

Factors Affecting the Financial Statement Fraud in the Perspective of the Pentagon Fraud

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Abstract: This study aims to analyse the factors that affect financial statement fraud in fraud pentagon perspective in the consumer goods industry sector companies registered in Indonesian Stock Exchange period 2017-2018. The sampling technique used is the purposive sample method. The analysis of data used is linear regression. This study showed financial target, financial stability, and change in auditors have an effect on financial statement fraud. While external pressure, ineffective monitoring, change in directors, and frequent number of CEO pictures have not affected on financial statement fraud.

1 INTRODUCTION

According to ACFE (2018b: 25), manufacturing companies are ranked 2nd in terms of reporting fraud. The results of a survey by the Association of Certified Fraud Examiners Indonesia Chapter 2017, in 2016 showed that the most costly fraud in Indonesia was corruption (77%), misappropriation (19%), and financial statement fraud (4%). Research conducted by ACFE 2018 also said that private companies have the highest position as the biggest perpetrators of fraud, with a percentage of 29%. The first example related to fraud that was exposed to the public was the case of PT. Tiga Pilar Sejahtera Food (AISA), a multinational company in the field of food, and based in Jakarta, Indonesia. AISA committed fraud by duplicating books and doing window dressing in 2017 based on evidence by KAP Ernst and Young. In the report, there was an overstatement of Rp 4 trillion in accounts receivables, fixed set of fund inventories, and Rp 662 billion in the food entity's EBITDA. Then, there was a flow of funds amounting to Rp 1.78 trillion for various TPSF schemes to all parties suspected of having a profit management affiliation, and there was no clear disclosure to relevant stakeholders (Simamora, 2019). The next example comes from the case of manipulation of financial

statements by PT Kimia Farma, which in 2001 was reported to have a net income of IDR 132 billion. BUMN and Bapepam consider that reported profits are too large and contain manipulations or manipulations in it. This happens because there is overstated sales and inventory. Errors were discovered after the financial statements were re-audited in 2002. The audit found an increase in earnings of 24.7% from what should have been reported. This was due to overstated sales of Rp 2.7 billion, overstated inventory of the central logistics unit of Rp 23.9 billion, overstated inventory of large pharmaceutical wholesaler units of Rp 8.1 billion, and overstated sales of Rp 10.7 billion. This occurs as a result of misstatements in the financial statements resulting from a significant increase in the value of the inventory price list. Fraud is also committed to sales by double recording sales transactions that are not sampled, so that fraud is not detected.

Agency theory is a relationship or cooperation that occurs between shareholders and management. According to Vidyantie and Handayani (2006), the interests of each party cause an agency conflict which assumes that each individual, namely the agent and principal, is only motivated by their respective desires, causing conflict between the principal and the agent. This misinterpreted situation is supported by the misinterpretation of high agent motivation which

is opportunistic. The existing information will be made as good as possible so that the principal will assess the company as "good" and "healthy". According to Sihombing and Rahardjo (2014), financial statement fraud is intentional that occurs in financial statements or reports that are presented without following generally accepted accounting principles. Pentagon fraud is a theoretical development that has previously been found, namely the fraud triangle theory by Cressey (1953) and also the fraud diamond expressed by Wolfe and Hermanson (2004). According to Marks (2012), refining the fraud triangle theory into a fraud pentagon occurs due to changes in the environment and business practices in the 1950s compared to conditions in the 2000s. The company has grown from having only a local scale operational scope, having few suppliers, simple organizational structure, and self-managed ownership, has grown to a company with the characteristics of a global operational scale, global network vendor, complex organizational structure, and no owner. In business management, 89% of cases of fraud are committed by individuals at the top management level, namely the Chief Executive Director (CEO) and Chief Financial Director (CFO). 70% of the profiles of perpetrators of fraud are caused by arrogance or greed and individual pressure (Marks, 2012).

