

THE EFFECT OF FRAUD DIAMOND ON FRAUDULENT FINANCIAL STATEMENTS IN FOOD AND BEVERAGE SUB-SECTOR COMPANIES LISTED ON THE INDONESIAN STOCK EXCHANGE

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ABSTRACT

The research aimed to analyse the effect of fraud diamond components on the occurrence of fraudulent financial statements in food and beverage subsector companies listed on the Indonesia Stock Exchange (BEI). The components of fraud diamond which include as financial stability, ineffective monitoring, change in auditors, and change in directors were independent variables that were suspected to affect the fraudulent financial statement in the company. Population in this research was all financial statements of food and beverage companies listed on the Indonesia stock exchange which have been audited and published. Samples were financial statements of food and beverage companies period 2021-2022 taken through purposive sampling as many as nineteen companies. The sampling technique in this research was purposive sampling. The data analysis used is descriptive statistics, classic assumption tests using the normality test, autocorrelation test, multicollinearity test and heteroscedasticity test, multiple linear regression analysis, and hypothesis testing using the partial test (t) and simultaneous test (f). The partial results of the research are that the variables financial stability, ineffective monitoring, change in auditor, and change in director have no effect on fraudulent financial statements. The results of the research simultaneously show that the variables financial stability, ineffective monitoring, change in auditor, and change in director have no effect on financial statement fraud.

Keywords: *Fraud Diamond, Fraudulent Financial*

1. INTRODUCTION

In increasingly tight business competition, users of financial reports should respond as motivation to build companies that perform well at the time of publishing financial reports. Not encouraging companies to manipulate financial reports. The Association of Certified Fraud Examiners (ACFE, 2023) describes fraud as the planned act of manipulating financial reports carried out by employees, both individuals and groups, with the aim of gaining a profit but causing losses to other parties.

According to Statement on Auditing Standards (SAS) No. 99 (in Wulandari and Romandhon, 2023), financial statement fraud consists of: 1) Manipulation, falsification or alteration of accounting records, supporting documents for prepared financial reports, 2) Intentional errors or omissions in information that is significant to the financial statements, and 3) Deliberately misusing principles relating to amounts, classification, method of presentation or disclosure.

Financial statement fraud is an action carried out intentionally against financial statement reporting. Financial statements are not presented in accordance with generally accepted accounting principles. This is an intentional or material act that can influence decisions taken by interested parties. (Manurung and Hardika, 2015). Financial reporting fraud is carried out by management because there are several things that encourage management, such as securing its position, receiving incentives, or meeting investor expectations. Investment in company performance must always be good. This is related to the Fraud Diamond Theory (Wolfe and Hermanson, 2004), such as pressure, opportunity, rationalization and capability which are used to analyze fraud.

Based on a survey conducted by the Association of Certified Fraud Examiners (ACFE) in Report to The Nation in 2022, there are three categories of fraud in companies such as asset misappropriation, corruption and financial statement fraud. First, asset misappropriation, involving employees stealing or misusing company resources, was the most common in 86% of cases. Second, financial statement fraud, causing material misstatements or losses in financial reports, which has a percentage of at least 9% of cases. The Third is corruption such as bribery, conflicts of interest and extortion account for 50% of cases.

The solution to prevent fraud occurring in financial reporting is In October 2002, the American Institutes of Certified Public Accountants (AICPA) issued Statement of Auditing Standards No. 99 (SAS No.99) concerning Consideration of Fraud in a Financial Statement Audit with the aim of assisting auditors to identify fraudulent activities by measuring the company's fraud risk factors.

2. LITERATURE REVIEW

2.1 Fraud

According to the Association of Certified Fraud Examiners (ACFE), fraud is the act of manipulating financial reports in a planned manner carried out by employees either individually or in groups with the aim of gaining profits that can harm other parties. ACFE groups three types of fraud, namely Asset Misappropriation, namely theft or misuse of organizational resources. Second, Financial Statements Fraud, namely intentional misstatement or omission of material information in financial reports. Third, Corruption is an action where a worker abuses his authority in a business deal that violates his obligations to the company, such as a conflict of interest or bribery. (ACFE, 2022)

Statement of Auditing Standards No. 99 (in Syahria et al., 2019) defines Fraud as a planned act intended to create material misstatements in audited financial statements.

