FRAUD DIAMOND: DETECTION ANALYSIS ON THE FRAUDULENT FINANCIAL REPORTING

Stefani Lily Indarto*, Imam Ghozali**

* Soegijapranata Chatolic University Semarang, Indonesia, Faculty of Economics and Business, Diponegoro University, Indonesia
**Faculty of Economic and Business, Diponegoro University, Indonesia

Abstract

The accounting scandal became one of the reasons for analyzing financial statements in order to minimize fraud against the financial reporting. Therefore, companies use the services of a public accountant to audit the financial statements of companies that are expected to limit the fraudulent practices that increase the public's confidence in the company's financial statements. This study aims to detect fraud by using analysis of fraud diamond . This study takes banking companies listed on the Indonesian Stock Exchange in 2009-2014, with a total sample of 149 banks. Based on the results the external pressure, financial stability and capability have influence on fraudulent financial reporting. While target financial, ineffective monitoring and rationalization does not affect the fraudulent financial reporting.

Keywords: Fraud Diamond, Financial Reporting, Accounting Scandals, Fraudulent Reporting

1. INTRODUCTION

1.1. Background

The number of accounting scandals that occurred is one reason for the analysis of the financial statements in order to minimize fraud against the financial statements. Therefore, companies that use the services of a public accountant to audit financial is expected to limit the practice of fraudulent financial statement that is usually associated with earnings management, so it is expected to increase public confidence in the company's financial statements. The object of this study is a banking company. Banking companies have tighter regulation compared with other industries. In the banking world, despite the use of high technology remains vulnerable to fraud. Cases of fraud that occurred in the banking sector include the provision of credit to the documents and fictitious guarantees in bank, involving account officer bank. The total loss of IDR 3,6 billion. Besides the disbursement of deposits and savings run bank customers burglary involving five suspects, one of the bank's customer service. Modus is done by falsifying the signature on the withdrawal slip, then transferred to the account of the suspect. This case was reported with total losses of IDR 18 billion. Another event is the modus head teller bank withdraw cash with customers repeatedly IDR 1,9 billion and 110,000 US dollars. The increase in the various cases in the world of accounting scandals led to various parties speculate that the management of committing fraud in the financial statements. The existence of this phenomenon makes researchers interested in studying further these variables.

The concept was first used to detect the cause of the fraud was first developed by Cressey (1953) in Albrecht et al. (2010) with the name of fraud triangle which consists of three components, namely: pressure, opportunity, and rationalization. Fraud triangle concept adopted in SAS 99, with the aim to increase effectiveness in detecting fraud auditor to assess risk factors for enterprise fraud (Skousen et al, 2011). Fraud triangle model is then developed in a study conducted by Turner et al. (2003), Lou and Wang (2009) and Chen et al (2011) which explains that the occurrence of fraud in the financial statements can be caused by stress such as financial stability pressure, external pressure, personal financial needs and financial targets. SAS 99 classifying opportunities that may occur in fraudulent financial statements into three categories, namely the nature of the industry, ineffective monitoring, and organizational structure. While rationalization is the third part of the fraud triangle that is difficult to measure. In the process, discovered the theory to identify and assess fraud by adding the ability components. Fraud will not occur if corporate governance is implemented properly so that it can be used to regulate and control the enterprise in order to create added value for all stakeholders. Corporate governance can work well when applying the principles of transparency, accountability, fairness, and responsibility. Given these principles, the management of the company healthy and responsible can be achieved, so as to commit fraud takes people who have the ability to understand and exploit the accounting and internal control systems. Corporate governance is directed at reducing the information asymmetry between principal and agent, which in turn can reduce earnings management action. This theory successfully predicts correctly and showed a substantial increase compared to other fraud predictive models. Corporate governance can work well when applying the principles of transparency, accountability, fairness, and responsibility. Corporate governance is directed at reducing the information asymmetry between principal and agent, which in turn can reduce earnings management

action. In other words, to commit fraud takes people who have the ability to understand and exploit the accounting and internal control systems.

