

The Fraud Triangle on Fraudulent Financial Reporting in Banking Companies Listed on the Indonesia Stock Exchange

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ABSTRACT : The purpose of this research is to determine the impact of the fraud triangle on false financial reporting. The researcher employs five independent factors: financial goal, financial stability, auditor change, ineffective monitoring, and external pressure, as well as one dependent variable, namely false financial reporting. A quantitative technique was applied in this investigation. Secondary data sources were gathered from the financial statements of banking businesses listed on the IDX. This research consists of all banking businesses listed on the IDX from 2016 through 2020. According to the findings of this study, the approach for collecting samples employs the purposive sampling method. The data analysis approach used was logistic regression analysis. Data analysis techniques are carried out through analysis logistic regression. This study uses the Beneish M-Score formula as a calculation model which was then processed using the IBM SPSS Statistics 20 program. Results obtained on this research is (1) Financial Stability does not affect Fraudulent Financial Reporting, (2) External Pressure has no effect on Fraudulent Financial Reporting, (3) Financial Target has no effect on Fraudulent Financial Reporting, (4) Change in Auditor does not affect Fraudulent Financial Reporting, (5) Ineffective Monitoring does not affect Fraudulent Financial Reporting.

KEYWORDS : *Financial Stability, External Pressure, Fraudulent Financial Reporting, Ineffective Monitoring, Financial Target, Change in Auditor*

I. INTRODUCTION

Due to factors like digitalization, interest rate rivalry, and investor competition for capital, companies in the Indonesian banking sector are continuing to develop rapidly. This is because the problems in the banking business are becoming more complex, and if the bank is unable to compete, it may resort to fraud or deception. Fraud that is committed purposefully, either directly or indirectly, to acquire personal advantage at the cost of other parties is undoubtedly illegal and may be executed by internal and external parties (Sukriman& Sari, 2013). In addition, fraud is unlawful conduct that may be a well-designed strategy to generate money. Albrecht and colleagues (2011)

Fraudulent financial reporting is often done by various businesses, either in banking industry. This may occur if the corporation understates its obligations and costs (understates) or overstates its riches (overstates). Anyone at any level who has the chance can accomplish it. According to the 2014 ACFE (Association of Certified Fraud Examiner) report, the banking and financial industry has the most significant incidences of fraud when compared to other sectors (Chyntia and Puji, 2016). PT. Bank Bukopin Tbk amended its 2016 financial statements, as it did in May 2018. The report's factors also changed dramatically. In 2016, for example, a profit of Rp 1.08 trillion was achieved. However, the company's finances declared a profit of Rp 183.53 billion in 2017. Not only is the profit variable volatile, but so are the total interest income and sharia. Bukopin, who noticed the disparity in the statistics, informed KAP and OJK (Financial Services Authority). The firm then opted to resubmit the 2016 financial statements of its internal performance. Thus, the behavior of abnormalities in current financial accounts is taken into account to be discovered and eradicated. Therefore, financial reports are reliable and auditors can maximize the quality of their audits, as well as trust from the public and stakeholders (economy.kompas.com, 2018).

Cases of fraud almost always occur if they are not caught or avoided in advance. The fraud triangle is one of the preventative measures employed in this research. When you cheat, you must have a motive for doing so. Cressey interviewed many scammers and discovered that three variables are always present when someone loses confidence. Opportunity, pressure, and rationalization are the three variables (Abdullahi and Mansor, 2015). For

starters, pressure is a motivator to commit fraud. Pressure is often driven by necessity and financial concerns, but it may also be motivated by greed. Second, an opportunity has the potential for deception. Third, rationalization occurs because individuals are based on their activities in making bad mistakes (Aghhaleh et al.,2014).