2.2 Fraud Triangle Theory

The Fraud Triangle Theory is a theory that was first introduced by Donald R. Cressey in 1953 to determine the causes of fraud. Cressey (in Skousen et al. 2009) revealed that financial statement fraud occurs in three conditions, namely first, pressure, namely the pressure of individual responsibility. Second, opportunity, namely the opportunity that the perpetrator has to commit fraud. Third, rationalization, namely individuals involved in fraud rationalize fraudulent actions as actions that are in line with their personal code of ethics. Thus, the risk factors for fraud are pressure, opportunity, and rationalization, which is also referred to as the "Fraud Triangle".

2.3 Fraud Diamond Theory

Fraud Diamond is a development of ideas from the Fraud Triangle theory by Cressey (1953). Fraud Diamond was developed by Wolfe and Hermanson (2004) by adding Capability as a factor in the occurrence of fraud. Wolfe and Hermanson explain that fraudsters' thinking in committing fraud such as Incentive is that there is an urge to fulfill personal needs; Opportunity is a situation that supports committing fraud; Rationalization, namely justifying behavior for the fraud committed; Capability is a special ability to commit fraud.

2.4 Financial Statement Fraud

The Association of Certified Fraud Examiners (ACFE) (in Syahria et al., 2019) defines financial statement fraud as an act of intentionally causing material misstatements or omissions in an organization's financial statements. This type of fraud is carried out by manipulating financial reports to cover up the true condition of the company in order to gain benefits from various parties.

2.5 Agency Theory

Jansen and Meckling (in Takakobi, 2022) state that an agency relationship refers to an agreement where one or more individuals (principals) give authority to another person (agent) to perform services for them, including some power in decision making.

The agency relationship is stated in a contract between the investor and the manager. Investors have a primary interest in receiving large profits from the investments they have made, and it is hoped that managers will be able to realize this primary interest, so that when this policy is realized, investors will provide rewards to managers. On the other hand, managers have the desire to improve their welfare by receiving rewards in the form of bonuses from investors for their contributions to the company, therefore managers try as much as possible so that their performance gets a good impression and assessment in the eyes of investors. These differences in interests give rise to a conflict of interest. (Lestari and Henny, 2019).

3. RESEARCH METHOD

The objects of this research are food and beverage sub-sector companies listed on the Indonesia Stock Exchange (BEI). The data used is the company's annual financial report data for 2021-2022 which comes from the website www.idx.co.id. This research used 19 companies. The sampling technique in this research was purposive sampling. The following is a sample list of food and beverage sector companies in this research:

Table 1. List of Food and Beverage Sub-Sector Companies

No	Company name	Company Code
1	PT. Astra Agro Lestari Tbk	AALI
2	PT. BISI International Tbk	BISI
3	PT. Budi Starch & Sweetener Tbk	BUDI
4	PT. Wilmar Cahaya Indonesia Tbk	CEKA
5	PT. Sariguna Primatirta Tbk	CLEO
6	PT. Charoen Pokphand Indonesia Tbk	CPIN
7	PT. Delta Djakarta Tbk	DLTA
8	PT. Dharma Satya Nusantara Tbk	DSNG
9	PT. Garudafood Putra Putri Jaya Tbk	GOOD
10	PT. Indofood CBP Sukses Makmur Tbk	ICBP
11	PT. Indofood Sukses Makmur Tbk	INDF
12	PT. Japfa Comfeed Indonesia Tbk	JPFA
13	PT. PP London Sumatra Indonesia Tbk	LSIP
14	PT. Multi Bintang Indonesia Tbk	MLBI
15	PT. Palma Serasih Tbk	PSGO
16	PT. Nippon Indosari Corpindo Tbk	ROTI
17	PT. Salim Ivomas Pratama Tbk	SIMP
18	PT. Tunas Baru Lampung Tbk	TBLA
19	PT. Ultrajaya Milk Industry & Trading Company Tbk	ULTJ

The analysis technique used in this research is multiple linear regression analysis and classical assumption testing using SPSS tools. Multiple linear regression analysis aims to determine the influence of two or more independent variables (X) on the dependent variable (Y). Testing this research hypothesis uses the fraud diamond element consisting of the pressure element proxied by financial stability. The opportunity element is proxied by ineffective monitoring. The rationalization element is proxied by change in auditor. The capability element is proxied by change in director.

