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The Influence Of Financial Stability, Ineffective Monitoring, Change In Auditors, Change In Directors, Frequent Number Of Ceo's Picture Toward Fraudulent Financial Statement In Fraud Pentagon Perspective

(Empirical Study on Manufacture Companies period 2015-2017 listed on BEI)

Nurul Alfian*
faculty of Economics Madura University
Tarjo
Faculty of Economics and Business Trunojoyo Madura University

Abstract
This research aims to obtain empirical evidence about effectiveness of the fraud pentagon are pressure, opportunity, rationalization, competence and arrogance in detecting financial statement fraud. The variables of the fraud pentagon that used is a pressure with proxy financial stability (ACHANGE), , opportunity with proxy ineffective monitoring (BDOUT), rationalization with change in auditor, competence with chnage in director's, and arrogance with Frequent Number of CEO's Picture . In this research to detecting financial statement fraud as the dependen variabel. The population of this research is the industries companies listed in Indonesia stock exchange in 2015-2017. Data analysis was performed with the classical assumption and hypotesis testing using linear regression. The result of this research indicates that the financial stability (ACHANGE), change in auditor (CPA), change in directors (DCHANGE), Frequent Number of CEO's Picture (CEOPICT) influence the financial statement fraud, meanwhile ineffective monitoring (BDOUT) has no significan impact on fraudulent financial statement.
Keywords : fraudulent financial statement, financial stability, ineffective monitoring, change in auditor, change in director, Frequent Number of CEO's Picture

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I. INTRODUCTION

Background

Financial statements are part of financial information that must be prepared by management within a company to be reported whether to internal or external party which contain the whole business activity of one business unit which is one of the parts of responsibility and form of management communication towards certain parties which need it. SFAC (Statement of Financial Accounting Concept) No. 1 explained that in the main assessment of performance or responsibility element to management can be known through profit information so that in the effort can give a good information which tend to cause the earning management behavior in which from the financial statement will indirectly affect towards the process of financial and economic decision taking.

In July 2015 a fraudulent financial statementing from world technology giant, Toshiba Corporation was revealed. Toshiba was proven practiced profit inflation which value is as much as 1.22 billion USD within five years' periods. Fraud case that happened to Toshiba caused the resign of Toshiba CEO. Practically, fraud not only happen to manufacture company. Many financial company and banking sectors. Based on the survey from Association of Certified Fraud Examiner (ACFE) in 2014, showed the fact that financial and banking sectors are in fact the most experienced sectors of fraud compared to other sectors.

This research applied Crowe's fraud pentagon theory, a theory that can explain that there are five elements that can underlie someone to do fraud or cheat which are opportunity, pressure, rationalization, competence, dan arrogance. This theory is the renewed theory from the development of fraud triangle theory stated by Cressey in 1953. This research can be background by the concern of the rise of fraudulent financial statementing cases in Indonesia especially in financial and banking sectors which are still hard enough to be revealed.

Previous research about fraud are most dominated by fraud triangle model. There is still few research done in order to explore this case using Crowe's fraud pentagon theory. Based on the background above, this research was conducted in order to test deeper about the ability towards Crowe's fraud pentagon theory which stated by Crowe (2011), in investigate and give further explanation if Crowe's fraud pentagon theory can help to detect the tendency of fraudulent financial statementing occurance existence, moreover in financial and banking sectors in Indonesia.

This research is intended to detect and predicted cheating in financial statement using Crowe's fraud pentagon theory. So that it can help investor to be able to avoid the risk of fraud and help in investment decision. When auditor accepts new client, this research also can be applied in order to evaluate the possibility of forgery or fraud within financial statement. (Elliot dan Willingham,1980 on Nguyen, 2008).

Formulation of the Problems

Based on the description stated above, the research questions can be formulated as follows:

1. Does financial stability have an influence on financial statement fraud measures?
2. Does ineffective monitoring have an influence on financial statement fraud measures?
3. Does change in auditors have an influence on financial statement fraud measures?
4. Does change in directors have an influence on financial statement fraud measures?
5. Does frequent number of CEO's Picture have an influence on financial statement fraud measures?