According to SAS No. 99, four sorts of pressures might result in financial statement fraud: personal financial need, financial stability, financial objectives, and external pressure. Finally, opportunity (opportunity) may develop in three ways: organizational structure, industry nature, or insufficient oversight. Rationalization is the third component of the fraud triangle, including switching auditors and audit views (Laila and Marfuah, 2015). Researchers M. Aditya and Ninuk (2017) discovered that leverage, change in auditor (CPA), and financial stability (TA) have an impact on false financial reporting utilizing Pentagon fraud with banking businesses listed on the IDX from 2011 to 2015. Conversely, ineffective monitoring (BDOUT) and economic objectives (ROA) have little impact on false financial reporting.

Researchers Mega and Deliza (2019) also used the Pentagon Fraud with banking companies listed on the IDX from 2015 to 2017 as a research sample, concluding that ineffective monitoring (BDOUT) and financial stability (TA) had an effect on ROA (financial target) and fraudulent financial statement, but that a change in auditor (CPA) has no impact on the fraudulent financial statement. Researchers Nella and Hanung (2019) concluded that financial targets (ROA) affect financial statement fraud, while BDIN (ineffective monitoring), external pressure (leverage), and financial stability pressure (ACHANGE) do not involve financial statement fraud using Fraud Diamond with banking companies from 2014 to 2016 listed on the IDX as research samples. Thus, we would like to review this research entitled "The Effect of Fraud"triangle Against Fraudulent Financial Reporting in Banking Companies Listed on the Indonesia Stock Exchange in 2016-2020" using ineffective monitoring independent variables, external pressure financial targets, change in auditors and financial stability, and the dependent variable Fraudulent Financial Reporting.

II. LITERATURE RIEVIEW

Effect of Financial Targets on Fraudulent Financial Reporting

According to SAS No. 99, when a corporation manipulates earnings, it can do so because it matches analyst standards and forecasts, such as the previous year's profit (Lintang, 2018). Financial objectives are used as a criterion for workers to get raises, bonuses, or other benefits. A difficult financial condition may put a lot of strain on management. If the corporation fails to reach the financial targets that have been established, the company may conduct financial reporting fraud. Management may go to any length to accomplish particular financial objectives, including financial statement fraud (Hanifah and Sofie 2019).

Effect of Financial Stability on Fraudulent Financial Reporting

If the company's situation is insecure, managers may feel under pressure (Mardianto and Carissa, 2018). Corporate management is often encouraged to properly preserve and manage company assets to maximize earnings and maximize returns (Nella and Hanung, 2018). By demonstrating consistent total support every year, the firm may pique the curiosity of investors and creditors who will provide money to the company. As a result, management may take whatever action necessary to create and restore financial stability, such as acting on false financial reporting (Mega and Delliza, 2019).

Effect of External Pressure on Fraudulent Financial Reporting

If a corporation wishes to acquire external debt, loan payments must remain consistent once obtained. If the firm has a considerable loan amount, it may be deemed a high loan amount or credit risk, raising concerns that the company would not repay the debt. As a result, the corporation must be able to get out of this condition to be regarded as capable of repaying its debt fraudulently (Nella and Hanung, 2018).

Effect of Ineffective Monitoring on Fraudulent Financial Reporting

Fraud This might occur due to a lack of oversight by the board of directors and the audit committee. The supervisory unit is crucial because internal control may help to avoid fraud. In the lack of a supervisory team inside a corporation, management may believe that it is not held to stringent standards and may freely conduct fraud (Dabella and Nawawi, 2019).

Effect of Change In Auditor on Fraudulent Financial Reporting

If the organization did not replace the prior auditor, it is possible that the auditor knows the company's dangers or business procedures and may even forecast fraud. If a corporation abruptly dismisses auditors and regularly changes auditors, something terrible may happen to the company, such as fraud, since doing so reduces the probability of identifying fraudulent conduct. (Mega and Delliza,2019).

III. METHODS

2.1 Research Approach

In this case, the researcher used a quantitative technique. At the same time, this technique employs data in the form of numbers, which serve as tools in assessing the fraud triangle in fraudulent financial reporting to address every issue raised by this study, particularly in the banking industry.

