Diamond Fraud Analysis in Detect Financial Statement Fraud in Lq45 Company List on The Indonesia Stock Exchange 2018-2020

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Abstract

LQ45 company is a company that collects 45 certain stocks with high liquidity levels and adequate market capitalization. This study aims to detect the occurrence of fraudulent financial statements through the perspective of diamond fraud in LQ45 companies listed on the Indonesia Stock Exchange in 2018-2020. In this study, indications of financial statement fraud are proxied by earnings management, which is measured using the Modified Jones model. The method used in this research is literature study and documentation. The sample in this study was decided by using the purposive sampling method from LQ45 companies listed on the Indonesia Stock Exchange during 2018-2020, resulting in a total of 66 company observations. The data analysis used in this research is multiple linear regression analysis. The results of this study indicate that the pressure and rationalization variables have no partial effect on financial statement fraud. In contrast, the opportunity and capability variables have no partial effect on financial statement fraud. Simultaneously, diamond fraud has a significant effect on financial statement fraud.

Keywords: *Financial Statement Fraud, Diamond Fraud, Earnings Management.*

1. INTRODUCTION

Fraud is an action that often occurs in a company. With this action, the company will be harmed indirectly. Fraud is all intentional misstatement of a hidden truth to deceive other parties and can indirectly harm that party. The misstatement in question is by manipulating data in the form of fraud, surprises, detrimental cunning strategies, and financial statement irregularities.[1]

The Association of Certified Fraud Examiners Indonesia Chapter describes the classification of the most detrimental fraud divided into three typologies (main branches): corruption, misappropriation of assets and fraudulent financial statements.[2] Financial statement fraud is an action taken to cover up the company's financial condition by manipulating financial statements in presenting financial statements to stakeholders (stakeholders) to lure investors into investing in the company, which is analogous to window dressing.[3]

In general, fraud occurs due to the motives behind certain elements to commit fraud. Donald R. Cressey, an inventor of the fraud triangle theory, explains that the driving factors for fraud are grouped into three categories: First, pressure is an act of embezzling company assets by individuals who experience pressure over financial problems. Second, the opportunity is the opportunity to access

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[1] Ni Nyoman Ayu Suryandari and I Dewa Made Endiana, Fraudulent Financial Statement (Bandung: CV Noah Aletheia, 2019), 8. https://www.journals.segce.com./index.php/KARTI/article/view/58

[2] Association of Certified Fraud Examiner Indonesia Chapter, "Indonesia Fraud Survey," (2016): 11, http://acfe-indonesia.or.id/wp-content/uploads/2017/07/SURVAI-FRAUD-INDONESIA-2016.

[3] Suryandari and Endiana, Fraudulent Financial Statement, 18.

company assets. Third, rationalization builds a justification that what is done is not included in the category of fraud. In 2004, the Fraud Triangle Theory was refined by Wolfe Hermanson to become the Fraud Diamond Theory which explains that there will be no fraud cases that touch a high nominal if there are no certain individuals with the capability (ability) in a company.[4]

2. LITERATUR REVIEW

Fraud

Fraud is an act of fraud that is intentionally carried out consciously to obtain personal benefits and will gradually cause harm to other parties, for example: presenting wrong information to cover the misuse of company and state resources for personal enjoyment. Fraud differs from an unintentional error or an error that occurs without intention. If a data input error is accidentally done in recording a transaction, it cannot be categorized as a form of fraud. But suppose someone takes advantage of their intellectual level incorrectly by manipulating financial statements to attract potential investors to invest in their company. In that case, this action can be categorized as fraud.[5]

Diamond Fraud

The fraud diamond theory is a fraud theory developed by Wolfe and Hermanson to refine the theory proposed by Cressey, namely the fraud triangle theory about the elements behind the occurrence of fraud. Wolfe and Hermanson describe updating the fraud triangle to increase the ability. To detect fraud by adding a fourth element to the fraud triangle, namely capability (ability), so that the elements driving fraud, according to Wolfe and Hermanson, are perfect, namely pressure, opportunity, rationalization and capability.

Financial Statement Fraud

Financial statement fraud is a deliberate act carried out to create financial statements that are better than the actual report (overstatement) and or worse than the real report (understatement).[6] Financial statement fraud includes an action taken by an official or executive body of a company to cover up the real condition of the report in the presentation of financial statements for personal gain.[7]

Earnings Management

Earnings management is the behaviour of managers in processing the accrual component of the discretionary section, which serves as a benchmark in determining the value of a company's earnings. Earnings management is allowed on condition that it does not override the rules set out in accounting standards. However, if earnings management carried out by a manager is a game or an attempt to enrich oneself without the other party's knowledge about the real conditions that influence the other party in making decisions. So this can be categorized as an act of fraud.[8]

3. RESEARCH METHOD

The approach used in this research is a quantitative research approach. The source of data in this study was obtained from secondary data from companies in the form of annual reports and financial statements of LQ45 companies listed on the Indonesia Stock Exchange in 2018-2020. The sampling technique used in this research is purposive sampling. The data collection method in this study uses the documentation method and literature study. The documentation method used in this study is through secondary data in the form of annual reports and financial reports on the official website of the Indonesia Stock Exchange (www.idx.co.id) and the company's official website.