In this study, the pressure factor is measured using financial targets (ROA), financial stability (ACHANGE), and external pressure (Leverage). The second factor, opportunity is measured by Ineffective Monitoring (BDOUT). The third factor rationalization is measured by Change in Auditor (CPA), the fourth factor is competence as measured by Change in Director (DCHANGE), and the fifth factor is arrogance which is measured by the frequent number of CEO's picture (CEOPIC). Research conducted by Aulia Haqq and Budiwitjaksono (Aulia Haqq and Budiwitjaksono, 2021), entitled "Pentagon fraud theory analysis as fraud detection in financial statements" produces research results that financial stability and CEO's photo frequency have a significant effect on fraudulent financial reporting in LQ45 companies listed on the IDX in 2015-2017. And also previous research conducted by Daughter (Daughter, 2019), entitled "Pentagon Fraud in Earnings Management in Metal and Chemical Manufacturing Companies" found that pressure, rationalization, and competence had a significant effect on financial statement fraud. Based on the problems described, and on previous studies, this research provides novelty related to research on pentagon fraud in consumer goods industry

manufacturing companies listed on the Indonesia Stock Exchange in 2017-2018, using RStudio as a data processing application, with the aim of to determine the effect of factors on the fraud pentagon on financial statement fraud.

2 RESEARCH METHODOLOGY

The type of data used in this research is quantitative. This study uses secondary data sources, according to Ghazali (2018). Secondary data is data whose sources are obtained indirectly or through intermediaries. The data sources used are obtained from the Indonesia Stock Exchange website, namely www.idx.co.id. The data used in this study is a type of panel data, namely data that combines time series and cross section data

The population in this study were all manufacturing companies in the consumer goods industry listed on the Indonesia Stock Exchange in 2017-2018, totaling 61 companies. The sampling technique used in this study was purposive sampling technique. The following are the criteria established in the sample selection in this study, namely as follows:

- Manufacturing companies in the consumer goods industry sector which are listed on the Indonesia Stock Exchange (IDX) in 2017-2018.
- Manufacturing companies in the consumer goods industry that publish audited annual financial reports that can be accessed on the Indonesia Stock Exchange (IDX) website during 2017-2018 which are stated in rupiah (IDR).
- The company provides complete information according to research needs, relating to the independent variable and the dependent variable.

This study collected samples using the documentation method of audited financial reports and annual reports of manufacturing companies in the consumer goods industry which were listed on the Indonesia Stock Exchange in 2017-2018. Data collection is done by gathering information and then studying existing documents. This research also uses literature study method which obtains data and theory from journals, internet, books, articles, and previous research related to this research. The data analysis method in this study uses quantitative methods, by quantifying research data, so that it can provide results in the form of information needed in the analysis. This study uses multiple linear regression

analysis methods, and uses the F-Score Model to measure financial statement fraud, which according to (Adherian Kurnia and Anis, 2017; Septriani and Handayani, 2018), is formulated as follows:

Table 1: F SCORE Model.

$$F\text{-SCORE} = C + \beta 1 \text{ ROA} + \beta 2 \text{ ACHANGE} + \beta 3 \text{ LEV} + \beta 4 \text{ BDOUT} + \beta 5 \text{ ACPA} + \beta 6 \text{ DCHANGE} + \beta 7 \text{ CEOPIC} + \epsilon$$

Information :

F-Score = Fraudulent financial statements

c = Constant

1-8 = Regression coefficient

ROA = Return on Assets

ACHANGE = the ratio of changes in total assets

LEV = the ratio of total liabilities to total assets

BDOUT = Independent board of commissioners ratio

CPA = Change of independent auditors

DCHANGE = Change of the board of directors in the company

CEOPIC = Number of CEO photos included in an annual report = Error

This study presented data using a table containing the test results of the research object with software such as RStudio which is used to test data statistically or Microsoft Excel, which is used to collect and summarize data. The results of the analysis of the research will be presented in a narrative form to explain the results of the research.

3 RESULT AND DISCUSSION

3.1 Descriptive Statistical Analysis

The first step in conducting this research is to analyze existing data, through descriptive analysis methods. Descriptive analysis is an analytical method used to explain the problem being analyzed in the form of a summary of research data. The following are the results of descriptive statistics on the variables of this study using Rstudio software version 3.6.1 which are presented in the following table:

Table 2: Descriptive Statistics Test Results.