2.2 Sources and Methods of Data Collection

This study's data were derived from secondary sources. First, data from the banking industry's financial statements, posted on the IDX are utilized in this research.

In the method of data collection we used documentation. the documentation technique is a way in which the data collecting system is in secondary form, which includes financial reports, notes, images, someone's work, or other sources that can be used according to the IDX official website.

2.3 Population and Research Sample

The population of this research includes all firms in the banking industry listed on the IDX between 2016 and 2020. the technique used to take samples using purposive sampling method. The following is a description of the sample circumstances employed, which are as follows:

Table 1

No	Description	Total
1.	Banking companies listed on Indonesia stock exchange (IDX) during period 2016-2020	45
2.	Banking companies that didn't publish their financial statements during period 2016-2020	(9)
3.	Banking companies that do not have profits.	(11)
	Number of sample	25
	Number of periods	5
	Number of observations= 25 x 5	125

Table 2. Operational Definition and Measurement of Variables

Variable	Konsep	Indikator	Scale
Financial Target (X1)	A condition where there is undue pressure on management to achieve financial targets set by the board of directors or management (Lintang, 2018)	ROA : $\frac{\text{Earning After Interest and Tax}}{\text{Total Assets}}$	Ratio
Financial Stability (X2)	Where the company's financial status is stable (Lintang, 2018)	ACHANGE = $\frac{(\text{Total Assets}_y - \text{Total Assets}_{(y-1)})}{\text{Total Assets}_{y-1}}$	Ratio
External Pressure (X3)	Circumstances that put undue pressure on management to meet third party requirements and expectations (Eko and Dhini, 2019)	LEV = $\frac{\text{Total Debt}}{\text{Total Assets}}$	Ratio
Ineffective Monitoring (X4)	Based on SAS No. 99, Ineffective Monitoring is a Company condition where there is no	BDOUT = $\frac{\text{Number of Independent Commissioners}}{\text{Number of Commissioners}}$	Ratio

	good internal control (Agung and Albertus, 2019)		
Change in Auditor (X5)	The Company's financial statement are carried out on the change of the external auditor to carry out the report audit fuction (Dicky, 2017)	Dummy Variable. If there is a company that changes KAP in 2016-2020 gets a score of 1. If it doesn't replace KAP in 2016-2020 gets a score of 0.	Nominal
Fraudulent Financial Reporting (Y)	Disclosure of Inaccurate Financial Statements with the intention of harming or deceiving report users. (Lintang, 2018)	Dummy Variable. If there are companies that commit fraudulent financial statements in the 2016-2020 period, they're given a score of 1. If the company doesn't act Fraud Financial Statements for 2016-2020 period are given a value of 0.	Nominal

We may use the Beneish M-score formula as a computer model to identify odd movements in financial reporting to determine whether the firm has fraud or not (Mardianto and Carissa, 2019). The Beneish M-Score will take into account eight factors. Furthermore, the Mscore measurement incorporates the outcomes of each variable and is included into the algorithm:

$$M\text{-Score} = -4.84 + 0.92 \cdot DSRI + 0.528 \cdot GMI + 0.404 \cdot AQI + 0.892 \cdot SGI + 0.115 \cdot DEPI - 0.172 \cdot SGAI + 4,679 \cdot TATA - 0.327 \cdot LVGI$$

If the M-Score > -2.22, it proves that there is fraud in the financial statements of the company.