Fraud is one result of weak supervision so that the agent or the manager can perform earnings management. In particular, independent directors who are part of the commissioners was instrumental in minimizing the earnings management, which is one form of Fraudulent Financial Reporting committed by management. Skousen et al. (2011) found that the company has a high debt ratio are motivated to manipulate earnings. Companies would rather commit fraud in financial reporting when they have the opportunity to perform earnings management in order to make them look successful performance in front of the shareholders. Likewise Dorminey (2010) argues that companies that are in the condition of lower liquidity levels may motivate management to commit fraud on the financial statements. In carrying out its performance, the company's managers are also required to do the best performance in the achievement of planned targets, assess performance of managers in determining bonuses and wage increases. Therefore, the higher the ROA targeted company more vulnerable the company will perform earnings management, which is one form of financial statement fraud. ROA is a profitability ratio that is used to measure the effectiveness of the company in generating profits by exploiting its assets.

Dechow et al. (2012) explains that the company has weak corporate governance and dominated by insiders tend not to have an audit committee experience the highest incidence of fraud. This opinion is reinforced by Rasha and Andrew (2012) which concluded that fraud is more likely to occur when the concentration of power in the hands of insiders. If a firm ineffective monitoring conducted by the board of commissioners is less, then fraud can occur in the company due to lack of supervision In addition the study showed that the auditors at large KAP has a better ability to detect fraud because large KAP has a goal to provide rigorous external supervision of the financial reporting process to avoid a bad reputation. Every company that went public was also required to make the turn accountant and audit partner by the rules to prevent too deep auditor interact with clients that could interfere with their independence. Entities which often do little tendency to turn auditor does not perform fraudulent financial reporting.

This study draws on research Amara et al., (2013) by using debt, liquidity, ROA as a proxy of variable pressure, opportunity proxied by the quality of internal audit, rasionalization proxied by the change of auditors is based on research Skousen et al., (2009), as well as the ability of proxy with the independence of the board. As a measurement model, this study uses earnings management variables as the dependent variable. The purpose of this research is intended to detect and acquire empirical evidence of the effect of fraudulent financial reporting using fraud diamond analysis based on external pressure, financial stability, financial targets, ineffective monitoring, rationalization, as well as capability.

1.2. The Research Problem

The formulation of the problem posed in this study are as follows:

(1) Does the external pressure positive affect fraudulent financial reporting? (2) Does the financial stability negatively affect fraudulent financial reporting? (3) Does the financial targets negatively affect fraudulent financial reporting? (4) Does the ineffective mentoring negatively affect fraudulent financial reporting? (5) Does rationalization negatively affect fraudulent financial reporting? (6) Does the capability negatively affect fraudulent financial reporting?

2. LITERATURE REVIEW

2.1. Fraud Diamond Theory

Rasha and Andrew (2012) explains that there are four factors that underlie the existence of fraud, namely (1) Pressure, namely the existence of incentives to encourage people to commit fraud; (2) Opportunity, which is a situation that opens the opportunity to allow fraud to occur; (3) The rationalization, which is an attitude, a character that allows certain parties to commit acts of fraud; (4) Capability is the nature and the ability of individuals who have a big role which enable fraud. It is a development of the Fraud Triangle theory that has been developed previously by Cressey. Explanations related to fraud risk factors can be seen in Table 1.

Fraud will not happen without the individual's ability. In commit fraud, a person must have the ability to see the gap as an opportunity to commit fraud and take advantage. So fraud because of the opportunity to do so, pressure and rationalization that makes people want to do and the ability of individuals who are able to realize them. Therefore, companies use the services of a public accountant to audit the financial statements of the company, which is expected to limit the practice of fraud, so that is expected to increase public confidence in the company's financial statements.

2.2. Earning Management

Tahler and Lakhal (2010) defines earnings management as an intervention against external financial reporting process to gain some personal advantage. Obscurity management information generated will ultimately mislead the users of the report in the decision making process. The higher the information asymmetry between the manager (agent) with the owner (principal), encouraging earnings management action by management. In the end, it will trigger the higher cost of agency and showed a positive relationship between information asymmetry with earnings management. Profit is often used various parties as a means to predict the future growth rate of earnings and repayment rates. Management actions profit occurred because the manager of the company, which in running operasioal company is always monitored by the stakeholders, have strong incentives to practice earnings management. Earnings management action by management due to conflict of interest and asymmetric information with the owner is one form of financial statement fraud. Based on these

descriptions, it can be concluded that the agency problem between owners (principal) and management (agent) can cause fraudulent financial reporting are misleading and harmful.