This research aims to detect fraudulent financial statements using the Beneish M-Score which was discovered by Professor Messod Beneish. The Beneish M-Score formula is as follows:

$$\text{Beneish M-Score} = -4.84 + 0.920 \text{ DSRI} + 0.528 \text{ GMII} + 0.404 \text{ AQI} + 0.892 \text{ SGI} + 0.115 \text{ DEPI} - 0.172 \text{ SGAI} - 0.327 \text{ LVGI} + 4.697 \text{ TATA}$$

Based on the formula above, the Beneish M-Score is measured using 8 financial ratios to identify whether the company has a risk of manipulating financial report income. The following are the measurements of eight financial ratios:

Table 2. Table of Measurement of Eight Financial Ratios

Financial Ratio	Measurement
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<i>Days Sales in Receivable Index (DSRI)</i>	$\frac{\text{Account Receivable } t}{\text{Sales } t} \times \frac{\text{Account Receivable } t - 1}{\text{Sales } t - 1}$
<i>Gross Margin Index (GMI)</i>	$\frac{\text{Gross Profit } t - 1}{\text{Sales } t - 1} \times \frac{\text{Gross Profit } t}{\text{Sales } t - 1}$
<i>Aset Quality Index (AQI)</i>	$\frac{1 - (\text{Current Asset } t + \text{Fixed Asset } t)}{\text{Total Aktiva } t} \times \frac{1 - (\text{Current Asset } t - 1 + \text{Fixed Asset } t - 1)}{\text{Total aktiva } t - 1}$
<i>Sales Growth Index (SGI)</i>	$\frac{\text{Sales } t}{\text{Sales } t - 1}$
<i>Depreciation Index (DEPI)</i>	$\frac{\text{Depretiation } t - 1}{(\text{Depretiation } t - 1 + \text{Fixed Asset } t - 1)} \times \frac{\text{Depretiation } t}{(\text{Depretiation } t + \text{Fixed Asset } t)}$
<i>Sales General and Administrative Expenses Index (SGAI)</i>	$\frac{\text{Selling Expenses, } t}{\text{Sales } t} \times \frac{\text{Selling Expenses, general and administrative } t - 1}{\text{Sales } t - 1}$

(Natalia and Tan, 2023)

The independent variables in the research are the 4 fraud diamond elements.

a. Pressure

Managers are under pressure to commit financial statement fraud when financial stability is threatened by economic conditions, industry, or operating conditions of the entity (SAS No. 99 in Skousen et al., 2009). Pressure is proxied by financial stability.

$$ACHANGE = \frac{\text{Total asset } t - \text{Total asset } t - 1}{\text{Total asset } t}$$

b. Opportunity

A situation that creates an opening for someone to commit fraud, this occurs because of weak internal control and supervision. The independent board of commissioners is the party tasked with supervising the company's performance. Opportunity is proxied by ineffective monitoring.

$$BDOUT = \frac{\text{Number of Independent Commissioners}}{\text{Number of commissioners}}$$

c. Rationalization

Rationalization is an effort to justify the fraud that has been committed. Rationalization can be measured using the change in auditor proxy. Changing in auditors is one way for companies to cover up fraud discovered by previous independent auditors (Alvionika and Meiranto, 2021). To measure change in auditors use dummy variables

$$\begin{aligned} \text{Point 1} &= \text{KAP changes occur} \\ \text{Point 0} &= \text{there is no change in KAP} \end{aligned}$$

d. Capability

Wolfe and Hermanson (2004) argue that fraud will not occur without individuals who have capabilities. Capability is proxied by change in director. To measure change in director, use a dummy variable.

Point 1 = KAP changes occur
Point 0 = there is no change in KAP

4. RESULTS AND DISCUSSION

Based on company sample data used as research objects, the results are independent variables, such as financial stability proxied by changes in assets (achnge), ineffective monitoring proxied by the percentage of the number of independent commissioners (bdout), change in auditors (audchange), and change in directors (dchange). For the dependent variable is Financial Statement Fraud used as proxied by M-Score.