Table 3. Beneish M-Score Formula

Name	Formula	Base
<i>Day's Sales in Receivable</i>	$DSRI = \frac{\text{Account Receivable}}{\text{Sales}}$	This year/Last year
<i>Gross Margin Index</i>	$GMI = \frac{\text{Gross Profit}}{\text{Sales}}$	This year/Last year
<i>Asset Quality Index</i>	$AQI = 1 - \frac{\text{Currrent Assets} + \text{Fixed Assets}}{\text{Total Assets}}$	This year/Last year
<i>Sales Growth Index</i>	$SGI = \text{Sales}$	This year/Last year
<i>Depreciation Index</i>	$DEPI = \frac{\text{Depreciation}}{\text{Depreciation} + \text{Fixed Assets}}$	This year/Last year
<i>SG&A Expense Index</i>	$SGAI = \frac{\text{SGAI}}{\text{Sales}}$	This year/Last year
<i>Leverage Index</i>	$LVGI = \frac{\text{Total Liability}}{\text{Total Assets}}$	This year/Last year
<i>Total Accruals to Total Assets</i>	$TATA = \frac{\text{Net Profit} - \text{Cash flow from operating activities}}{\text{Total Assets}}$	This year

Source: Mardianto and Carissa, 2019

2.5 Data Analysis Method

Hypothesis testing using logistic regression analysis by utilizing the regression equation, namely:

$$\ln\left(\frac{p}{1-p}\right) = \alpha_0 + B1X1 + B2X2 + B3X3 + B4X4 + B5X5 + e$$

Where :

$Ln\left(\frac{p}{1-p}\right)$ = Fraudulent Financial Reporting

α = Constant

X1 = ROA

X2 = ACHANGE

X3 = LEV

X4 = BDOUT

X5 = Change In Auditor

e = Standar Error

2.6 Classic Assumption Test

Multicollinearity Test

This test determines if there is a connection or relationship between the independent variables in the regression model. There is no association between the independent variables in a good regression model (Ghozali, 2018: 105). The tolerance score or VIF may be used to identify this test (Variance Inflation Factor). If the VIF score is 10, there is no multicollinearity. If the VIF score is more than 10, the data is multicollinear.

1. Wald's Test (Partial t Test)

Partial test of the logistic regression coefficient through the Wald test. Set a significant level of 5% ($\alpha = 0.005$) and the test conditions are (Ghozali, 2018:99):

- If the p-value < 0.005 , reject H_0 and accept H_a , meaning that the independent variable affects the dependent variable.
- If the p-value > 0.005 , accepting H_0 or rejecting H_a , it means that the independent variable does not affect the dependent variable.

2. Omnibust Test of Model Coefficient (Simultaneous Test f)

It is used to see whether the independent variables simultaneously have an effect on the dependent variable (Ghozali, 2018:99). The Chi-square score on the omnibust test of model coefficient is a decrease in the score of -2 Log Likelihood. If the Chi-square score proves the significant score is below 0.05, then the conclusion is that the dependent variable can be used in the research model to estimate the dependent variable simultaneously.

IV. RESULTS

Throughout the 2016-2020 observations, the data utilized are those given on the IDX. The number of study samples is 125, which is 25 banking businesses multiplied by 5 years of research. The logistic regression model employed in the research is utilized to understand the influence of each independent variable on the dependent variable.

**Table 3.1 Test Results -2 Log likelihood (Block Number = 0)
Iteration Historya,b,c**

Iteration	-2 likelihood	Logs	Coefficients
			Constant
1	148,344		-.880
Step 0 2	148,238		-.944
3	148,238		-.944

a. Estimation terminated at iteration number 3 because parameter estimates changed by less than .001.

b. Initial -2 Log Likelihood: 148,238 c Constant is included in the model.

Based on table 3.1, before being distributed the independent variable score -2 log likelihood step 0 has a value of 148.238.

Table 3.2 Test Results -2 Log likelihood (Block Number = 1)

		Iteration History ^{a,b,c,d}						
Iteration	-2 Log likelihood	Coefficients						
		Constant	ROA	ACHANGE	LEV	BDOUT	CIA	
Step 1	1	144.507	1.452	-12.336	1.227	-3.432	.852	-.171
	2	144.237	1.770	-14.599	1.359	-4.061	1.067	-.214
	3	144.237	1.783	-14.686	1.363	-4.086	1.076	-.216
	4	144.237	1.783	-14.686	1.363	-4.086	1.076	-.216

a. Method: Enter

b Constant is included in the model.

c. Estimation terminated at iteration number 4 because parameter estimates changed by less than .001.

d. Initial -2 Log Likelihood: 148.238

Based on table 3.2, the results after entering the independent variable the score of -2 log likelihood step 1 decreased to 144.237.

