange as of December 2020.**

2. Literature Review

1. Fraud

According to Financial Services Authority Regulation Number 39/POJK.03/2019, fraud is defined as an illegal attempt to deceit or manipulate a bank, customer, or other parties to obtain money by posing as a bank. It causes the consumer, bank or other parties to suffer from financial loss, while the perpetrator are making direct or indirect financial benefits. According to Tuanakotta (2015), fraud is a deliberate act conducted by one or more perpetrators among the management, they could be TCWG (those charged with governance), employee or the third parties, by deceiting or obtaining some benefits illegally or against the law.

2. Fraud Triangle

According to Cressey (1953), fraud triangle theory is a model for explaining the factors that cause someone to commit occupational fraud. There are three factors of the Fraud triangle, i.e. pressure, opportunity and rationalization.

3. Financial Statement Fraud

American Institute Certified Public Accountant (2002) defines that financial statement fraud is deliberate act that results in misconception and ruin the financial statement.

3. Research Method

This research involves listed companies in Indonesia Stock Exchange of 2017 – 2020. In addition, the sample are taken by using purposive sampling method. Moreover, the research also employs secondary data collected from the Indonesia Stock Exchange website. The total sample is 15 companies. The data analysis technique in this research is using linear regression.

a. Result Multiple Linear Regression Analysis

Multiple linear regression analysis is used to predict any dependent variables when the independent one is increased or declined. This analysis is performed by using IBM SPSS Statistics Version 25.

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Table 1. Multiple Linear Regression Analysis

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	60.609	57.615		1.052	.300
	Financial Stability	.521	.125	.464	4.168	.012
	External Pressure	.126	.035	.441	3.600	.021
	Personal Financial Need	.075	.023	.488	3.260	.011
	Financial Targets	.275	.123	.388	2.235	.011
	Ineffective Monitoring	.055	.019	.506	2.894	.035
a. Dependent Variable: Financial Statement Fraud						

By reading the table of Coefficients above, Column B, we will get the equation as follows.

$$\mathbf{Y = 60.609 + 0.521X_1 + 0.126X_2 + 0.075X_3 + 0.275X_4 + 0.055X_5}$$

Following the equation of multiple linear regression as mention above, we could interpret each variable as follows:

- Constant (a) which is 60.609 showing that if the value of Financial Stability, External Pressure, Personal Financial Need, Financial Targets and Ineffective Monitoring equals zero, then Financial Statement Fraud is 60.609. In other words, if Financial Stability, External Pressure, Personal Financial Need, Financial Targets and Ineffective Monitoring has small value, then the company tends to perform Financial Statement Fraud.
- Regression Coefficien (b) is 0.521 which is showing positive value. Therefore, it can be predicted as the Financial Stability has increased for 1%, Financial Statement Fraud will also increase for 0.521. Thus, the higher the value of Financial Stability, the higher posibility that the company will perfom Financial Statement Fraud.
- Regression Coefficient (b) is 0.126 which is showing positive value. It can be predicted that as the External Pressure has increased for 1%, Financial Statement Fraud will also increase for 0.126. Thus, the higher the value of External Pressure, the higher posibility that the company will perfom Financial Statement Fraud.
- Regression Coefficient (b) is 0.075 which is showing positive value. It can be predicted that as Personal Financial Need has increased for 1%, Financial Statement Fraud will also increase for 0.075. Thus, the higher the value of Personal Financial Need, the higher posibility that the company will perfom Financial Statement Fraud.
- Regression Coefficient (b) is 0.275 which is showing positive value. It can be predicted that as Financial Targets has increased for 1%, Financial Statement Fraud will also increase for 0.275. Thus, the higher the value of Personal Financial Targets, the higher posibility that the company will perfom Financial Statement Fraud.
- Regression Coefficient (b) is 0.055 which is showing positive value. It can be predicted that as Ineffective Monitoring has increased for 1%, Financial Statement Fraud will also increase for 0.055. Thus, the higher the value of Ineffective Monitoring, the higher posibility that the company will perfom Financial Statement Fraud.

b. Simultaneous Correlation Analysis

Correlation Analysis is used to measure the strength relationship between dependent and independent variables. Dalam hal ini untuk mengukur hubungan antara. This analysis is performed by using IBM SPSS Statistics Version 25.