Research Objectives

Based on the above formulation, the study aims to test and fid out:

1. The influence of financial stability on fraudulent financial statement measures
2. The influence of ineffective monitoring on fraudulent financial statement measures
3. The influence of change in auditors on fraudulent finanncial statement measures
4. The influence of change in directors on fraudulent financial statement measures
5. The influence of frequent number of CEO's Picture on fraudulent financial statement measures

THEORETICAL BASIS

AGENCY THEORY

Agency theory define as a contract in which one or more principals involve management (agent) to perform some services on their behalf (principal) (Jensen & Meckling, 1976). Management is a party contracted by shareholders to work in the interests of shareholders and agents will always act best for shareholders' interests. Therefore, managers must be responsible to shareholders. The agency theory shows the importance of the separation of functions between company management and owner relationships to managers where the purpose of this separation is to create efficiency and effectiveness by hiring professionals to manage the company. However, on the other side of this separation can raise a problem that is when there is inequality of purpose between principal and agent.

FRAUD

Albert (2009:7) defines about some frauds (cheat). Generally, fraud can be explained as term and includes all action that is the concept of human intelligence, through individual, in order to gain benefit and profit from other with wrong presentation. Fraud commonly happened because of the pressure to do committing fraud or encouragement to take advantage of opportunities and justifications (commonly accepted) of those acts. Fraud itself generally is an act against the law which is committed by people from outside or inside of organization with the intention to gain personal and or group profit which directly harm others. Common people often assume fraud as criminal act or corruption narrowly. We commonly see fraud in company or government organizations. Basically fraud within the company is intentional act of cheating based on dishonesty which done by someone, whether it is worker or leader which causes loss for company, financially and non-financially.

Fraud itself in general is an act against the law which is done by people from inside or outside of organization, with the intention to gain personal or group profit which directly harm others. Fraud as an act of criminal or corruption. Efforts made by company owner, company manager, and worker that work in order to increase the performance will never be achieved if there is still act of frauds within the company. In terms of giving deterrent effect, decreasing the loss caused by fraud and fixing the controlling system, if there is any indication of fraud, company will take the right action by doing investigative audit.

Company that has the risk of financial loss caused by act of fraud that happens can reveal whoever the person that commit the fraud which next will be asked for responsibility to compensate the company loss. Relate to the legal follow-up towards the fraud that is found, the company must have total consideration includes all company financial and legal aspects related to the regulation for worker or company.

FRAUDULENT FINANCIAL STATEMENT

Fraud towards financial statement is the negligence or intentional in the financial statement which is presented not in accordance with general accounting principles. This negligence or intentional can be materialize so that it can affect all decisions that will be taken by interested party. Sihombing, (2014). Fraud in Indonesia, almost everyday mass media covers news about fraud. Fraud is one thing that happens a lot in daily life whether in government or public.

Fraud detection towards financial statement is important to do for the continuation of company. With the early detection, the early symptoms of fraud which probably will happen can be found earlier and justification can be done before incompatibility happen with accounting. Meanwhile, according to AICPA cheating of financial statement can be defined as things that committed intentionally, false presentation, or removal of material facts, or misleading accounting data, and if it is considered with all the information that has been made, will cause readers change their assessment or decision.

Gravitt (2006) in Nguyen (2008) states that fraud in financial statement is involving below scheme:

1. Forgery, alteration, or manipulation of materialize financial record, supporting document, or business transaction;
2. Intentional negligence or event, transaction, account, or important information misrepresentation from financial statements prepared;
3. Deliberate errors in the use of accounting principles, policies, and procedures used to measure, recognize, report and disclose economic events and business transactions.

FRAUD PENTAGON

Fraud model has developed rapidly within this last few years, the first time fraud model found was by Donald R.Cressey (1953) which then known as farud triangle, then there was fraud diamond theory which was developed by Wolf (2004). After that Crowe, in 2011 developed fraud triangle and fraud diamond by changing risk factor fraud which is capability to competence that has the same meaning and significance. And then there are addition to variable which is risk factor in the form of arrogance. Fraud risk factor at fraud pentagon theory that:

1. Pressure has four indicators used as the factors causing fraudulent financial reporting. These four factors are financial targets, financial stability, external pressure and institutional ownership.
2. Opportunity is a situation that allows a person in this case management to do fraudulent fiancial reporting. This research study has two indicators that used as the factors causing fraudulent financial reporting. These two factors are the number of the audit committee members and nature of industry.
3. Rationalization allows management, and employees to perform a fraudulent financial statement. People become trust violators when they conceive of themselves as having incurred financial obligations which are considered as non-socially sanctionable ((Cressey, 1953) in (Abdullah et al., 2015)). As a consequences for those assumtion, manager tend to do fraudulent financial reporting. Therefore, the stockholder such as shareholder or investor, creditor and other decision maker should be aware of management rationalization.
4. Capability that Fraud can arise because of the ability of an individual who has an important role in the company to conduct fraud. Capability means how much power and capacity of a person is doing fraud in the corporate environment. In this case, the positions of CEO, directors, or other divisional heads can be a decisive factor in the occurrence of a fraud, taking advantage of his position can influence others to smoothly cheat his actions.
5. Arrogance is is a behavior of superiority and greed from the execution of crimes that believes company policy and its procedures are not applied (Horwath, 2011). In this study, arrogance is shown by the frequent number of CEO's picture and CEO Duality. Arrogance is usually more directed to a person who has a high position in a company.

Picture 2.1
Crowe's fraud pentagon theory (Crowe, 2011)

Financial Stability

Financial stability is the state that describe about the condition from the financial of the company is in stable condition. According to SAS No. 99 in Molinda (2011), explained that when the manager is facing pressure to do financial statement fraud when financial stability or profitability is being threatened by economical, industrial, entity situation conditions which are operating, Skousen et al., (2009). Loebbecke, Eining and Willingham, (1989), and Bell, Szykowny, and Willingham (1991) show that the case in which company is having under average industrial growth, whereas the management party that probably able to do financial statement manipulation in order to increase the company prospect Skousen et al., (2009). It can be said that when the company financial stability is in threatened position, management will do anything so that company financial stability can look fine.

Financial stability is proxied by the percentage change in total assets (ACHANGE). The level of asset which owned by company becomes the interest for investor. So in order to attract investor, company management will try to present the company presentation which can be convincing for investor. In order to give good company performance for investor, company management often do manipulation to financial statement. Because of that, there is change of percentage towards high total asset which can indicate manipulation to financial statement. The research conducted by Skousen et al. (2009) shows that the percentage in total asset change (ACHANGE) can positively impact towards financial statement fraud.

H1 : financial stability has an influence on fraudulent financial statement measures

Ineffective Monitoring

Ineffective monitoring is a monitoring that is not effective by the company that caused by the weakness towards audit committee system owned by the company, Skousen et al., (2009). That thing can happen because of the management domination by only one individual or small group, without any compensate control, board of director and auditor committee ineffectiveness towards financial statement and internal control process and its kind (SAS No.99). according to Beasly et al. (2000), observed that company that commits fraud has member that is out of the Board of Director (BOD) which is less compared to the company that does not commit fraud, Skousen et al., (2009). According to Beasly et al. (2000) that the bigger auditor committee can reduce fraud incident (Skousen et al., 2009). Because of that, ineffective monitoring is proxied with the number of auditor committee (AUDCSIZE).

The existence of Auditor Committee is arranged through Capital Market Supervisory Agency circular letter Number SE- 03/PM/2002 (for public company) and The Minister of State-Owned Enterprises Decree Number KEP- 103/MBU/2002 (for State-Owned Enterprises) (Reindo, n.d.). Auditor committee has the authority to access statement or information from company. Auditor committee always do review for annual statement and attend the meeting with external auditor. Because of that, the number of auditor committee can affect the level of fraud to happen within a company. The research result from Skousen et al. (2009) does not reinforce the evidence that AUDCSIZE is connected to fraudulent financial statement. This research tries to proof that AUDCSIZE proxy has positive effect.

H2 : Ineffective monitoring has an influence on fraudulent financial statement measures

Change in Auditor

Change in auditor or the change of the auditor that is used by company can be considered as one of the way to erase the fraud trail which has been found by previous auditor. St Pierre and Anderson (1984) and Stice (1991) explained that Rationality can be proxied with the change in auditor because there is effort in erasing the audit trail towards the discovery of fraud in previous audits. According Loebbecke et al. (1989) found that fraud that has been discovered within the research sample can be done within the first two years of auditor tenure. The tendency of the finding can encourage company to change its independent auditor with the aim to cover the fraud within the company.