Table 3.3 Hosmer Test Results and Lemeshow Test

Hosmer and Lemeshow Test			
Step	Chi-square	Df	Sig.
1	8.644	8	.373

In table 3.3, the chi-square score is 8,644, and the significant number is 0.373.

Table 3.4 Cox & Snell's R-Square . Determination Coefficient Results

Model Summary			
Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	144.237 ^a	.032	.045

a. Estimation terminated at iteration number 4 because parameter estimates changed by less than .001.

Based on the test results of the Nagelkerke R Square score in table 3.4, the coefficient of determination is 0.045, which means that the variability of the dependent variable that the independent variable can describe is 4.5 percent. In comparison, the remaining 95.5 percent is a variable that is not discussed.

Table 3.5 Omnibus Test Results

Omnibus Tests of Model Coefficients			
	Chi-square	df	Sig.
Step	4.001	5	.549
Step 1 Block	4.001	5	.549
Model	4.001	5	.549

According to table 3.5, the findings of the omnibus value are significant > 0.05. Therefore, if the considerable matter is 0.5 or less than 5%, the independent variable influences the dependent variable at the same time. However, if the significant value is more than 0.5 percent or greater than 5%, the independent variable does not impact the dependent variable concurrently. Hence the conclusion from the table above is that X1-X5 have no simultaneous effect on the Y variable.

Table 3.6 Walt Test and Logistic Regression Analysis Test

		Variables in the Equation					
		B	S.E.	Wald	Df	Sig.	Exp(B)
Step 1 ^a	ROA	-14.686	28.988	.257	1	.612	.000
	ACHANGE	1.363	1.295	1.108	1	.293	3.907
	LEV	-4.086	3.854	1.125	1	.289	.017
	BDOUT	1.076	1.663	.419	1	.518	2.933
	CIA	-.216	.571	.143	1	.705	.805
	Constant	1.783	3.442	.268	1	.604	5.947

a. Variable(s) entered on step 1: ACHANGE, ROA, BDOUT, LEV, CIA.

The Logistics Regression Analysis Model is based on the Variables in the Equation table with the following equation: p

$$\ln\left(\frac{p}{1-p}\right) = 1.783 + -14.686 X1 + 1.363X2 + -4.086X3 + 1.076X4 + -0.216X5 + e$$

Where :

$\ln\left(\frac{p}{1-p}\right)$ = Fraudulent Financial Reporting

α = Constant

X1 = ROA

X2= ACHANGE

X3= LEV

X4= BDOUT

X5= Change In Auditor

e = Standard Error

Based on table 3.6, the wald value of the financial target variable is 0.257, or a significant figure of 0.612 above a significant figure of 0.05, or 5%, implying that, if H1 is rejected, there is no effect of financial targets on fraudulent financial reporting in IDX-listed banking companies from 2016 to 2020. The findings of this study are consistent with those of researchers M. Aditya and Ninuk (2017) and Mega and Deliza (2019). This can occur if the amount of current wealth exceeds the number of existing loans the company has in one year, resulting in the company paying off existing loans and being fraudulent. As a result, companies do not need to file financial reports to fabricate profits, and the findings of this study vary from those of researchers Nella and Hanung (2019).

Based on table 3.6, the wald value of the financial stability variable is 1.108, or a significant figure of 0.293 above the significance number of 0.05 (5 percent), implying that H2 is rejected, meaning that financial stability does not influence fraudulent financial reporting in the banking industry. Will post Observations from 2016 to 2020 on the IDX. The findings of this study are consistent with those of researchers Nella and Hanung (2019). This might occur when the value of a company's assets increases. This might be attributed to the increase in wealth, third-party funding, and loans given during that period. Meanwhile, the findings of this study vary with those of academics M. Aditya and Ninuk (2017) and Mega and Deliza (2019).