	Mean	Std.			
		Deviation	Median	Maximum	Minimum
Financial Statement Fraud	0.1167	0.3987	0.0345	1.8860	-0.6010
Financial Target	0.0823	0.1561	0.0590	0.9210	-0.4270
Financial Stability	0.0426	0.4362	0.0760	0.6970	-3.6690
External Pressure	0.4334	0.4082	0.3645	2.9000	0.0800
Ineffective Monitoring	0.3915	0.1614	0.3750	1.0000	0.0000
Change in Auditors	0.1667	0.3749	0.0000	1.0000	0.0000
Change in Director	0.4167	0.4960	0.0000	1.0000	0.0000
Frequent Number of CEO's Picture	2.6310	1.4038	3.0000	6.0000	0.0000

3.2 Normality Test

The normality test is used to see the distribution of data that will be used in the study. This study uses the Jarque-Berra test (JB-test), where the data will be declared normal if the p-value 0.05.

Table 3: Normality Test Results.

Jarque Bera Test data: residu X-squared = 70.59, df = 2, p-value = 4.441e-16
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Through the results above, it can be seen that the p-value 0.05, and it means that the data is not normally distributed. According to Ghazali (2018) data that does not have a normal distribution can be transformed to become normal. In this study, the FSCORE variable data was transformed into natural logarithms so that the data could be used. Following are the results of the normality assumption test from this study after the data were transformed:

Table 4: Normality Test Results After Transformation.

Jarque Bera Test data: residu X-squared = 2.2247, df = 2, p-value = 0.3288
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After the data were transformed, a p-value of 0.3288 was obtained. This value is 0.05 or 5%, so the research data is stated to be normally distributed.

3.3 Autocorrelation Test

The autocorrelation test uses the run-test statistical test, where if the probability is more than 0.05, then the regression model is considered not to have autocorrelation. The results of the run-test can be seen in Table 5 below:

Based on the results of the above processing, the p-value is 0.2723. This value is greater than the residual significance value, namely 0.05 or 5%. This means that there is no autocorrelation problem in the regression model.

Table 5: Autocorrelation Test Results.

Approximate runs test data: residu Runs = 48, p-value = 0.2723 alternative hypothesis: two.sided

3.4 Heteroscedasticity Test

The heteroscedasticity test in this study used the Breusch Pagan Godfrey (BPG) test. The criterion in the Pagan Godfrey (BPG) Breusch test is that if the probability value is 0.05, then there is no indication

of a heteroscedasticity problem. The following are the results of the heteroscedasticity test:

Table 6: Heteroscedasticity Test Results.

studentized Breusch-Pagan test data: model BP = 8.1642, df = 7, p-value = 0.3183
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Based on the results of the above processing, the p-value is 0.3183. This value is greater than the residual significance value, namely 0.05 or 5%. This means that there is no heteroscedasticity problem in this study.

3.5 Multicollinearity Test

The multicollinearity test in this study uses the centered Variance Inflation Factor (VIF) value. If the VIF value is 10, it means that there is no multicollinearity. The following are the results of the multicollinearity test:

Table 7: Multicollinearity Test Results.

ROA	ACHANGE	LEVERAGE	BDOUT	CPA	DCHANGE	CEOPIC
1.366648	1.714637	1.584179	1.091068	1.099842	1.172869	1.259771

Based on the results of the data processing above, it can be seen that each variable has a VIF value below 10. This means that there are no symptoms of multicollinearity.

3.6 Multiple Regression Analysis

After conducting descriptive statistical tests and classical assumption tests, multiple linear regression analysis was carried out. The following is the result of multiple linear regression using the Rstudio version 3.6.1 program:

Table 8: Results of Multiple Linear Regression Analysis.

```
Call:
lm(formula = log1p(FSCORE) ~ ROA + ACHANGE + LEVERAGE + BDOUT + CPA +
DCHANGE + CEOPIC, data = data)
Residuals:
Min      1Q  Median      3Q      Max
-0.6466 -0.1597 -0.0077  0.1578  0.7456
Coefficients:
Estimate Std. Error t value Pr(>|t|)
(Intercept)  0.060671  0.117948  0.514  0.608477
ROA         -0.445271  0.221616 -2.009  0.048067 *
ACHANGE     0.263888  0.088850  2.970  0.003983 **
LEVERAGE   -0.044452  0.091261 -0.487  0.627601
BDOUT       -0.042660  0.191588 -0.223  0.824393
CPA         0.302735  0.082795  3.656  0.000469 ***
DCHANGE     0.049060  0.064631  0.759  0.450159
CEOPIC      -0.003815  0.023666 -0.161  0.872352
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Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
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Based on the results of the data processing above, the following equation can be formulated: $FSCORE = 0.060671 - 0.445271 * ROA + 0.263888 * ACHANGE - 0.044452 * LEVERAGE - 0.042660$

$$* BDOUT + 0.302735 * CPA + 0.049060 * DCHANGE - 0.003815 * CEOPIC.$$

3.7 F-value Test Results

The F value test is carried out so that it can be seen whether there is a joint influence between the independent variable and the dependent variable. The following are the results of the F value test using the Rstudio 3.6.1 program:

Table 9: F-Value Test Results.

F-statistic: 4.811 on 7 and 76 DF, p-value: 0.0001601

Based on Table 9 of the F-Value Test Results above, it can be seen that the results of the F-statistical profitability above have a p-value of ≈ 0.0001601 . This means that at the 5% significance level, H_0 is rejected. This means that the independent variables have a joint influence on the dependent variable (H_1 is accepted).

3.8 T-value Test Results

The t statistical test is used to determine whether the independent variable partially has a significant effect on the dependent variable. The following are the results of the t-value test using the Rstudio 3.6.1 program:

Table 10: Test Results Value t.

Estimate	Std. Error	Error	t value	Pr(> t)
(Intercept)	0.060671	0.117948	0.514	0.608477
ROA	-0.445271	0.221616	-2.009	0.048067 *
ACHANGE	0.263888	0.088850	2.970	0.003983 **
LEVERAGE	-0.044452	0.091261	-0.487	0.627601
BDOUT	-0.042660	0.191588	-0.223	0.824393
CPA	0.302735	0.082795	3.656	0.000469 ***
DCHANGE	0.049060	0.064631	0.759	0.450159
CEOPIC	-0.003815	0.023666	-0.161	0.872352

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Based on Table 10 the results of the t-value test above, at the 5% significance level, the results can be obtained:

- Financial target (ROA). Testing of return on assets in this study results in the results that financial targets have an influence on financial statement fraud in consumer goods industry sector companies listed on the IDX in 2017-2018. Based on the results in Table 10, ROA has a significance value of 0.048067, this indicates that the value is less than 0.05. Through these results it can be concluded that H_1 is accepted.

- Financial stability (ACHANGE). Testing on the ratio of changes in total assets, resulted in the result that financial stability had an influence on financial statement fraud in consumer goods industry sector companies listed on the IDX in 2017-2018. Based on the results in Table 10, ACHANGE has a significance value of 0.003983, this indicates that the value is less than 0.05. Through these results it can be concluded that H1 is accepted.
- External pressure (Leverage). Testing on the leverage ratio resulted in the result that external pressure had no effect on financial statement fraud in consumer goods industry sector companies listed on the IDX in 2017-2018. Based on the results in Table 10, leverage has a significance value of 0.627601, this indicates that this value is greater than 0.05. Through these results it can be concluded that H0 is accepted and H1 is rejected.
- Ineffective Monitoring (BDOU). Testing on the ratio of the independent board of commissioners, results in the result that ineffective monitoring has no effect on financial statement fraud in consumer goods industry sector companies listed on the IDX in 2017-2018. Based on the results in Table 10, BDOU has a significance value of 0.824393, this indicates that the value is greater than 0.05. Through these results it can be concluded that H0 is accepted and H1 is rejected.
- Change in Auditor (CPA). Testing on change in auditors resulted in the result that rationalization had an influence on financial statement fraud in consumer goods industry sector companies listed on the IDX in 2017-2018. Based on the results in Table 10, CPA has a significance value of 0.000469, this indicates that the value is less than 0.05. Through these results it can be concluded that H1 is accepted.
- Change in Auditor (CPA). Testing on change in auditors resulted in the result that rationalization had an influence on financial statement fraud in consumer goods industry sector companies listed on the IDX in 2017-2018. Based on the results in Table 10, CPA has a significance value of 0.000469, this indicates that the value is less than 0.05. Through these results it can be concluded that H1 is accepted.