Table 3. Data Processing Results of Independent Variable (X) Against Dependent Variable (Y) 2021-2022

Code	Year	ACHANGE (X1)	BDOUT(X2)	AUDCHANGE (X3)	DCHANGE (X4)	MSCORE (Y)
AALI	2021	0,09	0,50	0	1	-3,16
	2022	-0,04	0,50	0	0	-1,72
BISI	2021	0,07	0,33	0	1	-3,40
	2022	0,09	0,33	0	1	-3,18
BUDI	2021	0,01	0,33	0	0	-2,85
	2022	0,06	0,33	0	0	-2,71
CEKA	2021	0,08	0,33	0	1	-1,73
	2022	0,01	0,33	0	0	-1,68
CLEO	2021	0,03	0,33	0	0	-2,92
	2022	0,26	0,33	0	0	-1,79
CPIN	2021	0,14	0,33	0	0	-2,63
	2022	0,12	0,33	0	0	-2,61
DLTA	2021	0,07	0,40	0	0	-3,56
	2022	0,00	0,40	0	1	-2,48
DSNG	2021	-0,03	0,33	0	1	-3,13
	2022	0,12	0,33	0	1	-2,24
GOOD	2021	0,03	0,40	1	0	-2,79
	2022	0,08	0,40	0	0	-2,70
ICBP	2021	0,14	0,50	0	1	-2,44
	2022	-0,02	0,50	0	0	-2,63
INDF	2021	0,10	0,38	0	1	-2,61
	2022	0,01	0,38	0	0	-2,67
JPFA	2021	0,10	0,33	0	1	-2,29
	2022	0,14	0,25	0	0	-2,71
LSIP	2021	0,09	0,40	0	0	-3,26
	2022	0,05	0,40	0	1	-2,30

MLBI	2021	0,01	0,33	0	0	-3,78
	2022	0,15	0,33	0	0	-3,39
PSGO	2021	0,10	0,33	0	1	-0,53
	2022	0,11	0,33	0	0	-3,62
ROTI	2021	-0,06	0,33	0	1	-3,16
	2022	-0,01	0,33	0	1	-2,95
SIMP	2021	0,02	0,33	0	0	-2,98
	2022	0,00	0,33	0	1	-3,21
TBLA	2021	0,09	0,33	0	0	-2,60
	2022	0,12	0,33	0	0	-2,87
ULTJ	2021	-0,15	0,50	0	0	-2,68
	2022	0,00	0,50	0	0	-2,24

Source: Data is processed, 2024

DISCUSSION

1. Descriptive Statistical Analysis

The variables in this research are financial stability proxied by ACHANGE (X1), ineffective monitoring proxied by BDOUT (X2), Change in Auditor as AUDCHANGE (X3), Change in Directors as (X4). Below is Table 4. Which shows the results of descriptive statistical analysis testing of the variables used in the research.

Table 4. Descriptive Statistics Results

	Minimum	Maximum	Mean	Std. Deviation
ACHANGE	-.15	1.68	.0995	.24579
BDOUT	.25	.60	.3725	.07254
AUDCHANGE	0	1	.02	.132
DCHANGE	0	1	.35	.481
M-SCORE	-4.34	-.53	-2.8307	.68766
Valid N (listwise)				

Source: The data is processed with SPSS 27 (2024)

Based on Table 4, the results of descriptive statistics have an average number of Financial Report Fraud as proxied by the M-Score of -2.83, which means that the food and beverage sub-sector companies in the sample have a tendency to have no fraud in presenting the company's financial reports because of the value above -2.22. It means food and beverage sub-sector companies present financial reports in accordance with the Indonesian Accounting Standards Statement (PSAK).

Financial Stability, which is proxied by changes in total assets (ACHANGE), describes the condition of financial stability of the company. The average change in total company assets was 9.95%. This means that overall the food and beverage sub-sector companies are in stable condition because they have positive values. Ineffective Monitoring is the existence of an independent board of commissioners in the company which is proxied by BDOUT. In the research sample, the overall average value of BDOUT was 37.25%, which illustrates that the majority of food and beverage sub-sector companies effectively have independent board of commissioners.

Change in Auditor (AUDCHANGE) or change of external auditor with a value of 0, it means the company has not changed external auditors. In this research, AUDCHANGE as a whole has an average value of 0.02, which means 2% of companies in the food and beverage sub-sector change external auditors.