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Table 2. Simultaneous Correlation Analysis

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.788[a]	.622	.605	19.41173	.476
a. Predictors: (Constant), Financial Stability, External Pressure, Personal Financial Need, Financial Targets, Ineffective Monitoring					
b. Dependent Variable: Financial Statement Fraud					

By reading the output table above, the value of correlation coefficient is 0.788, which shows that they are strongly related. Positive correlation value shows that the relation of dependent and independent variables are in linear movement. Therefore, the better Financial Stability, External Pressure, Personal Financial Need, Financial Targets and Ineffective Monitoring, the strong the Financial Statement Fraud is.

Table 3. Correlation Coefficient Interpretation

Correlation Interval	Relation Level
0,00-0,199	Sangat Rendah
0,20-0,399	Rendah
0,40-0,599	Sedang
0,60-0,799	Kuat
0,80-1,000	Sangat Kuat

Sumber: Sugiyono, 2017:184

c. Simultaneous Determination Coefficient Analysis

Determination Coefficient is a value showing simultaneous determination of dependent and independent variables. The analysis is performed by using IBM SPSS Statistics Version 25.

Table 4. Simultaneous Determination Coefficient

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.788[a]	.622	.605	19.41173	.476
a. Predictors: (Constant), Financial Stability, External Pressure, Personal Financial Need, Financial Targets, Ineffective Monitoring					

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b. Dependent Variable: Financial Statement Fraud

By reading the table above, we find out that R Squar value is 0.622. It shows partial contribution or relation as known as Determination Coefficient (DC) that is calculated from the correlation coefficient squares:

Determination Coefficient = $(0.788)^2$ **x 100% = 62.2%**

From the formulation above, it is concluded that Financial Stability, External Pressure, Personal Financial Need, Financial Targets and Ineffective Monitoring has contributed to Financial Statement Fraud for 62.2%.

Meanwhile, the remaining value of 100% - 62.2% = 37.8% shows another contribution from any variable which is not included in this researh.

d. Simultaneous Hypothesis Testng (F-test)

Partial hypothesis testing (F-test) is performed to find out significant contribution on Financial Statement Fraud and vice versa. This analysis is performed by using IBM SPSS Statistics Version 25.

Table 4. F-test

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	24061.761	5	6015.440	15.964	.000[b]
	Residual	13188.528	55	376.815		
	Total	37250.289	59			
a. Dependent Variable: Tax Avoidance						
b. Predictors: (Constant), Sales Growth, Financial Distress, Fixed Asset Intensity, Independent Commissioner						

$H_O = 0$: Financial Stability, External Pressure, Personal Financial Need, Financial Targets and Ineffective Monitoring having no significant contribution on Financial Statement Fraud.

$Ha \neq 0$: Financial Stability, External Pressure, Personal Financial Need, Financial Targets and Ineffective Monitoring having significant contribution on Financial Statement Fraud.

Significance Rate (α): 0.05 (5%)

Criteria :

1. Reject H_O if F sum > F table or reject H_O if -F sum > -F table
2. Do not reject H_O if F sum < F table or if H_O -T sum < -F table

The table shows that the value of F sum is 15.964. It will be compared to the value of F table in F distribution table as seen in Microsoft Excel. The value of t (the value t attached) is formulated as follows (N-F-1=60-5-1=54) which results 2.272. The values show that F sum is 15.964 > F table which is 2.272. It matches the hypothesis testing showing that Ho is rejected and Ha is not rejected, which means significant and positive contribution.

4. Conclusion

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Based on the results above, it can be concluded that Financial Stability, External Pressure, Personal Financial Need, Financial Targets and Ineffective Monitoring have positive and positive correlations to Financial Statement Fraud. Based on the above calculations, it can be concluded that the contribution of Financial Stability, External Pressure, Personal Financial Need, Financial Targets and Ineffective Monitoring to Financial Statement Fraud is 62.2%.

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