- Frequent Number of CEO's Picture (CEOPIC). Testing the number of photos of the CEO in the company's annual report results that arrogance has no effect on

financial statement fraud in consumer goods industry sector companies listed on the IDX in 2017-2018. Based on the results in Table 10, CEOPIC has a significance value of 0.872352, this indicates that the value is greater than 0.05. Through these results it can be concluded that H0 is accepted and H1 is rejected.

3.9 Coefficient of Determination (Adjusted R2)

The coefficient of determination is carried out to determine the size of a model's ability to explain its dependent sample variations. The following is the test result of the coefficient of determination using the Rstudio 3.6.1 program:

Table 11: Adjusted R2 Test-Result.

Multiple R-squared: 0.307,	Adjusted R-squared: 0.2432
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From Table 11 Adjusted R2 Test Results, it can be seen that the coefficient of determination is 0.2432. This means that FSCORE is influenced by all independent research variables by 24.32%. While the remaining 75.68% is influenced by other factors that are not included in this research model.

3.10 The Influence of Financial Targets on Fraud Financial Statement

The first hypothesis proposed states that financial targets have an influence on financial statement fraud in consumer goods industry sector companies listed on the IDX in 2017-2018. In this study, the financial target was used as a proxy for the pressure factor on the fraud pentagon. The management of the company generally expects a high level of income in the company, this is certainly in accordance with agency theory, which explains the relationship between shareholders and management. According to Tiffani and Marfuah (2015), the pressure on achieving targets or the high level of ROA that must be met to get a bonus, of course, causes a high possibility for company management to manipulate earnings. These results are in line with the results of research by Agusputri and Sofie (2019), which state that financial targets have a significant effect on financial statement fraud.

3.11 The Effect of Financial Stability on Fraud Financial Statement

The second hypothesis that is put forward states that financial stability has an influence on financial

statement fraud in consumer goods industry sector companies listed on the IDX in 2017-2018. Financial stability in this study is also used as a proxy for the pressure factor on the fraud pentagon. The ratio of changes in total assets is used to measure financial stability, because this ratio can provide a reflection of the company's financial condition. The higher the asset growth rate of a company, the higher the company's ability to operate properly. An increase in company assets, usually can be due to management's motivation to increase these assets, because the assets of the previous year tend to be small, and this is related to company pressure that triggers management. This result is in line with the research results of Siddiq et al. (2017), which state that financial stability has a significant effect on financial statement fraud.

3.12 Effect of Ineffective Monitoring on Fraud Financial Statement

The fourth hypothesis proposed states that ineffective monitoring has no effect on financial statement fraud in consumer goods industry sector companies listed on the IDX in 2017-2018. In this study, the ratio of the independent board of commissioners is a proxy for the opportunity factor in the fraud pentagon. Financial statement fraud can occur if there is an opportunity or opportunity to do so. The low level of internal control will create opportunities for certain parties to manipulate financial reports. This study resulted in the result that the number of independent commissioners had no effect on the occurrence of financial statement fraud. This proves that the independent board of commissioners in the consumer goods industry sector company in 2017-2018 has a good function in carrying out its internal supervision. These results are in line with the results of research by Yulianti et al. (2019), which states that ineffective monitoring has no significant effect on financial statement fraud.

3.13 The Effect of Change in Auditors on Financial Statement Fraud

The fifth hypothesis proposed states that rationalization has an influence on financial statement fraud in consumer goods industry sector companies listed on the IDX in 2017-2018. According to Agusputri and Sofie (2019), auditor changes that are done too often by a company can make it difficult for auditors to detect financial statement fraud, this is because these changes require new auditors to take longer than usual in studying the company's financial