Table 1. Fraud Risk Factor in a SAS 99 Relating to Fraud Financial Statements

Fraud Risk Factor	Category according to SAS 99	Definition and Examples of Risk Factors
Pressure	Financial Stability	Describes the state of stability in the financial condition of a company. The Company may undertake earnings manipulation when financial stability is threatened.
	External Pressure	Excessive pressure for management to meet the expectations of third parties to provide the best performance.
	Personal Financial Need	Financial state of companies that are affected by the financial condition of the company executives. Management compensation depends on the achievement of targets, results of operations, financial position, or cash flow management.
	Financial Targets	Excessive pressure on management to achieve the financial targets set by the board of directors or management. The Company may manipulating earnings to meet analysts' expectations as profit the previous year.
Opportunity	Nature Of Industry	The emergence of risk for the company which involves certain estimates and judgments.
	Ineffective Monitoring	The circumstances in which the company has no effective supervisory unit to monitor the performance of the company. Domination of management by a single person or a small group without compensating controls, ineffective oversight of the board of directors and the audit committee on the financial reporting process and internal controls.
	Organization Structure	Complex organizational structure, or the rotation of senior personnel of the company as managers or directors.
Rationalization	Rationalization	Attitude of board members, management, or employees that allow them to engage in and / or justify fraudulent financial reporting.
Capability	Capability	The nature and capabilities of the private person who has a big role which allows committing a fraud.

Source: Rasha & Andrew (2012)

2.3. Fraudulent Financial Reporting

Association of Certified Fraud Examiners (ACFE) is an organization of the world's largest anti-fraud and as a major provider of education and training anti-fraud. AFCE defines cheating (fraud) as an act of fraud or mistake made by a person or entity who knows that the error could result in some benefits that are not either to individuals or entities or any other party. Fraudulent financial reporting may cause a decrease in the integrity of financial information and may affect several parties. In addition to investors and creditors, auditors are victims of fraud financial statements as they may suffer losses and / or loss of reputation. Therefore, the auditor must understand the ways taken by certain parties in the fraud practice.

2.4. Research Model

The systhematic process of implementation this research can be described in the following scheme:

Figure 1. Research Model

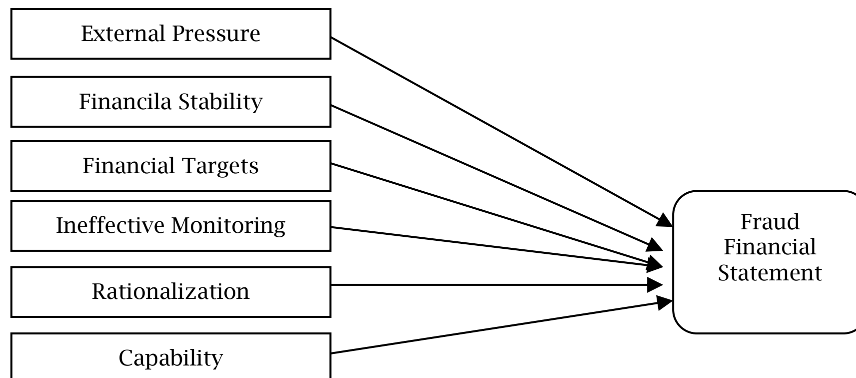

Figure 1 illustrates the research model. Fraud against the financial reporting made by the manager aims to show good performance and satisfactory for investors and creditors, despite the fact that the financial statements are often misleading. This study will detect fraud in financial reporting using fraud diamond analysis, which includes four general conditions in the case of fraud, namely: pressure (external pressure, financial stability, and financial targets), opportunities (ineffective monitoring), rationalization, and capability. In this study, the external pressure is proxied by debt, financial

stability is proxied by liquidity, and financial targets proxied by ROA. to ineffective monitoring proxied by the quality of the external audit. For rationalization proxied by the turn of the auditor, and to ability proxied by independent board. As for financial reporting fraud proxied by earnings management. This research is interesting because it uses variables that measure the ability of a person's capability to commit fraud. The practice of fraud is one of the effects of weak supervision so as to give an opportunity to the agent or manager for inappropriate behavior by performing earnings management. Independent commissioner was instrumental in minimizing the earnings management, which is one form of financial statement fraud committed by management.