The equation for the relationship between the dependent variable (Y) and the independent variable (X) is structured as follows:

$$. Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

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[4] Eko Sudarmanto and Citra Kharisma Utami, "Fraud Prevention with Internal Control in the Perspective of the Al-Quran" JIEI, no. 1 (2021): 2. https://jurnal.stie-aas.ac.id/index.php/jei/article/view/1593

[5] Karyono, Forensic Fraud (Yogyakarta: CV Andi Offset, 2013), 1-5.

[6] Karyono, Forensic Fraud (Yogyakarta: CV Andi Offset, 2013), 17.

[7] Suryandari and Endiana, Fraudulent Financial Statement, 18.

[8] Sulistyanto, Earnings Management: Empirical Theories and Models (Jakarta: Grasindo, 2008), 40.
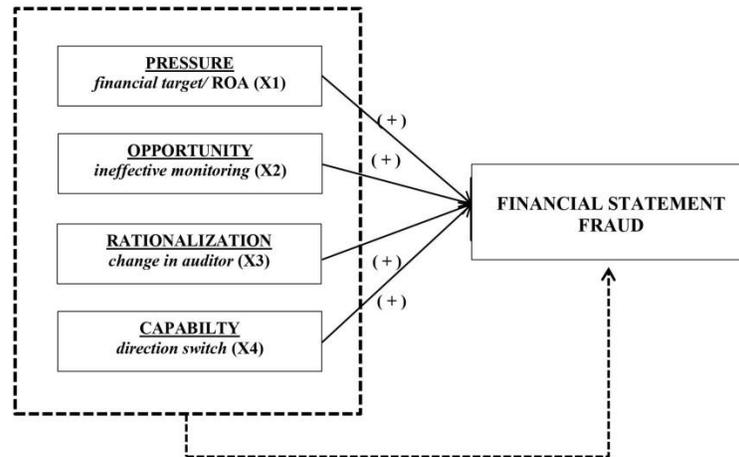
Description:

——————➤   : Partial Test

------➤   : Simultaneous Test

4. RESULT AND DISCUSSION

The data in this study were obtained from the financial statements and annual reports of LQ45 companies listed on the Indonesia Stock Exchange through the official website of the Stock Exchange and related companies. The sample in this study was selected using the purposive sampling method. There were 29 companies, but ten companies are not valid, so the sample that can be used in this study amounted to 19 companies.

Table 1
Normality Test Results
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		57
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	,00456622
Most Extreme Differences	Absolute	,237
	Positive	,202
	Negative	-,237
Test Statistic		,237
Asymp. Sig. (2-tailed)		,000[c]

a. *Test distribution is Normal.*
b. *Calculated from data.*
c. *Lilliefors Significance Correction.*

Source: processed using SPSS 24

Table 1 shows the results of the normality test of pressure, opportunity, rationalization and capability for financial statement fraud. Based on the table above, it can be seen the value of Asymp. Sig (2-tailed) is 0.000c. In this case it shows that the value of Asymp. Sig (2-tailed) was not normally distributed because its significance value was < 0.05.

Table 2
Multicollinearity Test Results
Coefficients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Pressure	,882	1,134
	Opportunity	,940	1,064
	Rationalization	,743	1,346
	Capability	,848	1,179

a. *Dependent Variable: Financial Statement Fraud*

Source: processed using SPSS 24

The results of the multicollinearity test showed that the tolerance value of X1, X2, X3 and X4 was greater than 0.10. Those strengthened by the VIF value of X1, X2, X3 and X4, which showed a smaller number than 10.0. So it can be concluded that the variables of pressure, opportunity, rationalization, and capability are not multicollinear.

Table 3
Partial Test Results
Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,001	,001		,684	,497
	Pressure	1,691	,000	,023	,187	,852
	Opportunity	-,006	,002	-,330	-2,732	,009
	Rationalization	-,001	,002	-,097	-,712	,480
	Capability	-,006	,002	-,337	-2,651	,011

a. *Dependent Variable: Financial Statement Fraud*

Source: processed using SPSS 24

From Table 4.11, the results of the T statistic test (Partial) can be concluded that:
1) The pressure variable shows a sig value of 0.852, which means it is greater than 0.05, meaning that pressure has an insignificant effect on financial statement fraud.
2) The opportunity variable shows a sig value of 0.009, which means it is smaller than 0.05, meaning that opportunity significantly affects financial statement fraud.
3) The rationalization variable shows a sig value of 0.480, which means it is more significant than 0.05. It means that rationalization has an insignificant effect on financial statement fraud.
4) The capability variable shows a sig value of 0.011, which means it is smaller than 0.05, meaning that capability significantly affects financial statement fraud.

Based on the test results, the following multiple linear regression equation is obtained:

$$Y = 0{,}001 + 1{,}691E\text{-}5\ X1 - 0{,}006\ X2 - 0{,}001\ X3 - 0{,}006\ X4 + \varepsilon$$

The pressure variable in this study is proxied by the financial target as measured by return on assets. The test results show a significance value of 0.852 which is greater than 0.05, so the pressure has no significant effect on financial statement fraud. The results of this study are commensurate with Rahayuningsih's research, and the study shows that pressure does not affect financial statement fraud.