statements. By changing auditors, a new auditor who takes a long time will find it more difficult to detect indications of financial statement fraud, because new auditors must first study the company's financial condition from year to year. From the above results, it can be interpreted that a financial statement fraud may occur due to a change in auditors due to the company's dissatisfaction with the auditor's performance. The influence on the occurrence of financial statement fraud can also indicate that the company can change auditors in an effort to eliminate traces of fraud detected by the previous auditor. This result is in line with the research results of Agusputri and Sofie (2019), which state that rationalization has a significant effect on financial statement fraud.

3.14 The Influence of Change in Director on Fraud Financial Statement

The sixth hypothesis proposed states that competence has no influence on financial statement fraud in consumer goods industry sector companies listed on the IDX in 2017-2018. In this study, the change of directors was carried out to measure the proxy of competence which is a factor of pentagon fraud. Changing the board of directors to become more competent is considered to be more effective in improving company performance. Changes of directors can also occur because the directors who served previously have retired or have passed away. Apart from these reasons, changes to the directors can be made for efforts to get rid of the previous directors, who have indications of fraudulent practices. Through the results of the above research, the results show that change in director has no effect on the occurrence of financial statement fraud. These results are consistent with research conducted, who state that change in director does not have a significant effect on financial statement fraud.

3.15 The Effect of Frequent Number of CEOs on Financial Statement Fraud

The seventh hypothesis proposed states that arrogance has no effect on financial statement fraud in consumer goods industry sector companies listed on the IDX in 2017-2018. In this study, the number of photos of the CEO on the financial statements is used to measure the arrogance factor of the fraud pentagon. Measurements are made by calculating the number of CEO photos contained in each sample of the annual report of companies in the consumer goods

industry sector for 2017-2018. The photo of the CEO on the company's annual report is intended to introduce the CEO's profile, and the large number of figures in the annual report is a photo resulting from the activities held by the company. In addition, there are still some sample companies that do not show photos of their CEOs in their annual reports. This means that the large number of CEO photos in the company's annual report has no relationship with financial statement fraud. This result is in line with the research results of Daughter [9], which state that arrogance does not have a significant effect on financial statement fraud, and Prima and Siska (2019), who state that frequent number of CEO's pictures do not have a significant effect on financial statement fraud.

4 CONCLUSION AND SUGGESTION

4.1 Conclusion

Based on the phenomena, problem formulation, hypothesis development, results and discussion, conclusions as follow:

- Financial targets have a significant effect in detecting the existence of financial statement fraud in consumer goods industry sector companies listed on the Indonesian Stock Exchange 2017- 2018.
- Financial stability has a significant influence in detecting financial statement fraud in consumer goods industry companies listed on the Indonesia Stock Exchange in 2017-2018.
- External pressure has no effect in detecting financial statement fraud in consumer goods industry companies listed on the Indonesia Stock Exchange in 2017-2018.
- Ineffective Monitoring has no effect in detecting financial statement fraud in consumer goods industry companies listed on the Indonesia Stock Exchange in 2017-2018.
- Change in auditors have a significant effect in detecting financial statement fraud in consumer goods industry companies listed on the Indonesia Stock Exchange in 2017-2018.
- Change in director has no effect in detecting financial statement fraud in consumer goods industry companies listed on the Indonesia Stock Exchange in 2017-2018.
- Frequent number of ceo's pictures have no effect in detecting the existence of financial

statement fraud in consumer goods industry sector companies listed on the Indonesia Stock Exchange in 2017-2018.

4.2 Suggestion

Based on the above conclusions, the following suggestions can be given by the author:

- For further researchers. Future research is expected to increase the number of samples in the study, and increase the period of the study year, and use other data regression techniques, so that the research results are better, more relevant, and updated.
- For the Company. With this research, it is hoped that the company management will be more vigilant regarding fraud that may occur in the company. The management may also be able to take preventive measures by increasing internal controls in the company.
- For Investors. It is hoped that investors will be able to be careful and pay attention to various aspects in making their investment decisions, especially in terms of the company's financial statements. This is so that investors will later be able to avoid losses in investing resulting from fraudulent financial statements.

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