2.5. Hypotheses Development

2.5.1. External pressure

Companies often experience a pressure from external parties. One of the pressures that are often experienced by the company's management is the need to obtain additional debt or external sources of funding in order to stay competitive, including financing research and development or capital expenditures. Companies that have a high debt ratio memanipuasi motivated for profit. Companies would rather commit fraud in financial reporting when they have the opportunity to perform earnings management in order to make them look successful performance in front of the shareholders. Managers can manipulate the financial statements because of their need to meet debt covenants. This shows that the higher level of debt can increase the likelihood of fraudulent financial statements. Research conducted by Dechow et al. (2012) and Amara et al. (2013) found a positive relationship between the level of debt and the possibility to commit fraud. this can be done in a way to shrink the debt ratio to achieve the interests of those who obtained loans again. Based on the description, the hypothesis in this study as follows:

H1: *Companies that have a large debt ratio would create the possibility for the occurrence of fraudulent financial reporting.*

2.5.2. Financial stability

According to SAS 99, managers face pressure to commit fraudulent financial reporting when financial stability is threatened by economic, industry, or entity operating situation (Skousen et al., 2011). One of them depicts the financial stability of the company's ability to resolve short-term liabilities. It can be calculated through current assets and liabilities. Liquidity in this study using a proxy loan to deposit ratio (LDR), which is the ratio of total credit granted to the funds received by the bank. LDR is healthy if it is at the limit of 78% - 100%. This ratio describes the ability of banks to attract depositors by relying on credit as a source of liquidity. The higher this ratio, the lower the ability of bank liquidity. Managers will act to perform a variety of ways when the company was in a state of not performing well in order to prove to the shareholders that the condition of a healthy and successful company, so managers will commit fraud in financial reporting. Albrecht (2010) also found that companies that have liquidity problems will have a lot more errors in the financial statements than other companies that do not have a liquidity problem. Based on the description, the hypothesis in this study as follows:

H2: *The low liquidity of the ability of a company can cause managers will commit fraud in financial reporting to show the condition of the company remains healthy and successful.*

2.5.3. Financial target

In carrying out its performance, the company's managers were asked to do the best performance in achieving the targets that have been planned. One of which is used to measure the effectiveness of the company in generating profits is by utilizing their assets (Skousen et al., 2011). Return On Assets (ROA) is a profitability ratio that is used in assessing the performance of managers and determine bonuses or wage increases. The higher the ROA targets, the company will make earnings management, which is one form of cheating. If the high ROA shows that the company has a good performance, so the company does not undertake earnings management. The lower the profit generated by the company will encourage companies to commit fraud by making misstatements in the financial statements. Results of the study Amara et al. (2013) states that companies with low performance levels will tend to commit fraud. Based on the description, the hypothesis in this study as follows:

H3: *Companies that have a high ROA indicates that the company has a good performance, so the trend of companies do not perform fraudulent financial reporting.*

2.5.4. Ineffective Monitoring

Quality audits carried out by people who are competent and independent. According to De Angelo (1998) both of these properties is only owned by a large accounting firm. According Smaili et al. (2009) and Lennox and Pittman (2010) showed that external auditors owned large KAP has a better ability to detect fraud. Large KAP has a goal to provide rigorous external supervision in the financial reporting process to avoid a bad reputation. The large KAP give fewer role in earning management. Based on the description, the hypothesis in this study as follows:

H4: *Quality audit will provide rigorous external supervision of the financial reporting process so as to minimize the form of fraudulent financial reporting.*

2.5.5. Rasionalization

Companies often make the turn auditors tend to commit fraud because of the change of auditors, corporate fraud will not be detected by the new auditor. Every publicly traded company is required to submit financial statements prepared in accordance with Financial Accounting Standards

(GAAP) and have been audited by a public accountant registered in the Capital Market Supervisory Agency (Bapepam). More and more companies are going public, the more the required audit services. Farber and Lee (2011) believes the company can change the auditor to reduce the possibility of detection of fraudulent financial statements by the auditor that indicates the existence of an audit failure-related events and an increase in litigation after the change of auditor. Therefore, an entity that often make the turn auditor has little tendency to not perform fraudulent financial reporting. Based on the description, the hypothesis in this study are:

H5: *Companies often make the turn auditor has little tendency to commit fraudulent financial reporting.*