Change in Director (DCHANGE) or change of directors with a value of 0, it means the company has not changed directors and a value of 1 means the company changed external auditors. In this study, DCHANGE as a whole had an average of 0.35 or 35%, which means that companies in the food sub-sector changed their directors.

2. Multiple Linear Regression Test

This research uses multiple linear regression tests with the aim of describing the relationship between independent variables such as Financial Stability (ACHANGE), Ineffective Monitoring (BDOUT), Change in Auditor (AUDCHANGE), and Change in Directors (DCHANGE) on dependent variables such as Financial Statement Fraud. (MSCORE).

The following are the results of the multiple linear regression test:

Table 5. Multiple Linear Regression Test Results

Model	Unstandardized Coefficients		Coefficients ^a		
	B	Std. Error	Standardized Coefficients	t	Sig.
1 (Constant)	-2.654	.518		-5.120	.000
ACHANGE	.245	.395	.088	.620	.538
BDOUT	-.616	1.340	-.065	-.459	.648
AUDCHANGE	.103	.721	.020	.143	.887
DCHANGE	.076	.202	.053	.376	.708

a. Dependent Variable: M-SCORE

Source: The data is processed with SPSS 27 (2024)

Based on table 5, the regression equation for the variables ACHANGE, BDOUT, AUDCHANGE, DCHANGE on MSCORE is as follows:

$$Y = -2,654 + 0,245 X1 - 0,616 X2 + 0,103 X3 + 0,076 X4$$

Y: M-Score

X1: ACHANGE X2: BDOUT

X2: BDOUT

X3: AUDCHANGE X4: DCHANGE

X4: DCHANGE

From the regression equation above it can be described as follows:

1. The constant value (a) is -2.654, meaning that if the variable values of ACHANGE (X1), BDOUT (X2), AUDCHANGE (X3), and DCHANGE (X4) are considered constant, then Financial Statement Fraud (MSCORE) will experience a change of -2.654.
2. The regression coefficient value of ACHANGE (X1) has a positive sign of 0.245, It means the increase in changes in assets by one unit assuming the other X variables are constant, it will increase the possibility of financial statement fraud with a value of 0.245.
3. The regression coefficient value of BDOUT (X2) has a negative sign of 0.616, It means the increase in BDOUT by one unit assuming the other X variables are constant will reduce the possibility of financial statement fraud with a value of 0.616
4. The regression coefficient value of AUDCHANGE (X3) has a positive sign of 0.103. The AUDCHANGE variable is measured using a dummy variable, if the company changes auditors it is given 1 point and if it does not change auditors it is given 0 points. Because the regression coefficient value is positive, it means every change of auditor in the AUDCHANGE variable will increase the possibility of financial statement fraud with a value of 0.103.

5. The regression coefficient value of DCHANGE (X4) has a positive sign of 0.076. The DCHANGE variable is measured using a dummy variable, if the company changes directors it is given 1 point and if it does not change directors it is given 0 points. Because the regression coefficient value is positive, it means every change of directors will increase the occurrence of financial statement fraud with a value of 0.076. However, if the number of changes in the composition of the company's board of directors is low, it can reduce financial statement fraud.

3. Hypothesis Test

Table 6. T Test Results Coefficients^a

Model	t	Sig.
1 (Constant)	-5.120	.000
ACHANGE	.620	.538
BDOUT	-.459	.648
AUDCHANGE	.143	.887
DCHANGE	.376	.708

a. Dependent Variable: M-SCORE

Source: The data is processed with SPSS 27 (2024)

Based on the table above, the results of the t test are that ACHANGE has a calculated t value of 0.620 with a significant value of 0.538 > 0.05. So the result is that H1 is rejected, meaning that financial stability has no effect on fraudulent financial statements. BDOUT has a calculated t value of -0.459 with a significant value of 0.648 > 0.05. So the result is that H2 is rejected, meaning that ineffective monitoring has no effect on fraudulent financial reports. AUDCHANGE has a calculated t value of 0.143 with a significant value of 0.887 > 0.05. So the result is that H3 is rejected, meaning that a change in auditor has no effect on financial statement fraud. DCHANGE has a calculated t value of 0.376 with a significant value of 0.708 > 0.05. So the result is that H0 is rejected, meaning that Change in Directors has no effect on financial statement fraud.