H3 : Change of auditors has an influence on fraudulent financial statement measures

Change of Directors

Change of directors is one of the factor fraudulent financial statement to happen because the impact of the change is the effort from management in repairing the result of previous director performance by changing the company organizational structure or recruitment of new director which can be considered has better ability compare to previous one. Wolfe and Hermanson (2004) explained that change of directors can cause stress period which can affecting bigger opportunity to do fraud. In the other hands, change of directors is considered to cause effectivity in performance because it takes more time in order to adapt with the new director culture.

H4 : Change of directors has an influence on fraudulent financial statement measures

Frequent Number of CEO's Picture

Frequent Number of CEO's Picture is the numbers of pictures, display picture or profile, achievement, or another information regarding to CEO track of record which exposed repeatedly in company annual statement (Crowe, 2011 in Yusuf, Khair, & Simon, 2015). Meaning that the number of CEO pictures that presented in company annual statement can represent the level or arrogance or superiority possess by the CEO. A CEO tend to show the status or position within the company because they do not want to lose those status or position (or feel being ignored).

H5 : Frequent number of CEO's picture has an influence on fraudulent financial statement measures

II. RESEARCH METHOD

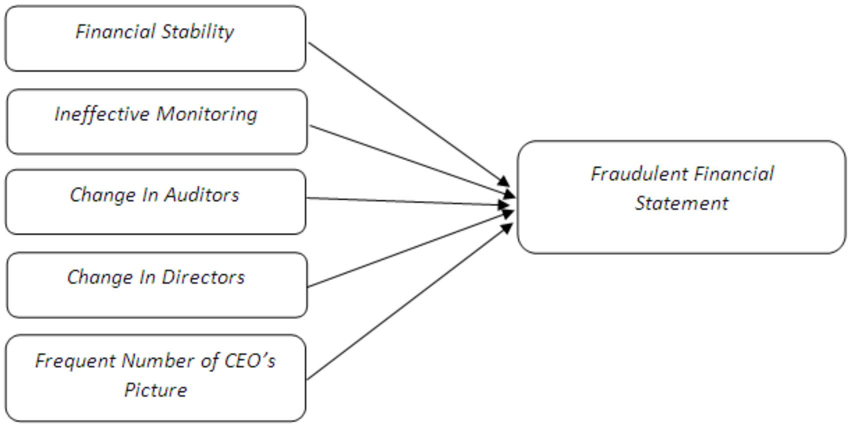
Research Variable

Dependent Variable

Company that categorized to do representation of financial statement (restatement) is the company that do restatement that caused by basic mistake, reclassification, transaction from special parties, and restatement which is not caused by change of policy and accounting estimation caused by convergence/application of the Statement of Financial Accounting Standards- International Financial Reporting Standard (IFRS). Company restatement measured by dummy variable, whereas code 1 is for showing the company that committed restatement of financial statement, and 0 if it is the opposite.

Independent Variable

Framework



Independent Variable

An independent variable is exactly what it sounds like. It is a variable that stands alone and isn't changed by the other variables you are trying to measure. An independent on this research are variables developed from component of fraud pentagon. An independent variable consist of *financial stability*, *ineffective monitoring*, *change in auditor*, dan *frequent number of CEO's picture*.

Table 2.1
Independent Variable Measurement

Nama Variabel	Measurement
Financial Stability	ACHANGE = % change of asset for two years
Ineffective Monitoring	BDOUT= total independt of board commisions / Whole of boar commisions
Change in Auditor	Variabel dummy, if there are change of auditors for 2015-2017 period that give code 1, otherwise give code 0
Change in Director's	Variabel dummy, code 1 if there are change of directors in company, otherwise give code 2
Frequent number of CEO's picture	Total frequent number of CEO's picture in an annual report