2.5.6. Capability

Fraudulent practices or fraud can be minimized either by better supervision mechanism. Independent board is believed to improve the effectiveness of supervision of the company. Beasley (1996) concluded that the inclusion of commissioners who come from outside the company improve the effectiveness of the board in overseeing management to prevent fraudulent financial statements. Results were confirmed by research conducted Albrecht et al. (2010) which states that fraud is more common in smaller companies have external board members. Companies that have weak corporate governance and dominated by insiders tend not to have an audit committee experience the highest incidence of fraud. In general, the commissioner has the duty and responsibility to oversee the quality of the information contained in the financial statements. Bank Indonesia Regulation No. 8/4 / PBI / 2006 has been set for the proportion of independent board, which is at least 50% of the total number of board members. The proportion of the commissioners are expected to contribute effectively to the results of the company's financial reporting process quality or avoid fraudulent manipulation of financial statements. Research Amara et al. (2013) showed that the proportion of independent board members (IND) negatively affect the financial statement fraud. Based on the description, the hypothesis in this study as follows:

H6: *The commissioners who come from outside the company will increase the effectiveness of the board in overseeing management to prevent fraudulent financial statements.*

3. RESEARCH METHODOLOGY

3.1. Population and Samples

The population used in this study were banking companies listed in the Indonesia Stock Exchange (BEI) 2009-2014. The selection criteria for the sample as follows (1) The banking company listed on the Stock Exchange during 2009-2014, (2) The company's annual report and financial statements can not be accessed on the company's website, (3) The company's annual report and financial do not have the data associated with variables research. Based on the criteria of the sample used in this study, found that the observation study is 149 banks. Selection of the population in banking companies because the banking company is a company that has a significant contribution to state revenue and gets closer scrutiny from the government to the bank restructuring program in the framework of national economic stability. Oversight of the banking company so often commit fraud in financial reporting that the company's performance is considered good by external parties. While the data used in this research is secondary data in the form of annual financial statements on the company going public, especially in the banking sector in 2009-2014. The data source was obtained from ICMD (Indonesia Capital Market Directory), IDX (Indonesia Stock Exchange), and from the websites of each Banking company.

Tabel 2. Observation Research

No	Criteria	2009	2010	2011	2012	2013	2014	Total Observation
1	Banking companies listed in the Stock Exchange in 2009-2014.	29	31	31	32	36	38	197
2	The company's annual report and financial statements can not be accessed on the company's website.	(9)	(11)	(5)	(4)	(7)	(7)	(43)
3	The company's annual report and financial do not have the data associated with variables research.	(2)	(0)	(0)	(1)	(1)	(1)	(5)
Total Data		18	20	26	27	28	30	149

3.2. Operational Definition and Variables Measurement

1. Fraudulent Financial Reporting.

The fraud financial statement often begins with misstatements or earnings management of the financial statements. Therefore, earnings management is used as a proxy for fraudulent financial reporting in this study was measured by a special accrual models. $NDAit = \beta0 + \beta1COit + \beta2LOANit + \beta3NPAit + \beta4\Delta NPAit + 1 + \varepsilon it$ …(i) and $DAit = TAit - NDAit$ …..(ii).

2. Debt.

Manager will feel under pressure as a result of the need to obtain additional debt or equity financing to be able to compete. In this case the debt leverage is a proxy of external pressure that is measured by

comparing the total debt to total assets of the company (Amara et al., 2013).

3. Liquidity (LDR).

Financial Stability, which is proxied by Liquidity. Liquidity illustrates the company's ability to resolve short-term liabilities. Liquidity in this study using a proxy loan-deposit ratio. LDR is the ratio of the number of loans granted to the funds received by banks (Albrecht et al., 2010).

4. Return on assets (ROA).

Financial Targets, proxied by return on assets. Return on asset is a tool used to measure performance using effeciently indication assets can be used. ROA is often used to measure a manager's performance appraisal primarily related to an increase in bonus. ROA is measured by comparing the net income by total assets of the company (Skousen et al., 2011).

5. External Audit Quality (AUD).

Monitoring ineffective, proxied by the External Audit Quality. The users can use the firm's financial statements that are affiliated with the big four or the firm that is not affiliated with a non big four. Big four auditor is the auditor who has the expertise and reputation which is higher than the auditor nonbig four. Measurement with dummy variables, audit firm the big four in the given value of 1 and audit firm non big four rated 0 93ennox and Pittman., 2010).