And Poppy's research[9] also stated that pressure did not affect the act of financial statement fraud. However, Larum's research, [10] shows that pressure influences financial statement fraud.

The opportunity variable is proxied by ineffective monitoring as measured by external auditor quality. The test results show a significance value of 0.009 which is smaller than 0.05 so the opportunity has a significant effect on financial statement fraud. The results of this study are in line with Imtikhani's research.[11] The results of the study indicate that opportunity has no effect on financial statement fraud. And research Dea[12] also stated that opportunity had no impact on financial statement fraud. However, unlike Prakoso's research,[13] which shows that opportunity has an influence on financial statement fraud.

The change in auditor measures the rationalization variable. The test results show a significance value of 0.480 which is greater than 0.05, so rationalization has no significant effect on financial statement fraud. The results of this study are commensurate with the research of Al Farizi[14] The survey results indicate that rationalization does not affect financial statement fraud. And Wahyuni's research[15] also stated that rationalization did not affect financial statement fraud. However, it is different from Putriasih's research [16] which shows that rationalization influences financial statement fraud.

A direction switch measures the capability variable. The test results show a significance value of 0.011 which is smaller than 0.05 so capability significantly affects financial statement fraud. This study's results align with the research of Wielungga[17] The study's results show that capacity has no effect on financial statement fraud. And Regina's research[18] also stated that capability had no impact on the the act of

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[9] Indriani, Poppy and M. titan Terzaghi. "Diamond Fraud in Detecting Fraudulent Financial Statements." I-Finance, no. 2 (December 2017): 171. https://docplayer.info/79422332-Fraund-diamond-dalam-detect-cheating-report-keuangan-poppy-indriani-1-m-titan-terzaghi-2.html

[10] Larum, Kordianus, Diana Zuhroh and Edi Subiyantoro. "Fraudlent Financial Reporting: Testing the Potential for Fraud Financial Reporting Using Hexagon Fraud Theory." AFRe Accounting and Financial Review 4, no. 1 (2021): 1. https://jurnal.unmer.ac.id/index.php/afr/article/view/5818.

[11] Imtikhani, Lailatul and Sukirman. "Determinants of Fraudulent Financial Statements through Fraud Hexagon Theory Perspective on Mining Companies." Journal of Business Accounting 19, no. 1 (2021): 1. http://journal.unika.ac.id/index.php/jab/article/view/3654.

[12] Eprimia, Dea. "Analysis of the Determinants of Fraudulent Financial Statements from the Fraud Diamond Perspective on Financing Institutions on the Indonesian Stock Exchange." Thesis, UNEJ, 2019.

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[17] Arjapratama, Wielungga, Andi Manggala Putra and Aniek Wijayanti. "Diamond Fraud Analysis of Restatements." Equity, no 1 (2020): 102-103. https://ejournal.upnvj.ac.id/index.php/equity/article/view/2204

[18] Aprilia, Regina. "The Influence of Financial Stability, Personal Financial Need, Ineffective Monitoring, Change in Auditor, and Change in Director on Fraud Financial Statements in Fraud Diamond Perspective (Empirical Study on Manufacturing Companies Listed on the Indonesia Stock Exchange for the Period 2012-1014)." JOM Fekon (2017): 7. https://jom.unri.ac.id/index.php/JOMFEKON/article/view/12920

financial statement fraud. However, it differs from Lamawitak's research[19] which shows that capability influences financial statement fraud.

Table 4
Simultaneous Test Results
ANOVAᵃ

Model		Sum of Squares	df	Mean Square	F	Sig.
1	*Regression*	,000	4	,000	5,237	,001ᵇ
	Residual	,001	52	,000		
	Total	,002	56			

a. *Dependent Variable: Financial Statement Fraud*
b. *Predictors*: (*Constant*), *Capability, Opportunity, Pressure, Rationalization*
Source: processed using SPSS 24

Based on Table 4.10 shows the results of the F (simultaneous) statistical test, namely the value of sig. a number of 0.001b which means that it is smaller than 0.05 means that all independent variables simultaneously significantly influence financial statement fraud.

5. CONCLUSION & SUGGESTION

Based on a series of tests that have been carried out in this study, it can be concluded that LQ45 companies listed on the Indonesia Stock Exchange have partially proven that pressure and rationalization variables have no significant effect on financial statement fraud. In contrast, the opportunity and capability variables significantly impact financial statement fraud. Simultaneously, pressure, opportunity, rationalization and capability significantly affect financial statement fraud in LQ45 companies listed on the Indonesia Stock Exchange.

This research has limitations that must be improved to improve the subsequent investigation. The rules in this study are in the research object used and the sub-variables selected in measuring this research. The sub-variables used in this study are pressure using financial targets, opportunity using ineffective monitoring, rationalization using change in auditors and capability using direction switches. Suggestions for future research are to expand the year of study on companies listed on the Indonesia Stock Exchange.

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