Data Analysis Technique

Multicollinearity Test

Multicollinearity test aimed to test if it is found correlation within regression model between independent variable (Ghozali, 2009). A good regression model should not have correlation in between independent variable. In order to detect multicollinearity, can be seen from the tolerance value and the opposite, variance inflation factor (VIF). Both of these measurements show which of each independent variable that explained by another independent variable. Tolerance measures the variability of independent variable chosen which is not explained by another independent variable. So low tolerance value is equal to high VIF value (because VIF = 1/Tolerance). Cut off value which commonly used is to show the multicollinearity is tolerance value $\leq 0{,}10$ or equal to VIF value ≥ 10

Multiple Regression Test

Linear regression method is performed using SPSS Version 21 Software to predict the relationship between the independent variable and the dependent variable. The relevant between discretionary accruals and proxies from pentagon fraud was tested using a model in accordance with the research Skousen et al (2009), that:

FRAUD (DACCit) = ß0 + ß1ACHANGE + ß2BDOUT + ß3CPA + ß4DCHANGE + ß5CEOPICT + εi

III. RESULT AND DISCUSSION

Objek penelitian yang digunakan dalam penelitian ini adalah perusahaan perbankan yang terdafatar di Bursa Efek Indonesia selama periode tahun 2012 – 2014 dengan ketentuan perusahaan perusahaan yang listing selama periode penelitian dan memiliki kelengkapan informasi yang dibutuhkan peneliti saja yang dimasukkan sebagai sampel penelitian. Data penelitian yang telah dikumpulkan tersebut selanjutnya akan diolah dengan menggunakan bantuan program SPSS (Statistical Product and Service Solution) Versi 21.

Statistik Deskriptif

Descriptive statistic provide a description of a data that is seen from the average value (mean), standard deviation, maximum and minimum of each variable (Ghozali, 2011:19).

Table 4.1
Discriptive Statistic

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Financial Stability	146	,0148	,7347	,2843	,02279
Ineffective Monitoring	146	,0092	,5789	,2292	,04110
Frequent number of CEO's Picture	146	,0018	,8568	,5351	,07507

Table 4.2
Descriptive Statistic For Dummy Variable

Descriptive Statistic

	N	Frekuensi	%	Std. Deviation
change in auditors	146	72	56,54	,4259
change in directors	146	86	67,8	,4984

Multicollinearity Test

Multicollinearity test aimed to test if it is found correlation within regression model between independent variable**.** good regression model should not have correlation in between independent variable. Multicollinearity can be seen from tolerance value and Variance Inflation Factor (VIF) calculation. A regression model can be concluded having no multicollinearity problem if it has tolerance value bigger than 0.10 and variance inflation factor (VIF) value less than 10 (Ghozali, 2011). From the calculation of tolerance value in data analysis, obtained VIF value < 10 and tolerance > 0.10 in which this thing can be concluded that the regression model is free from multicollinearity.

Tabel 4.3
Coefficient

Coefficients[a]

Model		Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	,255	,041		3,791	,001		
	financial stability	4,163	3,517	,201	1,184	,032	,781	1,281
	ineffective monitoring	-,522	,052	,467	2,752	,521	,791	1,275
	change in auditor	3,423	2,213	,427	2,518	,041	,933	1,761
	change in director's	1,632	1,217	,321	2,817	,028	,741	1,363
	frequent number of CEO picture	3,218	1,815	,351	1,717	,003	,765	1,661

a. Dependent Variable: fraudulent financial statement

Hypothesis Testing

in the label above shown that all four variables have effect to dependent variable within the model. This thing concluded based on independent variable that has test value (Sig.) < 0.05, those variables are financial stability of 0.032; change in auditor of 0.041, change in directors of 0.028, and frequent number of CEO picture of 0.003. there is also variable that does not have any effect towards dependent variable which is ineffective monitoring variable with test value (Sig) of 0.521 which mean that the test value (sig) is above >0.05.

The Influence of Financial Stability (ACHANGE) On Fraudulent Financial Statement Measures

Test result from Hypothesis one (H1) can proof that financial stability (ACHANGE) variable has significant effect towards fraudulent financial reporting with the significance level 0.32 and B 4.163. based on the test result it is proven that the higher financial stability of a company can drive the company to commit fraudulent financial statement.