6. Change of Auditor (AUDCHAN).

Rationalization, proxied by the change of Auditor. Every publicly traded company is required to submit financial statements prepared in accordance with Financial Accounting Standards (GAAP) and have been audited by a public accountant registered in the Capital Market Supervisory Agency (Bapepam). Variable measurement using a dummy variables, with 1 if the company does not make the turn auditor within 3 consecutive fiscal year and 0 if companies make the change of auditors in 3 consecutive fiscal year (Farber and Lee, 2011).

7. Independent Board of Commissioners (IND).

Capability, which is proxied by an independent Board of Commissioners. Independent board is a board member who does not have the financial, management, share ownership and / or family relationship with the other commissioners, directors and / or controlling shareholders or other relationship which could affect its ability to act independently (PBI No.8 / 4 / PBI / 2006). Independent board is measured by the percentage of the number of independent board to the total number of commissioners present in the composition of board of directors of the company.

4. THE EMPIRICAL RESULT

Adjusted determination coefficient R2 is to see how much the dependent variable explained by the independent variable. From the table 3 it can be seen that the value of Adjusted R Square of 0.459. This means that the independent variable capable of influencing the dependent variable by 45,9%.

Table 3 shows the results F statistics was 7.001 and p value 0.000 it means that the regression model can be used to predict the dependent variable.

Table 3. Regression Result

	Dependent	DA	
Variable	**Coefficient**	**P Value**	
Constant	-1.137		
Log Debt	0.589	0.027**	Accepted
Log LDR	-0.533	0.001*	Accepted
Log ROA	0.189	0.002	Rejected
AUD	-0.173	0.082	Rejected
AUDCHAN	0.037	0.351	Rejected
Log IND	-2.166	0.030**	Accepted
F	7.001	0.000*	
R^2 adjusted	0.459		

*<1% , **<5% dan ***<10%

***H1:** Companies that have a large debt ratio would create the possibility for the occurrence of fraudulent financial reporting.*

From Table 3 above it can be seen that the variable pressure is proxied by DEBT has coefficient parameter 0.589 and significance at p value 0.027. This demonstrates the company's ability to meet its obligations to have a positive influence on fnancial statement fraud, where a large company's ability to meet its obligations may result in companies doing fnancial statement fraud, so that H1 is accepted. When a company has a great ability to meet obligations would create the possibility of a financial statement fraud committed by directors and corporate management in a way to shrink their debt ratio in order to achieve their interests to obtain the loan back. Dechow et al. (2012) found that the company has a high debt ratio memanipuasi motivated for profit. Companies would rather commit fraud in financial reporting when they have the opportunity to perform earnings management in order to make them look successful performance in front of the shareholders. According Kirkos et al. (2014) high debt structure can increase the likelihood of fraudulent financial statement, because they shift the risk of capital owners and managers utuk debt holders. Managers can manipulate the financial statements because of their need to meet debt covenants.

***H2:** The low liquidity of the ability of a company can cause managers will commit fraud in financial reporting to show the condition of the company remains healthy and successful.*

From Table 3 above it can be seen that the financial stability variables that proxy by LDR has coefficient parameter -0.533 and significance at p velue 0.001 . This shows that the negative effect on the liquidity of the company fraudulent financial reporting, so that H2 is accepted. When financial stability is threatened by the economic situation so that the difficulties the company's ability to settle obligations, managers will face pressure to commit

fraudulent financial statements (Skousen et al., 2011). Liquidity in this study using a proxy Loan to Deposit (LDR), which is the ratio of the number of loans granted to the funds received by banks. According to Bank Indonesia Regulation Number 12/19 / PBI / 2010, LDR can be measured from the ratio between the total number of loans granted to third party funds. The higher this ratio, the lower the ability of the bank's liquidity. Companies with lower liquidity level conditions will motivate the management to commit fraudulent financial reporting. Managers will conduct a variety of ways when the company was in a state of not performing well so as to prove to the shareholders that the condition of a healthy and successful company, the manager will commit fraud in financial reporting.

H3: *Companies that have a high ROA indicates that the company has a good performance, so the trend of companies do not perform fraudulent financial reporting.*

From Table 3 above it can be seen that the target financial variables proxied by the ROA has coefficient parameter 0.189 and significance at p value is 0.002 . This indicates that ROA positive effect on financial statement fraud, meaning H3 rejected. In carrying out its performance, the company's managers are required to do the best performance so as to achieve the financial targets that have been planned. Return on assets is a measure of operating performance that is widely used to indicate how efficiently the assets have been working (Skousen et al., 2011). ROA is often used in assessing the performance of managers and used as a proxy for financial variable targets. Therefore, the higher the ROA target company, the more vulnerable the company will make earnings management, which is one form of financial statement fraud. It supports research conducted by Farber and Lee (2011), which proves that the company has great earnings more likely to earnings management than companies that have a small profit.