According to table 3.6, the wald value on the external pressure variable is 1.125, or the significance level is 0.289 higher than the significant figure of 0.05 (5 percent), implying that H3 is rejected, meaning that there is no effect of external pressure on fraudulent financial reporting in the banking industry as recorded on the IDX between 2016 and 2020. The findings of this study are consistent with those of researchers Nella and Hanung (2019), which may occur when organizations that engage in deceptive financial reporting have little leverage. This is because creditors do not now analyze the amount of leverage used. Still, other factors are to consider, such as the firm's high and low free cash flow and a solid connection between the company and its creditors. In the meanwhile, the findings of this investigation vary from those of M. Aditya and Ninuk (2017).

Based on table 3.6, the wald value for the ineffective monitoring variable is 0.419, or the significant figure is 0.518, which is greater than the considerable figure of 0.05 or 5%, so the conclusion is that H4 is rejected, which means that ineffective monitoring has an effect on fraudulent financial reporting in the banking industry that is listed on the IDX from 2016 to 2020. The findings of this study are relevant to researchers M. Aditya and Ninuk (2017) and Nella and Hanung (2019), as the number and composition of banking directors in Indonesia has been determined by the Financial Services Authority No. 55 / POJK.03/2016 regarding Implementation of Commercial Bank Governance, where the composition of the board of commissioners is required of all members of the board of commissioners at least 50% of the time. Therefore, the more independent external

auditors having no ties to the firm, directors, or shareholders, the better and more effective the company's management. Meanwhile, the findings of this research vary with Mega and Deliza's (2019).

According to table 3.6, the wald value of the change in the auditor variable is 0.143. The significant matter is 0.705, which is greater than the considerable number of 0.05 or 5%, so rejecting H5 means that the change in auditor does not affect fraudulent financial reporting in the banking sector industry—recorded Observations from 2016 through 2020 on the IDX. Mega and Deliza are interested in the study's findings (2019). This is achievable because the firm employs an independent auditor to conduct an audit and provide an impartial review to enhance the company's performance in the future. The findings, however, vary with those of researchers M. Aditya and Ninuk (2017).

V. CONCLUSION

The conclusions from the results of the study are:

1. Ineffective Monitoring does not affect Fraudulent Financial Reporting in banking companies listed on the IDX for the 2016-2020 period.
2. External Pressure does not affect Fraudulent Financial Reporting in banking companies listed on the IDX for the 2016-2020 period.
3. Financial Stability does not affect Fraudulent Financial Reporting in the banking industry listed on the IDX for the 2016-2020 period.
4. Financial Target does not affect Fraudulent Financial Reporting in the banking industry which is listed on the IDX for the 2016-2020 period.
5. Change In Auditor does not affect Fraudulent Financial Reporting on banking companies listed on the IDX for the 2016-2020 period.
6. Simultaneously, the five variables above have no effect on Fraudulent Financial Reporting in the banking industry listed on the IDX for the 2016-2020 period.

This research aims to examine the impact of the fraud triangle on false financial reporting using the Beneish statistical model. M-Score. According to the study's findings, all independent factors did not affect dishonest financial reporting. Consequently, it is proposed that future researches employ additional independent variables such as fraud diamond and pentagon to get better findings. In addition, other statistical models, such as the F-score and Altman Z-score, may also be used by the next researcher.

Furthermore, the results of this research received an R Square score of 4.5 percent, indicating that 95.5 percent of additional factors may impact the dependent variable. As a result, it is believed that the next researcher would be able to broaden the sample by including other elements such as audit opinion and external pressure. We urge that investors thoroughly examine the firm's financial statements in question to determine if the company is likely to conduct fraud in the financial accounts or not so that investors do not incur losses. Companies are required not to complete fabrication to avoid causing damage to other parties such as investors. If the corporation commits fraud, may be imposed civil law consequences. The Civil Code's Article 1365.

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