This thing is really suited with the research done by Skousen et al. (2008), Manurung and Hadian (2013), Kusumawardhani (2012), and also Oktaviani et al. (2014) which show that there is positive connection between financial stability with financial statement fraud. Beside that Kusumawardhani (2012) also stated that financial stability variable will help auditor in detection of financial statement fraud.

The Influence Of Ineffective Monitoring (BDOUT) on Fraudulent Financial Statement Measures

The test result from second hypothesis (H2) can proof that ineffective monitoring (BDOUT) does not have significant effect towards the possibilities of fraudulent financial reporting with the significance level in 0.205 and has negative direction in B = -1.835. based on the test result it is proven that the higher company ineffective monitoring can drive the company to commit fraudulent financial statement. This thing is suited with the research conducted by Skousen et al (2009), Nobarani (2012), Martantya (2013), and Sihombing (2014) which also stated that ineffective monitoring (BDOUT) does not have significant effect in detecting fraudulent financial reporting.

The Influence of Change in Auditors on Fraudulent Finanncial Statement Measures

Hypothesis testing (H3) with the result of that change in auditors (CPA) affects to financial statement fraud. This thing shown in t test that t value of 2.518, significance of 0.041 with B value of 3.423. in this thing management side believe that the action that they take is not a form of fraud, but something that has become their right because management feels that they have render a service and done a lot for the organization.

Change in auditor within a company is the form of effort in erasing fraud trail which detected by previous auditor. This research result supports the research conducted by Loebbecke et al. (1989), Putriasih, Herawati, and Wahyuni (2016) which is the change in auditor affects in detecting financial statement fraud. However, this research result is opposite with Skousen (2009), Sihombing and Rahardjo (2014), Yesiariani and Rahayu (2016) which found the result that change in auditor does not affect the financial statement fraud.

The Influence of Change in Directors on Fraudulent Finanncial Statement Measures

Hypothesis testing (H4) with the result of change in director affects towards financial statement fraud. This thing shown in t test that t value of 2.817, significance of 0.028 with B value of 1.623. Change in director within a company has significant effect towards financial statement fraud. This thing is suitable with the research conducted by Wolfe and Hermanson (2004) which is fraud will not happen if someone does not have any competence in this terms is the change in director about the fraud.

Change in director is the condition that creates drive factor of fraud within company. This research result is suitable with the research result stated by Wolfe and Hermanson (2009), Putriasih, Herawati, and Wahyuni (2016) which stated that change in director variable has effect in detecting fraudulent financial statement. And this research is opposite with the research result done by Sihombing and Rahardji (2014), Tessa and Harto (2016) which stated that there is no connection between change in director and fraudulent financial statement.

The Influence of Frequent Number of CEO's Picture on Fraudulent Financial Statement Measures

Hypotheis testing (H5) with the result tthat Frequesnt Number of CEO's Picture affects towards financial statement fraud. This thing shown by t test that t value of 1.71, significance of 0.03 with B value of 3.218. Crowe, (2011) developed fraud theory to be fraud pentagon theory by adding arrogance as supporting factor in commiting fraud. Arrogance can be measured by frequent number of CEO's picture which means that arrogance level of course valued by a CEO attitude, because CEO is the highest management within a company.

IV. CONCLUSION, LIMITATION AND RECOMENDATION

CONCLUSION

Based on the analysis and discussion, it can be concluded that the testing which is conducted simultaneously using re-sampling blindfolding shows that:

1. Financial stability have a significant influence on financial statement fraud
2. Ineffective monitoring have a significant influence on financial statement fraud
3. Change in auditors doesn't have influence on financial statement fraud
4. Change in directors doesn't have influence on financial statement fraud

5. Frequent Number of CEO's Picture have a significant influence on financial statement fraud

LIMITATION

The limitations of this study are as follows:

1. The period of this research just 3 year's that 2015-2017
2. The research object is only focused on manufacturing companies listed in Indonesian Stock Exchange.
3. This study has not tested all variable that represent of fraud triangle perspective on detection fraudulent financial statement.

SUGESTION

Based on the research results, it is expected that;

1. Expand the research object on kind of the other companies.
2. Add variables that have not been tested in the research related fraud pentagon for example personal financial need, organizational structure, nature of industry, capital turnover and the other variable.

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