H4: *Quality audit will provide rigorous external supervision of the financial reporting process so as to minimize the form of fraudulent financial reporting.*

Can be seen from Table 3 above the variable ineffective monitoring the proxied by the quality of the external audit has coefficient parameter -0.173 and significance at p value 0.082 . This shows that there is no influence on the quality of the external audit of financial statement fraud at significance level 0.05, so H4 rejected. Most people have the perception that large-scale KAP can deliver high quality audit results, but this perception may be less precise because KAP big four is not necessarily proven to address the earnings management practices. This is because the company wanted to show the financial performance look good in the eyes of investors to ignore the existence of the big four auditors and non big four. The results support the research results Luhgiatno (2008) which shows the result that the quality of the external audit of the company had no significant effect of fraudulent financial reporting.

H5: *Companies often make the turn auditor has little tendency to commit fraudulent financial reporting.*

Can be seen from Table 3 above the variable rationalization proxied by the turn of the auditor has coefficient parameter 0.037 and significance at p value 0.351. It showed no significant effect on the quality of the external audit of financial statement fraud, so that H5 is rejected. Companies often make the turn auditor has a tendency to commit fraud as to make the turn auditor, fraud committed company is expected to be detected by the new auditor. In this study the change of auditor was not shown to affect a company to perform financial statement fraud. This is because the change made by the company auditors only to meet the regulations governing the change of auditors at each company. Compliance with these principles of service providers by the auditor is not done with cheating. The results support the research results Molida (2011) which shows the result of that change of auditors of the company did not have a significant effect on the fraudulent financial reporting.

H6: *The commissioners who come from outside the company will increase the effectiveness of the board in overseeing management to prevent fraudulent financial reporting.*

Can be seen from Table 3 above the variable capability proxied by the percentage of the number of independent board has coefficient parameter -2.166 and significance at p value 0.003 . This suggests that the independent board negatively affect financial statement fraud, so that H6 is accepted. Fraudulent practices or fraud can be minimized with good oversight mechanism. Independent board is believed to improve the effectiveness of supervision of the company as it is considered to have a more independent oversight. The proportion of the commissioners to contribute effectively on the results of the company's financial reporting process quality or avoid fraudulent manipulation of financial statements, as the proportion of board of directors comprised of members from outside the company have a tendency to affect earnings management. Beasley (1996) concluded that the inclusion of commissioners who come from outside the company improve the effectiveness of the board in overseeing management to prevent fraudulent financial statements. The results support the research carried out by Lennox and Pittman (2010).

5. CONCLUSSION

Based on the results of the regression analysis can be concluded that (1) External pressure which is measured by comparing the amount of debt to total assets of the company have a positive influence on the financial reporting fraud. It means the company has a large debt ratio would create the possibility of fraudulent financial reporting. Instead of financial targets that are measured with a high ROA has a tendency to commit fraudulent financial reporting. (2) Financial stability as measured by the low liquidity of the company led to the tendency of managers to commit fraud in financial reporting because it wants to show the condition of the

company in order to remain healthy and successful. Likewise, the presence of the measured capability of independent directors will increase the effectiveness of the board in overseeing management to prevent fraudulent financial reporting. (3) ROA is indicator of company performance positively affect the financial reporting fraud that is agaisnt the proposed hypothesis. ROA is often used in assesing the performanc of managers, therefore the higher the ROA target company, the more vulnerable the company will make earning s management, whic is one form of finacial statement fraud (4) Ineffective monitoring as measured by the quality of audit and rationalization as measured by the change of auditor does not affect the financial reporting fraud. Most people have the perception that large-scale KAP can deliver high quality audit resultsx, but this perception may be less precise because KAP big four is not necessarrly proven to address the earning magament pratices. (5) rationalization proxied by auditor change does not affect the financial reporting fraud. Auditor change only to meet the regulation governing the changfe odf auditors at each company (6) capabilty proxied by the percentage of the number of indepedent board negatively affect financial statement fraud. Independent board is believed to improve the effectiveness of the supervision of tghe company as it considered to have a more independent oversight. Subsequent research could increase the number of samples and the study period to obtain better results. In the study can then use another proxy in accordance with current conditions of economic problems such as pressure to use personal financial needs, using the occasion variable nature of the industry, rationalization using TACC, the ability to use variable capability organizational structure.