Table 7. F Test Result

		ANOVA ^a				
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.329	4	.082	.163	.956 ^b
	Residual	26.153	52	.503		
	Total	26.481	56			

a. Dependent Variable: M-SCORE

b. Predictors: (Constant), DCHANGE , AUDCHANGE , ACHANGE , BDOUT

Source: The data is processed with SPSS 27 (2024)

Based on the table above, the F test results have a significance value of 0.956 > 0.05. It means all independent variables (ACHANGE, BDOUT, AUDCHANGE, and DCHANGE) have no effect on financial statement fraud.

Analysis of Statistical Test Results

1. The Effect of Financial Stability on Financial Report Fraud

Based on the results of testing the first hypothesis (H1), the influence of financial stability on financial statement fraud as proxied by ACHANGE, it has a regression coefficient value of 0.245 with a significance value of 0.538. A significance value > 0.05 means that the hypothesis is rejected, so financial stability has no effect on fraudulent

financial statements. The use of financial stability as proxied by ACHANGE is not effective in assessing fraudulent financial statements. Company financial instability is not a cause of fraud.

2. The Effect of Ineffective Monitoring on Financial Report Fraud

Based on the results of testing the second hypothesis (H2), the effect of ineffective monitoring on financial statement fraud as proxied by BDOUT, it has a regression coefficient value of -0.616 with a significance value of 0.648. Significance value > 0.05 means that the hypothesis is rejected, so ineffective monitoring has no effect on fraudulent financial statements. The use of ineffective monitoring is proxied by BDOUT which is not effective in assessing fraudulent financial statements. This is because most food and beverage sub-sector companies already effectively have independent board of commissioners.

3. The Effect of Change in Auditor on Financial Report Fraud

Based on the results of testing the third hypothesis (H3), the effect of change in auditor (AUDCHANGE) on financial statement fraud, it has a regression coefficient value of 10.319 with a significance value of 0.887. A significance value > 0.05 means that the hypothesis is rejected, so a change in auditor has no effect on fraudulent financial statements.

4. The Effect Change in Director on Financial Report Fraud

Based on the results of testing the fourth hypothesis (H4), the effect of change in director (DCHANGE) on financial report fraud, it has a regression coefficient value of 7.613 with a significance value of 0.708. A significance value > 0.05 means that the hypothesis is rejected, so a change in director has no effect on fraudulent financial statements. In this study, there were not many changes in directors because the company trusted the abilities of each board of directors so that their term of office continued.

5. The Effect of Financial Stability, Ineffective Monitoring, Change in Auditor and Change in Director on Financial Report Fraud

The results of multiple linear regression analysis research are that the independent variables do not simultaneously influence financial statement fraud. Based on the results of the F test, it has a significance value of $0.956 > 0.05$, meaning that all independent variables (ACHANGE, BDOUT, AUDCHANGE, and DCHANGE) have no effect on financial statement fraud together.

5. CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusion

Based on the results of research on food and beverage subsector companies for the 2021 – 2022 period, the conclusions are:

The financial stability variable (X1) has no effect on financial statement fraud. It means the better the company's finances, the reduction in fraudulent financial reporting. When the company's financial stability is stable, it means the company is able to manage its assets well, so the company no longer needs to commit fraudulent financial reporting.

The ineffective monitoring variable (X2) has no effect on fraudulent financial statements. It means the lower the ineffective monitoring, the opportunity for fraud to occur will decrease. The change in auditor variable (X3) has no effect on the condition of the financial statements. It means the changing auditors does not encourage financial statement fraud. Companies that frequently change auditors can reduce fraud in financial reports, because reviewing the company and financial reports takes longer for new auditors. The change in director variable (X4) has no effect on the condition of the financial statements. This means that changing directors does not cause financial statement fraud. A change of director is not a cause of fraudulent financial reporting practices.

5.2 Suggestion

For further research to use variables and develop other proxies from the fraud pentagon to produce more accurate data and models for detecting financial statement fraud. For further research to use other sectors such as the banking sector and the government sector where fraudulent practices often occur so that the research scope becomes wider. It is also hoped that a longer period of observation will be added to obtain more up-to-date and relevant results.

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