REFERENCES:

1. Albrecht, C., Turnbull, C., Zhang, Y. & Skousen, C.J. (2010). “The Relationship between South Korean Chaebols and Fraud”. Managerial Auditing Journal. Vol. 33(3).
2. Amara, Ines., Ben Amara, Anis., Jarboui, Anis. (2013). “Detection of Fraud in Financial Statement: French Companies as a Case Study”. International Journal of Academic Research in Accounting, Finance and Management Sciences. Vol. 3.
3. Beasley, M. (1996). “An Empirical Analysis of The Relation Between The Board of Director Composition and Financial Statement Fraud”. The Accounting Review. 71(4): 443-465.
4. David B.Farber, and Sam (Sunghan) Lee. (2011). “CEO Ability and Management Earning Forecasts”. Contemporary Accounting Research. 28(5): 1645-1668.
5. Dechow, P., Sloan, R., Sweeney, A. (2012). “Detecting Earnings Management.” TheAccounting Review. Volume 70.
6. Dorminey, J., Fleming S., Kranacher, M. & Riley R. (2010). The Evaluation of Fraud Theory. American Accounting Association Annual Meeting. Denver.
7. Hamza, Tahler dan Faten Lakhal. (2010). The Determinants of Earnings Mangement by The Acquirer: The Case of French Corporate Takeovers. http: univ-orleans.fr/log/Doc-Rech/Textes-PDF/2010-3.pdf: 1-25.
8. Jensen, Michael C & Meckling, William H. (1976.) “Theory of The Firm: Managerial Behavior, Agency Costs and Ownership Structure”. Journal of Financial Economics. Volume 3.
9. Kirkos, E., Spathis, C., Manolopuls, Y. (2014). “Data Mining Techniques for The Detection of Fraudulent Financial Statements”. Expert Systems with Applications. 32(4): 995-103.
10. Lennox, C., Pittman, J. (2010). “Big Five Audits and Accounting Fraud”. Contemporary Accounting Research.Vol 27, No1 : 209-247.
11. Lou, Y. I., and M. L. Wang. (2009). “Fraud Risk Factor Of The Fraud Triangle Assesing The Likelihood of Fraudulent Financial Reporting”. Journal of Bussinessn and Economic Research. Vol. 7, No. 2: 62-66.
12. Molida, Resti. 2011. Effect of Financial Stability, Personal Financial Need and ineffective monitoring on Financial Statement Fraud in Perspective.
13. Norbarani, Listiana. 2012. Fraud detection Fraud Analysis of Financial Statements With Triangle The Adopted In SAS 99.
14. Rasha, K. & Andrew H. (2012). “The New Fraud Triangle”. Journal of Emerging Trends in Economics and Management Sciences. Vol.3(3).
15. Rezaee, Z. 2002. Financial Statement Fraud: Motives, Methodes. Cases and Detection. Dissertation.com: Florida.
16. Shimin, Chen., Yuetang Wang, Ziye Zhao. (2011). “Regulatory Incentives for Earnings Management Through Asset Impairment Reversals in China”. Journal of Accounting, Auditing, and Finance. 24(4): 589-620.
17. Skousen, J.C., Wright, J.C., Smith Kevin, R. (2011), “Detecting and Predicting Financial Statement Fraud: The Effectiveness of The Fraud Triangle and SAS No. 99:” Advances in Financial Economics, Vol. 13.
18. Smaili, N., Labelle, R., Stolowy, H. (2009). La publication d’une Information Financière Non Conforme à la loi et aux normes : Déterminants et Conséquences. Comptabilité - Contrôle - Audit, n° 15 (1), 2009, p. 159-198.
19. Turner, J.L., Mock. T.J., & Sripastava, R.P. (2003). An Analysis of the Fraud Triangle. Working Paper.
20. Wolf, D.T. & Hermanson, D.R. (2004). “The Fraud Diamond: Considering the Four Elements of Fraud:” The Certified Public Accountants (CPA) Journal.